ADVANCED DRAINAGE SYSTEMS, INC.
Form S-1
April 02, 2014
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As filed with the Securities and Exchange Commission on April 2, 2014

Registration No. 333-

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

Advanced Drainage Systems, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**3084**	**51-0105665**
(State or other jurisdiction of incorporation or organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification Number)**

4640 Trueman Boulevard

Hilliard, Ohio 43026

(614) 658-0050

(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Joseph A. Chlapaty

Chairman, President & Chief Executive Officer

4640 Trueman Boulevard

Hilliard, Ohio 43026

(614) 658-0050

(Name, address, including zip code, and telephone number, including area code, of agent for service)

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Approximate date of commencement of proposed sale of the securities to the public: As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

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

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

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	**Proposed Maximum Aggregate Offering Price (1)**	**Amount of Registration Fee**
Common Stock, $0.01 par value per share	$100,000,000	$12,880

(1) Estimated solely for the purpose of calculating the amount of the registration fee pursuant to Rule 457(o) promulgated under the Securities Act of 1933, as amended. Includes offering price of shares of Common Stock that may be sold upon exercise of the underwriters option to purchase additional shares.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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Subject to Completion, dated April 2, 2014

PROSPECTUS

Shares

Advanced Drainage Systems, Inc.

Common Stock

This is the initial public offering of common stock of Advanced Drainage Systems, Inc.

We are offering shares of common stock in this offering. The selling stockholder identified in this prospectus is offering shares of common stock in this offering. We will not receive any of the proceeds from the sale of shares of common stock by the selling stockholder. Prior to this offering, there has been no public market for our common stock.

It is currently estimated that the initial public offering price per share will be between $ and $. We intend to apply to list our common stock on the New York Stock Exchange under the symbol WMS.

Investing in our common stock involves risks. See Risk Factors beginning on page 19 of this prospectus.

	Per Share	Total
Price to the public	$	$
Underwriting discounts and commissions[1]	$	$
Proceeds to us (before expenses)	$	$

Proceeds to the selling stockholder (before expenses)	$	$

(1) We refer to you to Underwriting beginning on page 163 of this prospectus for additional information regarding total underwriter compensation.

The underwriters also may purchase up to additional shares of common stock from us and up to additional shares of common stock from the selling stockholder at the initial public offering price less the underwriting discounts and commissions.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares of common stock on or about , 2014.

Barclays **Deutsche Bank Securities**

Citigroup **RBC Capital Markets**

Prospectus dated , 2014

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Through and including , 2014 (the 25th day after the date of this prospectus), all dealers effecting transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to a dealer s obligation to deliver a prospectus when acting as an underwriter and with respect to an unsold allotment or subscription.

We, the selling stockholder and the underwriters have not authorized anyone to provide any information or to make any representations other than those contained in this prospectus or in any free writing prospectuses we have prepared. We take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you. This prospectus is an offer to sell only the shares offered hereby but only in circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus is accurate only as of its date, regardless of the time of delivery of this prospectus or any sale of the shares.

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TRADEMARKS

We use various trademarks, service marks and brand names that we deem particularly important to the marketing activities and operation of our various lines of business, and some of these marks are registered in the United States and, in some cases, other jurisdictions. This prospectus also refers to the brand names, trademarks or service marks of other companies. All brand names and other trademarks or service marks referenced in this prospectus, including N-12®, SaniTite®, StormTech®, Nyloplast®, Inserta Tee®, BaySeparator , BayFilter and FleXstorm , are the property of their respective holders. Solely for convenience, we refer to trademarks, service marks and brand names in this prospectus without , SM and ® symbols. We do not intend our use or display of other parties trademarks, service marks or brand names to imply, and such use or display should not be construed to imply, a relationship with, or endorsement or sponsorship of us by, these other parties.

MARKET AND INDUSTRY DATA

This prospectus includes estimates regarding market and industry data and forecasts, which are based on publicly-available information, industry publications and surveys, reports from government agencies, reports by market research firms and our own estimates based on our management s knowledge of and experience in the market sectors in which we compete. These estimates and forecasts are based on data from third-party sources, including certain market and industry data provided on a subscription basis by the Freedonia Group, Inc., an independent research firm and industry consultant based in Cleveland, Ohio, which we refer to as Freedonia. We also base certain estimates and forecasts related to stormwater retention/detention and water quality on a special study that we commissioned for a fee specifically for the purpose of this offering by Freedonia Custom Research, Inc., an affiliate of Freedonia, which we refer to in this prospectus as the Freedonia Special Report. We have not independently verified market and industry data provided by Freedonia, or by other third-party sources such as McGraw Hill, the U.S. Environmental Protection Agency, Reed Construction Data, the American Institute of Architects, the U.S. Census Bureau, the National Association of Realtors, the St. Louis Federal Reserve, HIRI / IHS Global Insight, The Ohio State University and the U.S. Department of Agriculture, although we believe such market and industry data included in this prospectus is reliable. This information cannot always be verified with complete certainty due to the limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other limitations and uncertainties inherent in surveys of market size.

PRESENTATION OF INFORMATION

Unless the context otherwise indicates or requires, as used in this prospectus, the terms we, our, us, ADS and the Company refer to Advanced Drainage Systems, Inc. and its directly- and indirectly-owned subsidiaries as a combined entity, except where it is clear that the terms mean only Advanced Drainage Systems, Inc. exclusive of its subsidiaries.

Because our fiscal year ends on March 31, any reference to a fiscal year means the fiscal year ended March 31 of the same calendar year. For example, references to fiscal year 2014 mean the fiscal year ending March 31, 2014 and references to fiscal year 2013, fiscal year 2012 and fiscal year 2011 mean the fiscal years ended March 31, 2013, March 31, 2012 and March 31, 2011, respectively.

Our consolidated financial statements include our ownership interests in various consolidated joint ventures through which we conduct operations in Mexico and Central America. We also have an ownership interest in an unconsolidated joint venture through which we conduct operations in South America, which we refer to in this prospectus as our South American Joint Venture, and an unconsolidated joint venture through which we conduct certain operations in the United States, which we refer to in this prospectus as our BaySaver Joint Venture. Our equity interest in the operating results of both the South American Joint Venture and the BaySaver Joint Venture

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is presented in our consolidated financial statements as equity in net (income) loss of unconsolidated affiliates in accordance with U.S. generally accepted accounting principles, or GAAP. Although not consolidated under GAAP, we treat the South American Joint Venture and the BaySaver Joint Venture as if they are consolidated subsidiaries for internal reporting purposes. Throughout this prospectus, when we refer to our financial results or operations, we are referring to our financial results and operations as presented in our consolidated financial statements under GAAP, which do not consolidate our South American Joint Venture or our BaySaver Joint Venture, unless the context otherwise indicates.

We also sponsor a tax-qualified employee stock ownership plan, or ESOP, that covers our employees who meet certain service requirements. The ESOP was originally funded with a 30-year term loan from us as well as shares of our convertible preferred stock through a transfer of assets from our profit sharing retirement plan. The loan is secured by a pledge of unallocated shares of convertible preferred stock purchased by the ESOP that has not yet been released from the pledge and allocated to ESOP accounts. The 2.50% Cumulative Convertible Voting Preferred Stock held by the ESOP is referred to in this prospectus as our convertible preferred stock. The ESOP operates as a leveraged ESOP and was designed to enable eligible employees to acquire stock ownership interests in their accounts under the ESOP. See Description of Employee Stock Ownership Plan for a description of the ESOP.

Unless otherwise indicated, all information in this prospectus assumes the following:

- a -for- stock split to be effected immediately prior to the effectiveness of the registration statement of which this prospectus forms a part;

- no exercise by the underwriters of their option to purchase additional shares;

- the filing of our amended and restated certificate of incorporation and the adoption of our amended and restated bylaws immediately prior to the closing of this offering; and

- an initial public offering price of $ per share, which is the midpoint of the price range set forth on the cover of this prospectus.

PRESENTATION OF CERTAIN FINANCIAL MEASURES

For purposes of calculating the weighted average number of shares outstanding and net income per share in this prospectus, we divide net income available to common stockholders by the weighted average number of shares of common stock outstanding. These items are described below in Summary Consolidated Financial Data and Selected Historical Consolidated Financial Data.

We refer in this prospectus to Redeemable Common Stock, which represents shares of our common stock that are held by certain stockholders who hold in excess of 15% of our common stock. These stockholders entered into an amended and restated stockholders agreement, which provides such stockholders with the right to cause the shares to be repurchased by us at fair value in certain specified circumstances as described in Note 17 to our consolidated financial statements included elsewhere in this prospectus. As this right is considered for purposes of GAAP to be a redemption right, which is outside our control, we have classified the shares of common stock held by such stockholders in the mezzanine section of our consolidated balance sheets and changes in fair value are recorded in retained earnings. We anticipate that the stockholders agreement will be terminated upon completion of this offering and the rights associated with these shares, which require them to be classified in mezzanine equity, will no longer be in effect. Accordingly, we anticipate reclassifying these balances to total stockholders equity upon the completion of this offering. Our Redeemable Common Stock is also described below in Summary Consolidated Financial Data and Selected Historical Consolidated Financial Data.

We also refer in this prospectus to Redeemable Convertible Preferred Stock, which represents our convertible preferred stock held by our ESOP. Prior to this offering, the trustee of our ESOP has the ability to

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require us to repurchase the shares of convertible preferred stock at fair value in the event that it needs cash to pay for distributions, pre-retirement diversification, or other expenses, causing the shares to be repurchased at the option of the holder as described in Note 17 to our consolidated financial statements included elsewhere in this prospectus. As this right is considered for purposes of GAAP to be a redemption right, which is outside our control, we have classified the shares of convertible preferred stock in the mezzanine section of our consolidated balance sheets and changes in fair value are recorded in retained earnings. Upon completion of this offering, the rights associated with these shares, which require them to be classified in mezzanine equity, will no longer be in effect. Accordingly, we anticipate reclassifying these balances to total stockholders equity upon completion of this offering. Our Redeemable Convertible Preferred Stock is also described below in Summary Consolidated Financial Data and Selected Historical Consolidated Financial Data.

Certain financial measures presented in this prospectus, such as System-Wide Net Sales, Net Income Per Share As Adjusted Basic and Diluted, EBITDA, Adjusted EBITDA, Segment EBITDA and Segment Adjusted EBITDA, are not recognized under GAAP. For definitions of System-Wide Net Sales, Net Income Per Share As Adjusted Basic and Diluted, EBITDA, Adjusted EBITDA, Segment EBITDA and Segment Adjusted EBITDA and reconciliations of those measures to the most directly comparable GAAP measures, see Selected Historical Consolidated Financial Data and Management s Discussion and Analysis of Financial Condition and Results of Operations Components of Results of Operations.

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PROSPECTUS SUMMARY

The following summary highlights information contained elsewhere in this prospectus. This summary does not contain all of the information that you should consider before investing in our common stock. You should read this entire prospectus carefully, especially the information set forth under Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations, and the financial statements and notes included elsewhere in this prospectus, before making an investment decision.

Our Company

We are the leading manufacturer of high performance thermoplastic corrugated pipe, providing a comprehensive suite of water management products and superior drainage solutions for use in the construction and infrastructure marketplace. Our innovative products are used across a broad range of end markets and applications, including non-residential, residential, agriculture and infrastructure applications. We have established a leading position in many of these end markets by leveraging our national sales and distribution platform, our overall product breadth and scale and our manufacturing excellence. In North America, our national footprint combined with our strong local presence and broad product offering makes us the leader in an otherwise highly fragmented sector comprised of many smaller competitors. We believe the markets we serve in the United States represent approximately $10.1 billion of annual revenue opportunity. In addition, we believe the increasing acceptance of thermoplastic pipe products in international markets represents an attractive growth opportunity. For the nine months ended December 31, 2013, we generated net sales of $887.8 million, net income of $24.7 million and Adjusted EBITDA of $130.6 million. For a reconciliation of Adjusted EBITDA to the most directly comparable GAAP measure, see Selected Historical Consolidated Financial Data.

Our products are generally lighter, more durable, more cost effective and easier to install than comparable alternatives made with traditional materials. Following our entrance into the non-residential construction market with the introduction of N-12 corrugated polyethylene pipe in the late 1980s, our pipe has been displacing traditional materials, such as reinforced concrete, corrugated steel and polyvinyl chloride, or PVC, across an ever expanding range of end markets. This has allowed us to consistently gain share and achieve above market growth throughout economic cycles. We expect to continue to drive conversion to our products from traditional products as contractors, civil design engineers and municipal agencies increasingly acknowledge the superior physical attributes and compelling value proposition of our thermoplastic products. In addition, we believe that overall demand for our products will benefit as the regulatory environment continues to evolve.

Our broad product line includes corrugated high density polyethylene (or HDPE) pipe, polypropylene (or PP) pipe and related water management products. Building on our core drainage businesses, we have aggressively pursued attractive ancillary product categories such as storm and septic chambers, PVC drainage structures, fittings and filters, and water quality filters and separators. We refer to these ancillary product categories as Allied Products. Given the scope of our overall sales and distribution platform, we have been able to drive growth within our Allied Products and believe there are significant growth opportunities going forward.

We have an extensive domestic network of 48 manufacturing plants and 19 distribution centers allowing us to effectively serve all major markets in all 50 U.S. states. The effective shipping radius for our pipe products is approximately 200 miles, thus competition in our industry tends to be on a regional and local basis with minimal competition from distant markets and imports. We are the only supplier in our industry with a national footprint, thereby allowing us to efficiently service those customers that value having one source of supply throughout their entire distribution network. We believe our extensive national footprint creates a cost and service advantage versus our HDPE pipe producing competitors, the largest of which has only 10 domestic HDPE pipe manufacturing plants.

Internationally, we have two manufacturing plants and three distribution centers in Canada, four manufacturing plants in Mexico, four manufacturing plants and five distribution centers in South America and one distribution center in Europe.

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We have long-standing distribution relationships with many of the largest national and independent waterworks distributors, including Ferguson, HD Supply and WinWholesale, who sell primarily to the storm sewer and sanitary sewer markets. We also utilize a network of hundreds of small to medium-sized independent distributors across the United States. We have strong relationships with major national retailers that carry drainage products, including The Home Depot, Lowe s, Ace Hardware, Menards and Do it Best, and also sell to buying groups and co-ops in the United States that serve the plumbing, hardware, irrigation and landscaping markets. The combination of our large sales force, long-standing retail and contractor customer relationships and extensive network of manufacturing and distribution facilities complements and strengthens our broad customer and market coverage.

We believe the ADS brand has long been associated with quality products and market-leading performance. Our trademarked green stripe, which is prominently displayed on many of our products, serves as clear identification of our commitment to the customers and markets we serve.

As illustrated in the charts below, we provide a broad range of high performance thermoplastic corrugated pipe and related water management products to a highly diversified set of end markets and geographies.

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Our Strengths

We believe that we benefit significantly from the following competitive strengths:

Market leader with unmatched scale. We are the leading manufacturer of high performance thermoplastic corrugated pipe and a leading manufacturer of related water management products. We believe our extensive national footprint of 48 manufacturing plants and 19 distribution centers creates a cost and service advantage versus our HDPE pipe producing competitors, the largest of which has only 10 domestic HDPE pipe manufacturing plants. We maintain an in-house fleet of approximately 625 tractor-trailers and approximately 1,100 trailers that are specially designed to haul our lightweight pipe and fittings products. Our effective shipping radius is approximately 200 miles from one of our manufacturing plants or distribution centers. Our world-class manufacturing expertise and extensive national distribution and fleet network allow us to service customers across the United States on a cost-effective and timely basis. Our long-standing customer relationships also provide us with visibility to attractive market opportunities.

Well positioned to drive continued material conversion. Our products are generally lighter, more durable, more cost effective and easier to install than comparable alternatives made with traditional materials. For example, concrete pipe generally weighs more than 20 times as much per foot as our thermoplastic pipe, resulting in the significant handling advantages that our product line enjoys during installation by contractors. These advantages typically provide our thermoplastic pipe with an installed cost advantage of approximately 20% over concrete pipe. High performance thermoplastic corrugated pipe represented approximately 25% of the total storm sewer market in 2012, up from what we believe was less than 10% ten years ago and less than 1% twenty years ago. We believe the penetration rate will continue to increase over time, as contractors, engineers and municipal agencies increasingly acknowledge the superior attributes and compelling value proposition of our thermoplastic products. We believe the recent introduction of our PP pipe products will also help accelerate this conversion given the additional applications for which our PP pipe products can be used. We continue to drive this material conversion through extensive sales force training and education of our customers. We have been at the forefront of educating an industry undergoing significant change in the regulatory environment, while pushing for expanded approvals of our products in new markets and geographies. Since 2006, 32 states have enhanced their approval of our pipe products, and an average of approximately 60 state, county and municipal approvals have been added or enhanced each year over the past five years.

Broad portfolio of Allied Products. Our Allied Products include storm and septic chambers, PVC drainage structures, fittings and filters and water separators. These products complement our pipe product lines and allow us to offer a comprehensive water management solution to our customers and drive organic growth. We have a long history of leveraging our broad distribution platform to develop or acquire, and market, complementary Allied Products that provide new technologies and product capabilities. Given our strong brand recognition, network of customer and distributor relationships and large team of trained salespeople, we believe we are the acquirer of choice for many providers of ancillary products who wish to partner with an industry leader. Our broad product line and reputation for quality provide our sales force with a competitive advantage in sourcing new opportunities and cross-selling products.

Industry-leading manufacturing and technical expertise. We believe we have developed a reputation in the industry for products that deliver technically-superior performance with lower installation and maintenance costs versus competing products. Our products are lightweight and flexible, strong, resistant to corrosion and resistant to abrasion. These characteristics allow for easy and low-cost installation, provide strength comparable to much heavier materials (as a result of the corrugated profile design of our thermoplastic pipe products) and provide an excellent service life expectancy. Our significant investment in custom-designed mold and die tooling ($173 million investment over the last nine years) allows us to manufacture a variety of corrugated pipe sizes and provides us with the flexibility to meet demand fluctuations in local regions. In addition, we rotate these setups across our network of manufacturing plants as needed to meet demand, which provides us with a unique

competitive advantage. We employ proprietary resin blending technology to minimize raw material cost and optimize production efficiency, while maintaining a consistent level of product performance. Utilizing this technology has allowed us to increase our ratio of recycled resin as a percent of total resin from approximately 24% in 2005 to approximately 52% in 2013, resulting in significant cost savings and reduced exposure to fluctuations in raw material costs.

Long-term customer relationships. We believe we have the largest and most experienced sales force in the industry, which allows us to maintain strong, long-standing relationships with key distributors, contractors and engineers. The combination of our technical expertise, product selection and customer delivery capabilities allows us to meet our customers critical installation schedules and positions us as a strategic partner. We strive to educate the regulatory and design community while offering the distributor and contractor network a comprehensive product suite. Our products are manufactured, assembled, delivered and serviced from a network of plants and yards that are strategically positioned in close proximity to most major domestic geographic markets. Our national scale combined with our local presence, dedication to service and broad product offering has enabled us to maintain our long-standing customer relationships.

Highly diversified across end markets, channels and geographies. We are strategically diversified across a broad range of end markets, distribution channels and geographies. Our products are used globally in a diverse range of end markets across non-residential construction, residential construction, agriculture and infrastructure. These end markets include storm sewer systems, agriculture, retail, stormwater retention/detention, on-site septic systems and structures. We maintain and service these end markets through strong product distribution relationships with many of the largest national and independent waterworks distributors, a network of hundreds of small to medium-sized distributors across the United States, major national retailers that carry drainage products and a broad variety of buying groups and co-ops in the United States. We serve our customers in all 50 U.S. states as well as approximately 90 other countries. Our domestic sales, which represented approximately 86% of our net sales in fiscal year 2013, are diversified across all regions of the United States. Approximately 14% of our net sales in fiscal year 2013 were generated outside of the United States.

Experienced management team with successful operating record and significant equity ownership. Our management team, led by our Chief Executive Officer, Joe Chlapaty, has an average of over 23 years of industry experience. We have a long history of generating profitable growth, attractive margins and cash flow. During periods of weaker economic conditions, we believe we have benefitted from an increased market focus on our products as a cost effective alternative to traditional materials. In stronger economic cycles, we have delivered profitable growth and an ability to leverage our scale and excess production capacity to meet rapid increases in demand.

After the completion of this offering, our management and directors will own approximately % of our common stock on a fully-converted basis. In addition, after the completion of this offering, the convertible preferred stock held by our ESOP will account for approximately % of our common stock on a fully-converted basis. This high level of management and employee ownership ensures that incentives are closely aligned with equity holders.

Our Business Strategy

We intend to grow our net sales, improve our profitability and enhance our position as the leading provider of high performance thermoplastic corrugated pipe and related water management products by executing on the following strategies.

Continue to drive conversion to our products. Our products are generally lighter, more durable, more cost effective and easier to install than comparable alternatives made with traditional materials such as concrete, steel and PVC. We intend to continue to drive conversion to our products from traditional products as contractors, engineers and municipal agencies increasingly acknowledge the superior attributes and compelling value proposition of our thermoplastic products. Expanded regulatory approvals allow for their use in new markets and geographies, and we continue to invest heavily in industry education. We believe we are the industry leader in these efforts as regulatory approvals are essential to the specification and acceptance of these product lines.

Expand our product offering and markets served. Our strong market position provides us with insight into the evolving needs of our customers, which has allowed us to proactively develop and deliver comprehensive water management solutions. The strength of our overall sales and distribution platform has allowed us to acquire new Allied Products and deliver solution-based product portfolios that typically result in significantly higher net sales post-acquisition than the products generated before the addition to our product portfolio. Our ability to further develop our offering of Allied Products represents an attractive opportunity to capture additional growth and improve our overall margins. We will continue to focus on enhancing our core products and expanding our Allied Products through cross-selling opportunities in order to further penetrate untapped markets and customers. We also expect to continue to enter into selective adjacent new markets that leverage our sales and engineering capabilities, customer relationships and national distribution network and provide more water management solutions to our customers.

Expand our presence in attractive new geographies. Outside of the United States, we believe thermoplastic corrugated pipe represents a small part of the overall market. We further believe there is significant opportunity to convert new geographies based on the overall performance and value of our products, similar to what continues to occur in our existing markets. To date, in order to increase our speed to market, we have expanded internationally primarily through joint ventures with best-in-class local partners. Our existing joint ventures provide us with access to markets such as Brazil, Chile, Argentina, Mexico, Peru and Colombia. Combining a local partner s customer relationships, brand recognition and local management talent, with our world-class manufacturing and process expertise, broad product portfolio and innovation, creates a strong platform with additional opportunities for international expansion. In the future, we will continue to identify new geographies to access markets through joint venture relationships with domestic partners in targeted areas.

Capitalize on growth related to the recovery in our primary end markets. We believe we are well positioned to take advantage of renewed growth and recovery in the non-residential and residential construction and infrastructure markets in the United States. Additionally, we believe we have the potential to capitalize on a substantial backlog of deferred infrastructure spending in the United States as a result of upgrades and repairs that were delayed in the recent economic downturn. Spending on the replacement of aging water drainage and sewer infrastructure (estimated to cost approximately $298 billion between 2013 and 2033, according to the American Society of Civil Engineers, or ASCE) and stricter U.S. Environmental Protection Agency, or EPA, guidelines for stormwater and wastewater management will drive additional demand for our products.

Continue our focus on operational excellence. Our focus on continuously improving operating efficiencies, reducing costs and improving product quality has enabled us to improve our position as a leading low-cost provider. We constantly strive to achieve operating and cost efficiencies across all facets of our business. For

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example, we employ sophisticated resin blending technology to minimize raw material costs and optimize production efficiency, while maintaining a high level of product quality and performance. We believe this and our other initiatives, combined with continued prudent management of our overhead, and the operating leverage inherent in our business model will allow us to maximize profitability as we continue to grow.

Selectively pursue strategic acquisitions. By utilizing our customer relationships and sales force, we have a demonstrated ability to identify and integrate numerous strategic acquisitions. We believe our strong reputation for product growth has allowed us to become the acquirer of choice, attracting acquisition opportunities that provide new technologies and product capabilities. We have remained one of the strongest and best capitalized companies in the industry throughout the recent economic cycle and are well positioned to capitalize on current market dynamics to selectively acquire key products and technologies. We have strong industry relationships and maintain an active acquisition pipeline.

Industry Overview and Trends

We serve a broad range of end markets across non-residential construction, residential construction, agriculture and infrastructure. We are the leading manufacturer of high performance thermoplastic corrugated pipe and a leading manufacturer of related water management products. We compete against other HDPE pipe producers, as well as pipe manufacturers selling products made from traditional materials such as concrete, corrugated steel and PVC on a national, regional and local basis. We compete primarily in the United States and Canada; however, we have also expanded internationally in Mexico, Central America and South America through our joint ventures. We believe the markets we serve in the United States represent approximately $10.1 billion of annual revenue opportunity. In addition, we believe the increasing acceptance of thermoplastic pipe products in international markets represents an attractive growth opportunity.

Core Product Categories

Pipe Market

Demand for our products is largely driven by residential and non-residential construction, transportation and related water drainage infrastructure spending and the repair and replacement of aging stormwater management infrastructure. Freedonia estimates that demand for large diameter pipe (defined as 15 diameter or larger depending on industry standards by material type) in the United States will increase at an average of 6.2% per year from approximately 146 million feet in 2011, to 197 million feet in 2016. We compete in the storm sewer, drainage, sanitary sewer and irrigation markets, which collectively represent approximately 70% of the overall large diameter pipe market in the United States. According to Freedonia, sanitary and storm sewers, which represent approximately 50% of the total large diameter pipe market demand, are expected to continue to drive growth for the large diameter pipe market through 2016. Additionally, Freedonia estimates that the largest expected growth in the forecast period will come from the drainage market, as non-residential and residential construction continues to rebound. According to Freedonia, HDPE, the primary material in our products, is projected to become a larger portion of the overall large diameter pipe market as states and municipalities are expected to continue to adopt this product as a result of its superior attributes and approve its use in a broader range of applications.

Source: Freedonia

Positive end market trends in the non-residential construction, residential construction, agricultural and infrastructure markets are also expected to drive increased demand for pipe products in Canada. Growth in fixed investment spending is expected to result in a higher number of sewer and drainage infrastructure projects. Housing starts in Canada are forecasted to grow from 185,000 in 2012 to 215,000 by 2017, according to Freedonia. We believe the large industry around forestry, minerals, petroleum and natural gas markets in Canada provide opportunity for pipe applications.

The GDP in Mexico is forecasted to expand at 3.7% annually through 2017. Construction growth in Mexico is driven by demand for housing, non-residential property and additional investment in public infrastructure. Freedonia forecasts HDPE pipe demand to grow 8% annually through 2017 in Mexico, to 50,000 metric tons, the fastest growth rate of any plastic resin.

The largest pipe markets in South America are Brazil and Chile. Other South American countries such as Argentina, Colombia, Ecuador and Peru are also forecasted to see strong growth in construction. Brazil has large infrastructure investment occurring related to the country hosting the 2014 FIFA World Cup and 2016 Summer Olympics. HDPE pipe is taking market share from concrete and PVC pipe in drainage and sewer applications in these markets. In Argentina, primary end markets for HDPE pipe are construction, natural resources and agriculture.

Related Water Management Solutions Market

We also offer a wide range of Allied Products to meet our customers water management requirements across various markets. The demand for these products is largely driven by residential and non-residential construction, transportation and related water drainage infrastructure spending and the replacement of aging stormwater management infrastructure.

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Stormwater Retention/Detention

Current EPA regulations require any development of one acre or larger to retain stormwater on site and gradually release it over time. This requirement is met by either using natural solutions, such as retention ponds, or structural solutions, which include systems constructed underground. According to the Freedonia Special Report, demand in this market is forecasted to grow 7.5% annually from 2013 to 2016. Growth of structural solutions is forecasted to grow 8.5% over this period, compared to 5.4% for natural solutions.

On-Site Septic

According to the EPA, an estimated 20% of total U.S. housing units depend upon on-site septic systems for the treatment and disposal of household sewage. An on-site septic system allows for effluent to be leached into the soil for treatment. The market is driven by new residential construction and, to a lesser extent, the repair and replacement of existing systems. Our plastic septic chamber products perform their septic treatment functions with gravel, reducing the cost to the contractor and homeowner over traditional pipe and stone systems that are also used for these systems.

Structures

Drainage structures are used in all major storm projects and are used to move surface-collected stormwater vertically down to pipe conveyance systems. The predominant products used today are concrete structures. We compete in this market with our Nyloplast product line, an engineered drainage structure made from PVC. Our Nyloplast product reduces construction cost and increases speed of installation compared to traditional precast concrete structures.

Water Quality

EPA regulations also limit the amount of sediment or other pollutants in discharged water. Similar to stormwater management, these requirements are met through the use of either natural or structural solutions. Freedonia forecasts that demand for these solutions will increase 10.1% annually through 2016, with natural and structural solutions growing at nearly the same rate. We provide structural solutions for water quality through our BaySaver and FlexStorm product lines.

Geosynthetics

We offer geosynthetic products through resale agreements with leading suppliers. Geosynthetics are used in a wide range of environmental and civil engineering applications to promote drainage, retain soils, control the flow of liquids and construct natural soil structures. Demand in this market is primarily driven by trends in non-residential and transportation construction activity. According to a December 2013 study by Freedonia on world geosynthetics demand, U.S. geosynthetic demand is forecasted to grow 6.5% annually through 2017.

Core End Markets

Non-Residential Construction (49% of Domestic Net Sales in Fiscal Year 2013)

For fiscal year 2013, our net sales in the U.S. non-residential construction market were $430.1 million, which represented 49% of our domestic net sales. Reed Construction Data is forecasting U.S. non-residential construction, consisting of commercial, institutional, manufacturing and warehouse construction, to grow 6.6% annually from 2013 to 2016 and increase 8.2% in 2014 over 2013.

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Residential Construction (21% of Domestic Net Sales in Fiscal Year 2013)

For fiscal year 2013, our net sales in the U.S. residential construction market were $184.3 million, which represented 21% of our domestic net sales. U.S. residential new construction has begun to recover since reaching historic lows during the recent economic downturn. While new housing starts demonstrated an annual growth rate of 16% from 2010 to 2013, current levels remain substantially below the long-term average of 1.5 million starts since the U.S. Census Bureau began reporting the data in 1959. According to McGraw Hill, residential new housing is expected to increase to 1.13 million starts, or 17%, in 2014, and increase to 1.36 million starts, or 20%, in 2015. As of September 2013, the Home Improvement Research Institute projects that U.S. sales of repair, renovation and improvement products will grow at a rate of 5.4% in 2013, 6.8% in 2014 and 7.0% in 2015, driven by the improving economy, rising home prices and greater consumer confidence.

Agriculture (21% of Domestic Net Sales in Fiscal Year 2013)

For fiscal year 2013, our net sales in the U.S. agriculture market were $184.3 million, which represented 21% of our domestic net sales. U.S. and global demand for corn and soybeans, net farm income and corn use for ethanol are significant drivers of our agriculture business and are leading indicators in regards to our product demand. According to the U.S. Department of Agriculture, agricultural exports were a record $140.9 billion in 2013 and are forecasted to increase 1% in 2014. According to the U.S. Department of Agriculture, net farm income increased to $130.5 billion in 2013, up from $85.0 billion in 2008. The U.S. Department of Agriculture estimates that 40% of corn production in the United States is consumed by ethanol production, with requirements not expected to decline in the near future.

Infrastructure (9% of Domestic Net Sales in Fiscal Year 2013)

For fiscal year 2013, our net sales in the U.S. infrastructure market were $79.0 million, which represented 9% of our domestic net sales. The main drivers of our products in the infrastructure market include the construction of streets and highways, storm and sanitary sewers, airports and railroads. ASCE rated the overall U.S. infrastructure a grade of D+ in its recent 2013 report card, and estimates that $298 billion is needed over the next 20 years to replace and upgrade the existing wastewater infrastructure in the United States. ASCE s primary concern is the need to address sanitary and combined sewer overflows. Citing the 2008 Clean Watersheds Needs Survey, the ASCE report states $64 billion is needed to address combined sewer overflows and stormwater management over the 20-year period. There are four million miles of public roads and highways in the United States, primarily constructed over 50 years ago. The Federal Highway Administration estimates that $170 billion is needed annually to improve the condition of the nation s roads and highways, a significant increase from the $101 billion that is needed to just maintain their current condition.

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Ownership and Corporate Information

We have a long history of employee ownership as well as ownership by financial sponsors. Our current ownership is comprised of members of our management team and other non-employee stockholders, ASP ADS Investco, LLC, an affiliate of American Securities LLC, or American Securities, and our ESOP in which our employees participate. For more information regarding our ESOP, see Description of Employee Stock Ownership Plan.

The following chart illustrates our ownership and organizational structure, including stock ownership percentages, after giving effect to this offering (assuming no exercise of the underwriters option to purchase additional shares):

(1) Excludes (on a post-stock split basis) million shares of common stock issuable upon exercise of options outstanding as of December 31, 2013 at a weighted average exercise price of $ per share.

(2) ASP ADS Investco, LLC is an affiliate of American Securities.

(3) The ESOP currently holds all outstanding shares of our convertible preferred stock, which converts at the election of the ESOP into shares of our common stock as further described below under Description of Employee Stock Ownership Plan. The percentage ownership for the ESOP is on an as-converted basis.

(4) ADS Worldwide, Inc. is our wholly-owned subsidiary through which we hold interests in the various international joint ventures through which we operate in Mexico, Central America and South America.

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Summary of Risk Factors

Our business is subject to a number of risks of which you should be aware and carefully consider before making an investment decision. These risks are discussed in Risk Factors, and include but are not limited to the following:

- fluctuations in the price and availability of resins, our principal raw material, and our inability to pass on resin price increases to customers;
- our inability to obtain adequate supplies of resins from suppliers;
- disruption or volatility in general business and economic conditions in the markets in which we operate, such as non-residential and residential construction, agriculture and infrastructure markets ;
- our ability to convert current demand for competitive products into demand for our products;
- effect of weather or seasonality;
- loss of any of our significant customers;
- failure to collect monies owed from customers;
- exposure of our international operations to political, economic and regulatory risks;
- risks associated with conducting a portion of our operations through joint ventures;
- our ability to successfully expand into new geographic or product markets;
- risks associated with acquisitions;
- risks associated with increased fuel and energy prices;
- risks associated with manufacturing process, construction defect and product liability and legal proceedings;

our current levels of indebtedness and related restrictions and limitations imposed on us;

securities or industry analysts may not publish research or may publish misleading or unfavorable research about our business; and

fulfilling our obligations incident to being a public company.

Corporate Information

We were founded in 1966 and are a Delaware corporation. Our principal executive offices are located at 4640 Trueman Boulevard, Hilliard, Ohio 43026, and our telephone number at that address is (614) 658-0050. Our corporate website is www.ads-pipe.com. Information on, and which can be accessed through, our website is not part of, and is not incorporated by reference in this prospectus.

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The Offering

Common stock offered by us	shares (shares if the underwriters exercise in full their option to purchase additional shares).
Common stock offered by the selling stockholder	shares (shares if the underwriters exercise in full their option to purchase additional shares).
Common stock outstanding immediately after this offering	shares (shares if the underwriters exercise in full their option to purchase additional shares).
Option to purchase additional shares of common stock	The underwriters have a 30-day option to purchase up to an additional shares of common stock from us and up to an additional shares of common stock from the selling stockholder.
Proposed New York Stock Exchange symbol	WMS.
Use of proceeds	We intend to use the net proceeds from this offering (together with cash on hand, if necessary) to repay at least $ million of outstanding indebtedness under the revolving portion of our credit facility. We intend to use the remaining proceeds (if any) for general corporate purposes. We will not receive any proceeds from the sale of shares by the selling stockholder. See Use of Proceeds.
Risk factors	See Risk Factors and other information included in this prospectus for a discussion of factors that you should carefully consider before deciding whether to invest in shares of our common stock.
Dividend policy	We have a history of paying dividends to our stockholders when sufficient cash is available, and we currently intend to pay dividends in the future after this offering. Any determination to pay dividends on our capital stock in the future will be at the discretion of our board of directors, subject to applicable laws and the provisions of our amended and restated certificate of incorporation (including those relating to the payment of dividends on our convertible preferred stock), and will depend on our financial condition, results of operations, capital requirements, general business conditions and other factors that our board of directors considers relevant. In addition, the terms of our credit

facilities contain restrictions on our ability to pay dividends. See Dividend Policy.

The number of shares of common stock to be outstanding immediately following this offering gives effect to a -for- stock split to be effected immediately prior to the effectiveness of the registration statement of which this prospectus forms a part, and includes (i) shares of our common stock outstanding as of , 2014, and (ii) shares of common stock offered by us in connection with this offering (assuming no exercise of the underwriters option to purchase additional shares), and excludes (on a post-stock split basis):

million shares of restricted stock outstanding as of , 2014 under our 2008 Restricted Stock Plan;

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- million shares of common stock issuable upon exercise of options outstanding as of December 31, 2013 at a weighted average exercise price of $ per share; and

- million shares of common stock reserved for future issuance under our 2013 Stock Option Plan.

Unless otherwise indicated, all information in this prospectus assumes the following:

- a -for- stock split to be effected immediately prior to the effectiveness of the registration statement of which this prospectus forms a part;

- no exercise by the underwriters of their option to purchase additional shares;

- the filing of our amended and restated certificate of incorporation and the adoption of our amended and restated bylaws immediately prior to the closing of this offering; and

- an initial public offering price of $ per share, which is the midpoint of the price range set forth on the cover of this prospectus.

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Summary Consolidated Financial Data

The summary consolidated financial data presented below as of March 31, 2012 and 2013 and for fiscal years 2011, 2012 and 2013 have been derived from our audited consolidated financial statements included elsewhere in this prospectus. The summary consolidated financial data presented below as of December 31, 2013 and for the nine months ended December 31, 2012 and 2013 have been derived from our unaudited condensed consolidated financial statements included elsewhere in this prospectus. The summary consolidated financial data presented below as of March 31, 2011 have been derived from our audited consolidated financial statements which are not included in this prospectus.

The results indicated below and elsewhere in this prospectus are not necessarily indicative of our future performance. You should read this data in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes included elsewhere in this prospectus. This summary consolidated financial data does not reflect the earnings per share and dividends per share impact of our -for- stock split to be effected immediately prior to the effectiveness of the registration statement of which this prospectus forms a part.

	Fiscal Year Ended March 31,			Nine Months Ended December 31,	
(Amounts in thousands, except per share data)	**2011**	**2012**	**2013**	**2012**	**2013**
Consolidated statement of income data:					
Net sales	$ 863,138	$ 1,013,756	$ 1,017,041	$ 832,565	$ 887,777
Cost of goods sold	692,164	818,398	807,730	659,283	698,791
Gross profit	170,974	195,358	209,311	173,282	188,986
Selling expenses	63,103	67,625	69,451	52,847	52,433
General and administrative expenses	61,648	65,927	67,712	48,913	54,354
Gain on sale of assets/ business		(44,634)	(2,210)	(2,210)	(4,848)
Intangibles amortization	7,294	11,387	11,295	8,119	8,576
Income from operations	38,929	95,053	63,063	65,613	78,471
Interest expense	27,121	21,837	16,095	12,465	11,860
Other miscellaneous (income) expense, net	(847)	2,425	283	176	398
Income before income taxes	12,655	70,791	46,685	52,972	66,213
Income tax expense	4,053	27,064	16,894	20,112	40,845
Equity in net (income) loss of unconsolidated affiliates	(736)	(704)	(387)	(402)	714
Net income	9,338	44,431	30,178	33,262	24,654
Less net income attributable to the noncontrolling interest	3,342	1,171	2,019	1,654	1,360
Net income attributable to ADS	5,996	43,260	28,159	31,608	23,294
	(3,541)	(10,257)	(5,869)	(3,682)	(8,492)

Change in fair value of Redeemable Convertible Preferred Stock					
Dividends paid to Redeemable Convertible Preferred Stockholders	(844)	(668)	(736)	(554)	(640)
Dividends paid to unvested restricted stockholders	(104)	(34)	(52)	(39)	(47)
Net income available to common stockholders and participating securities	1,507	32,301	21,502	27,333	14,115
Undistributed income allocated to participating securities		(3,241)	(2,042)	(2,703)	(1,184)
Net income available to common stockholders	$ 1,507	$ 29,060	$ 19,460	$ 24,630	$ 12,931

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(Amounts in thousands, except per share data)	Fiscal Year Ended March 31, 2011	2012	2013	Nine Months Ended December 31, 2012	2013
Weighted average common shares outstanding:					
Basic	10,127	9,835	9,921	9,917	9,980
Diluted	10,346	9,996	10,038	10,033	10,087
As adjusted Basic (2)					
As adjusted Diluted (2)					
Net income per share:					
Basic	$ 0.15	$ 2.95	$ 1.96	$ 2.48	$ 1.30
Diluted	$ 0.15	$ 2.91	$ 1.94	$ 2.45	$ 1.28
As adjusted Basic (2)	$ 0.49	$ 3.88	$ 2.48	$ 2.81	$ 2.05
As adjusted Diluted (2)	$ 0.47	$ 3.81	$ 2.45	$ 2.75	$ 2.00
Cash dividends declared per share	$ 0.44	$ 0.44	$ 0.48	$ 0.33	$ 0.36

(Amounts in thousands, except percentages)	Fiscal Year Ended March 31, 2011	2012	2013	Nine Months Ended December 31, 2012	2013
Other financial data:					
Capital expenditures	$ 30,041	$ 26,467	$ 40,004	$ 35,421	$ 27,097
Adjusted EBITDA (3)	100,780	116,873	129,759	115,731	130,567
Adjusted EBITDA margin (4)	11.7%	11.5%	12.8%	13.9%	14.7%

(Amounts in thousands)	As of March 31, 2011 (1)	2012	2013	As of December 31, 2013
Consolidated balance sheet data:				
Cash	$ 2,151	$ 2,082	$ 1,361	$ 5,335
Working capital (5)	204,061	208,268	220,276	208,097
Total assets	866,798	905,028	907,739	885,948
Long-term debt	374,746	370,672	349,990	306,265
Total liabilities	618,351	615,314	585,115	545,632
Total mezzanine equity (6)	493,674	557,563	608,346	678,175
Total stockholders equity	(245,227)	(267,849)	(285,722)	(337,859)
Total mezzanine equity and stockholders equity	248,447	289,714	322,624	340,316

(Amounts in thousands)	Fiscal Year Ended March 31, 2011	2012	2013	Nine Months Ended December 31, 2012	2013
Statement of cash flows data:					
Net cash from operating activities	$ 37,233	$ 56,997	$ 68,215	$ 60,176	$ 88,104
Net cash from investing activities	(53,237)	(35,833)	(47,199)	(42,079)	(30,116)
Net cash from financing activities	15,134	(21,233)	(21,737)	(15,987)	(54,014)

(1) The presentation of our summary consolidated financial data as of March 31, 2011 has been adjusted to comply with the retrospective application of our inventory accounting principle change. See Note 1, Background and Summary of Significant Accounting Policies, within our consolidated financial statements included elsewhere in this prospectus for further details regarding our inventory accounting principle change.

(2) Net Income Per Share As Adjusted Basic and Diluted, which are non-GAAP measures, have been presented in this prospectus as supplemental measures of financial performance that are not required by, or presented in accordance with generally accepted accounting principles or GAAP. As described elsewhere in this prospectus, upon completion of this offering, the redemption rights associated with these shares, which require them to be classified as mezzanine equity, will be no longer in effect and, as such, we anticipate reclassifying these balances to total stockholders equity upon the completion of this offering. We calculate Net Income Per Share As Adjusted Basic,

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and the corresponding Weighted Average Common Shares Outstanding As Adjusted Basic, by adjusting our historical net income per share and weighted average common shares outstanding amounts for the reclassification of Redeemable Convertible Preferred Stock from mezzanine equity to total stockholders equity in order to present historical amounts as if this reclassification occurred as of the beginning of the earliest period presented.

To effect this adjustment, we have (1) removed the adjustment for the change in fair value of Redeemable Convertible Preferred Stock classified as mezzanine equity from the numerator of the Basic Net Income Per Share computation, and (2) made a corresponding adjustment to the amount allocated to participating securities under the two-class earnings per share computation method.

We have also made adjustments to Net Income Per Share as Adjusted Diluted, and the corresponding Weighted Average Common Shares Outstanding As Adjusted Diluted, to assume share settlement of the Redeemable Convertible Preferred Stock to the extent that the if-converted computation method is more dilutive than the two-class computation method.

Net Income Per Share As Adjusted Basic and Diluted are included in this prospectus because they are key metrics used by management and our board of directors to assess our financial performance. Net Income Per Share As Adjusted Basic and Diluted are not necessarily comparable to other similarly titled captions of other companies due to different methods of calculation.

The following table presents a reconciliation of Net Income Per Share As Adjusted Basic and Diluted, and the corresponding Weighted Average Common Shares Outstanding As Adjusted Basic and Diluted to our historical net income per share and corresponding historical weighted average common share amounts, the most comparable GAAP measure, for each of the periods indicated.

	Fiscal Year Ended March 31,			Nine Months Ended December 31,	
(Amounts in thousands, except per share data)	**2011**	**2012**	**2013**	**2012**	**2013**
Net Income Per Share As Adjusted Basic					
Net income available to common stockholders	$ 1,507	$ 29,060	$ 19,460	$ 24,630	$ 12,931
Adjustment for:					
Change in fair value of Redeemable Convertible Preferred Stock	3,541	10,257	5,869	3,682	8,492
Undistributed income allocated to participating securities	(76)	(1,189)	(716)	(418)	(997)
Net income available to common stockholders used to calculate Net Income Per Share As Adjusted Basic	$ 4,972	$ 38,128	$ 24,613	$ 27,894	$ 20,426
Weighted average common shares outstanding:					
Basic	10,127	9,835	9,921	9,917	9,980
As adjusted Basic	10,127	9,835	9,921	9,917	9,980
Net Income Per Share As Adjusted Diluted					
Net income available to common stockholders used to calculate Net Income Per Share As Adjusted Basic	$ 4,972	$ 38,128	$ 24,613	$ 27,894	$ 20,426

Adjustment for:					
Undistributed income allocated to participating Redeemable Convertible Preferred Stock	74			2,972	2,071
Dividends paid to Redeemable Convertible Preferred Stockholders, net of tax impact	557			360	416
Other adjustments	(4)			(5)	45
Net income available to common stockholders used to calculate Net Income Per Share As Adjusted Diluted	$ 5,599	$ 38,128	$ 24,613	$ 31,221	$ 22,958
Weighted average common shares outstanding					
Diluted	10,346	9,996	10,038	10,033	10,087
Conversion of the outstanding Redeemable Convertible Preferred Stock on an as converted basis	1,607			1,305	1,366
As adjusted Diluted	11,953	9,996	10,038	11,338	11,453
Net income (loss) per share:					
As adjusted Basic	$ 0.49	$ 3.88	$ 2.48	$ 2.81	$ 2.05
As adjusted Diluted	$ 0.47	$ 3.81	$ 2.45	$ 2.75	$ 2.00

(3) EBITDA and Adjusted EBITDA, which are non-GAAP financial measures, have been presented in this prospectus as supplemental measures of financial performance that are not required by, or presented in accordance with generally accepted accounting principles or GAAP. We calculate EBITDA as net income attributable to ADS before interest, income taxes, depreciation and amortization. We calculate Adjusted EBITDA as EBITDA before stock based compensation expense, non-cash charges and certain other expenses.

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EBITDA and Adjusted EBITDA are included in this prospectus because they are key metrics used by management and our board of directors to assess our financial performance. EBITDA and Adjusted EBITDA are frequently used by analysts, investors and other interested parties to evaluate companies in our industry. In addition to covenant compliance and executive performance evaluations, we use Adjusted EBITDA to supplement GAAP measures of performance to evaluate the effectiveness of our business strategies, to make budgeting decisions and to compare our performance against that of other peer companies using similar measures.

EBITDA and Adjusted EBITDA are not GAAP measures of our financial performance or liquidity and should not be considered as alternatives to net income as a measure of financial performance or cash flows from operations as a measure of liquidity, or any other performance measure derived in accordance with GAAP and they should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items. Additionally, EBITDA and Adjusted EBITDA are not intended to be measures of free cash flow for management s discretionary use, as they do not reflect certain cash requirements such as tax payments, debt service requirements, capital expenditures and certain other cash costs that may recur in the future. EBITDA and Adjusted EBITDA contain certain other limitations, including the failure to reflect our cash expenditures, cash requirements for working capital needs and cash costs to replace assets being depreciated and amortized. In evaluating Adjusted EBITDA, you should be aware that in the future we will incur expenses that are the same as or similar to some of the adjustments in this presentation, such as stock based compensation expense, derivative fair value adjustments, and foreign currency transaction losses. Our presentation of Adjusted EBITDA should not be construed to imply that our future results will be unaffected by any such adjustments. Management compensates for these limitations by relying on our GAAP results in addition to using EBITDA and Adjusted EBITDA supplementally. Our measures of EBITDA and Adjusted EBITDA are not necessarily comparable to other similarly titled captions of other companies due to different methods of calculation.

The following table presents a reconciliation of EBITDA and Adjusted EBITDA to Net income, the most comparable GAAP measure, for each of the periods indicated.

	Fiscal Year Ended March 31,			**Nine Months Ended December 31,**	
(Amounts in thousands)	**2011**	**2012**	**2013**	**2012**	**2013**
Net income attributable to ADS	$ 5,996	$ 43,260	$ 28,159	$ 31,608	$ 23,294
Depreciation and amortization [(a)]	56,327	59,356	56,926	42,188	43,076
Interest expense, net	27,121	21,837	16,095	12,465	11,860
Income tax expense	4,053	27,064	16,894	20,112	40,845
EBITDA	93,497	151,517	118,074	106,373	119,075
Derivative fair value adjustments [(b)]	(1,365)	2,315	(4)	220	54
Foreign currency transaction losses [(c)]	332	378	1,085	659	251
Gain on sale of Septic Chamber business [(d)]		(44,634)			
Unconsolidated affiliates interest and tax [(e)]	624	915	729	488	347
One-time management fee to minority interest holder [(f)]					739
Stock based compensation [(g)]	2,725	1,425	2,592	1,207	2,640
ESOP deferred stock based compensation [(h)]	4,564	4,957	7,283	6,784	7,343
Transaction costs [(i)]	403				118
Adjusted EBITDA	$ 100,780	$ 116,873	$ 129,759	$ 115,731	$ 130,567

(a) Includes our proportionate share of depreciation and amortization expense of $552, $985 and $1,321 related to our South American Joint Venture and our BaySaver Joint Venture, which amounts are included in equity in net income of unconsolidated affiliates in our consolidated statements of income for fiscal years 2011, 2012 and 2013, respectively, and $977 and $1,031 included in equity in net income of unconsolidated affiliates in our condensed consolidated statements of income for the nine months ended December 31, 2012 and 2013, respectively. Depreciation and amortization expense for fiscal year 2012 also includes a charge of $3,200 related to the impairment of one of our trademarks.
(b) Represents the non-cash gains and losses arising from changes in mark-to-market values for derivative contracts related to diesel fuel and interest rate swaps. The impact of resin physical and financial derivatives is included in cost of goods sold.
(c) Represents the gains and losses incurred on purchases, sales and intercompany loans and dividends denominated in non-functional currencies.
(d) Represents a gain recognized on the sale of our septic chamber business in January 2012.
(e) Represents our proportional share of income taxes and interest related to our South American Joint Venture and our BaySaver Joint Venture, which are accounted for under the equity method of accounting.

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(f) Represents management fee paid to a minority interest holder of a consolidated subsidiary.
(g) Represents the non-cash stock based compensation cost related to our stock options and restricted stock awards.
(h) Represents the non-cash stock based compensation expense attributable to the shares of convertible preferred stock allocated to employee ESOP accounts during the applicable period.
(i) Represents expenses recorded related to legal, accounting and other professional fees incurred in connection with our recent debt refinancing and in connection with this offering.

(4) Adjusted EBITDA margin for any period represents Adjusted EBITDA as a percentage of net sales for that period.
(5) Working capital is the difference between our current assets and current liabilities. Working capital is an indication of liquidity and potential need for short-term funding.
(6) Our mezzanine equity consists of the Redeemable Convertible Preferred Stock held by our ESOP and Redeemable Common Stock held by certain stockholders who have certain rights associated with such shares, which rights are considered for purposes of GAAP to be a redemption right, which is beyond our control. See Note 17, Mezzanine Equity, within our consolidated financial statements included elsewhere in this prospectus for further information regarding the accounting treatment for our mezzanine equity. Upon completion of this offering, the redemption rights associated with these shares, which require them to be classified in mezzanine equity, will be no longer be in effect. As a result, we anticipate reclassifying these balances to total stockholders equity upon the completion of this offering.

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RISK FACTORS

Investing in our common stock involves a high degree of risk. Before you make your investment decision, you should carefully consider the risks described below and the other information contained in this prospectus, including our consolidated financial statements and the related notes. If any of the following risks actually occur, our business, financial condition, results of operations and cash flows could be materially adversely affected. In these circumstances, the market price of our common stock could decline, and you may lose all or part of your investment.

Risks Relating to Our Business

Fluctuations in the price and availability of resins, our principal raw materials, and our inability to obtain adequate supplies of resins from suppliers and pass on resin price increases to customers could adversely affect our business, financial condition, results of operations and cash flows.

The principal raw materials that we use in our high performance thermoplastic corrugated pipe and Allied Products are virgin and recycled resins. Our ability to operate profitably depends, to a large extent, on the markets for these resins. In particular, as resins are derived either directly or indirectly from crude oil derivatives and natural gas liquids, resin prices fluctuate substantially as a result of changes in crude oil and natural gas prices, changes in existing refining capabilities and the capacity of resin suppliers. The petrochemical industry historically has been cyclical and volatile. The cycles are generally characterized by periods of tight supply, followed by periods of oversupply, primarily resulting from significant capacity additions. For example, resin prices have increased since 2010 due to increased demand in the broader economy. The weighted average market cost for the types of resin that we use increased by approximately 7.2% and 0.9% for fiscal years 2012 and 2013, respectively. Unanticipated changes in and disruptions to existing refining capacities could also significantly increase resin prices, often within a short period of time, even if crude oil and natural gas prices remain low.

Our ability to offer our core products depends on our ability to obtain adequate resins, which we purchase directly from major petrochemical and chemical suppliers. We have long-standing relationships as well as supply contracts with some of these suppliers but we have no fixed-price contracts with any of our major suppliers. Prices are typically negotiated on a continuous basis. We have implemented a limited resin price hedging program which has historically covered less than 50% of our virgin resin purchases. The loss of, or substantial decrease in the availability of, raw materials from our suppliers, or the failure by our suppliers to continue to provide us with raw materials on commercially reasonable terms, or at all, could adversely affect our business, financial condition, results of operations and cash flows. In addition, supply interruptions could arise from labor disputes or weather conditions affecting supplies or shipments, transportation disruptions or other factors beyond our control. A disruption in the timely availability of raw materials from our key suppliers would result in a decrease in our revenues and profitability.

Our ability to maintain profitability heavily depends on our ability to pass through to our customers the full amount of any increase in raw material costs, which are a large portion of our overall product costs. We may be unable to do so in a timely manner, or at all, due to competition in the markets in which we operate. In addition, certain of our largest customers historically have exerted significant pressure on their outside suppliers to keep prices low because of their market share. If increases in the cost of raw materials cannot be passed on to our customers, or the duration of time associated with a pass through becomes extended, our business, financial condition, results of operations and cash flows will be adversely affected.

Any disruption or volatility in general business and economic conditions in the markets in which we operate could have a material adverse effect on the demand for our products and services.

The markets in which we operate are sensitive to general business and economic conditions in the United States and worldwide, including availability of credit, interest rates, fluctuation in capital and business and consumer confidence. The capital and credit markets have in recent years been experiencing significant volatility and disruption. These conditions, combined with price fluctuations in crude oil derivatives and natural gas liquids, declining business and consumer confidence and increased unemployment, precipitated an economic slowdown and severe recession in recent years. The difficult conditions in these markets and the overall economy affect our business in a number of ways. For example:

- The slowdown and volatility of the United States economy in general is having an adverse effect on our sales that are dependent on the non-residential construction market. According to the U.S. Census Bureau, actual non-residential construction put-in-place in the United States during 2013 remained 13.5% lower than 2009 levels. Continued uncertainty about current economic conditions will continue to pose a risk to our business units that serve the non-residential construction market, as participants in this industry may postpone spending in response to tighter credit, negative financial news and/or declines in income or asset values, which could have a continued material adverse effect on the demand for our products and services.

- The homebuilding industry has undergone a significant decline from its peak in 2005. While new housing starts demonstrated an annual growth rate of 16% from 2010 to 2013, current levels remain substantially below the long-term average of 1.5 million starts since the U.S. Census Bureau began reporting the data in 1959.

- The mortgage markets continue to experience disruption and reduced availability of mortgages for potential homebuyers due to more restrictive standards to qualify for mortgages, including with respect to new home construction loans. The multi-year downturn in the homebuilding industry resulted in a substantial reduction in demand for our products and services in this market, which in turn had a significant adverse effect on our financial condition and results of operations during the period from 2008 to 2013, as compared to peak levels.

- Our business depends to a great extent upon general activity levels in the agriculture market. Changes in corn production, soybean production, farm income, farmland value and the level of farm output in the geographic locations in which we operate are all material factors that could adversely affect the agriculture market and result in a decrease in the amount of products that our customers purchase. The nature of the agriculture market is such that a downturn in demand can occur suddenly, resulting in excess inventories, un-utilized production capacity and reduced prices for pipe products. These downturns may be prolonged and our revenue and profitability would be harmed.

- Demand for our products and services depends to a significant degree on spending on infrastructure, which is inherently cyclical. Infrastructure spending is affected by a variety of factors beyond our control, including interest rates, availability and commitment of public funds for municipal spending and highway spending and general economic conditions. Our products sales may be adversely impacted by budget cuts by governments, including as a result of lower than anticipated tax revenues.

All of our markets are sensitive to changes in the broader economy. Downturns or lack of substantial improvement in the economy in any region in which we operate have adversely affected and could continue to adversely affect our business, financial condition and results of operations. While we operate in many markets, our business is particularly impacted by changes in the economies of the United States, Canada and Mexico, which represented approximately

86.5%, 6.2% and 5.8%, respectively, of our net sales for fiscal year 2013 and collectively represented approximately 98.4% of our net sales for fiscal year 2013.

We cannot predict the duration of current economic conditions, or the timing or strength of any future recovery of activities in our markets. Continued weakness in the market in which we operate could have a material adverse effect on our business, financial condition, results of operations and cash flows. We may have to close under-performing facilities from time to time as warranted by general economic conditions and/or weakness in the markets in which we operate. In addition to a reduction in demand for our products, these factors may also reduce the price we are able to charge for our products and restrict our ability to pass raw material cost increases to our customers. This, combined with an increase in excess capacity, will negatively impact our profitability, cash flows and our financial condition, generally.

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Demand for our products and services could decrease if we are unable to compete effectively, and our success depends largely on our ability to convert current demand for competitive products into demand for our products.

We compete with both manufacturers of high performance thermoplastic corrugated pipe and manufacturers of alternative products, such as concrete, steel and PVC pipe products, on the basis of a number of considerations, including product characteristics such as durability, design, ease of installation, price on a price-to-value basis and service. In particular, we compete on a global, national and local basis with pipe products made of traditional materials which our high performance thermoplastic corrugated pipe products are designed to replace. For example, our N-12 and SaniTite HP products face competition from concrete, steel and PVC pipe products in the small- and large-diameter size segments of the market.

Our ability to successfully compete and grow depends largely on our ability to continue to convert the current demand for concrete, steel and PVC pipe products into demand for our high performance thermoplastic corrugated pipe and Allied Products. To increase our market share we will need to increase material conversion by educating our customers about the value of our products in comparison to existing alternatives, working with government agencies to expand approvals for our products and working with civil engineering firms which may influence the specification of our products on construction projects. No assurance can be given that our efforts to increase or maintain the current rate of material conversion will be successful, and our failure to do so would have a material adverse effect on our business, financial condition, results of operations and cash flows.

We also expect that new competitors may develop over time. No assurance can be given that we will be able to respond effectively to such competitive pressures. Increased competition by existing and future competitors could result in reductions in sales, prices, volumes and gross margins that would materially adversely affect our business, financial condition, results of operations and cash flows. Furthermore, our success will depend, in part, on our ability to maintain our market share and gain market share from competitors.

Certain of our competitors have financial and other resources that are greater than ours and may be better able to withstand price competition, especially with respect to traditional products. In addition, consolidation by industry participants could result in competitors with increased market share, larger customer bases, greater diversified product offerings and greater technological and marketing expertise, which would allow them to compete more effectively against us. Moreover, our competitors may develop products that are superior to our products or may adapt more quickly to new technologies or evolving customer requirements. Technological advances by our competitors may lead to new manufacturing techniques and make it more difficult for us to compete. In many markets in which we operate there are no significant entry barriers that would prevent new competitors from entering the market, especially on the local level, or existing competitors from expanding in the market. In addition, because we do not have long-term arrangements with many of our customers, these competitive factors could cause our customers to cease purchasing our products.

In addition, our contracts with municipalities are often awarded and renewed through periodic competitive bidding. We may not be successful in obtaining or renewing these contracts on financially attractive terms or at all, which could adversely affect our business, financial condition, results of operations and cash flows.

Our results of operations could be adversely affected by the effects of weather.

Although weather patterns affect our operating results throughout the year, adverse weather historically has reduced construction activity in our third and fourth fiscal quarters. In contrast, our highest volume of net sales historically has occurred in our first and second fiscal quarters.

Most of our business units experience seasonal variation as a result of the dependence of our customers on suitable weather to engage in construction projects. Generally, during the winter months, construction activity declines due to inclement weather, frozen ground and shorter daylight hours. For example, during the spring of 2013 and 2014, the extremely cold weather significantly reduced the level of construction activities in the United States, thereby impacting our revenues. In addition, to the extent that hurricanes, severe storms, floods, other natural disasters or similar events occur in the geographic regions in which we operate, our results of operations may be adversely affected. For example, Hurricane Andrew in Florida in 1992 and the extensive flooding of the Mississippi River in 2011 resulted in temporary interruption in business activity in these areas. We anticipate that fluctuations of our operation results from period to period due to seasonality will continue in the future.

The loss of any of our significant customers could adversely affect our business, financial condition, results of operations and cash flows.

Our 10 largest customers in the United States generated approximately 35.1% of our domestic net sales in fiscal year 2013. We cannot guarantee that we will maintain or improve our relationships with these customers or that we will continue to supply these customers at historical levels. Because we do not have long-term arrangements with many of our customers, such customers may cease purchasing our products without notice or upon short notice to us. During the economic downturn, some of our customers reduced their operations. For example, some homebuilder customers exited or severely curtailed building activity in certain of our markets. There is no assurance that our customers will increase their activity level or return it to historic levels. A slow economic recovery could continue to have material adverse effect on our business, financial condition, results of operations and cash flows.

In addition, consolidation among customers could also result in a loss of some of our present customers to our competitors. The loss of one or more of our significant customers, a significant customer s decision to purchase our products in significantly lower quantities than they have in the past, or deterioration in our relationship with any of them could have a material adverse effect on our business, financial condition, results of operations and cash flows.

The majority of our net sales are credit sales which are made primarily to customers whose ability to pay is dependent, in part, upon the economic strength of the industry and geographic areas in which they operate, and the failure to collect monies owed from customers could adversely affect our financial condition.

The majority of our net sales volume is facilitated through the extension of credit to our customers whose ability to pay is dependent, in part, upon the economic strength of the industry in the areas where they operate. Our business units offer credit to customers, either through unsecured credit that is based solely upon the creditworthiness of the customer, or secured credit for materials sold for a specific job where the security lies in lien rights associated with the material going into the job. The type of credit offered depends both on the financial strength of the customer and the nature of the business in which the customer is involved. End users, resellers and other non-contractor customers generally purchase more on unsecured credit than secured credit. The inability of our customers to pay off their credit lines in a timely manner, or at all, would adversely affect our business, financial condition, results of operations and cash flows. Furthermore, our collections efforts with respect to non-paying or slow-paying customers could negatively impact our customer relations going forward.

Because we depend on the creditworthiness of certain of our customers, if the financial condition of our customers declines, our credit risk could increase. Significant contraction in our markets, coupled with tightened credit availability and financial institution underwriting standards, could adversely affect certain of our customers. Should one or more of our larger customers declare bankruptcy, it could adversely affect the collectability of our accounts receivable, bad debt reserves and net income.

Our international operations expose us to political, economic and regulatory risks not normally faced by businesses that operate only in the United States.

International operations are exposed to different political, economic and regulatory risks that are not faced by businesses that operate solely in the United States. Some of our operations are outside the United States, with manufacturing and distribution facilities in Canada and several Latin American countries. Our international operations are subject to risks similar to those affecting our operations in the United States in addition to a number of other risks, including:

- difficulties in enforcing contractual and intellectual property rights;

- impositions or increases of withholding and other taxes on remittances and other payments by subsidiaries and affiliates;
- exposure to different legal standards;
- fluctuations in currency exchange rates;
- impositions or increases of investment and other restrictions by foreign governments;
- the requirements of a wide variety of foreign laws;
- political and economic instability;
- terrorist acts;
- war; and
- difficulties in staffing and managing operations, particularly in remote locations.

As a result of our international operations we could be adversely affected by violations of the U.S. Foreign Corrupt Practices Act and similar foreign anti-corruption laws.

The U.S. Foreign Corrupt Practices Act, or the FCPA, and similar foreign anti-corruption laws generally prohibit companies and their intermediaries from making improper payments or providing anything of value to influence foreign government officials for the purpose of obtaining or retaining business or obtaining an unfair advantage. Recent years have seen a substantial increase in the global enforcement of anti-corruption laws, with more frequent voluntary self-disclosures by companies, aggressive investigations and enforcement proceedings by both the U.S. Department of Justice and the U.S. Securities and Exchange Commission, or SEC, resulting in record fines and penalties, increased enforcement activity by non-U.S. regulators, and increases in criminal and civil proceedings brought against companies and individuals.

We have operations in Canada as well as existing joint ventures in Mexico, Central America and South America. Our internal policies provide for compliance with all applicable anti-corruption laws for both us and for our joint venture operations. Our continued operation and expansion outside the United States, including in developing countries, could increase the risk of such violations in the future. Despite our training and compliance programs, we cannot assure you that our internal control policies and procedures always will protect us from unauthorized reckless or criminal acts committed by our employees, agents or joint venture partners. In the event that we believe or have reason to believe that our employees, agents or joint venture partners have or may have violated applicable anti-corruption laws, including the FCPA, we may be required to investigate or have outside counsel investigate the relevant facts and circumstances, which can be expensive and require significant time and attention from senior management. Violations of these laws may result in severe criminal or civil sanctions, which could disrupt our business and result in a material adverse effect on our reputation, financial condition, results of operations and cash flows.

Conducting a portion of our operations through joint ventures exposes us to risks and uncertainties, many of which are outside of our control.

With respect to our existing joint ventures in Mexico, Central America and South America, any differences in views among the joint venture participants may result in delayed decisions or in failures to agree on major issues. We also cannot control the actions of our joint venture partners, including any nonperformance, default or bankruptcy of our joint venture partners. As a result, we may be unable to control the quality of products produced by the joint ventures or achieve consistency of product quality as compared with our other operations. In addition to net sales and market share, this may have a material negative impact on our brand and how it is perceived thereafter. Moreover, if our partners also fail to invest in the joint venture in the manner that is anticipated or otherwise fail to meet their contractual obligations, the joint ventures may be unable to adequately perform and conduct their respective operations, requiring us to make additional investments or perform

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additional services to ensure the adequate performance and delivery of products and/or services to the joint ventures customers, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We may not be able to successfully expand into new geographic or product markets.

We may expand into new geographic or product markets based on our existing manufacturing, design and engineering capabilities and services. Our business depends in part on our ability to identify future products and product lines that complement existing products and product lines and that respond to our customers needs. We may not be able to compete effectively unless our product selection keeps up with trends in the markets in which we compete or trends in new products. In addition, our ability to integrate new products and product lines into our distribution network could impact our ability to compete. Furthermore, the success of new products and new product lines will depend on market demand and there is a risk that new products and new product lines will not deliver expected results, which could negatively impact our future sales and results of operations.

Our expansion into new markets may present competitive, distribution and regulatory challenges that differ from current ones. We may be less familiar with the target customers and may face different or additional risks, as well as increased or unexpected costs, compared to existing operations. Expansion into new markets may also bring us into direct competition with companies with whom we have little or no past experience as competitors. To the extent we rely upon expansion into new geographic or product markets for growth and do not meet the new challenges posed by such expansion, our future sales growth could be negatively impacted, our operating costs could increase, and our business operations and financial results could be adversely affected.

We may not achieve the acquisition component of our growth strategy.

Acquisitions may continue to be an important component of our growth strategy; however, there can be no assurance that we will be able to continue to grow our business through acquisitions as we have done historically or that any businesses acquired will perform in accordance with expectations or that business judgments concerning the value, strengths and weaknesses of businesses acquired will prove to be correct. Future acquisitions may result in the incurrence of debt and contingent liabilities, an increase in interest expense and amortization expense and significant charges relative to integration costs. Our strategy could be impeded if we do not identify suitable acquisition candidates and our financial condition and results of operations will be adversely affected if we are unable to properly evaluate acquisition targets.

Acquisitions involve a number of special risks, including:

- problems implementing disclosure controls and procedures for the newly acquired business;
- unforeseen difficulties extending internal control over financial reporting and performing the required assessment at the newly acquired business;
- potential adverse short-term effects on operating results through increased costs or otherwise;

diversion of management s attention and failure to recruit new, and retain existing, key personnel of the acquired business;

failure to successfully implement infrastructure, logistics and systems integration;

our business growth could outpace the capability of our systems; and

the risks inherent in the systems of the acquired business and risks associated with unanticipated events or liabilities, any of which could have a material adverse effect on our business, financial condition and results of operations.

In addition, we may not be able to obtain financing necessary to complete acquisitions on attractive terms or at all.

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Increased fuel and energy prices, and our inability to obtain sufficient quantities of fuel to operate our in-house delivery fleet, could adversely affect our business, financial condition, results of operations and cash flows.

Energy and petroleum prices have fluctuated significantly in recent years. Prices and availability of petroleum products are subject to political, economic and market factors that are outside our control. Political events in petroleum-producing regions as well as hurricanes and other weather-related events may cause the price of fuel to increase.

We consume a large amount of energy and petroleum products in our operations, including the manufacturing process and delivering a significant volume of products to our customers by our in-house fleet. While we have implemented a diesel hedging program covering approximately 50% of our in-house fleet to mitigate against higher fuel prices, our operating profit will be adversely affected if we are unable to obtain the energy and fuel we require or to fully offset the anticipated impact of higher energy and fuel prices through increased prices or surcharges to our customers or through other hedging strategies. If shortages occur in the supply of energy or necessary petroleum products and we are not able to pass along the full impact of increased energy or petroleum prices to our customers, our business, financial condition, results of operations and cash flows would be adversely affected.

We have substantial fixed costs and, as a result, our income from operations is sensitive to changes in our net sales.

A significant portion of our expenses are fixed costs (including personnel), which do not fluctuate with net sales. Consequently, a percentage decline in our net sales could have a greater percentage effect on our income from operations if we do not act to reduce personnel or take other cost reduction actions. Any decline in our net sales would cause our profitability to be adversely affected. Moreover, a key element of our strategy is managing our assets, including our substantial fixed assets, more effectively, including through sales or other disposals of excess assets. Our failure to rationalize our fixed assets in the time, and within the costs, we expect could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Our business is subject to risks associated with manufacturing processes.

We internally manufacture our own products at our facilities. While we maintain insurance covering our manufacturing and production facilities and have significant flexibility to manufacture and ship our own products from various facilities, a catastrophic loss of the use of certain of our facilities due to accident, fire, explosion, labor issues, weather conditions, other natural disaster or otherwise, whether short or long-term, could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Unexpected failures of our equipment and machinery may result in production delays, revenue loss and significant repair costs, injuries to our employees, and customer claims. Any interruption in production capability may limit our ability to supply enough products to customers and may require us to make large capital expenditures to remedy the situation, which could have a negative impact on our profitability and cash flows. Our business interruption insurance may not be sufficient to offset the lost revenues or increased costs that we may experience during a disruption of our operations.

We provide product warranties that could expose us to claims, which could in turn damage our reputation and adversely affect our business, financial condition, results of operations and cash flows.

We generally provide limited product warranties on our products against defects in materials and workmanship in normal use and service. Most of our pipe products have a warranty that is not limited in duration. The warranty period for other products such as our StormTech chambers, our Inserta Tee product line, our BaySaver product line and our

FleXstorm inlet protection systems is generally one year. Estimating the required warranty reserves requires a high level of judgment. Management estimates warranty reserves, based in part upon historical warranty costs, as a proportion of sales by product line. Management also considers various relevant factors, including its stated warranty policies and procedures, as part of its evaluation of its liability. Because warranty issues may surface later in the product life cycle, management continues to review these estimates on a regular basis and considers adjustments to these estimates based on actual experience compared to historical estimates. Although management believes that our warranty reserves at December 31, 2013 are adequate, actual results may vary from these estimates.

The nature of our business exposes us to construction defect and product liability claims as well as other legal proceedings.

We are exposed to construction defect and product liability claims relating to our various products if our products do not meet customer expectations. Such liabilities may arise out of the quality of raw materials we purchase from third-party suppliers, over which we do not have direct control. We also operate a large fleet of trucks and other vehicles and therefore face the risk of traffic accidents.

While we currently maintain insurance coverage to address a portion of these types of liabilities, we cannot make assurances that we will be able to obtain such insurance on acceptable terms in the future, if at all, or that any such insurance will provide adequate coverage against potential claims. Further, while we intend to seek indemnification against potential liability for products liability claims from relevant parties, we cannot guarantee that we will be able to recover under any such indemnification agreements. Product liability claims can be expensive to defend and can divert the attention of management and other personnel for significant time periods, regardless of the ultimate outcome. An unsuccessful product liability defense could be highly costly and accordingly result in a decline in revenues and profitability. In addition, even if we are successful in defending any claim relating to the products we distribute, claims of this nature could negatively impact customer confidence in us and our products.

From time to time, we are also involved in government inquiries and investigations, as well as consumer, employment, tort proceedings and other litigation. We cannot predict with certainty the outcomes of these legal proceedings and other contingencies, including potential environmental remediation and other proceedings commenced by government authorities. The outcome of some of these legal proceedings and other contingencies could require us to take actions which would adversely affect our operations or could require us to pay substantial amounts of money. Additionally, defending against these lawsuits and proceedings may involve significant expense and diversion of management s attention and resources from other matters.

Because our business is working capital intensive, we rely on our ability to manage our supply purchasing and customer credit policies.

Our operations are working capital intensive, and our inventories, accounts receivable and accounts payable are significant components of our net asset base. We manage our inventories and accounts payable through our purchasing policies and our accounts receivable through our customer credit policies. If we fail to adequately manage our supply purchasing or customer credit policies, our working capital and financial condition may be adversely affected.

Our operations are affected by various laws and regulations in the markets in which we operate, and our failure to obtain or maintain approvals by municipalities, state departments of transportation, engineers and developers may affect our results of operations.

Our operations are principally affected by various statutes, regulations and laws in the United States, Canada and Latin America. While we are not engaged in a regulated industry, we are subject to various laws applicable to businesses generally, including laws affecting land usage, zoning, the environment, health and safety, transportation, labor and employment practices (including pensions), competition, immigration and other matters. Additionally, approvals by municipalities, state departments of transportation, engineers and developers may affect the products our customers are allowed to use, and, consequently, failure to obtain or maintain such approvals may affect the saleability of our products. Building codes may also affect the products our customers are allowed to use, and, consequently, changes in building codes may also affect the saleability of our products. Changes in applicable regulations governing the sale of some of our products could increase our costs of doing business. In addition, changes to applicable tax laws and regulations could increase our costs of doing business. We cannot provide assurance that we will not incur material costs or liabilities in connection with regulatory requirements.

We deliver products to many of our customers through our own fleet of vehicles. The U.S. Department of Transportation, or DOT, regulates our operations in domestic interstate commerce. We are subject to safety requirements governing interstate operations prescribed by the DOT. Vehicle dimensions and driver hours of service also remain subject to both federal and state regulation. More restrictive limitations on vehicle weight and size, trailer length and configuration, or driver hours of service could increase our costs, which, if we are unable to pass these cost increases on to our customers, would reduce our gross margins and net income (loss) and increase our selling, general and administrative expenses.

We cannot predict whether future developments in law and regulations concerning our business units will affect our business, financial condition and results of operations in a negative manner. Similarly, we cannot assess whether our business units will be successful in meeting future demands of regulatory agencies in a manner which will not materially adversely affect our business, financial condition, results of operations and cash flows.

Interruptions in the proper functioning of IT systems could disrupt operations and cause unanticipated increases in costs or decreases in revenues, or both.

Because we use our information systems to, among other things, manage inventories and accounts receivable, make purchasing decisions and monitor our results of operations, the proper functioning of our IT systems is important to the successful operation of our business. Although our IT systems are protected through physical and software safeguards and remote processing capabilities exist, IT systems are still vulnerable to natural disasters, power losses, unauthorized access, telecommunication failures and other problems. If critical IT systems fail, or are otherwise unavailable, our ability to process orders, track credit risk, identify business opportunities, maintain proper levels of inventories, collect accounts receivable and pay expenses and otherwise manage our business units would be adversely affected.

Management uses information systems to support decision making and to monitor business performance. We may fail to generate accurate financial and operational reports essential for making decisions at various levels of management. Failure to adopt systematic procedures to maintain quality IT general controls could disrupt our business. In addition, if we do not maintain adequate controls such as reconciliations, segregation of duties and verification to prevent errors or incomplete information, our ability to operate our business could be limited.

Third-party service providers are responsible for managing a significant portion of our IT systems. Our business and results of operations may be adversely affected if the third-party service provider does not perform satisfactorily. Additionally, there is no guarantee that we will continue to have access to these third-party IT systems after our current license agreements expire, and, if we do not obtain licenses to use effective replacement IT systems, our financial condition and operating results could be adversely affected.

The implementation of our technology initiatives could disrupt our operations in the near term, and our technology initiatives might not provide the anticipated benefits or might fail.

We have made, and will continue to make, significant technology investments in each of our business units and in our administrative functions. Our technology initiatives are designed to streamline our operations to allow our associates to continue to provide high quality service to our customers and to provide our customers a better experience, while improving the quality of our internal control environment. The cost and potential problems and interruptions associated with the implementation of our technology initiatives could disrupt or reduce the efficiency of our operations in the near term. In addition, our new or upgraded technology might not provide the anticipated benefits, it might take longer than expected to realize the anticipated benefits or the technology might fail altogether.

We may experience a failure in or breach of our operational or information security systems, or those of our third-party service providers, as a result of cyber-attacks or information security breaches.

Information security risks have generally increased in recent years because of the proliferation of new technologies and the increased sophistication and activities of perpetrators of cyber-attacks. A failure in or breach of our operational or information security systems, or those of our third-party service providers, as a result of cyber-attacks or information security breaches could disrupt our business, result in the disclosure or misuse of confidential or proprietary information, damage our reputation, increase our costs and/or cause losses. As a result, cyber security and the continued development and enhancement of the controls and processes designed to protect our systems, computers, software, data and networks from attack, damage or unauthorized access remain a priority for us. As cyber threats continue to evolve, we may be required to expend additional significant resources to continue to enhance our information security measures and/or to investigate and remediate any information security vulnerabilities.

If we become subject to material liabilities under our self-insured programs, our financial results may be adversely affected.

We provide workers compensation, automobile and product/general liability coverage through a high deductible insurance program. In addition, we provide medical coverage to some of our employees through a self-insured preferred provider organization. Though we believe that we have adequate insurance coverage in excess of self-insured retention levels, our business, financial condition, results of operations and cash flows may be adversely affected if the number and severity of insurance claims increases.

We may see increased costs arising from health care reform.

In March 2010, the United States government enacted comprehensive health care reform legislation which, among other things, includes guaranteed coverage requirements, eliminates pre-existing condition exclusions and annual and lifetime maximum limits, restricts the extent to which policies can be rescinded and imposes new and significant taxes on health insurers and health care benefits. The legislation imposes implementation effective dates which began in 2010 and extend through 2020, and many of the changes require additional guidance from government agencies or federal regulations. Therefore, due to the phased-in nature of the implementation and the lack of interpretive guidance, it is difficult to determine at this time what impact the health care reform legislation will have on our financial results. Possible adverse effects of the health reform legislation include increased costs, exposure to expanded liability and requirements for us to revise ways in which we provide healthcare and other benefits to our employees. As a result, our business, financial condition, results of operations and cash flows could be materially adversely affected.

Our success depends upon our ability to control labor costs and to attract, train and retain highly-qualified employees and key personnel.

To be successful, we must attract, train and retain a large number of highly qualified employees while controlling related labor costs. Our ability to control labor costs is subject to numerous external factors, including prevailing wage rates and health and other insurance costs. We compete with other businesses for these employees and invest significant resources in training and motivating them. There is no assurance that we will be able to attract or retain highly-qualified employees in the future, including, in particular, those employed by companies we acquire. None of our domestic employees are currently covered by collective bargaining or other similar labor agreements. However, if a number of our employees were to unionize, including in the wake of any future legislation that makes it easier for employees to unionize, the effect on us may be negative. Any inability by us to negotiate acceptable new contracts under any collective bargaining arrangements could cause strikes or other work stoppages, and new contracts could result in increased operating costs. If any such strikes or other work stoppages occur, or if employees become represented by a union, we could experience a disruption of our operations and higher labor costs. Labor relations matters affecting our suppliers of products and services could also adversely affect our business from time to time.

In addition, our business results of operations depend largely upon our chief executive officer and senior management team as well as our plant managers and sales personnel, including those of companies recently acquired, and their experience, knowledge of local market dynamics and specifications and long-standing customer relationships. We customarily sign executive responsibility agreements with certain key personnel who are granted restricted stock or stock options under our employee incentive compensation programs, which contain confidentiality and non-competition provisions. However, in certain jurisdictions, non-competition provisions may not be enforceable or may not be enforceable to their full extent. Our inability to retain or hire qualified plant managers or sales personnel at economically reasonable compensation levels would restrict our ability to grow our business, limit our ability to continue to successfully operate our business and result in lower operating results and profitability.

If we are unable to protect our intellectual property rights, or we infringe on the intellectual property rights of others, our ability to compete could be negatively impacted.

Our ability to compete effectively depends, in part, upon our ability to protect and preserve proprietary aspects of our intellectual property, which we attempt to do, both in the United States and in foreign countries, through a combination of patent, trademark, copyright and trade secret laws, as well as licensing agreements and third-party nondisclosure and assignment agreements. Because of the differences in foreign trademark, patent and other laws concerning proprietary rights, our intellectual property rights may not receive the same degree of protection in foreign countries as they would in the United States. Our failure to obtain or maintain adequate protection of our intellectual property rights for any reason could have a material adverse effect on our business, results of operations and financial condition.

We have applied for patent protection relating to certain existing and proposed products, processes and services. While we generally apply for patents in those countries where we primarily intend to make, have made, use, or sell patented products, we may not accurately predict all of the countries where patent protection will ultimately be desirable. If we fail to timely file a patent application in any such country, we may be precluded from doing so at a later date. Furthermore, we cannot assure you that any of our patent applications will be approved. We also cannot assure you that the patents issuing as a result of our foreign patent applications will have the same scope of coverage as our United States patents. The patents we own could be challenged, invalidated or circumvented by others and may not be of sufficient scope or strength to provide us with any meaningful protection or commercial advantage. Further, we cannot assure you that competitors will not infringe our patents, or that we will have adequate resources to enforce our patents.

We also rely on unpatented proprietary technology. It is possible that others will independently develop the same or similar technology or otherwise obtain access to our unpatented technology. To protect our trade secrets and other proprietary information, we generally require applicable employees, consultants, advisors and collaborators to enter into confidentiality agreements. We cannot assure you that these agreements will provide meaningful protection for our trade secrets, know-how or other proprietary information in the event of any unauthorized use, misappropriation or disclosure of such trade secrets, know-how or other proprietary information. If we are unable to maintain the proprietary nature of our technologies, we could be materially adversely affected.

We rely on our trademarks, trade names and brand names to distinguish our products from the products of our competitors, and have registered or applied to register many of these trademarks. We cannot assure you that our trademark applications will be approved. Third parties may also oppose our trademark applications or otherwise challenge our use of the trademarks. In the event that our trademarks are successfully challenged, we could be forced to rebrand our products, which could result in loss of brand recognition, and could require us to devote resources to advertising and marketing new brands. Further, we cannot assure you that competitors will not infringe our trademarks or that we will have adequate resources to enforce our trademarks. We also license third parties to use certain of our trademarks. In an effort to preserve our trademark rights, we enter into license agreements with these third parties which govern the use of our trademarks and which require our licensees to abide by quality control standards with respect to the goods and services that they provide under our trademarks. Although we make efforts to police the use of our trademarks by our licensees, we cannot assure you that these efforts will be sufficient to ensure that our licensees abide by the terms of their licenses. In the event that our licensees fail to do so, our trademark rights could be diluted.

Although we rely on copyright laws to protect the works of authorship (including software) created by us, we generally do not register the copyrights in any of our copyrightable works. Copyrights of United States origin must be registered before the copyright owner may bring an infringement suit in the United States. Furthermore, if a copyright of United States origin is not registered within three months of publication of the underlying work, the copyright owner is precluded from seeking statutory damages or attorneys fees in any United States enforcement action, and is limited to seeking actual damages and lost profits. Accordingly, if one of our unregistered copyrights of United States origin is infringed by a third party, we will need to register the copyright before we can file an infringement suit in the United States, and our remedies in any such infringement suit may be limited.

The misuse of our intellectual property rights by others could adversely impact our ability to compete, cause our net sales to decrease or otherwise harm our business. If it became necessary for us to resort to litigation to protect our intellectual property rights, any proceedings could be burdensome and costly, and we may not prevail.

Also, we cannot be certain that the products that we sell do not and will not infringe issued patents or other intellectual property rights of others. Further, we are subject to legal proceedings and claims in the ordinary course of our business, including claims of alleged infringement of the patents, trademarks and other intellectual property rights of third parties by us or our customers, whom we generally indemnify in connection with their use of the products that we manufacture. These claims could divert management s attention and resources and may require us to initiate or defend protracted and costly litigation on behalf of ourselves or our customers, regardless of the merits of the claims. Should we be found liable for infringement, we may be required to enter into licensing agreements (if available on acceptable terms or at all) or pay damages and cease making or selling certain products. Moreover, we may need to redesign or sell different products to avoid future infringement liability. Any of the foregoing could cause us to incur significant costs, prevent us from selling our products or negatively impact our ability to compete.

Income tax payments may ultimately differ from amounts currently recorded by us. Future tax law changes may materially increase our prospective income tax expense.

We are subject to income taxation in many jurisdictions in the United States as well as foreign jurisdictions. Judgment is required in determining our worldwide income tax provision and, accordingly, there are many transactions and computations for which our final income tax determination is uncertain. We are routinely audited by income tax authorities in many tax jurisdictions. Although we believe the recorded tax estimates are reasonable, the ultimate outcome from any audit (or related litigation) could be materially different from amounts reflected in our income tax provisions and accruals. Future settlements of income tax audits may have a material effect on earnings between the period of initial recognition of tax estimates in the financial statements and the point of ultimate tax audit settlement. Additionally, it is possible that future income tax legislation in any jurisdiction to which we are subject may be enacted that could have a material impact on our worldwide income tax provision beginning with the period that such legislation becomes effective.

We could incur significant costs in complying with environmental, health and safety laws or permits or as a result of satisfying any liability or obligation imposed under such laws or permits.

Our operations are subject to various federal, state, local and foreign environmental, health and safety laws and regulations. Among other things, these laws regulate the emission or discharge of materials into the

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environment, govern the use, storage, treatment, disposal and management of hazardous substances and wastes, protect the health and safety of our employees and the end users of our products, regulate the materials used in and the recycling of products and impose liability for the costs of investigating and remediating, and damages resulting from, present and past releases of hazardous substances. Violations of these laws and regulations, failure to obtain or maintain required environmental permits or non-compliance with any conditions contained in any environmental permit can result in substantial fines or penalties, injunctive relief, requirements to install pollution or other controls or equipment, civil and criminal sanctions, permit revocations and/or facility shutdowns. We could be held liable for the costs to address contamination of any real property we have ever owned, leased, operated or used, including as a disposal site. We could also incur fines, penalties, sanctions or be subject to third-party claims for property damage, personal injury or nuisance or otherwise as a result of violations of or liabilities under environmental laws in connection with releases of hazardous or other materials.

In addition, changes in, or new interpretations of, existing laws, regulations or enforcement policies, the discovery of previously unknown contamination, or the imposition of other environmental liabilities or obligations in the future, including additional investigation or other obligations with respect to any potential health hazards of our products or business activities or the imposition of new permit requirements, may lead to additional compliance or other costs that could have material adverse effect on our business, financial condition, results of operations and cash flows.

Our failure to maintain effective disclosure controls and internal control over financial reporting could adversely affect our business, financial position and results of operations.

Upon completion of this offering, we will be required to evaluate the effectiveness of our disclosure controls and internal control over financial reporting on a periodic basis and publicly disclose the results of these evaluations and related matters, in accordance with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002. These reporting and other obligations place significant additional demands on our management and administrative and operational resources, including our accounting resources, which could adversely affect our operations among other things. To comply with these requirements, we have upgraded, and are continuing to upgrade our systems, including information technology, implemented additional financial and management controls, reporting systems and procedures. We cannot be certain that we will be successful in maintaining adequate control over our financial reporting and financial processes. Furthermore, as we grow our business, our disclosure controls and internal controls will become more complex, and we may require significantly more resources to ensure that these controls remain effective. If we are unable to continue upgrading our financial and management controls, reporting systems, information technology and procedures in a timely and effective fashion, additional management and other resources may need to be devoted to assist in compliance with the disclosure and financial reporting requirements and other rules that apply to reporting companies, which could adversely affect our business, financial position and results of operations.

We have not been required to have and have not had our independent registered public accounting firm perform an evaluation of our internal control over financial reporting as of the end of our last fiscal year in accordance with the provisions of the Sarbanes-Oxley Act of 2002. Had our independent registered public accounting firm performed an evaluation of our internal control over financial reporting in accordance with the provisions of the Sarbanes-Oxley Act of 2002, additional control deficiencies may have been identified by our independent registered public accounting firm and those control deficiencies could have also represented one or more material weaknesses.

Future changes in financial accounting standards may significantly change our reported results of operations.

In an exposure draft issued in August 2010 and revised in May 2013, the Financial Accounting Standards Board, or FASB, together with the International Accounting Standards Board, proposed a comprehensive set of changes in accounting for leases. The lease accounting model contemplated by these changes is a right of use model that assumes that each lease creates an asset (the lessee s right to use the leased asset) and a liability (the future rent payment obligations) which should be reflected on a lessee s balance sheet to fairly represent the lease transaction and the lessee s related financial obligations. We conduct some of our operations under leases that are accounted for as operating leases, with no related assets and liabilities on our balance sheet. The proposed changes would require that substantially all of our operating leases be recognized as assets and liabilities on our balance sheet. The effective date has not been determined. Comments on the revised exposure draft were due by September 13, 2013. Changes in lease accounting rules or their interpretation, or changes in underlying assumptions, estimates or judgments by us could significantly change our reported or expected financial performance.

A change in our product mix could adversely affect our results of operations.

Our results may be affected by a change in our product mix on which our gross margin depends. Our Allied Products typically provide higher gross margin than our pipe products. Changes in our product mix may result from marketing activities to existing customers and needs communicated to us from existing and prospective customers. Our outlook, budgeting and strategic planning assume a certain product mix of sales. If actual results vary from this projected product mix of sales, our financial results could be negatively impacted.

We may be affected by global climate change or by legal, regulatory or market responses to such potential change.

Concern over climate change, including the impact of global warming, has led to significant federal, state, and international legislative and regulatory efforts to limit greenhouse gas, or GHG, emissions. For example, in the past several years, the U.S. Congress has considered various bills that would regulate GHG emissions. While these bills have not yet received sufficient Congressional support for enactment, some form of federal climate change legislation is possible in the future. Even in the absence of such legislation, the EPA, spurred by judicial interpretation of the Clean Air Act, has begun regulating GHG emissions following its issuance of the Tailoring Rule that determines which stationary sources require permits for greenhouse emissions. EPA has issued rules that require monitoring and reporting of annual GHG emissions, as well as performance standards for CO2 emissions from new fossil-fuel electric utility generating units. Thus far, EPA has addressed vehicle and mobile source emissions by implementing Renewable Fuel Standard regulations and by working with manufacturers to improve fuel efficiency in new vehicles. However, EPA has been directed by President Obama to develop and issue new fuel efficiency standards for medium- and heavy-duty vehicles by March 2016, especially diesel engine emissions, and this could impose substantial costs on us. These costs include an increase in the cost of the fuel and other energy we purchase and capital costs associated with updating or replacing our internal fleet of trucks and other vehicles in order to comply with application regulations. In addition, new laws or future regulation could directly and indirectly affect our customers and suppliers (through an increase in the cost of production or their ability to produce satisfactory products) and our business (through the impact on our inventory availability, cost of sales, operations or demands for the products we sell). Until the timing, scope and extent of any future regulation becomes known, we cannot predict its effect on our cost structure or our operating results. Notwithstanding our dedication to being a responsible corporate citizen, it is reasonably possible that such legislation or regulation could impose material costs on us.

Anti-terrorism measures and other disruptions to the raw material supply network could impact our operations.

Our ability to provide efficient distribution of products to our customers is an integral component of our overall business strategy. In the aftermath of terrorist attacks in the United States, federal, state and local authorities have implemented and continue to implement various security measures that affect the raw material supply network in the United States and abroad. If security measures disrupt or impede the receipt of sufficient raw materials, we may fail to meet the needs of our customers or may incur increased expenses to do so.

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Risks Relating to Our Indebtedness

We have substantial debt and may incur substantial additional debt, which could adversely affect our financial health, reduce our profitability, limit our ability to obtain financing in the future and pursue certain business opportunities and reduce the value of your investment.

As of December 31, 2013, we had an aggregate principal amount of $306.3 million of outstanding debt. In the nine months ended December 31, 2013, we incurred $11.9 million of interest expense.

The amount of our debt or such other obligations could have important consequences for holders of our common stock, including, but not limited to:

- a substantial portion of our cash flow from operations must be dedicated to the payment of principal and interest on our indebtedness, thereby reducing the funds available to us for other purposes;

- our ability to obtain additional financing for working capital, capital expenditures, acquisitions, debt service requirements or general corporate purposes and other purposes may be impaired in the future;

- we are exposed to the risk of increased interest rates because a portion of our borrowings is at variable rates of interest;

- we may be at a competitive disadvantage compared to our competitors with less debt or with comparable debt at more favorable interest rates and that, as a result, may be better positioned to withstand economic downturns;

- our ability to refinance indebtedness may be limited or the associated costs may increase;

- our ability to engage in acquisitions without raising additional equity or obtaining additional debt financing may be impaired in the future;

- it may be more difficult for us to satisfy our obligations to our creditors, resulting in possible defaults on and acceleration of such indebtedness;

- we may be more vulnerable to general adverse economic and industry conditions; and

- our flexibility to adjust to changing market conditions and our ability to withstand competitive pressures could be limited, or we may be prevented from making capital investments that are necessary or important to our operations in general, growth strategy and efforts to improve operating margins of our business units.

If our cash flow and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay capital expenditures, sell assets, seek to obtain additional equity capital or refinance our debt. We cannot make assurances that we will be able to refinance our debt on terms acceptable to us, or at all. In the future, our cash flow and capital resources may not be sufficient for payments of interest on and principal of our debt, and such alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations.

We cannot make assurances that we will be able to refinance any of our indebtedness, or obtain additional financing, particularly because of our high levels of debt and the debt incurrence restrictions imposed by the agreements governing our debt, as well as prevailing market conditions. We could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our debt service and other obligations. Subject to certain exceptions, our Senior Loan Facilities and our Senior Notes, which we have defined in Description of Certain Indebtedness, restrict our ability to dispose of assets and how we use the proceeds from any such dispositions. We cannot make assurances that we will be able to consummate those dispositions, or if we do, what the timing of the dispositions will be or whether the proceeds that we realize will be adequate to meet our debt service obligations, when due.

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Despite our current level of indebtedness, we may still be able to incur substantially more debt. This could further exacerbate the risks to our financial condition described above.

We may be able to incur significant additional indebtedness in the future. Although the agreements governing our indebtedness contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of qualifications and exceptions, and the additional indebtedness incurred in compliance with these restrictions could be substantial. These restrictions also will not prevent us from incurring obligations that do not constitute indebtedness, including obligations under lease arrangements that are currently recorded as operating leases even if operating leases were to be treated as debt under GAAP. In addition, our Revolving Credit Facility provides an aggregate commitment of up to $325.0 million. As of December 31, 2013, we had an additional $218 million of availability under the Revolving Credit Facility plus $12 million in indebtedness outstanding under a separate revolving credit facility with our subsidiary, ADS Mexicana, S.A. de C.V. If new debt is added to our current debt levels, the related risks that we now face could intensify. See Description of Certain Indebtedness.

The agreements and instruments governing our debt contain restrictions and limitations that could significantly impact our ability to operate our business and adversely affect the holders of our common stock.

The covenants contained in our Senior Loan Facilities and our Senior Notes, which we refer to collectively as our Credit Facilities, are consistent. These covenants, among other things, restrict or limit our ability to:

- dispose of assets;
- incur additional indebtedness (including guarantees of additional indebtedness);
- prepay or amend our various debt instruments;
- pay dividends and make certain payments;
- redeem stock or make other distributions;
- create liens on assets;
- make certain investments;
- engage in certain asset sales, mergers, acquisitions, consolidations or sales of all, or substantially all, of our assets; and
- engage in certain transactions with affiliates.

Our ability to comply with the covenants and restrictions contained in the Credit Facilities may be affected by economic, financial and industry conditions beyond our control. The breach of any of these covenants or restrictions could result in a default under the Credit Facilities that would permit the applicable lenders or noteholders, as the case may be, to declare all amounts outstanding thereunder to be due and payable, together with accrued and unpaid interest. If we are unable to repay indebtedness, secured parties having secured obligations, such as the lenders under the Credit Facilities, could proceed against the collateral securing the secured obligations. This could have serious consequences to our financial condition and results of operations and could cause us to become bankrupt or insolvent.

We may have future capital needs and may not be able to obtain additional financing on acceptable terms.

Although we believe that our current cash position and the additional committed funding available under our Credit Facilities is sufficient for our current operations, any reductions in our available borrowing capacity, or our inability to renew or replace our debt facilities, when required or when business conditions warrant, could have a material adverse effect on our business, financial condition and results of operations. The economic conditions, credit market conditions, and economic climate affecting our industry, as well as other factors, may constrain our financing abilities. Our ability to secure additional financing, if available, and to satisfy our financial obligations under indebtedness outstanding from time to time will depend upon our future operating performance, the availability of credit generally, economic conditions and financial, business and other factors, many of which are beyond our control. The market conditions and the macroeconomic conditions that affect our industry could have a material adverse effect on our ability to secure financing on favorable terms, if at all.

If financing is not available when needed, or is available on unfavorable terms, we may be unable to take advantage of business opportunities or respond to competitive pressures, any of which could have a material adverse effect on our business, financial condition and results of operations. If we raise additional funds through further issuances of equity, convertible debt securities or other securities convertible into equity, our existing stockholders could suffer significant dilution in their percentage ownership, and any new securities we issue could have rights, preferences and privileges senior to those of holders of our common stock.

Increases in interest rates would increase the cost of servicing our debt and could reduce our profitability.

A significant portion of our outstanding debt, including the debt under our Senior Loan Facilities, bears interest at variable rates. As a result, increases in interest rates would increase the cost of servicing our debt and could materially reduce our profitability and cash flows. Each 1.0% increase in interest rates on our variable-rate debt would increase our annual forecasted interest expense by approximately $0.8 million based on balances as of December 31, 2013. Assuming all revolving loans were fully drawn, each 1.0% increase in interest rates would result in a $2.8 million increase in annual cash interest expense on our Credit Facilities.

With respect to the indebtedness outstanding under our Credit Facilities that bear interest at variable rates, such variable rates are determined based upon specified pricing terms. As a result, if our leverage ratios increase, then such variable rates could also increase. See Description of Certain Indebtedness.

We may not be able to satisfy our outstanding obligations upon a change of control.

Under the Senior Loan Facility, a change of control (as defined therein) constitutes an event of default that permits the lenders to accelerate the maturity of borrowings under the agreement and terminate their commitments to lend. Additionally, under the Senior Notes, a change of control (as defined therein) constitutes an event of default that permits the noteholders to declare all of their notes to be immediately due and payable. In order to avoid events of default under each of our Credit Facilities, we may therefore have to avoid certain change of control transactions that would otherwise be beneficial to us.

Risks Relating to Our Common Stock and This Offering

Our ability to make future dividend payments, if any, may be restricted.

We have a history of paying dividends to our stockholders when sufficient cash is available, and we currently intend to pay dividends in the future after this offering. Any determination to pay dividends on our capital stock in the future will be at the discretion of our board of directors, subject to applicable laws and the provisions of our amended and restated certificate of incorporation (including those relating to the payment of dividends on our convertible preferred stock), and will depend on our financial condition, results of operations, capital requirements, general business conditions and other factors that our board of directors considers relevant. For more information on our convertible preferred stock, see Description of Capital Stock Preferred Stock. In addition, the terms of our Credit Facilities contain restrictions on our ability to pay dividends. Also, Delaware law may impose requirements that may restrict our ability to pay dividends to holders of our common stock. See Dividend Policy.

Our common stock has no prior public market and the market price of our common stock may be volatile and could decline after this offering.

Prior to this offering, there has not been a public market for our common stock, and an active market for our common stock may not develop or be sustained after this offering. We will negotiate the initial public offering price per share with the representatives of the underwriters and therefore, that price may not be indicative of the market price of our common stock after this offering. We cannot assure you that an active public market for our common stock will develop after this offering or, if it does develop, will be sustained. In the absence of a public trading market, you may not be able to liquidate your investment in our common stock. In addition, the market price of our common stock may fluctuate significantly. Among the factors that could affect our stock price are:

- industry or general market conditions;
- domestic and international economic factors unrelated to our performance;
- changes in our customers preferences;
- new regulatory pronouncements and changes in regulatory guidelines;
- actual or anticipated fluctuations in our quarterly operating results;
- changes in securities analysts estimates of our financial performance or lack of research and reports by industry analysts;
- action by institutional stockholders or other large stockholders (including ASP ADS Investco, LLC), including future sales;
- speculation in the press or investment community;
- investor perception of us and our industry;
- changes in market valuations or earnings of similar companies;
- announcements by us or our competitors of significant products, contracts, acquisitions or strategic partnerships;
- developments or disputes concerning patents or proprietary rights, including increases or decreases in litigation expenses associated with intellectual property lawsuits we may initiate, or in which we may be named as defendants;
- failure to complete significant sales;

any future sales of our common stock or other securities; and

additions or departures of key personnel.

In particular, we cannot assure you that you will be able to resell your shares at or above the initial public offering price. The stock markets have experienced extreme volatility in recent years that has been unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the trading price of our common stock. In the past, following periods of volatility in the market price of a company s securities, class action litigation has often been instituted against such company. Any litigation of this type brought against us could result in substantial costs and a diversion of our management s attention and resources, which would harm our business, operating results and financial condition.

Future sales of shares by existing stockholders, including our ESOP, could cause our stock price to decline.

Sales of substantial amounts of our common stock in the public market following this offering, or the perception that these sales could occur, could cause the market price of our common stock to decline. Based on shares outstanding as of December 31, 2013, upon completion of this offering, we will have outstanding shares of common stock (or outstanding shares of common stock, assuming exercise in full by the underwriters of their option to purchase additional shares). All of the shares sold pursuant to this offering will be immediately tradeable without restriction under the Securities Act of 1933, as amended, unless held by affiliates, as that term is defined in Rule 144 under the Securities Act. The remaining shares of common stock outstanding upon completion of this offering will be restricted securities within the meaning of Rule 144 under the Securities Act. Restricted securities may be sold in the public market only if their offer and sale is registered under the Securities Act or if the offer and sale of those securities qualify for an exemption from registration, including exemptions provided by Rules 144 and 701 under the Securities Act, subject to the terms of the lock-up agreements entered into among us, Barclays Capital Inc. and Deutsche Bank Securities Inc., as the representatives of the underwriters, and stockholders holding more than % of our common stock prior to this offering. Upon completion of this offering, we intend to file one or more registration statements under the Securities Act to register the shares of common stock to be issued under our equity compensation plans and, as a result, all shares of common stock acquired upon exercise of stock options granted under our plans will also be freely tradable under the Securities Act, subject to the terms of the lock-up agreements, unless purchased by our affiliates. As of December 31, 2013, there were stock options outstanding to purchase a total of approximately shares of our common stock. In addition, shares of common stock are reserved for future issuance under our 2013 Stock Option Plan.

We, stockholders holding more than % of our common stock prior to this offering and our executive officers and directors have agreed to a lock-up, meaning that, subject to certain exceptions, neither we nor they will sell any shares of our common stock without the prior consent of Barclays Capital Inc. and Deutsche Bank Securities Inc., as the representatives of the underwriters, for 180 days after the date of this prospectus. Following the expiration of this 180-day lock-up period, approximately million shares of our common stock will be eligible for future sale, subject to the applicable volume, manner of sale, holding period and other limitations of Rule 144. See Shares of Common Stock Eligible for Future Sale for a discussion of the shares of common stock that may be sold into the public market in the future. In addition, certain of our significant stockholders may distribute shares that they hold to their investors who themselves may then sell into the public market following the expiration of the lock-up period. Such sales may not be subject to the volume, manner of sale, holding period and other limitations of Rule 144. As resale restrictions end, the market price of our common stock could decline if the holders of those shares sell them or are perceived by the market as intending to sell them. Barclays Capital Inc. and Deutsche Bank Securities Inc., as the representatives of the underwriters, may, in their sole discretion and at any time, release all or any portion of the securities subject to lock-up agreements entered into in connection with this offering. See Underwriting.

All of the shares of our convertible preferred stock held by our ESOP may be converted into our common stock at any time by action of the ESOP trustee, and will be automatically converted into our common stock upon distributions of such shares allocated to the ESOP accounts of ESOP participants upon a distribution event such as retirement and other termination of employment. Such distributed common stock will not be subject to any lock-up agreement and will be eligible for future sale, subject to the applicable volume, manner of sale, holding period and other limitations of Rule 144. As of December 31, 2013, there were approximately 5,562,020 shares of convertible preferred stock held by our ESOP, which in aggregate could be converted into approximately 4,278,305 shares of our common stock. All of these shares will be eligible for future sale, either by the ESOP trustee or by ESOP participants, subject to the limitations of Rule 144. After the completion of this offering, the convertible preferred stock held by our ESOP will account for approximately % of our common stock on a fully-converted basis, assuming no exercise of the underwriters option to purchase additional shares, or %, assuming exercise in full of the underwriters option to purchase additional shares. See Description of Employee Stock Ownership Plan for shares relating to distributions and diversifications during fiscal years 2012, 2013 and 2014.

In the future, we may issue additional shares of common stock or other equity or debt securities convertible into common stock in connection with a financing, acquisition, litigation settlement or employee arrangement or otherwise. Any of these issuances could result in substantial dilution to our existing stockholders and could cause the trading price of our common stock to decline.

If securities or industry analysts do not publish research or publish misleading or unfavorable research about our business, our stock price and trading volume could decline.

The trading market for our common stock will depend in part on the research and reports that securities or industry analysts publish about us or our business. We do not currently have and may never obtain research coverage by securities and industry analysts. If there is no coverage of us by securities or industry analysts, the trading price for our stock would be negatively impacted. In the event we obtain securities or industry analyst coverage, if one or more of these analysts downgrades our stock or publishes misleading or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts ceases coverage of us or fails to publish reports on us regularly, demand for our stock could decrease, which could cause our stock price or trading volume to decline.

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The trustee of our ESOP has certain limited powers to vote a large block of shares on matters presented to stockholders for approval.

In general, the trustee of the ESOP votes the shares of stock held by the ESOP as directed by the ESOP s committee. Consequently, the trustee of the ESOP, per the ESOP committee s discretion, has the ability to vote a significant block of shares on certain matters presented to shareholders for approval. However, in the event of either a corporate matter with respect to the approval or disapproval of any corporate merger or consolidation, recapitalization, reclassification, liquidation, dissolution, sale of substantially all of the assets of a trade or business or with respect to any tender or exchange offer, or a request or invitation for tenders or exchanges, each participant in the ESOP may direct the trustee of the ESOP on how to vote the shares of stock allocated to the participant s ESOP accounts; and the trustee must vote any unallocated stock and allocated stock for which no participant instructions were received in the same proportion as the allocated stock for which participants voting instructions have been received is voted.

Fulfilling our obligations incident to being a public company, including with respect to the requirements of and related rules under the Sarbanes-Oxley Act of 2002, will be expensive and time-consuming, and any delays or difficulties in satisfying these obligations could have a material adverse effect on our future results of operations and our stock price.

Following this offering, we will be subject to the reporting and corporate governance requirements, the listing standards of the New York Stock Exchange, or the NYSE, and the Sarbanes-Oxley Act of 2002, that apply to issuers of listed equity, which will impose certain new compliance costs and obligations upon us. The changes necessitated by publicly listing our equity will require a significant commitment of additional resources and management oversight which will increase our operating costs. These changes will also place additional demands on our finance and accounting staff and on our financial accounting and information systems. Other expenses associated with being a public company include increases in auditing, accounting and legal fees and expenses, investor relations expenses, increased directors fees and director and officer liability insurance costs, registrar and transfer agent fees and listing fees, as well as other expenses. As a public company, we will be required, among other things, to:

- define and expand the roles and the duties of our board of directors and its committees; and

- institute more comprehensive compliance, investor relations and internal audit functions.

In particular, beginning with the year ending March 31, 2016, our independent registered public accounting firm will be required to provide an attestation report on the effectiveness of our internal control over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Act of 2002. If our independent registered public accounting firm is unable to provide us with an unqualified report regarding the effectiveness of our internal control over financial reporting (at such time as it is required to do so), investors could lose confidence in the reliability of our financial statements. This could result in a decrease in the value of our common stock. Failure to comply with the Sarbanes-Oxley Act of 2002 could potentially subject us to sanctions or investigations by the SEC, NYSE, or other regulatory authorities.

Anti-takeover provisions in our charter documents and Delaware law could discourage, delay or prevent a change in control of us and may affect the trading price of our common stock.

Our amended and restated certificate of incorporation and amended and restated bylaws will include a number of provisions that may discourage, delay or prevent a change in our management or control over us that stockholders may consider favorable. For example, our amended and restated certificate of incorporation and amended and restated bylaws will:

- authorize the issuance of blank check preferred stock that could be issued by our board of directors to thwart a takeover attempt;

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maintain a classified board of directors, as a result of which our board will continue to be divided into three classes, with each class serving for staggered three-year terms, which prevents stockholders from electing an entirely new board of directors at an annual meeting;

limit the ability of stockholders to remove directors;

provide that vacancies on our board of directors, including newly-created directorships, may be filled only by a majority vote of directors then in office;

prohibit stockholders from calling special meetings of stockholders;

prohibit stockholder action by written consent, thereby requiring all actions to be taken at a meeting of the stockholders;

not give the holders of our common stock cumulative voting rights with respect to the election of directors, which means that the holders of a majority of our outstanding shares of common stock can elect all directors standing for election;

establish advance notice requirements for nominations for election to our board of directors or for proposing matters that can be acted upon by stockholders at stockholder meetings;

require a super-majority stockholders vote of 75% to approve any reorganization, recapitalization, share exchange, share reclassification, consolidation, merger, conversion or sale of all or substantially all assets to which we are a party that is not approved by the affirmative vote of at least 75% of the members of our board of directors; and

require the approval of holders of at least 75% of the outstanding shares of our voting common stock to amend the bylaws and certain provisions of the certificate of incorporation.

Any provision of our amended and restated certificate of incorporation, amended and restated bylaws or DGCL that has the effect of delaying or deterring a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our common stock, and could also affect the price that some investors are willing to pay for our common stock. See Description of Capital Stock Anti-Takeover Effects of our Certificate of Incorporation and Bylaws.

Our amended and restated certificate of incorporation and amended and restated bylaws may also make it difficult for stockholders to replace or remove our management. These provisions may facilitate management entrenchment that may delay, deter, render more difficult or prevent a change in our control, which may not be in the best interests of our stockholders.

Investors purchasing common stock in this offering will experience immediate and substantial dilution as a result of this offering and future equity issuances.

If you purchase shares of our common stock in this offering, you will incur immediate and substantial dilution in the book value of your stock, because the price that you pay will be substantially greater than the net tangible book value per share of the shares you acquire. As a result, you will pay a price per share that substantially exceeds the book value of our assets after subtracting our liabilities. The net tangible book value per share, calculated as of December 31, 2013 and after giving effect to the offering (assuming an initial public offering price of $ per share, the midpoint of the price range set forth on the cover page of this prospectus), is $. Investors purchasing common stock in this offering will experience immediate and substantial dilution of $ a share, based on an initial public offering price of $, which is the midpoint of the price range set forth on the cover page of this prospectus. In addition, we have issued options to acquire common stock at prices significantly below the initial public offering price. To the extent outstanding options are ultimately exercised, there will be further dilution to investors in this offering. In addition, if the underwriters exercise in full their option to purchase additional shares, or if we issue additional equity securities in the future, investors purchasing common stock in this offering will experience additional dilution. See Dilution.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS AND INFORMATION

This prospectus includes forward-looking statements. Some of the forward-looking statements can be identified by the use of terms such as believes, expects, may, will, should, could, seeks, intends, plans, estimates, comparable terms. These forward-looking statements include all matters that are not related to present facts or current conditions or that are not historical facts. They appear in a number of places throughout this prospectus and include statements regarding our intentions, beliefs or current expectations concerning, among other things, our consolidated results of operations, financial condition, liquidity, prospects and growth strategies and the industries in which we operate and including, without limitation, statements relating to our future performance.

Forward-looking statements are subject to known and unknown risks and uncertainties, many of which are beyond our control. We caution you that forward-looking statements are not guarantees of future performance and that our actual consolidated results of operations, financial condition and liquidity, and industry development may differ materially from those made in or suggested by the forward-looking statements contained in this prospectus. In addition, even if our consolidated results of operations, financial condition and liquidity, and industry development are consistent with the forward-looking statements contained in this prospectus, those results or developments may not be indicative of results or developments in subsequent periods. A number of important factors could cause actual results to differ materially from those contained in or implied by the forward-looking statements, including the risks and uncertainties discussed in this prospectus under the headings Prospectus Summary, Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations, and Business. Factors that could cause actual results to differ from those reflected in forward-looking statements relating to our operations and business include:

fluctuations in the price and availability of resins and other raw materials and our ability to pass any increased costs of raw materials on to our customers in a timely manner;

volatility in general business and economic conditions in the markets in which we operate, including without limitation, factors relating to availability of credit, interest rates, fluctuations in capital and business and consumer confidence;

cyclicality and seasonality of the non-residential and residential construction markets and infrastructure spending;

the risks of increasing competition in our existing and future markets, including competition from both manufacturers of high performance thermoplastic corrugated pipe and manufacturers of products using alternative materials;

our ability to continue to convert current demand for concrete, steel and PVC pipe products into demand for our high performance thermoplastic corrugated pipe and Allied Products;

the effect of weather or seasonality;

the loss of any of our significant customers;

the risks of doing business internationally;

the risks of conducting a portion of our operations through joint ventures;

our ability to expand into new geographic or product markets;

our ability to achieve the acquisition component of our growth strategy;

the risk associated with manufacturing processes;

our ability to manage our assets;

the risks associated with our product warranties;

our ability to manage our supply purchasing and customer credit policies;

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- the risks associated with our self-insured programs;
- our ability to control labor costs and to attract, train and retain highly-qualified employees and key personnel;
- our ability to protect our intellectual property rights;
- changes in laws and regulations, including environmental laws and regulations;
- our ability to project product mix;
- the risks associated with our current levels of indebtedness;
- our ability to meet future capital requirements and fund our liquidity needs; and
- other risks and uncertainties, including those listed under Risk Factors.

All forward-looking statements are made only as of the date of this prospectus and we do not undertake any obligation, other than as may be required by law, to update or revise any forward-looking statements to reflect future events or developments. Comparisons of results for current and any prior periods are not intended to express any future trends, or indications of future performance, unless expressed as such, and should only be viewed as historical data.

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USE OF PROCEEDS

Based upon an assumed initial public offering price of $ per share, which is the mid-point of the price range set forth on the cover page of this prospectus, we estimate that we will receive net proceeds from this offering of approximately $ million (or approximately $ million if the underwriters exercise in full their option to purchase additional shares), after deducting estimated underwriting discounts and commissions in connection with this offering and estimated offering expenses payable by us. We will not receive any proceeds from the sale of shares by the selling stockholder.

We intend to use the net proceeds from this offering (together with cash on hand, if necessary) to repay at least $ million of outstanding indebtedness under the revolving portion of our credit facility. We intend to use the remaining proceeds (if any) for general corporate purposes, including working capital. The revolving portion of our credit facility consists of a $325.0 million secured revolving credit facility, with an interest rate based on a fluctuating rate of interest, currently at approximately 2.3%, which matures on June 12, 2018. Our revolving credit facility and other indebtedness is described below under Description of Certain Indebtedness Senior Loan Facilities. In the last 12 months, we borrowed under our revolving credit facility to pay a $108.1 million special dividend and to fund working capital.

Assuming no exercise of the underwriters option to purchase additional shares, a $1.00 increase or decrease in the assumed initial public offering price of $ per share (the mid-point of the price range set forth on the cover page of this prospectus) would increase or decrease the net proceeds to us from this offering by $ million assuming the number of shares offered by us remains the same and after deducting estimated underwriting discounts and commission and estimated offering expenses payable by us. An increase or decrease of 1,000,000 shares in the number of shares offered by us would increase or decrease the net proceeds to us to us by $ million, assuming no change in the assumed initial public offering price of $ per share (the mid-point of the price range set forth on the cover page of this prospectus) and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us.

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DIVIDEND POLICY

We have a history of paying dividends to our stockholders when sufficient cash is available, and we currently intend to pay regular quarterly dividends in the future after this offering. Our quarterly dividend will initially be set at $ per share of our common stock (including, on an as-converted basis, our shares of convertible preferred stock). During fiscal years 2013 and 2012, we declared dividends on our common stock of approximately $4.8 million and $4.3 million, respectively. Through December 31, 2013, we declared dividends on our common stock of approximately $4.0 million. All such declared dividends were paid in quarterly installments.

Any determination to pay dividends on our capital stock in the future will be at the discretion of our board of directors, subject to applicable laws and the provisions of our amended and restated certificate of incorporation (including those relating to the payment of dividends on our convertible preferred stock), and will depend on our financial condition, results of operations, capital requirements, general business conditions and other factors that our board of directors considers relevant. In addition, the terms of our credit facilities contain restrictions on our ability to pay dividends.

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CAPITALIZATION

The following table sets forth our cash and capitalization on a consolidated basis as of December 31, 2013:

- on an actual basis; and

- on an as adjusted basis to give effect to (i) the sale by us of shares of our common stock in this offering at an assumed initial public offering price of $ per share (the mid-point of the price range set forth on the cover page of this prospectus) and (ii) the use of the net proceeds from this offering as described in Use of Proceeds.

You should read this table in conjunction with the sections of this prospectus entitled Use of Proceeds, Selected Historical Consolidated Financial Data, Management s Discussion and Analysis of Financial Condition and Results of Operations, Description of Certain Indebtedness and our consolidated financial statements and related notes included elsewhere in this prospectus.

	As of December 31, 2013	
	Actual	As Adjusted (1)
(Amounts in thousands, except per share amounts)		
Cash	$ 5,335	
Long Term Debt (including current portion)		
Revolving Credit Facility	$ 98,400	
Term Loan	98,750	
Senior Notes	100,000	
Other debt	9,115	
Total Long Term Debt (including current portion)	306,265	
Mezzanine equity		
Redeemable Common Stock; $0.01 par value: (i) actual: 8,141 shares issued and outstanding and (ii) as adjusted: no shares issued and outstanding (2)	578,020	
Redeemable Convertible Preferred Stock; $0.01 par value: 10,000 authorized: (i) actual: 5,562 issued and outstanding and (ii) as adjusted: issued and outstanding (3)	307,581	
Deferred compensation unearned ESOP shares (3)	(207,426)	
Total mezzanine equity	678,175	
Stockholders equity:		
Convertible preferred stock, $0.01 par value per share, (i) actual: no shares authorized, issued and outstanding and (ii) as adjusted: shares authorized and shares issued and outstanding		
Common stock, $0.01 par value per share: (i) actual: 23,359 shares authorized and issued and 1,875 shares outstanding and (ii) as adjusted: shares authorized and issued and shares outstanding	11,957	

Paid-in capital	40,991
Common stock in treasury, at cost	(448,963)
Accumulated other comprehensive loss	(6,122)
Retained earnings	42,159
Total ADS stockholders equity	(359,978)
Noncontrolling interest in subsidiaries	22,119
Total stockholders equity	(337,859)
Total capitalization	$ 646,581

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(1) Each $1.00 increase or decrease in the assumed initial public offering price of $ per share (the mid-point of the price range set forth on the cover page of this prospectus) would increase or decrease, as applicable, our as adjusted cash, paid-in capital and stockholders equity by $ million, assuming that the number of shares offered by us as set forth on the cover page of this prospectus remains the same and after deducting estimated underwriting discounts and commissions and estimated offering expenses. Each 1,000,000 increase or decrease in the number of shares offered by us would increase or decrease, as applicable, our as adjusted cash, paid-in capital and stockholders equity by $ million assuming no change in the assumed initial public offering price of $ per share (the mid-point of the price range set forth on the cover page of this prospectus) and after deducting estimated underwriting discounts and commissions and estimated offering expenses.

The share information as of December 31, 2013 shown in the table above excludes (on a post-stock split basis):

- million shares of restricted stock outstanding as of , 2014 under our 2008 Restricted Stock Plan;
- million shares of common stock issuable upon exercise of options outstanding as of December 31, 2013 at a weighted average exercise price of $ per share; and
- million shares of common stock reserved for future issuance under our 2013 Stock Option Plan.

(2) Upon completion of this offering, the redemption rights associated with these shares, which require them to be classified in mezzanine equity, will be no longer be in effect. As a result, we anticipate reclassifying these balances to total stockholders equity upon the completion of this offering.

(3) Upon completion of this offering, the redemption rights associated with these shares, which require them to be classified in mezzanine equity, will be no longer be in effect. As a result, we anticipate reclassifying these balances to total stockholders equity upon the completion of this offering.

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DILUTION

If you invest in our common stock, the book value of your ownership interest will be immediately diluted to the extent of the difference between the initial public offering price per share of our common stock and the net tangible book value per share of our common stock immediately after this offering.

Our net tangible book value as of December 31, 2013 was approximately $184.8 million, and net tangible book value per share was $. Net tangible book value per share before the offering has been determined by dividing net tangible book value (total book value of tangible assets less total liabilities) by the number of shares of common stock outstanding at December 31, 2013, after giving effect to a -for- stock split to be effected immediately prior to the effectiveness of the registration statement of which this prospectus forms a part.

After giving effect to the sale of shares of our common stock in this offering at an assumed initial public offering price of $ per share (the mid-point of the price range set forth on the cover page of this prospectus) and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us, our net tangible book value at December 31, 2013 would have been $ million, or $ per share. This represents an immediate decrease in net tangible book value per share of $ to the existing stockholders and dilution in net tangible book value per share of $ to new investors who purchase shares in this offering. The following table illustrates this per share dilution to new investors:

Assumed initial public offering price per share		$
Net tangible book value per share as of December 31, 2013	$	
Increase per share attributable to this offering		
Net tangible book value, as adjusted to give effect to this offering		
Dilution in net tangible book value to new investors in this offering		$

A $1.00 increase or decrease in the assumed initial offering price of $ per share (the mid-point of the price range set forth on the cover page of this prospectus) would increase or decrease our net tangible book value as adjusted to give effect to this offering by $ per share, assuming that the number of shares offered by us set forth on the cover page of this prospectus remains the same, and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us. An increase or decrease of 1,000,000 shares in the number of shares offered by us would increase or decrease our net tangible book value as adjusted to give effect to this offering by $ per share, assuming the assumed initial offering price of $ per share (the mid-point of the price range set forth on the cover page of this prospectus) remains the same, and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us.

The following table summarizes, as of December 31, 2013, the total number of shares of common stock purchased from us, the total consideration paid to us and the average price per share paid by the existing stockholders and by new investors purchasing shares in this offering:

	Shares Purchased		Total Consideration		Average
	Number	Percent	Amount	Percent	Price Per

				Share
Existing Stockholders	%	$	%	$
New investors				
Total	%	$	%	$

The share information as of December 31, 2013 shown in the table above excludes:

approximately million shares of common stock issuable upon exercise of options outstanding as of December 31, 2013 at a weighted average exercise price of $ per share; and

million shares of common stock reserved for future issuance under our 2013 Stock Option Plan, 2008 Restricted Stock Plan and Amended 2000 Incentive Stock Option Plan.

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SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA

The selected historical consolidated financial data presented below as of March 31, 2012 and 2013 and for fiscal years 2011, 2012 and 2013 have been derived from our audited consolidated financial statements included elsewhere in this prospectus. The selected historical consolidated financial data presented below as of December 31, 2013 and for the nine months ended December 31, 2012 and 2013 have been derived from our unaudited condensed consolidated financial statements included elsewhere in this prospectus. The selected historical consolidated financial data presented below as of March 31, 2009, 2010 and 2011 and for fiscal years 2009 and 2010 have been derived from our audited consolidated financial statements which are not included in this prospectus.

The results indicated below and elsewhere in this prospectus are not necessarily indicative of our future performance. You should read this data in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes included elsewhere in this prospectus. This selected historical consolidated financial data does not reflect the earnings per share and dividends per share impact of our -for- stock split to be effected immediately prior to the effectiveness of the registration statement of which this prospectus forms a part.

	Fiscal Year Ended March 31,					Nine Months Ended December 31,	
mounts in thousands, except per share data)	2009 (1)	2010 (1)	2011	2012	2013	2012	2013
nsolidated statement of income data:							
t sales	$ 963,478	$ 751,237	$ 863,138	$ 1,013,756	$ 1,017,041	$ 832,565	$ 887,77
st of goods sold	793,479	553,863	692,164	818,398	807,730	659,283	698,79
oss profit	169,999	197,374	170,974	195,358	209,311	173,282	188,98
ling expenses	64,546	58,801	63,103	67,625	69,451	52,847	52,43
neral and administrative expenses	66,813	61,872	61,648	65,927	67,712	48,913	54,35
in on sale of assets/ business				(44,634)	(2,210)	(2,210)	(4,84
angibles amortization	4,800	4,636	7,294	11,387	11,295	8,119	8,57
ome from operations	33,840	72,065	38,929	95,053	63,063	65,613	78,47
erest expense	13,958	10,725	27,121	21,837	16,095	12,465	11,86
her miscellaneous (income) expense, net (2)	4,382	(26,875)	(847)	2,425	283	176	39
ome before income taxes	15,500	88,215	12,655	70,791	46,685	52,972	66,21
ome tax expense	4,568	33,067	4,053	27,064	16,894	20,112	40,84
uity in net (income) loss of unconsolidated iliates	(2,573)	(2,404)	(736)	(704)	(387)	(402)	71
t income	13,505	57,552	9,338	44,431	30,178	33,262	24,65
ss net income attributable to the noncontrolling erest	9,188	3,677	3,342	1,171	2,019	1,654	1,36
t income attributable to ADS	4,317	53,875	5,996	43,260	28,159	31,608	23,29
	6,010	(11,890)	(3,541)	(10,257)	(5,869)	(3,682)	(8,49

ange in fair value of Redeemable Convertible eferred Stock							
vidends paid to Redeemable Convertible eferred Stockholders	(1,091)	(1,029)	(844)	(668)	(736)	(554)	(64
vidends paid to unvested restricted stockholders	(29)	(6)	(104)	(34)	(52)	(39)	(4
t income available to common stockholders and ticipating securities	9,207	40,950	1,507	32,301	21,502	27,333	14,11
distributed income allocated to participating urities	(820)	(6,058)		(3,241)	(2,042)	(2,703)	(1,18
t income available to common stockholders	$ 8,387	$ 34,892	$ 1,507	$ 29,060	$ 19,460	$ 24,630	$ 12,93

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(Amounts in thousands, except per share data)	Fiscal Year Ended March 31, 2009 [1]	2010 [1]	2011	2012	2013	Nine Months Ended December 31, 2012	2013
Weighted average common shares outstanding:							
Basic	10,647	10,437	10,127	9,835	9,921	9,917	9,980
Diluted	11,003	10,742	10,346	9,996	10,038	10,033	10,087
As adjusted Basic [3]							
As adjusted Diluted [3]							
Net income per share:							
Basic	$ 0.79	$ 3.34	$ 0.15	$ 2.95	$ 1.96	$ 2.48	$ 1.30
Diluted	$ 0.76	$ 3.25	$ 0.15	$ 2.91	$ 1.94	$ 2.45	$ 1.28
As adjusted Basic [3]	$ 0.30	$ 4.29	$ 0.49	$ 3.88	$ 2.48	$ 2.81	$ 2.05
As adjusted Diluted [3]	$ 0.29	$ 4.17	$ 0.47	$ 3.81	$ 2.45	$ 2.75	$ 2.00
Cash dividends declared per share	$ 0.40	$ 0.40	$ 0.44	$ 0.44	$ 0.48	$ 0.33	$ 0.36

(Amounts in thousands, except percentages)	Fiscal Year Ended March 31, 2009 [1]	2010 [1]	2011	2012	2013	Nine Months Ended December 31, 2012	2013
Other financial data:							
Capital expenditures	$ 27,562	$ 23,140	$ 30,041	$ 26,467	$ 40,004	$ 35,421	$ 27,097
Adjusted EBITDA [4]	82,237	127,228	100,780	116,873	129,759	115,731	130,567
Adjusted EBITDA margin [5]	8.5%	16.9%	11.7%	11.5%	12.8%	13.9%	14.7%

(Amounts in thousands)	As of March 31, 2009 [1]	2010 [1]	2011 [1]	2012	2013	As of December 31, 2013
Consolidated balance sheet data:						
Cash	$ 10,137	$ 3,021	$ 2,151	$ 2,082	$ 1,361	$ 5,335
Working capital [6]	146,482	166,125	204,061	208,268	220,276	208,097
Total assets	714,310	794,049	866,798	905,028	907,739	885,948
Long-term debt	259,547	251,446	374,746	370,672	349,990	306,265
Total liabilities	424,381	457,138	618,351	615,314	585,115	545,632
Total mezzanine equity [7]	93,418	104,859	493,674	557,563	608,346	678,175
Total stockholders equity	196,511	232,052	(245,227)	(267,849)	(285,722)	(337,859)
Total mezzanine equity and stockholders equity	289,929	336,911	248,447	289,714	322,624	340,316

(Amounts in thousands)	Fiscal Year Ended March 31, 2009 [1]	2010 [1]	2011	2012	2013	Nine Months Ended December 31, 2012	2013
Statement of cash flows data:							
Net cash from operating activities	$ 102,348	$ 70,343	$ 37,233	$ 56,997	$ 68,215	$ 60,176	$ 88,104

Net cash from investing activities	(27,562)	(47,011)	(53,237)	(35,833)	(47,199)	(42,079)	(30,116)
Net cash from financing activities	(72,524)	(30,448)	15,134	(21,233)	(21,737)	(15,987)	(54,014)

(1) The presentation of our selected historical consolidated financial data as of March 31, 2009, 2010 and 2011 and for fiscal years 2009 and 2010 has been adjusted to comply with the retrospective application of our inventory accounting principle change. See Note 1, Background and Summary of Significant Accounting Policies, within our consolidated financial statements included elsewhere in this prospectus for further details regarding our inventory accounting principle change.

(2) Other miscellaneous (income) expense, net for fiscal year ended March 31, 2010 includes a gain of $25,952 from the purchase of the controlling interest of an unconsolidated affiliate.

(3) Net Income Per Share As Adjusted Basic and Diluted, which are non-GAAP measures, have been presented in this prospectus as supplemental measures of financial performance that are not required by, or presented in accordance with generally accepted accounting principles or GAAP. As described elsewhere in this prospectus, upon completion of this offering, the redemption rights associated with these shares, which require them to be classified as mezzanine equity, will be no longer in effect and, as such, we anticipate reclassifying these balances to total stockholders equity upon the completion of this offering. We calculate Net Income Per Share As Adjusted Basic, and the corresponding Weighted Average Common Shares Outstanding As Adjusted Basic, by adjusting our historical net income per share and weighted average common shares outstanding amounts for the reclassification of Redeemable Convertible

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Preferred Stock from mezzanine equity to total stockholders equity in order to present historical amounts as if this reclassification occurred as of the beginning of the earliest period presented.

To effect this adjustment, we have (1) removed the adjustment for the change in fair value of Redeemable Convertible Preferred Stock classified as mezzanine equity from the numerator of the Basic Net Income Per Share computation, and (2) made a corresponding adjustment to the amount allocated to participating securities under the two-class earnings per share computation method.

We have also made adjustments to Net Income Per Share as Adjusted Diluted, and the corresponding Weighted Average Common Shares Outstanding As Adjusted Diluted, to assume share settlement of the Redeemable Convertible Preferred Stock to the extent that the if-converted computation method is more dilutive than the two-class computation method.

Net Income Per Share As Adjusted Basic and Diluted are included in this prospectus because they are key metrics used by management and our board of directors to assess our financial performance. Net Income Per Share As Adjusted Basic and Diluted are not necessarily comparable to other similarly titled captions of other companies due to different methods of calculation.

The following table presents a reconciliation of Net Income Per Share As Adjusted Basic and Diluted, and the corresponding Weighted Average Common Shares Outstanding As Adjusted Basic and Diluted to our historical net income per share and corresponding historical weighted average common share amounts, the most comparable GAAP measure, for each of the periods indicated.

	Fiscal Year Ended March 31,					Nine Months Ended December 31,	
(Amounts in thousands, except per share data)	**2009**	**2010**	**2011**	**2012**	**2013**	**2012**	**2013**
Net Income Per Share As Adjusted Basic							
Net income available to common stockholders	$ 8,387	$ 34,892	$ 1,507	$ 29,060	$ 19,460	$ 24,630	$ 12,931
Adjustment for:							
Change in fair value of Redeemable Convertible Preferred Stock	(6,010)	11,890	3,541	10,257	5,869	3,682	8,492
Undistributed income allocated to participating securities	820	(1,959)	(76)	(1,189)	(716)	(418)	(997)
Net income available to common stockholders used to calculate Net Income Per Share As Adjusted Basic	$ 3,197	$ 44,823	$ 4,972	$ 38,128	$ 24,613	$ 27,894	$ 20,426
Weighted average common shares outstanding:							
Basic	10,647	10,437	10,127	9,835	9,921	9,917	9,980
As adjusted Basic	10,647	10,437	10,127	9,835	9,921	9,917	9,980
Net Income Per Share As Adjusted Diluted							
Net income available to common stockholders used to calculate Net Income Per Share As Adjusted Basic	$ 3,197	$ 44,823	$ 4,972	$ 38,128	$ 24,613	$ 27,894	$ 20,426
Adjustment for:							
			74			2,972	2,071

Undistributed income allocated to participating Redeemable Convertible Preferred Stock							
Dividends paid to Redeemable Convertible Preferred Stockholders, net of tax impact			557			360	416
Other adjustments			(4)			(5)	45
Net income available to common stockholders used to calculate Net Income Per Share As Adjusted Diluted	$ 3,197	$ 44,823	$ 5,599	$ 38,128	$ 24,613	$ 31,221	$ 22,958
Weighted average common shares outstanding							
Diluted	11,003	10,742	10,346	9,996	10,038	10,033	10,087
Conversion of the outstanding Redeemable Convertible Preferred Stock on an as converted basis			1,607			1,305	1,366
As adjusted Diluted	11,003	10,742	11,953	9,996	10,038	11,338	11,453
Net income (loss) per share:							
As adjusted Basic	$ 0.30	$ 4.29	$ 0.49	$ 3.88	$ 2.48	$ 2.81	$ 2.05
As adjusted Diluted	$ 0.29	$ 4.17	$ 0.47	$ 3.81	$ 2.45	$ 2.75	$ 2.00

(4) EBITDA and Adjusted EBITDA, which are non-GAAP financial measures, have been presented in this prospectus as supplemental measures of financial performance that are not required by, or presented in accordance with generally accepted accounting principles or GAAP. We calculate EBITDA as net income attributable to ADS before interest, income taxes, depreciation and amortization. We calculate Adjusted EBITDA as EBITDA before stock-based compensation expense, non-cash charges and certain other expenses.

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EBITDA and Adjusted EBITDA are included in this prospectus because they are key metrics used by management and our board of directors to assess our financial performance. EBITDA and Adjusted EBITDA are frequently used by analysts, investors and other interested parties to evaluate companies in our industry. In addition to covenant compliance and executive performance evaluations, we use Adjusted EBITDA to supplement GAAP measures of performance to evaluate the effectiveness of our business strategies, to make budgeting decisions and to compare our performance against that of other peer companies using similar measures.

EBITDA and Adjusted EBITDA are not GAAP measures of our financial performance or liquidity and should not be considered as alternatives to net income as a measure of financial performance or cash flows from operations as a measure of liquidity, or any other performance measure derived in accordance with GAAP and they should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items. Additionally, EBITDA and Adjusted EBITDA are not intended to be measures of free cash flow for management s discretionary use, as they do not reflect certain cash requirements such as tax payments, debt service requirements, capital expenditures and certain other cash costs that may recur in the future. EBITDA and Adjusted EBITDA contain certain other limitations, including the failure to reflect our cash expenditures, cash requirements for working capital needs and cash costs to replace assets being depreciated and amortized. In evaluating Adjusted EBITDA, you should be aware that in the future we will incur expenses that are the same as or similar to some of the adjustments in this presentation, such as stock based compensation expense, derivative fair value adjustments, and foreign currency transaction losses. Our presentation of Adjusted EBITDA should not be construed to imply that our future results will be unaffected by any such adjustments. Management compensates for these limitations by relying on our GAAP results in addition to using EBITDA and Adjusted EBITDA supplementally. Our measures of EBITDA and Adjusted EBITDA are not necessarily comparable to other similarly titled captions of other companies due to different methods of calculation.

The following table presents a reconciliation of EBITDA and Adjusted EBITDA to Net income, the most comparable GAAP measure, for each of the periods indicated.

			Fiscal Year End March 31,			Nine Months Ended December 31,	
(Amounts in thousands)	**2009**	**2010**	**2011**	**2012**	**2013**	**2012**	**2013**
Net income attributable to ADS	$ 4,317	$ 53,875	$ 5,996	$ 43,260	$ 28,159	$ 31,608	$ 23,294
Depreciation and amortization (a)	49,940	50,033	56,327	59,356	56,926	42,188	43,076
Interest expense, net	13,958	10,725	27,121	21,837	16,095	12,465	11,860
Income tax expense	4,568	33,067	4,053	27,064	16,894	20,112	40,845
EBITDA	72,783	147,700	93,497	151,517	118,074	106,373	119,075
Derivative fair value adjustments (b)	1,915	(1,665)	(1,365)	2,315	(4)	220	54
Foreign currency transaction losses (c)			332	378	1,085	659	251
Gain on sale of Septic Chamber business (d)				(44,634)			
Unconsolidated affiliates interest and tax (e)		166	624	915	729	488	347
		(25,952)					

Gain from purchase of the controlling interest of an unconsolidated affiliate (f)							
One-time management fee to minority interest holder (g)							739
Stock based compensation (h)	1,349	1,823	2,725	1,425	2,592	1,207	2,640
ESOP deferred stock based compensation (i)	6,190	5,156	4,564	4,957	7,283	6,784	7,343
Transaction costs (j)			403				118
Adjusted EBITDA	$ 82,237	$ 127,228	$ 100,780	$ 116,873	$ 129,759	$ 115,731	$ 130,567

(a) Includes our proportionate share of depreciation and amortization expense of $0, $233, $552, $985 and $1,321 related to our South American Joint Venture and our BaySaver Joint Venture, which amounts are included in equity in net income of unconsolidated affiliates in our consolidated statements of income for fiscal years 2009, 2010, 2011, 2012 and 2013, respectively, and $977 and $1,031 included in equity in net income of unconsolidated affiliates in our condensed consolidated statements of income for the nine months ended December 31, 2012 and 2013, respectively. Depreciation and amortization expense for fiscal year 2012 also includes a charge of $3,200 related to the impairment of one of our trademarks.

(b) Represents the non-cash gains and losses arising from changes in mark-to-market values for derivative contracts related to diesel fuel and interest rate swaps. The impact of resin physical and financial derivatives is included in cost of goods sold.

(c) Represents the gains and losses incurred on purchases, sales and intercompany loans and dividends denominated in non-functional currencies.

(d) Represents a gain recognized on the sale of our septic chamber business in January 2012.

(e) Represents our proportional share of income taxes and interest related to our South American Joint Venture and our BaySaver Joint Venture, which are accounted for under the equity method of accounting.

(f) Represents a gain from fair value re-measurement of investment in an unconsolidated affiliate upon acquiring the controlling interest of the affiliate.

(g) Represents management fee paid to a minority interest holder of a consolidated subsidiary.

(h) Represents the non-cash stock based compensation cost related to our stock options and restricted stock awards.

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(i) Represents the non-cash stock based compensation expense attributable to the shares of convertible preferred stock allocated to employee ESOP accounts during the applicable period.

(j) Represents expenses recorded related to legal, accounting and other professional fees incurred in connection with our recent debt refinancing and in connection with this offering.

(5) Adjusted EBITDA margin for any period represents Adjusted EBITDA as a percentage of net sales for that period.

(6) Working capital is the difference between our current assets and current liabilities. Working capital is an indication of liquidity and potential need for short-term funding.

(7) Our mezzanine equity consists of the Redeemable Convertible Preferred Stock held by our ESOP and Redeemable Common Stock held by certain stockholders who have certain rights associated with such shares, which rights are considered for purposes of GAAP to be a redemption right, which is beyond our control. See Note 17, Mezzanine Equity, within our consolidated financial statements included elsewhere in this prospectus for further information regarding the accounting treatment for our mezzanine equity. Upon completion of this offering, the redemption rights associated with these shares, which require them to be classified in mezzanine equity, will be no longer be in effect. As a result, we anticipate reclassifying these balances to total stockholders equity upon the completion of this offering.

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MANAGEMENT S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of the financial condition and results of our operations should be read in conjunction with the consolidated financial statements and related footnotes included elsewhere in this prospectus. This discussion contains forward-looking statements that are based on the beliefs of our management, as well as assumptions made by, and information currently available to, our management. Our actual results could differ materially from those discussed below. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the sections titled Risk Factors and Special Note Regarding Forward-Looking Statements and Information included elsewhere in this prospectus. You should read the following discussion together with the sections titled Risk Factors, Selected Historical Consolidated Financial Data and our consolidated financial statements, including the related footnotes, included elsewhere in this prospectus.

We consolidate all of our joint ventures for purposes of GAAP, except for our South American Joint Venture and our BaySaver Joint Venture.

Overview

We are the leading manufacturer of high performance thermoplastic corrugated pipe, providing a comprehensive suite of water management products and superior drainage solutions for use in the construction and infrastructure marketplace. Our innovative products are used across a broad range of end markets and applications, including non-residential, residential, agriculture and infrastructure applications. We have established a leading position in many of these end markets by leveraging our national sales and distribution platform, our overall product breadth and scale and our manufacturing excellence. In North America, our national footprint combined with our strong local presence and broad product offering makes us the leader in an otherwise highly fragmented sector comprised of many smaller competitors. We believe the markets we serve in the United States represent approximately $10.1 billion of annual revenue opportunity. In addition, we believe the increasing acceptance of thermoplastic pipe products in international markets represents an attractive growth opportunity.

Our products are generally lighter, more durable, more cost effective and easier to install than comparable alternatives made with traditional materials. Following our entrance into the non-residential construction market with the introduction of N-12 corrugated polyethylene pipe in the late 1980s, our pipe has been displacing traditional materials, such as reinforced concrete, corrugated steel and polyvinyl chloride, or PVC, across an ever expanding range of end markets. This has allowed us to consistently gain share and achieve above market growth throughout economic cycles. We expect to continue to drive conversion to our products from traditional products as contractors, civil design engineers and municipal agencies increasingly acknowledge the superior physical attributes and compelling value proposition of our thermoplastic products. In addition, we believe that overall demand for our products will benefit as the regulatory environment continues to evolve.

Our broad product line includes corrugated high density polyethylene (or HDPE) pipe, polypropylene (or PP) pipe and related water management products. Building on our core drainage businesses, we have aggressively pursued attractive ancillary product categories such as storm and septic chambers, PVC drainage structures, fittings and filters, and water quality filters and separators. We refer to these ancillary product categories as Allied Products. Given the scope of our overall sales and distribution platform, we have been able to drive growth within our Allied Products and believe there are significant growth opportunities going forward.

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Key Factors Affecting Our Results of Operations

Product Demand

There are numerous factors that influence demand for our products. Our businesses are cyclical in nature and sensitive to general economic conditions, primarily in the United States, Canada, Mexico and South America. The non-residential, residential, agricultural and infrastructure markets we serve are affected by the availability of credit, lending practices, interest rates and unemployment rates. Demand for new homes, farm income, commercial development and highway infrastructure spending have a direct impact on our financial condition and results of operations. Accordingly, the following factors may have a direct impact on our business in the markets in which our products are sold:

- the strength of the economy;
- the amount and type of non-residential and residential construction;
- funding for infrastructure spending;
- farm income and agricultural land values;
- inventory of improved housing lots;
- changes in raw material prices;
- the availability and cost of credit;
- non-residential occupancy rates;
- commodity prices; and
- demographic factors such as population growth and household formation.

Product Pricing

The price of our products is impacted by competitive pricing dynamics in our industry as well as by raw material input costs. Our industry is highly competitive and the sales prices for our products may vary based on the sales policies of our competitors. Raw material costs represent a significant portion of the cost of goods sold for our pipe products, or Pipe. We aim to increase our product selling prices in order to cover raw material price increases, but the inability to do so could impact our profitability. Movements in raw material costs and resulting changes in the selling prices may also impact changes in period-to-period comparisons of net sales.

Material Conversion

Our HDPE and PP pipe and related water management product lines compete with other manufacturers of corrugated polyethylene pipe as well as manufacturers of alternative products made with traditional materials, such as concrete, steel and PVC. Our net sales are driven by market trends, including the continued increase in adoption of thermoplastic corrugated pipe products as a replacement for traditional materials. Thermoplastic corrugated pipe is generally lighter, more durable, more cost effective and easier to install than comparable products made from traditional materials. High performance thermoplastic corrugated pipe represented approximately 25% of the total storm sewer market in 2012, up from what we believe was less than 10% ten years ago and less than 1% twenty years ago. We believe this trend will continue as customers continue to acknowledge the superior attributes and compelling value proposition of our thermoplastic products and expanded regulatory approvals allow for their use in new markets and geographies. In addition, we believe that the recent introduction of PP pipe products will also help accelerate conversion given the additional applications for which our PP pipe products can be used.

We believe the adoption of HDPE and PP pipe outside of the United States and Europe is still in its early stages and represents a significant opportunity for us to continue to increase the conversion to our products from traditional products in these markets, including Canada, Mexico and South America where we operate.

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Growth in Allied Products

Our Allied Products include storm and septic chambers, PVC drainage structures, fittings and filters and water separators. These products complement our pipe product lines and allow us to offer a comprehensive water management solution to our customers and drive organic growth. Our leading market position in pipe products allows us to cross-sell Allied Products effectively. Our comprehensive offering of Allied Products also helps us increase pipe sales in certain markets. Our Allied Products typically carry higher gross margins as compared to our pipe product lines and are less sensitive to increases in resin prices since resin prices represent a smaller percentage of the cost of goods sold for Allied Products.

Our leading position in the pipe market has allowed us to increase organic growth of our Allied Products. We also expect to expand our Allied Product offerings through acquisitions. Sales of Allied Products have increased from $201.4 million for the nine months ended December 31, 2012 to $215.1 million for the nine months ended December 31, 2013. For fiscal years 2011, 2012 and 2013, we generated sales of Allied Products of $195.3 million, $230.7 million and $248.6 million, respectively.

Raw Material Costs

Our raw material costs and product selling prices fluctuate with changes in the prices of resins utilized in production. Virgin and recycled resins, which are derived either directly or indirectly from crude oil derivatives and natural gas liquids, currently account for over 60% of our cost of goods sold for pipe products. Raw materials account for a significantly smaller percentage of the cost of our Allied Products. We actively manage our resin purchases and typically pass fluctuations in the cost of resin through to our customers in order to maximize our profitability. Fluctuations in the price of crude oil and natural gas prices may impact the cost of resin. For example, the weighted average market cost for the types of resin that we use increased by approximately 7.3% and 0.9% for fiscal years 2012 and 2013, respectively. In addition, unanticipated changes in and disruptions to existing ethylene or polyethylene capacities could also significantly increase resin prices, often within a short period of time, even if crude oil and natural gas prices remain low. Our ability to pass through raw material price increases to our customers may, in some cases, lag the increase in our costs of goods sold.

We currently purchase in excess of 700 million pounds of virgin and recycled resin annually from over 450 suppliers in North America. As a high-volume buyer of resin, we are able to achieve economies of scale to negotiate favorable terms and pricing. Our purchasing strategies differ based on the material (virgin resin versus recycled material) ordered for delivery to our production locations. The price movements of the different materials also vary, resulting in the need to use a number of strategies to reduce volatility and successfully pass on cost increases to our customer through timely selling price increases when needed.

Our raw material strategies for managing our cost of goods sold include the following:

- increasing the use of less price-volatile recycled HDPE resin in our pipe products in place of virgin resin;

- internally processing an increasing percentage of our recycled HDPE resin in order to closely monitor quality and minimize costs (approximately 64% of our recycled HDPE resin was internally processed in fiscal year 2014);

- managing a resin hedging program targeting monthly fixed price contracts that hedge approximately 50% of our anticipated virgin HDPE resin purchases on a rolling 12 month basis; and
- implementing financial hedges for propylene, with a goal of hedging a similar portion of our anticipated virgin PP resin purchases on a rolling 12 month basis.

The goal of these strategies is to reduce the volatility of raw material costs in the future.

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We also consume a large amount of energy and other petroleum products in our operations, including the electricity we use in our manufacturing process as well as the diesel fuel consumed in delivering a significant volume of products to our customers through our in-house fleet. As a result, our operating profit also depends upon our ability to manage the cost of the energy and fuel we require, as well as our ability to pass through increased prices or surcharges to our customers.

Seasonality

Our operating results are impacted by seasonality. Historically, sales of our products have been higher in the first and second quarters of each fiscal year due to favorable weather and longer daylight conditions accelerating construction project activity during these periods while fourth quarter results are impacted by the timing of spring in the northern domestic regions and Canada. Seasonal variations in operating results may also be significantly impacted by inclement weather conditions, such as cold or wet weather, which can delay projects, resulting in decreased net sales for one or more quarters, but we believe that these delayed projects generally result in increased net sales during subsequent quarters.

In the non-residential, residential and infrastructure markets in the northern United States and Canada, the construction season typically begins to gain momentum in late March and lasts through November, before winter sets in, significantly slowing the construction markets. In the southern and western United States, Mexico, Central America and South America, the construction markets are less seasonal. The agricultural drainage market is concentrated in the early spring just prior to planting and in the fall just after crops are harvested prior to freezing of the ground in winter.

Currency Exchange Rates

Although we sell and manufacture our products in many countries, our sales and production costs are primarily denominated in U.S. dollars. We have wholly owned facilities in Canada and Puerto Rico and joint venture facilities in Mexico, Chile, Brazil, Argentina, Colombia and Peru. The functional currencies in the areas in which we have wholly owned facilities and joint venture facilities are the Canadian dollar, Euro, Mexican peso, Chilean peso, Brazilian real, Argentine peso and Colombian peso, respectively. We have not hedged foreign currency exposures related to transactions denominated in currencies other than U.S. dollars. From time to time, we use derivatives to reduce our exposure to currency fluctuations. In 2013, we entered into Euro-denominated forwards to hedge transactions related to the procurement of new equipment, which expired prior to December 31, 2013. Also in 2013, our South American Joint Venture entered into multiple non-deliverable forward contracts to reduce its exposure to fluctuations in the U.S. dollar relative to the Chile peso, Argentina peso, Colombia peso and Brazil real.

Description of our Segments

We operate a geographically diverse business, serving customers in approximately 90 countries. For fiscal year 2013, approximately 86% ($877.7 million) of net sales were attributable to customers located in the United States and approximately 14% ($139.3 million) of net sales were attributable to customers outside of the United States.

Our operations are organized into two reportable segments based on the markets we serve: Domestic and International. We generate a greater proportion of our net sales and gross profit in our Domestic segment, which consists of all regions of the United States. We expect the percentage of total net sales and gross profit derived from our International segment to continue to increase in future periods as we continue to expand globally. See Note 21, Business Segments Information, to our audited consolidated financial statements included elsewhere in this prospectus.

Domestic

In the United States, the markets we serve were strong through 2007, but slowed significantly beginning in 2008 in tandem with the decline in general economic conditions in the United States associated with the global financial crisis. Since 2011, a modest recovery in the markets in the United States has had a favorable impact on our product sales. Our operating results have been, and will continue to be, impacted by macroeconomic trends in the United States. For fiscal years 2011, 2012 and 2013, we generated net sales attributable to our Domestic segment of $738.4 million, $888.7 million and $877.7 million, respectively, and for the nine months ended December 31, 2012 and 2013, we generated net sales attributable to our Domestic segment of $718.9 million and $778.3 million, respectively.

International

Our International segment manufactures and markets products in regions outside of the United States, with a growth strategy focused on our owned facilities in Canada and those markets serviced through our joint ventures in Mexico, Central America and South America. Pipe manufactured in these countries is primarily sold into the same region. Our joint venture strategy has provided us with local and regional access to new markets. The outlook for our International segment has improved. Since 2011, a modest recovery in the international markets has had a favorable impact on our product sales, which experienced year-over-year growth in each of fiscal years 2012 and 2013. For fiscal years 2011, 2012 and 2013, we generated net sales attributable to our International segment of $124.8 million, $125.1 million and $139.3 million, respectively, and for the nine months ended December 31, 2012 and 2013, we generated net sales attributable to our International segment of $113.6 million and $109.4 million, respectively. Net sales of our South American Joint Venture are accounted for under the equity method and not consolidated for financial reporting purposes. These unconsolidated sales were $41.9 million, $57.7 million and $64.8 million in fiscal years 2011, 2012 and 2013, respectively, and were $47.5 million and $48.3 million for the nine months ended December 31, 2012 and 2013, respectively.

Components of Results of Operations

Net sales

Net sales consist of the consideration received or receivable for the sale of products in the ordinary course of our business and is presented net of rebates and discounts. We derive our net sales from selling Pipe and Allied Products. We ship products to customers primarily by our internal fleet of trucks with a much smaller portion being shipped by third-party carriers. Net sales are recognized when delivery has occurred or services have been rendered, price to the buyer is fixed and determinable and collectability is reasonably assured. In fiscal year 2013, we served approximately 17,000 customers and no single customer generated more than 10% of our total net sales.

Cost of goods sold

Cost of goods sold consists of the direct cost of raw materials and labor used in the manufacture of our products as well as indirect costs such as labor, depreciation, insurance, supplies, tools, repairs and shipping and handling. Our principal products are manufactured primarily from polyethylene and polypropylene resins with chemical additives that enable the end products to better resist weathering, ultraviolet degradation and chemical exposure. For Pipe, the majority of the cost to manufacture and deliver the products are variable in nature including raw materials, processing costs (including direct labor) and delivery costs (freight). Our fixed production costs (including facility overhead, depreciation, etc.) currently represent approximately 10% of net sales. For Allied Products, cost of goods sold varies by product line and consists of raw material/purchase costs, processing costs and delivery costs.

Selling Expenses

Selling expenses consist of personnel costs (salaries, benefits and variable sales commissions), travel and entertainment expenses, marketing, promotion and advertising expenses, as well as bad debt provisions.

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General and Administrative Expenses

General and administrative expenses consist of personnel costs (salaries, benefits and other personnel-related expenses, including stock-based compensation), recruitment and relocation expenses, accounting and legal fees, business travel expenses, rent and utilities for the administrative offices, director fees, investor relations, membership fees, office supplies, insurance and other miscellaneous expenses.

Intangibles Amortization

Intangibles amortization consists of the amortization of intangibles purchased as part of business combinations, acquired technology, patents and technology licenses, which are amortized using the straight-line method over their estimated useful lives.

Interest Expense

Interest expense consist of interest payment on our Credit Facilities, including our Senior Loan Facilities, Senior Notes and the amortizing of deferred financing costs related to debt borrowings. See Note 11 to our consolidated financial statements included elsewhere in this prospectus.

Income Tax Expense

Income tax expense consists of federal, state, local and foreign taxes based on income in multiple jurisdictions, including the United States, Canada, Mexico, Chile, Brazil and Puerto Rico. We expect our effective tax rate to decrease over time as our earnings grow reducing the impact of permanent M s in our Domestic tax calculations.

EBITDA and Adjusted EBITDA

EBITDA and Adjusted EBITDA, including Segment EBITDA and Segment Adjusted EBITDA, which are non-GAAP financial measures, have been presented in this prospectus as supplemental measures of financial performance that are not required by, or presented in accordance with generally accepted accounting principles or GAAP. We calculate EBITDA as net income attributable to ADS before interest, income taxes, depreciation and amortization. We calculate Adjusted EBITDA as EBITDA before stock-based compensation expense, non-cash charges and certain other expenses.

EBITDA and Adjusted EBITDA are included in this prospectus because they are key metrics used by management and our board of directors to assess our financial performance. EBITDA and Adjusted EBITDA are frequently used by analysts, investors and other interested parties to evaluate companies in our industry. In addition to covenant compliance and executive performance evaluations, we use Adjusted EBITDA to supplement GAAP measures of performance to evaluate the effectiveness of our business strategies, to make budgeting decisions and to compare our performance against that of other peer companies using similar measures.

EBITDA and Adjusted EBITDA are not GAAP measures of our financial performance or liquidity and should not be considered as alternatives to net income as a measure of financial performance or cash flows from operations as a measure of liquidity, or any other performance measure derived in accordance with GAAP and they should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items. Additionally, EBITDA and Adjusted EBITDA are not intended to be measures of free cash flow for management s discretionary use, as they do not reflect certain cash requirements such as tax payments, debt service requirements, capital expenditures and certain other cash costs that may recur in the future. EBITDA and Adjusted EBITDA contain certain other limitations, including the failure to reflect our cash expenditures, cash requirements for working capital needs and cash costs to replace assets being depreciated and amortized. In

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evaluating Adjusted EBITDA, you should be aware that in the future we will incur expenses that are the same as or similar to some of the adjustments in this presentation, such as stock based compensation expense, derivative fair value adjustments, and foreign currency transaction losses. Our presentation of Adjusted EBITDA should not be construed to imply that our future results will be unaffected by any such adjustments. Management compensates for these limitations by relying on our GAAP results in addition to using EBITDA and Adjusted EBITDA supplementally. Our measures of EBITDA and Adjusted EBITDA are not necessarily comparable to other similarly titled captions of other companies due to different methods of calculation.

The following table presents a reconciliation of EBITDA and Adjusted EBITDA to Net income, the most comparable GAAP measure, for each of the periods indicated:

	Fiscal Year Ended March 31,			Nine Months Ended December 31,	
(Amounts in thousands)	**2011**	**2012**	**2013**	**2012**	**2013**
Net income attributable to ADS	$ 5,996	$ 43,260	$ 28,159	$ 31,608	$ 23,294
Depreciation and amortization [(a)]	56,327	59,356	56,926	42,188	43,076
Interest expense, net	27,121	21,837	16,095	12,465	11,860
Income tax expense	4,053	27,064	16,894	20,112	40,845
EBITDA	93,497	151,517	118,074	106,373	119,075
Derivative fair value adjustments [(b)]	(1,365)	2,315	(4)	220	54
Foreign currency transaction losses [(c)]	332	378	1,085	659	251
Gain on sale of Septic Chamber business [(d)]		(44,634)			
Unconsolidated affiliates interest and tax [(e)]	624	915	729	488	347
One-time management fee to minority interest holder [(f)]					739
Stock based compensation [(g)]	2,725	1,425	2,592	1,207	2,640
ESOP deferred stock based compensation [(h)]	4,564	4,957	7,283	6,784	7,343
Transaction costs [(i)]	403				118
Adjusted EBITDA	$ 100,780	$ 116,873	$ 129,759	$ 115,731	$ 130,567

(a) Includes our proportionate share of depreciation and amortization expense of $552, $985 and $1,321 related to our South American Joint Venture and our BaySaver Joint Venture, which amounts are included in equity in net income of unconsolidated affiliates in our consolidated statements of income for fiscal years 2011, 2012 and 2013, respectively, and $977 and $1,031 included in equity in net income of unconsolidated affiliates in our condensed consolidated statements of income for the nine months ended December 31, 2012 and 2013, respectively. Depreciation and amortization expense for fiscal year 2012 also includes a charge of $3,200 related to the impairment of one of our trademarks.

(b) Represents the non-cash gains and losses arising from changes in mark-to-market values for derivative contracts related to diesel fuel and interest rate swaps. The impact of resin physical and financial derivatives is included in cost of goods sold.

(c) Represents the gains and losses incurred on purchases, sales and intercompany loans and dividends denominated in non-functional currencies.

(d) Represents a gain recognized on the sale of our septic chamber business in January 2012.
(e) Represents our proportional share of income taxes and interest related to our South American Joint Venture and our BaySaver Joint Venture, which are accounted for under the equity method of accounting.
(f) Represents management fee paid to a minority interest holder of a consolidated subsidiary.
(g) Represents the non-cash stock based compensation cost related to our stock options and restricted stock awards.
(h) Represents the non-cash stock based compensation expense attributable to the shares of convertible preferred stock allocated to employee ESOP accounts during the applicable period.
(i) Represents expenses recorded related to legal, accounting and other professional fees incurred in connection with our recent debt refinancing and in connection with this offering.

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The following table presents a reconciliation of Segment EBITDA and Segment Adjusted EBITDA to Net income, the most comparable GAAP measure, for each of the periods indicated:

	Fiscal Year Ended March 31,						Nine Months Ended December 31,			
mounts in thousands)	2011		2012		2013		2012		2013	
	Domestic	International	Domestic	International	Domestic	International	Domestic	International	Domestic	Internatio
et income attributable to DS	$ (1,492)	$ 7,488	$ 37,894	$ 5,366	$ 18,332	$ 9,827	$ 22,700	$ 8,908	$ 18,835	$ 4,459
epreciation and nortization (a)	51,237	5,090	52,832	6,524	50,691	6,235	37,653	4,535	38,439	4,637
terest expense, net	26,870	251	21,597	240	16,045	50	12,430	35	11,815	45
come tax expense	2,088	1,965	25,855	1,209	14,787	2,107	17,639	2,473	38,998	1,847
egment EBITDA	78,703	14,794	138,178	13,339	99,855	18,219	90,422	15,951	108,087	10,988
erivative fair value ljustments (b)	(1,365)		2,315		(4)		220		54	
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SOP deferred mpensation (h)	4,564		4,957		7,283		6,784		7,343	
ansaction costs (i)	403								118	
egment Adjusted BITDA	$ 85,030	$ 15,750	$ 102,241	$ 14,632	$ 109,726	$ 20,033	$ 98,633	$ 17,098	$ 118,242	$ 12,325

(a) Includes our proportionate share of depreciation and amortization expense of $552, $985 and $1,321 related to our South American Joint Venture and our BaySaver Joint Venture, which amounts are included in equity in net income of unconsolidated affiliates in our consolidated statements of income for fiscal years 2011, 2012 and 2013, respectively, and $977 and $1,031 included in equity in net income of unconsolidated affiliates in our condensed consolidated statements of income for the nine months ended December 31, 2012 and 2013, respectively. Depreciation and amortization expense for fiscal year 2012 also includes a charge of $3,200 related to the impairment of one of our trademarks.

(b) Represents the non-cash gains and losses arising from changes in mark-to-market values for derivative contracts related to diesel fuel and interest rate swaps. The impact of resin physical and financial derivatives is included in cost of goods sold.

(c) Represents the gains and losses incurred on purchases, sales and intercompany loans and dividends denominated in non-functional currencies.

(d) Represents a gain recognized on the sale of our septic chamber business in January 2012.

(e) Represents our proportional share of income taxes and interest related to our South American Joint Venture and our BaySaver Joint Venture, which are accounted for under the equity method of accounting.

(f) Represents management fee paid to a minority interest holder of a consolidated subsidiary.

(g) Represents the non-cash stock based compensation cost related to our stock options and restricted stock awards.

(h) Represents the non-cash stock based compensation expense attributable to the shares of convertible preferred stock allocated to employee ESOP accounts during the applicable period.

(i) Represents expenses recorded related to legal, accounting and other professional fees incurred in connection with our recent debt refinancing and in connection with this offering.

System-Wide Net Sales

System-Wide Net Sales is a non-GAAP measure which equals the sum of the net sales of our Domestic and International segments plus all net sales from our unconsolidated joint ventures (our South American Joint Venture and our BaySaver Joint Venture). We use this metric to measure the overall performance of our business across all of our geographies and markets we serve.

Our South American Joint Venture is managed as an integral part of our International segment and our BaySaver Joint Venture is managed as an integral part of our Domestic segment. However, they are not consolidated under GAAP. System-Wide Net Sales is prepared as if our South American Joint Venture and our BaySaver Joint Venture were accounted for as consolidated subsidiaries for management and segment reporting purposes.

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The reconciliation of our System-Wide Net Sales to net sales is as follows:

(Amounts in thousands)	Fiscal Year Ended March 31, 2011	2012	2013	Nine Months Ended December 31, 2012	2013
Reconciliation of System-Wide Net Sales to Net Sales:					
Net sales	$ 863,138	$ 1,013,756	$ 1,017,041	$ 832,565	$ 887,777
Net sales associated with our unconsolidated affiliates:					
South American Joint Venture [a]	41,872	57,687	64,834	47,539	48,314
BaySaver Joint Venture [b]					3,592
System-Wide Net Sales	$ 905,010	$ 1,071,443	$ 1,081,875	$ 880,104	$ 939,683

(a) On July 31, 2009, we entered into an arrangement to form our South American Joint Venture.
(b) On July 15, 2013, we entered into an arrangement to form our BaySaver Joint Venture.

Results of Operations

Nine Months Ended December 31, 2013 Compared with Nine Months Ended December 31, 2012

The following table summarizes certain financial information relating to our operating results that have been derived from our consolidated financial statements for the nine months ended December 31, 2013 and 2012. Also included is certain information relating to the operating results as a percentage of net sales. We believe this presentation is useful to investors in comparing historical results.

(Amounts in thousands)	Nine Months Ended December 31, 2012	% of Net Sales	Nine Months Ended December 31, 2013	% of Net Sales	% Variance
Consolidated Statements of Income data:					
Net sales	$ 832,565	100.0%	$ 887,777	100.0%	6.6%
Cost of goods sold	659,283	79.2	698,791	78.7	6.0
Gross profit	173,282	20.8	188,986	21.3	9.1
Selling expenses	52,847	6.3	52,433	5.9	(0.8)
General and administrative expenses	48,913	5.9	54,354	6.1	11.1
Gain on sale of assets/business	(2,210)	(0.3)	(4,848)	(0.5)	(119.4)
Intangible amortization	8,119	1.0	8,576	1.0	5.6
Income from operations	65,613	7.9	78,471	8.8	19.6
Interest expense	12,465	1.5	11,860	1.3	(4.9)

Other miscellaneous (income) expenses, net		176	0.0		398	0.0	126.1
Income before income taxes		52,972	6.4		66,213	7.5	25.0
Income tax expense		20,112	2.4		40,845	4.6	103.1
Equity in net (income) loss of unconsolidated affiliates		(402)	(0.0)		714	0.1	(277.6)
Net income		33,262	4.0		24,654	2.8	(25.9)
Less net income attributable to the non-controlling interests		1,654	0.2		1,360	0.2	(17.8)
Net income attributable to ADS	$	31,608	3.8%	$	23,294	2.6%	(26.3)%
Other financial data:							
Adjusted EBITDA		115,731	13.9%		130,567	14.7%	12.8%
System-Wide Net Sales		880,104	105.7%		939,683	105.8%	6.8%

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Net sales

Net sales totaled $887.8 million in the first nine months of fiscal year 2014, increasing $55.2 million, or 6.6%, as compared to the same period in fiscal year 2013. Our Domestic sales increased $59.4 million, or 8.3%, as compared to the same period in fiscal year 2013 due to increases in Pipe and Allied Product sales of $45.5 million, or 8.4%, and $13.9 million, or 7.7%, respectively. Continued strong recovery in our markets, impacted by an increase in residential construction, modest increases in non-residential construction and further gains from conversion to our products from traditional products, were the primary drivers of the increase in the volume of Domestic Pipe and Allied Product sales. Pipe selling prices remained flat as compared to the prior year. The increase in Domestic Pipe and Allied Product sales was partially offset by lower International sales, which declined $4.2 million, or 3.7%, to $109.4 million in the first nine months of fiscal year 2014 as compared to $113.6 million in the same period in the prior year. International Pipe sales were primarily lower in Mexico due to the impact of the loss of a national certification (which has since been regained in December 2013) and in Canada due to weather conditions and slower construction markets. System-Wide Net Sales were $939.7 million in the first nine months of fiscal year 2014, an increase of $59.6 million, or 6.8%, over System-Wide Net Sales of $880.1 million in the first nine months of fiscal year 2013. Net sales at our South American Joint Venture were relatively flat in first nine months of fiscal year 2014.

Gross profit

Gross profit increased $15.7 million, or 9.1%, to $189.0 million during the first nine months of fiscal year 2014 as compared to $173.3 million during the same period in fiscal year 2013. The increase in gross profit was primarily driven by growth in Domestic Pipe and Allied Product sales which resulted in an increase in Domestic gross profit of $17.9 million, or 12.1%, in the first nine months of fiscal year 2014 compared to the same period in fiscal year 2013. Gross profit from our International segment decreased $2.2 million or 8.4% due to lower sales volume in Canada and Mexico. Gross profit as a percentage of net sales, which we refer to as gross margin, increased to 21.3% from 20.8% due primarily to increased sales of Allied Products, which typically carry a higher gross margin, as well as lower Domestic freight costs. Allied Products sales grew 6.8% in the first nine months of fiscal year 2014 compared to Pipe sales growing 6.6% in the same period. Domestic freight costs declined to 9.7% of Domestic net sales in the first nine months of fiscal year 2014 as compared to 10.3% of Domestic net sales in the same period in fiscal year 2013. The decrease in Domestic freight costs was partially offset by increased Domestic Pipe raw material prices of 3.9% due to higher virgin raw material prices, which we were not able to immediately pass through to customers during the period.

Selling expenses

Selling expenses decreased $0.4 million, or 0.8%, to $52.4 million during the first nine months of fiscal year 2014 compared to $52.8 million in fiscal year 2013. As a percentage of net sales, selling expenses totaled 5.9% of net sales in fiscal year 2014 compared to 6.3% of net sales in fiscal year 2013. Selling expenses were impacted by lower Domestic field selling and customer services expenses of $0.7 million which were offset by an increase in International commissions of $0.3 million during the period.

General and administrative expenses

General and administrative expenses increased $5.4 million, or 11.1%, to $54.4 million in the first nine months of fiscal year 2014 compared to $49.0 million in the first nine months of fiscal year 2013. As a percentage of net sales, general and administrative expenses totaled 6.1% of net sales in fiscal year 2014 compared to 5.9% of net sales in fiscal year 2013. This increase was due to non-cash stock based compensation expense which increased by $1.4 million, increases in personnel costs of $3.0 million due to additional headcount and compensation tied to company performance, higher legal and consulting fees of $0.8 million and other miscellaneous increases of $0.2 million.

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Intangibles amortization

Intangibles amortization totaled $8.6 million in the first nine months of fiscal year 2014 compared to $8.1 million in the first nine months of fiscal year 2013. The $0.5 million increase was due to the amortization of intangibles from recent acquisitions.

Interest expense

Interest expense decreased $0.6 million, or 4.9%, to $11.9 million in the first nine months of fiscal year 2014 compared to $12.5 million in the first nine months of fiscal year 2013. The decrease was due to a combination of lower average debt and lower interest rates on our Senior Loan Facilities and Senior Notes in fiscal year 2014 compared to fiscal year 2013.

Other miscellaneous (income) expenses, net

Our miscellaneous (income)/expense increased $0.2 million in the first nine months of fiscal year 2014 to net expense of $0.4 million as other miscellaneous expenses were up $0.2 million in the first nine months of fiscal year 2014.

Income tax expense

The provision for income taxes totaled $40.8 million in the first nine months of fiscal year 2014 compared to $20.1 million in the first nine months of fiscal year 2013, an increase of $20.7 million or 103.1%. Our effective tax rate was 61.7% in the first nine months of fiscal year 2014 compared to 38.0% in same period for fiscal year 2013. The increase in our effective tax rate was primarily driven by the expected special dividend payment to participants in the ESOP, which increased our effective tax rate by 19%.

Income attributed to non-controlling interests

Income attributed to non-controlling interests decreased $0.3, or 17.8%, to $1.4 million in the first nine months of fiscal year 2014 compared to $1.7 million in the first nine months of fiscal year 2013. Non-controlling interests are held in our International operations which generated lower earnings in the first nine months of fiscal year 2014 compared to the first nine months of fiscal year 2013.

Net income attributed to ADS

Net income attributable to ADS was $23.3 million in the first nine months of fiscal year 2014, a decrease of $8.3 million, or 26.3%, compared to the same period in fiscal year 2013.

Adjusted EBITDA

Adjusted EBITDA totaled $130.6 million in the first nine months of fiscal year 2014, an increase of $14.8 million, or 12.8%, compared to $115.7 million in the first nine months of fiscal year 2013. Domestic Adjusted EBITDA increased $19.6 million, or 19.9%, to $118.2 million in the first nine months of fiscal year 2014 compared to $98.6 million in the same period in fiscal year 2013. International Adjusted EBITDA declined $4.8 million in the first nine months of fiscal year 2014 to $12.3 million compared to $17.1 million in the first nine months of fiscal year 2013. Adjusted EBITDA as a percentage of net sales increased to 14.7% in the first nine months of fiscal year 2014 compared to 13.9% in the same period of fiscal year 2013.

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Fiscal Year Ended March 31, 2013 Compared with Fiscal Year Ended March 31, 2012

The following table summarizes certain financial information relating to our operating results that have been derived from our consolidated financial statements for fiscal years 2013 and 2012. Also included is certain information relating to the operating results as a percentage of net sales. We believe this presentation is useful to investors in comparing historical results.

(Amounts in thousands)	Fiscal Year Ended March 31, 2012	% of Net Sales	Fiscal Year Ended March 31, 2013	% of Net Sales	% Variance
Consolidated Statements of Income data:					
Net sales	$ 1,013,756	100.0%	$ 1,017,041	100.0%	0.3%
Cost of goods sold	818,398	80.7	807,730	79.4	(1.3)
Gross profit	195,358	19.3	209,311	20.6	7.1
Selling expenses	67,625	6.7	69,451	6.8	2.7
General and administrative expenses	65,927	6.5	67,712	6.7	2.7
Gain on sale of assets/business	(44,634)	(4.4)	(2,210)	(0.2)	(95.0)
Intangible amortization	11,387	1.1	11,295	1.1	(0.8)
Income from operations	95,053	9.4	63,063	6.2	(33.7)
Interest expense	21,837	2.2	16,095	1.6	(26.3)
Other miscellaneous (income) expenses, net	2,425	0.2	283	0.0	(88.3)
Income before income taxes	70,791	7.0	46,685	4.6	(34.1)
Income tax expense	27,064	2.7	16,894	1.7	(37.6)
Equity in net (income) loss of unconsolidated affiliates	(704)	(0.1)	(387)	(0.0)	(45.0)
Net income	44,431	4.4	30,178	3.0	(32.1)
Less net income attributable to the non-controlling interests	1,171	0.1	2,019	0.2	72.4
Net income attributable to ADS	$ 43,260	4.3%	$ 28,159	2.8%	(34.9)%
Other Data:					
Adjusted EBITDA	116,873	11.5%	129,759	12.8%	11.0%
System-Wide Net Sales	1,071,443	105.7%	1,081,875	106.4%	1.0%

Net sales

Net sales totaled $1,017.0 million in fiscal year 2013, an increase of $3.3 million, or 0.3%, compared to $1,013.8 million in fiscal year 2012. The increase in net sales was attributable primarily to an increase in the selling price of our Domestic Pipe, which contributed $20.5 million to net sales in fiscal year 2013, and an $13.9 million, or 6.6%, increase in sales of Domestic Allied Products, partially offset by a decline in the volume of Domestic Pipe sales in fiscal year 2013. The $45.0 million decline in Domestic Pipe sales volume was partially a result of weather related issues impacting agriculture sales (a late start to spring at the end of fiscal year 2013 delayed the agricultural installation season) and N-12 sales in the midwest and northeast regions of the country. The decline in our sales volume was also attributable to a soft non-residential end market, while partially offset by increased demand from the residential end market and continued conversion to our products from traditional materials. Our International net sales totaled $139.3 million in fiscal year 2013 compared to $125.1 million in fiscal year 2012, an increase of $14.2 million, or 11.4%. Growth was experienced across most international markets, led by Canada, with International Pipe sales increasing $10.2 million, or 9.8%, in fiscal year 2013 compared to fiscal year 2012 and Allied Products increasing $4.0 million, or 18.9%, in fiscal year 2013 compared to fiscal year 2012. System-Wide Net Sales were $1,081.9 million in fiscal year 2013, an increase of $10.5 million, or 1.0%, over System-Wide Net Sales of $1,071.4 million in fiscal year 2012. Net sales at our South American Joint Venture totaled $64.8 million in fiscal year 2013 compared to $57.7 million in fiscal year 2012. Pipe market penetration in Brazil led the increase, partially offset by weaknesses in Pipe sales to the copper mining markets in Chile.

Gross profit

Gross profit increased $14.0 million, or 7.1%, to $209.3 million during fiscal year 2013 as compared to $195.4 million in fiscal year 2012. Our Domestic gross profit increased $7.2 million in fiscal year 2013 as compared to fiscal year 2012 due to increased volume of Allied Products sales, which contributed additional gross profit of $7.5 million, partially offset by a decrease in the volume of Domestic Pipe sales, which negatively impacted gross profit by $0.3 million. International gross profit increased 27.2%, or $6.8 million, in fiscal year 2013 due to increases of $2.7 million and $4.1 million for Pipe and Allied Products gross profit, respectively. Gross margin increased to 20.6% in fiscal year 2013 from 19.3% in fiscal year 2012 due to increased sales of our higher margin Allied Products as well as increased Pipe gross margins attributable to lower freight costs and increased selling prices. Allied Products sales grew 7.8% in fiscal year 2013 totaling 24.4% of net sales compared to 22.8% in fiscal year 2012 as our market penetration for these products increased. Domestic Pipe selling prices increased 3.3% in fiscal year 2013, with gross margin being partially offset by a 1% increase in raw material prices as compared to fiscal year 2012. Freight costs declined slightly to 9.8% of net sales in fiscal year 2013 as compared to 9.9% of net sales in fiscal year 2012.

Selling expenses

Selling expenses increased $1.8 million, or 2.7%, to $69.5 million during fiscal year 2013 compared to $67.6 million in fiscal year 2012. As a percentage of net sales, selling expenses totaled 6.8% in fiscal year 2013 compared to 6.7% in fiscal year 2013. Commissions increased $0.4 million, field selling expenses increased $1.0 million and customer service expenses increased $0.5 million in fiscal year 2013 as compared to fiscal year 2012.

General and administrative expenses

General and administrative expenses increased $1.8 million, or 2.7%, to $67.7 million during fiscal year 2013 compared to $65.9 million in fiscal year 2012. General and administrative expenses increased to 6.7% of net sales in fiscal year 2013, up from 6.5% of net sales in fiscal year 2012. This increase was due to stock based compensation expense which increased by $1.2 million, higher plant administrative expenses of $0.8 million due to recently opened manufacturing facilities in the agricultural markets and higher other administrative expenses of $1.7 million, partially offset by lower transaction costs of $1.9 million in fiscal year 2013 as compared to fiscal year 2012.

Gain on sale of assets/business

We recognized a gain of $2.2 million in fiscal year 2013 resulting from the sale of our plastic edging product line as compared to a $44.6 million gain recognized in fiscal year 2012 resulting from the sale of our septic chamber product line to Infiltrator Systems. As part of the sale in fiscal year 2012, we entered into a Distribution Agreement to continue to sell septic chambers manufactured by Infiltrator Systems.

Intangibles amortization

Intangibles amortization totaled $11.3 million in fiscal year 2013, down $0.1 million from intangible amortization in fiscal year 2012.

Interest expense

Interest expense decreased $5.7 million, or 26.3%, to $16.1 million during fiscal year 2013 as compared to $21.8 million in fiscal year 2012. The decrease was due to a combination of lower average debt and interest rates in fiscal year 2013 as compared to fiscal year 2012. In fiscal year 2013, ADS achieved a leverage ratio of Adjusted EBITDA to

Debt below 3-to-1 which reduced our interest rates by 0.5% for our Senior Loan Facilities and 2.0% for our Senior Notes, resulting in a decrease in interest expense of $3.4 million or 15.6%.

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Other miscellaneous (income) expenses, net

Our miscellaneous (income)/expense decreased $2.1 million in fiscal year 2013 as mark to market losses on our fuel and interest rate hedges of $2.3 million in fiscal year 2012 compared to no change in fiscal year 2013. Earnings from our unconsolidated South American Joint Venture declined $0.3 million in fiscal year 2013 and other miscellaneous expenses increased $0.2 million in fiscal year 2013 as compared to fiscal year 2012.

Income tax expense

The provision for income taxes totaled $16.9 million in fiscal year 2013 compared to $27.1 million in fiscal year 2012, a decrease of $10.2 million, or 37.6%. Our effective tax rate was 35.9% in fiscal year 2013 compared 37.9% in fiscal year 2012. The primary factors for the decline in our effective tax rate were lower state and local taxes (3.0% in fiscal year 2013 compared to 3.6% in fiscal year 2012) and an increase in International income which is taxed at lower rates.

Income attributed to non-controlling interests

Income attributed to non-controlling interests increased $0.8, or 72.4%, to $2.0 million in fiscal year 2013 as compared to $1.2 million in fiscal year 2012. Non-controlling interests are held in our International operations which generated higher earnings in fiscal year 2013 compared to fiscal year 2012.

Net income attributed to ADS

Net income attributable to ADS was $28.2 million in fiscal year 2013, a decrease of $15.1 million, or 34.9%, compared to fiscal year 2012. This decrease was primarily due to the $44.6 million gain from the sale of our U.S. septic chamber business in fiscal year 2012.

Adjusted EBITDA

Adjusted EBITDA totaled $129.8 million in fiscal year 2013, an increase of $12.9 million, or 11.0%, compared to $116.9 million in fiscal year 2012. Domestic Adjusted EBITDA increased $7.5 million, or 7.3%, to $109.7 million in fiscal year 2013 compared to $102.2 million in fiscal year 2012. International Adjusted EBITDA increased $5.4 million in fiscal year 2013 to $20.0 million as compared to $14.6 million in fiscal year 2013. Adjusted EBITDA as a percentage of net sales increased to 12.8% in fiscal year 2013 compared to 11.5% in fiscal year 2012.

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Fiscal Year Ended March 31, 2012 Compared with Fiscal Year Ended March 31, 2011

The following table summarizes certain financial information relating to our operating results that have been derived from our consolidated financial statements for fiscal years 2012 and 2011. Also included is certain information relating to the operating results as a percentage of net sales. We believe this presentation is useful to investors in comparing historical results.

(Amounts in thousands)	Fiscal Year Ended March 31, 2011	% of Net Sales	Fiscal Year Ended March 31, 2012	% of Net Sales	% Variance
Consolidated Statements of Income data:					
Net sales	$ 863,138	100.0%	$ 1,013,756	100.0%	17.5%
Costs of goods sold	692,164	80.2	818,398	80.7	18.2
Gross profit	170,974	19.8	195,358	19.3	14.3
Selling expenses	63,103	7.3	67,625	6.7	7.2
General and administrative expenses	61,648	7.1	65,927	6.5	6.9
Gain on sale of assets/business			(44,634)	(4.4)	N/A
Intangible amortization	7,294	0.8	11,387	1.1	56.1
Income from operations	38,929	4.5	95,053	9.4	144.2
Interest expense	27,121	3.1	21,837	2.2	(19.5)
Other miscellaneous (income) expenses, net	(847)	(0.1)	2,425	0.2	(386.3)
Income before income taxes	12,655	1.5	70,791	7.0	459.4
Income tax expense	4,053	0.5	27,064	2.7	567.8
Equity in net (income) loss of unconsolidated affiliates	(736)	(0.1)	(704)	(0.1)	(4.3)
Net income	9,338	1.1	44,431	4.4	375.8
Less net income attributable to the non-controlling interests	3,342	0.4	1,171	0.1	(65.0)
Net income attributable to ADS	$ 5,996	0.7%	$ 43,260	4.3%	621.5%
Other Data:					
Adjusted EBITDA	100,780	11.7%	116,873	11.5%	16.0%
System-Wide Net Sales	905,010	104.9%	1,071,443	105.7%	18.4%

Net sales

Net sales totaled $1,013.8 million in fiscal year 2012, an increase of $150.7 million, or 17.5%, compared to $863.1 million in fiscal year 2011. The increase in net sales was attributable primarily to an increase in the selling price of our Domestic Pipe, which contributed $42.4 million to net sales in fiscal year 2012, an increase in Domestic sales of Allied Products of $34.2 million, or 19.5%, and an increase in the volume of Domestic Pipe sales of $64.3 million, as

compared to fiscal year 2011. The increase in Domestic Pipe sales volume was a result of favorable weather conditions helped by an early start to spring in the fourth quarter of fiscal year 2012, which resulted in increased demand from the agriculture market, as well as continued conversion to our products from traditional materials. The increase in Domestic Pipe sales volume was partially offset by continued weakness in the non-residential, residential and infrastructure end markets. Our International net sales increased $0.3 million in fiscal year 2012 due to an increase in volume of $1.2 million, or 6.0%, in Allied Products primarily in Canada, and was partially offset by a decline in Pipe volume of $0.9 million, or 0.8%, due to lower Pipe sales in Mexico which were impacted by the loss of a national certification (which has since been regained in December 2013), as compared to fiscal year 2011.
System-Wide Net Sales were $1,071.4 million in fiscal year 2012, an increase of $166.4 million, or 18.4%, over System-Wide Net Sales of $905.0 million in fiscal year 2011. Net sales at our South American Joint Venture totaled $57.7 million in fiscal year 2012, an increase of 37.7%, compared to $41.9 million in fiscal year 2011. In addition, the increase in System-Wide Net Sales was aided by increased penetration and increased Pipe sales in Chile, Peru and Brazil.

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Gross profit

Gross profit increased $24.4 million, or 14.3%, to $195.4 million during fiscal year 2012 as compared to $171.0 million in fiscal year 2011. Our Domestic gross profit increased $27.5 million in fiscal year 2012 as compared to fiscal year 2011. International gross profit declined $3.1 million in fiscal year 2012 as compared to fiscal year 2011. Gross margin decreased to 19.3% in fiscal year 2012 from 19.8% in fiscal year 2011 due to lower Allied Products margins, while partially offset by decreased Domestic freight costs. Allied Products margins decreased as a result of the sale of our septic chamber manufacturing business, which resulted in a $4.9 million reduction in gross profit in fiscal year 2012 as compared to fiscal year 2011 and the acquisition of a lower margin precast concrete business. Domestic freight costs as a percentage of Domestic net sales decreased to 10.5% in fiscal year 2012 compared to 11.4% in fiscal year 2011, which was helped by the increased sales mix into the agricultural markets where freight as a percentage of net sales is lower than other markets. Raw material prices increased 7.2% as compared to fiscal year 2011.

Selling expenses

Selling expenses increased $4.5 million, or 7.2%, to $67.6 million during fiscal year 2012 as compared to fiscal year 2011. As a percentage of net sales, selling expenses totaled 6.7% of in fiscal year 2012 compared to 7.3% in fiscal year 2011. Variable selling commissions tied to sales growth represented $2.4 million of the higher selling expenses in fiscal year 2012 compared to fiscal year 2011 while field selling expenses were $2.1 million in fiscal year 2012 as additional sales personnel were added to support the growth in net sales.

General and administrative expenses

General and administrative expenses increased $4.3 million, or 6.9%, to $65.9 million during fiscal year 2012 compared to fiscal year 2011. This increase in fiscal year 2012 as compared to fiscal year 2011 was due to higher corporate administrative expenses of $3.6 million for personnel costs, legal expenses, outside consulting expenses and travel expenses and higher transaction costs of $1.4 million and higher plant administrative expenses of $0.4 million, while partially offset by a $1.3 million decline in stock based compensation expense. General and administrative expenses decreased to 6.5% of net sales in fiscal year 2012 compared to 7.1% of net sales in fiscal year 2011.

Gain on sale of assets/business

We recognized a gain of $44.6 million in fiscal year 2012 resulting from the sale of our septic chamber product line to Infiltrator Systems.

Intangibles amortization

Intangibles amortization totaled $11.4 million in fiscal year 2012, an increase of $4.1 million, or 56.1%, compared to fiscal year 2011. Amortization of intangibles related to new acquisitions and a $3.2 million impairment charge for the Hancor trademark intangible were the factors resulting in the increase.

Interest expense

Interest expense decreased $5.3 million to $21.8 million, or 19.5%, during fiscal year 2012 as compared to $27.1 million in fiscal year 2011. The decrease was primarily due to a $9.5 million make-whole payment made on notes prepaid in October 2010 increasing fiscal year 2011 interest expense being partially offset by higher average debt levels in fiscal year 2012 resulting from our October 2010 recapitalization.

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Other miscellaneous (income) expenses, net

Our miscellaneous (income)/expense increased $3.3 million in fiscal year 2012 as mark to market losses on our fuel and interest rate hedges of $2.3 million in fiscal year 2012 compared to a gain of $1.4 million in fiscal year 2011. Earnings from our South American Joint Venture was flat in fiscal year 2012 and other miscellaneous expenses decreased $0.4 million in fiscal year 2012 as compared to fiscal year 2011.

Income tax expense

The provision for income taxes totaled $27.1 million in fiscal year 2012 compared to $4.1 million in fiscal year 2011. The effective rate for our provision was 37.9% in fiscal year 2012 as compared to 30.3% in fiscal year 2011. Lower effective tax rates in International and decreased Domestic net income in fiscal year 2011 were the major factors impacting the rate change.

Income attributed to non-controlling interests

Income attributed to non-controlling interest totaled $1.2 million in fiscal year 2012 compared to $3.3 million in fiscal year 2011. Lower earnings were generated in these operations resulted in the decrease in our non-controlled portion.

Net income attributed to ADS

Net income attributable to ADS was $43.3 million in fiscal year 2012, an increase of $37.3 million compared to fiscal year 2011. The large one time gain was primarily attributable to the sale of our septic chamber business in fiscal year 2012 of $44.6 million.

Adjusted EBITDA

Adjusted EBITDA totaled $116.9 million in fiscal year 2012, an increase of $16.1 million, or 16.0%, compared to $100.8 million in fiscal year 2011. Domestic Adjusted EBITDA increased $17.2 million or 20.2%, to $102.2 million in fiscal year 2012 compared to $85.0 million in fiscal year 2011. International Adjusted EBITDA decreased $1.1 million in the fiscal year 2012 to $14.6 million compared to $15.7 million in fiscal year 2011. Adjusted EBITDA as a percentage of net sales decreased to 11.5% in fiscal year 2012 compared to 11.7% in fiscal year 2011.

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Results of Operations by Segment

The following table presents our net sales, net sales as a percentage of total net sales, Segment Adjusted EBITDA and Segment Adjusted EBITDA as a percentage of total Adjusted EBITDA by segment for the periods presented.

		$4,288	(9)%						
Total GMV [4]	$ 18,192	$ 16,918	8	%	$36,269	$33,464	8	%
Payments Segment:								
Merchant services net TPV [5]	$ 23,114	$ 18,860	23	%	$45,547	$36,427	25	%
On eBay net TPV [6]	$ 11,337	$ 9,882	15	%	$22,761	$19,677	16	%
Total net TPV [7]	$ 34,451	$ 28,742	20	%	$68,308	$56,104	22	%
GSI Segment:								
GeC Merchandise Sales [8]	$ 674	$ 76	787	%	$1,389	$76	1,728	%

(1) eBay's classifieds websites and Shopping.com are not included in these metrics.

(2) Total value of all successfully closed items between users on eBay Marketplaces trading platforms during the period, regardless of whether the buyer and seller actually consummated the transaction, excluding vehicles GMV.

(3) Total value of all successfully closed vehicle transactions between users on eBay Marketplaces trading platforms during the period, regardless of whether the buyer and seller actually consummated the transaction.

(4) Total value of all successfully closed items between users on eBay Marketplaces trading platforms during the period, regardless of whether the buyer and seller actually consummated the transaction.

(5) Total dollar volume of payments, net of payment reversals, successfully completed through our Payments networks, Bill Me Later accounts and Zong during the period, excluding PayPal's payment gateway business and payments for transactions on eBay Marketplaces and GSI platforms.

(6) Total dollar volume of payments, net of payment reversals, successfully completed through our Payments networks during the period for transactions on eBay Marketplaces and GSI platforms during the period.

(7) Total dollar volume of payments, net of payment reversals, successfully completed through our Payments networks, Bill Me Later accounts and Zong during the period, excluding PayPal's payment gateway business.

(8) Represents the retail value of all sales transactions, inclusive of freight charges and net of allowance for returns and discounts, which flow through the GSI ecommerce services platform, whether we record the full amount of such transaction as a product sale or a percentage of such transaction as a service fee.

Seasonality

The following table sets forth, for the periods presented, our total net revenues and the sequential quarterly movements of these net revenues:

	Quarter Ended							
	March 31		June 30		September 30		December 31	
	(In millions, except percentage changes)							
2010								
Net revenues	$2,196		$2,215		$2,249		$2,495	
Percent change from prior quarter	(7	)%	1	%	2	%	11	%
2011[1]								
Net revenues	$2,546		$2,760		$2,966		$3,380	

Percent change from prior quarter	2 %	8 %	7 %	14 %
2012				
Net revenues	$3,277	3,398	—	—
Percent change from prior quarter	(3)%	4 %	—	—

(1) Net revenues attributable to the GSI segment are reflected from June 17, 2011 (the date the acquisition of GSI was completed).

We expect transaction activity patterns on our websites to mirror general consumer buying patterns. Our GSI segment is highly seasonal. The fourth calendar quarter typically accounts for a disproportionate amount of GSI's total annual revenue because consumers increase their purchases and businesses increase their advertising to consumers during the fourth quarter holiday season.

Marketplaces Net Transaction Revenues

Marketplaces net transaction revenues increased $141 million, or 10%, while GMV excluding vehicles increased 10% during the second quarter of 2012 compared to the same period in the prior year. The increase in net transaction revenue and GMV excluding vehicles was due primarily to strong growth across all regions partially offset by the negative impact of foreign currency movements relative to the U.S. dollar. Additionally, net transaction revenue increased due to the favorable resolution of an indirect tax dispute.

Marketplaces net transaction revenues increased $282 million, or 11%, while GMV excluding vehicles increased 11% during the first six months of 2012 compared to the same period in the prior year. The increase in net transaction revenue and GMV excluding vehicles was due to the same factors noted above.

Marketplaces net transaction revenues earned internationally (i.e., outside the U.S.) totaled $848 million and $1.6 billion during the second quarter and first six months of 2012, respectively, representing 57% of total Marketplaces net transaction revenues during both periods. Marketplaces net transaction revenues earned internationally (i.e., outside the U.S.) totaled $759 million and $1.5 billion during the second quarter and first six months of 2011, respectively, representing 56% of total Marketplaces net transaction revenues during both periods. The increase in international net transaction revenues was due primarily to growth in our existing international markets, partially offset by the impact of foreign currency movements relative to the U.S. dollar.

Payments Net Transaction Revenues

Payments net transaction revenues increased $243 million, or 25%, during the second quarter of 2012 compared to the same period of the prior year, due primarily to net TPV growth of 20% and a higher take rate. The increase in net TPV was due primarily to growth in consumer and merchant adoption and use of PayPal both on and off eBay. Our Merchant Services net TPV increased 23% during the second quarter of 2012, compared to the same period of the prior year, and represented 67% of PayPal's net TPV in the second quarter of 2012, compared with 66% in the second quarter of 2011. On eBay net TPV increased 15% during the second quarter of 2012, compared to the same period of the prior year and represented 33% of PayPal's net TPV in the second quarter of 2012, compared to 34% for the same period in the prior year. The increase in the take rate was driven primarily by foreign exchange income and gains from hedging.

Payments net transaction revenues increased $516 million, or 27%, during the first six months of 2012 compared to the same period of the prior year, due primarily to net TPV growth of 22% and a higher take rate. The increase in net TPV and take rate are due to the same factors noted above. Our Merchant Services net TPV increased 25% during the first six months of 2012, compared to the same period of the prior year, and represented 67% of PayPal's net TPV in the first six months of 2012, compared with 65% in the first six months of 2011. On eBay net TPV increased 16% during the first six months of 2012, compared to the same period of the prior year and represented 33% of PayPal's net TPV for the first six months of 2012, compared to 35% for the same period of the prior year.

Payments net transaction revenues earned internationally totaled $680 million and $1.3 billion during the second quarter and first six months of 2012, respectively, representing 55% of total Payments net transaction revenues during both periods. Payments net transaction revenues earned internationally totaled $515 million and $991 million during the second quarter and first six months of 2011, respectively, representing 52% and 51% of total Payments net transaction revenues during those respective periods. The increase in international net transaction revenues was due primarily to the growth of our Merchant Services business and increased penetration on eBay Marketplaces platforms internationally.

GSI Net Transaction Revenues

GSI net transaction revenues were $164 million and $346 million during the second quarter and first six months of 2012, respectively, compared to $16 million for the both periods of the prior year. Net transaction revenues attributable to the GSI segment for the second quarter and first six months of 2011 are reflected from June 17, 2011 (the date the acquisition of GSI was completed). Accordingly, comparisons with GSI's net transaction revenues in the corresponding 2011 periods are not meaningful.

Marketing Services and Other Revenues

Marketing services and other revenues increased $110 million and $248 million, or 27% and 34%, during the second quarter and first six months of 2012, respectively, compared to the same periods of the prior year, and represented 15% of total net revenues for both periods in 2012. The increase in marketing services and other revenues during the second quarter and first six months of 2012 was due primarily to revenues attributable to GSI and growth in our Bill Me Later (BML) portfolio of receivables from loans, as well as increased revenue from our classifieds and advertising business.

Summary of Cost of Net Revenues

The following table summarizes changes in cost of net revenues for the periods presented:

	Three Months Ended June 30,				Change from 2011 to 2012			Six Months Ended June 30,				Change from 2011 to 2012		
	2012		2011[1]		in Dollars	in %		2012		2011[1]		in Dollars	in %	
	(In millions, except percentages)													
Cost of net revenues:														
Marketplaces	$310		$304		$6	2	%	$609		$600		$9	2	%
As a percentage of total Marketplaces net revenues	17.1	%	18.3	%				17.2	%	18.6	%			
Payments	525		457		68	15	%	1,040		890		150	17	%
As a percentage of total Payments net revenues	38.7	%	42.6	%				39.0	%	43.1	%			
GSI	147		12		135	N/A		292		12		280	N/A	
As a percentage of total GSI net revenues	66.5	%	52.2	%				63.8	%	52.2	%			
Corporate and other	5		—		5	N/A		29		—		29	N/A	
Total cost of net revenues	$987		$773		$214	28	%	$1,970		$1,502		$468	31	%
As a percentage of net revenues	29.0	%	28.0	%				29.5	%	28.3	%			

(1) Cost of net revenues attributable to the GSI segment are reflected from June 17, 2011 (the date the acquisition of GSI was completed). Accordingly, the percent changes in GSI's cost of revenues between the 2011 and 2012 periods are not meaningful.

Cost of Net Revenues

Cost of net revenues consists primarily of costs associated with payment processing, customer support, site operations, fulfillment and inventory. Significant components of these costs include bank transaction fees, credit card interchange and assessment fees, interest expense on indebtedness incurred to finance the purchase of consumer loans receivable by Bill Me Later, employee compensation, contractor costs, facilities costs, depreciation of equipment and amortization expense.

Marketplaces

Marketplaces cost of net revenues increased $6 million and $9 million, or 2%, during both the second quarter and first six months of 2012, compared to the same periods of the prior year. The increase was due primarily to an increase in our customer support costs associated with our volume growth.

Marketplaces cost of net revenues as a percentage of Marketplaces net revenues decreased 1.2 and 1.4 percentage points during the second quarter and first six months of 2012, respectively, compared to the same periods of the prior year, due primarily to improved operating leverage from our site operation infrastructure partially offset by investment in customer support programs.

Payments

Payments cost of net revenues increased $68 million and $150 million, or 15% and 17%, during the second quarter and first six months of 2012, respectively, compared to the same periods of the prior year. The increase in Payments cost of net revenues was due primarily to the impact of growth in net TPV.

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Payments cost of net revenues as a percentage of Payments net revenues decreased 3.9 and 4.1 percentage points during the second quarter and first six months of 2012, respectively, compared to the same periods of the prior year, due primarily to a lower transaction expense rate. The improvement in our transaction expense rate was driven primarily by lower payment processing costs and improvement in funding mix.

GSI

GSI cost of net revenues was $147 million and $292 million during the second quarter and first six months of 2012, respectively. Cost of net revenues attributable to the GSI segment for the second quarter and first six months of 2011 are reflected from June 17, 2011 (the date the acquisition of GSI was completed). Accordingly, comparisons with GSI's cost of revenues in the corresponding 2011 periods are not meaningful.

Summary of Operating Expenses, Non-Operating Items and Provision for Income Taxes

The following table summarizes changes in operating expenses, non-operating items and provision for income taxes for the periods presented:

	Three Months Ended June 30,		Change from 2011 to 2012		Six Months Ended June 30,		Change from 2011 to 2012	
	2012	2011	in Dollars	in %	2012	2011	in Dollars	in %
	(In millions, except percentage changes)							
Sales and marketing	$717	$608	$109	18%	$1,394	$1,141	$253	22%
Product development	394	297	97	33%	768	572	196	34%
General and administrative	390	392	(2)	(1)%	762	685	77	11%
Provision for transaction and loan losses	131	118	13	11%	265	225	40	18%
Amortization of acquired intangible assets	84	53	31	58%	168	97	71	73%
Interest and other, net	38	28	10	36%	69	31	38	123%
Gain (loss) on divested business	118	(256)	374	(146)%	118	(256)	374	(146)%
Provision for income taxes	(159)	(8)	(151)	1,888%	(273)	(100)	(173)	173%

Sales and Marketing

Sales and marketing expenses consist primarily of advertising costs and marketing programs (both online and offline), employee compensation, contractor costs, facilities costs and depreciation on equipment. Online marketing expenses represent traffic acquisition costs in various channels such as paid search, affiliates marketing and display advertising. Offline advertising includes brand campaigns, buyer/seller communications and general public relations expenses. A significant portion of our sales and marketing expense is attributable to our online marketing programs, primarily paid search, which include keyword advertising and third party lead generation costs, in order to drive traffic to our Marketplaces and Payments websites.

Sales and marketing expenses increased $109 million and $253 million, or 18% and 22%, during the second quarter and first six months of 2012, respectively, compared to the same periods of the prior year. The increase in sales and marketing expense was due primarily to higher employee-related expenses (including consultant costs, facility costs and equipment-related costs), marketing program costs (including product launches), and the impact from acquisitions, primarily GSI.

Product Development

Product development expenses consist primarily of employee compensation, contractor costs, facilities costs and depreciation on equipment. Product development expenses are net of required capitalization of major site and other product development efforts, including the development of our next generation platform architecture, migration of certain platforms, seller tools and Payments services projects. Our top technology priorities include search, catalog, mobile, platform and user experience. Capitalized site and product development costs were $59 million and $116 million in the second quarter and first six months of 2012, respectively, compared to $44 million and $81 million in the second quarter and first six months of 2011, respectively, and are primarily reflected as a cost of net revenues when amortized in future periods.

Product development expenses increased $97 million and $196 million, or 33% and 34%, during the second quarter and first six months of 2012, respectively, compared to the same periods of the prior year. The increase was due primarily to higher employee-related costs (including consultant costs, facility costs and equipment-related costs) driven by increased investment in our top technology priorities and the impact from acquisitions, primarily GSI.

General and Administrative

General and administrative expenses consist primarily of employee compensation, contractor costs, facilities costs, depreciation of equipment, employer payroll taxes on stock-based compensation, legal expenses, insurance premiums and professional fees. Our legal expenses, including those related to various ongoing legal proceedings, may fluctuate substantially from period to period.

General and administrative expenses decreased $2 million during the second quarter of 2012, compared to the same period of the prior year. The decrease was due primarily to GSI acquisition-related costs incurred in 2011, partially offset by an increase in payroll and related expenses.

General and administrative expenses increased $77 million, or 11%, during the first six months of 2012, compared to the same period of the prior year. The increase was due primarily to an increase in payroll and related expenses and the impact of acquisitions, primarily GSI, partially offset by GSI acquisition related costs incurred in 2011.

Provision for Transaction and Loan Losses

Provision for transaction and loan losses consists primarily of transaction loss expense associated with our consumer protection programs, fraud, chargebacks, and merchant credit losses; bad debt expense associated with our accounts receivable balance; and loan loss reserves associated with our principal loan receivable balance. We expect our provision for transaction and loan loss expense to fluctuate depending on many factors, including macroeconomic conditions, our consumer protection programs and the impact of regulatory changes.
Provision for transaction and loan losses increased $13 million and $40 million, or 11% and 18%, during the second quarter and first six months of 2012, respectively, compared to the same periods of the prior year. This increase was due primarily to higher transaction volume and growth in our BML portfolio of receivables from loans. The increase was partially offset by a reduction in our Marketplaces consumer protection program expense as a result of certain loss prevention programs and lower Marketplaces bad debt expense.

Amortization of Acquired Intangible Assets
From time to time we have purchased, and we expect to continue to purchase, assets and businesses. These purchase transactions generally result in the creation of acquired intangible assets with finite lives and lead to a corresponding increase in our amortization expense in periods subsequent to acquisition. We amortize intangible assets over the period of estimated benefit, using the straight-line method and estimated useful lives ranging from one to eight years. Amortization of acquired intangible assets is also impacted by our sales of assets and businesses and timing of acquired intangible assets becoming fully amortized.

Amortization of acquired intangible assets increased by $31 million and $71 million, or 58% and 73%, during the second quarter and first six months of 2012, respectively, compared to the same periods of the prior year due primarily to the impact of acquisitions, primarily GSI.

Interest and Other, Net

Interest and other, net, consists of interest earned on cash, cash equivalents and investments, as well as foreign exchange transaction gains and losses, our portion of operating results from investments accounted for under the equity method of accounting, investment gain/loss on acquisitions and interest expense consisting of interest charges on our outstanding commercial paper and debt securities and on the amounts, if any, drawn under our credit agreement. Interest and other income, net excludes interest expense on borrowings incurred to finance Bill Me Later's portfolio of loan receivables, which is included in cost of net revenues.

Interest and other, net increased $10 million and $38 million during the second quarter and first six months of 2012, respectively, compared to the same periods of the prior year. The increase in interest and other, net was due primarily to a favorable resolution of an indirect tax dispute, favorable impact from foreign currency activity and higher interest income, partially offset by losses from investments accounted for under the equity method of accounting and higher interest expense.

Gain (Loss) on Divested Business

We incurred a gain on the divestiture of Rent.com of $118 million during the second quarter and first six months of 2012. We incurred a loss on the divestiture of certain GSI businesses of $256 million during the second quarter and first six months of 2011. We sold these businesses as they were not core to our long-term strategy.

Provision for Income Taxes

Our effective tax rate was 18.7% for the second quarter of 2012, compared to 2.7% for the same period in the prior year. The increase in our effective tax rate during the second quarter of 2012 compared to the same period of the prior year was due primarily to a tax benefit received in 2011 and the year-over-year unfavorable impact of discrete items related primarily to uncertain tax positions. The tax benefit was associated with the loss on the divestiture of certain GSI businesses and resulted in a 12 percentage point favorable impact to the effective tax rate.

Our effective tax rate was 17.8% for the first six months of 2012, compared to 11.6% for the same period in the prior year. The increase in our effective tax rate during the first six months of 2012 compared to the same period of the prior year was due primarily to the same factors noted above. The tax benefit was associated with the loss on the divestiture of certain GSI businesses and resulted in a four percentage point favorable impact to the effective tax rate.

From time to time, we engage in certain intercompany transactions and legal entity restructurings. We consider many factors when evaluating these transactions, including the alignment of our corporate structure with our organizational objectives and the operational and tax efficiency of our corporate structure, as well as the long-term cash flows and cash needs of our different businesses. These transactions may impact our overall tax rate and/or result in additional cash tax payments. The impact in any period may be significant. These transactions may be complex and the impact of such transactions on future periods may be difficult to estimate.

We are regularly under examination by tax authorities both domestically and internationally. We believe that adequate amounts have been reserved for any adjustments that may ultimately result from these examinations, although we cannot assure you that this will be the case given the inherent uncertainties in these examinations. Due to the ongoing tax examinations, we believe it is impractical to determine the amount and timing of these adjustments.

Liquidity and Capital Resources

Cash Flows

	Six Months Ended June 30,	
	2012	2011
	(In millions)	
Net cash provided by (used in):		
Operating activities	$1,299	$1,482
Investing activities	(1,474)	(3,805)
Financing activities	(434)	(166)
Effect of exchange rates on cash and cash equivalents	(44)	178
Net increase/(decrease) in cash and cash equivalents	$(653)	$(2,311)

Operating Activities

We generated cash from operating activities of $1.3 billion and $1.5 billion in the six months ended June 30, 2012 and June 30, 2011, respectively. Non-cash charges to earnings were $1.1 billion and $864 million in the six months ended June 30, 2012 and 2011, respectively. Non-cash charges to earnings include depreciation and amortization on our long-term assets, stock-based compensation and the provision for transaction and loan losses. The decrease in cash provided by operating activities during the six months ended June 30, 2012 compared to the same period of the prior year was due primarily to cash paid for income taxes in the first six months of 2012 of $639 million, which were primarily associated with the gain on the sale of our remaining equity interest in Skype in October 2011, compared to $136 million in the first six months of 2011.

Investing Activities

The net cash used in investing activities of $1.5 billion in the six months ended June 30, 2012 was due primarily to cash paid for the purchases of investments of $1.3 billion and purchases of property and equipment of $599 million, partially offset by proceeds of $629 million from the maturities and sale of investments and $144 million from the disposition of a business.

The net cash used in investing activities of $3.8 billion in the six months ended June 30, 2011 was due primarily to cash paid for the purchases of investments of $1.2 billion, acquisition of businesses of $2.8 billion and purchases of property and equipment of $388 million, partially offset by proceeds of $860 million from the maturities and sale of investments.

Financing Activities

The net cash used in financing activities of $434 million in the six months ended June 30, 2012 was due primarily to cash outflows of $595 million to repurchase common stock as well as cash paid for tax withholdings in the amount of $132 million related to net share settlements of restricted stock units and awards. These cash outflows were partially offset by $225 million from the issuance of common stock in connection with the exercise of stock options and $68 million of excess tax benefits from stock-based compensation.

The net cash used in financing activities of $166 million in the six months ended June 30, 2011 was due primarily to cash outflows of $781 million to repurchase common stock and $186 million to repay acquired debt, as well as cash paid for tax withholdings in the amount of $114 million related to net share settlements of restricted stock awards and units. These cash outflows were partially offset by proceeds of $700 million from additional borrowings under our commercial paper program, $156 million from the issuance of common stock in connection with the exercise of stock options and $59 million of excess tax benefits from stock-based compensation.

The negative effect of exchange rate movements on cash and cash equivalents during the six months ended June 30, 2012 was due to the strengthening of the U.S. dollar against other currencies, primarily the Euro. The positive effect of exchange rate movements on cash and cash equivalents during the six months ended June 30, 2011 was due to the weakening of the U.S. dollar against other currencies, primarily the Euro.

Stock Repurchases

In September 2010, our Board authorized a stock repurchase program that provides for the repurchase of up to $2 billion of our common stock, with no expiration from the date of authorization. In June 2012, our Board authorized an additional stock repurchase program that provides for the repurchase of up to $2 billion of our common stock, with no expiration from the date of authorization. These stock repurchase programs are intended to offset the impact of dilution from our equity compensation programs. During the six months ended June 30, 2012, we repurchased approximately $595 million of our common stock under our stock repurchase programs. As of June 30, 2012, approximately $2.3 billion remained for further repurchases of our common stock under our stock repurchase programs.

Shelf Registration Statement and Long-Term Debt

At June 30, 2012, we had an effective shelf registration statement on file with the Securities and Exchange Commission that allows us to issue various types of debt securities, such as fixed or floating rate notes, U.S. dollar or foreign currency denominated notes, redeemable notes, global notes, and dual currency or other indexed notes. Issuances under the shelf registration will require the filing of a prospectus supplement identifying the amount and terms of the securities to be issued. The registration statement does not limit the amount of debt securities that may be issued thereunder. Our ability to issue debt securities is subject to market conditions and other factors impacting our borrowing capacity, including our credit ratings and compliance with the covenants in our credit agreement.

We issued $1.5 billion of senior unsecured debt securities under a prior shelf registration statement in an underwritten public offering in 2010. These debt securities remain outstanding and consist of $400 million aggregate principal amount of 0.875% notes due 2013, $600 million aggregate principal amount of 1.625% notes due 2015 and $500 million aggregate principal amount of 3.250% notes due 2020.

Commercial Paper

We have a $2 billion commercial paper program pursuant to which we may issue commercial paper notes with maturities of up to 397 days from the date of issue in an aggregate principal amount of up to $2 billion at any time outstanding. As of June 30, 2012, $550 million aggregate principal amount of commercial paper was outstanding, the weighted average interest rate on those notes was 0.19% per annum and the weighted average remaining term on those notes was 79 days.

Credit Agreement

As of June 30, 2012, no borrowings or letters of credit were outstanding under our $3 billion credit agreement. As described above, we have a $2 billion commercial paper program and maintain $2 billion of available borrowing capacity under our credit agreement in order to repay commercial paper borrowings in the event we are unable to repay those borrowings from other sources when they become due. As a result, at June 30, 2012, $1 billion of borrowing capacity was available for other purposes permitted by the credit agreement.

Notes Payable and Capital Lease Obligations

In addition to the debt described above, as of June 30, 2012, we had notes payable of $16 million and capital lease obligations of $20 million.

Commitments

As of June 30, 2012, approximately $11 billion of unused credit was available to Bill Me Later accountholders. The individual lines of credit that make up this unused credit are subject to periodic review and termination by the chartered financial institution that is the issuer of Bill Me Later credit products based on, among other things, account usage and customer creditworthiness. Currently, when a consumer makes a purchase using a Bill Me Later credit product, the chartered financial institution extends credit to the consumer, funds the extension of credit at the point of sale and advances funds to the merchant. We subsequently purchase the receivables related to the consumer loans extended by the chartered financial institution and, as a result of the purchase, bear the risk of loss in the event of loan defaults. Although the chartered financial institution continues to own each customer account, we own the related receivable, and Bill Me Later is responsible for all servicing functions related to the account.

Liquidity and Capital Resource Requirements

As of June 30, 2012 and December 31, 2011, we had assets classified as cash and cash equivalents, as well as time deposits and fixed income securities classified as short-term and long-term investments, in an aggregate amount of $8 billion. As of June 30, 2012, this amount included assets of these types held outside the U.S. in certain of our foreign operations totaling approximately $7 billion. If these assets were distributed to the U.S., we may be subject to additional U.S. taxes in certain circumstances. We actively monitor the third-party depository institutions and money market funds that hold these assets, primarily focusing on the safety of principal and secondarily on yield on these assets. We diversify our cash and cash equivalents and investments among various financial institutions and money market funds in order to reduce our exposure should any one of these financial institutions or money market funds fail or encounter difficulties. To date, we have not experienced any material loss or lack of access to our invested cash, cash equivalents or short-term investments; however, we can provide no assurances that access to our invested cash, cash equivalents or short-term investments will not be impacted by adverse conditions affecting those depository institutions or money market funds or the financial markets generally. At any point in time we have funds in our operating accounts and customer accounts that are deposited with third party financial institutions. These balances in the U.S. may exceed the Federal Deposit Insurance Corporation (FDIC) insurance limits. While we monitor the cash balances in our operating accounts, these cash balances could be adversely impacted if the underlying financial institutions fail and could be subject to other adverse conditions in the financial markets.

To the extent that our Bill Me Later products become more widely available through improved and more comprehensive product integrations with eBay, PayPal and other channels, and as we further promote Bill Me Later products, customer adoption and usage of Bill Me Later products may expand. Any resulting growth in the portfolio of Bill Me Later loan receivables would increase our liquidity needs and any failure to meet those liquidity needs could adversely affect the Bill Me Later business. We currently fund the expansion of the Bill Me Later portfolio of loan receivables with borrowings and domestic and international cash resources.

We believe that our existing cash, cash equivalents and investments, together with cash expected to be generated from operations, borrowings available under our credit agreement and commercial paper program, and our access to capital markets will be sufficient to fund our operating activities, anticipated capital expenditures, Bill Me Later portfolio of receivables from loans and stock repurchases for the foreseeable future.

Off-Balance Sheet Arrangements

As of June 30, 2012, we had no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our consolidated financial condition, results of operations, liquidity, capital expenditures or capital resources.

In Europe, we have two cash pooling arrangements with a financial institution for cash management purposes. These arrangements allow for cash withdrawals from this financial institution based upon our aggregate operating cash balances held in Europe within the same financial institution ("Aggregate Cash Deposits"). These arrangements also allow us to withdraw amounts exceeding the Aggregate Cash Deposits up to an agreed-upon limit. The net balance of the withdrawals and the Aggregate Cash Deposits are used by the financial institution as a basis for calculating our net interest expense or income. As of June 30, 2012, we had a total of $5 billion in cash withdrawals offsetting our $5 billion in Aggregate Cash Deposits held within the same financial institution under these cash pooling arrangements.

Based on differences in regulatory requirements and commercial law in the jurisdictions where PayPal operates, PayPal holds customer balances either as direct claims against PayPal or as an agent or custodian on behalf of PayPal's customers. Customer funds held by PayPal as an agent or custodian on behalf of our customers are not reflected in our condensed consolidated balance sheet. These off-balance sheet funds totaled approximately $3 billion as of June 30, 2012 and December 31, 2011. These funds include funds held on behalf of U.S. customers that are deposited in bank accounts insured by the FDIC (subject to applicable limits). PayPal's California regulator, the California Department of Financial Institutions (DFI), recently notified PayPal that PayPal's current practice of holding the funds underlying U.S. customer balances as an agent on behalf of its customers, rather than as owner of those funds, causes PayPal to be in violation of the liquidity rules applicable to California money transmitter licensees. PayPal has requested the DFI to grant a waiver that would allow PayPal to continue to hold those funds as an agent or custodian on behalf of customers and still qualify those funds as liquid assets. The DFI has indicated that it cannot grant a waiver under its interpretation of current law and that PayPal must become compliant before the end of 2012. A change to direct ownership of these funds would result in these funds moving onto our consolidated balance sheet (along with the accompanying liabilities). Additionally, please see the information in "Part II - Item 1A: Risk Factors" under the caption "If our Payments business is found to be subject to or in violation of any laws or regulations, including those governing money transmission, electronic funds transfers, money laundering, terrorist financing, sanctions, consumer protection, banking and lending, it could be subject to liability, licensure and regulatory approval and may be forced to change its business practices."

Indemnification Provisions

In the ordinary course of business, we have included limited indemnification provisions in certain of our agreements with parties with which we have commercial relations, including our standard marketing, promotions and application-programming-interface license agreements. Under these contracts, we generally indemnify, hold harmless and agree to reimburse the indemnified party for losses suffered or incurred by the indemnified party in connection with claims by a third party with respect to our domain names, trademarks, logos and other branding elements to the extent that such marks are applicable to our performance under the subject agreement. In certain cases, we have agreed to provide indemnification for intellectual property infringement. GSI has provided in many of its major ecommerce agreements an indemnity for other types of third-party claims, which are indemnities mainly related to various intellectual property rights, and we have provided similar indemnities in a limited number of agreements for our other businesses. In our PayPal business, we have provided an indemnity to our payment processors in the event of certain third-party claims or card association fines against the processor arising out of conduct by PayPal or PayPal customers. In connection with the sale of Skype Technologies, S.A. (Skype) in November 2009, we made certain customary warranties to the buyer in the purchase agreement. Our liability to the buyer for inaccuracies in these warranties is generally subject to certain limitations. With respect to certain specified litigation matters involving Skype that were pending as of the closing of the transaction, we also agreed, among other things, to bear 50% of the cost of any monetary judgment that is rendered in respect of those matters. It is not possible to determine the maximum potential loss under these indemnification provisions due to our limited history of prior indemnification claims and the unique facts and circumstances involved in each particular provision. To date, losses recorded in our statement of income in connection with our indemnification provisions have not been significant, either individually or collectively.

Item 3: Quantitative and Qualitative Disclosures About Market Risk

The information in this section should be read in connection with the information on financial market risk related to changes in interest rates and non-U.S. currency exchange rates in Part II, Item 7A, “Quantitative and Qualitative Disclosures About Market Risk,” in our Annual Report on Form 10-K for the year ended December 31, 2011. Our market risk profile has not changed significantly during the first six months of 2012.

Interest Rate Risk

The primary objective of our investment activities is to preserve principal while at the same time improving yields without significantly increasing risk. To achieve this objective, we maintain our portfolio of cash equivalents and short-term and long-term investments in a variety of available for sale securities, including government and corporate securities and money market funds. As of June 30, 2012, approximately 48% of our total cash and investment portfolio was held in bank deposits and money market funds. As such, changes in interest rates will impact interest income. Fixed rate securities may have their fair market value adversely affected due to a rise in interest rates, and we may suffer losses in principal if we are forced to sell securities that have declined in market value due to changes in interest rates. Additionally, changes in interest rates will impact our interest rate sensitive credit agreement and the interest rate on our commercial paper borrowings, and accordingly will impact interest expense or cost of net revenues.

As of June 30, 2012, we held no direct investments in auction rate securities, collateralized debt obligations, structured investment vehicles or mortgage-backed securities.

Investment Risk

As of June 30, 2012, our cost and equity method investments totaled $175 million, which represented approximately 2% of our total cash and investment portfolio. We review our investments for impairment when events and circumstances indicate a decline in fair value of such assets below carrying value is other-than-temporary. Our analysis includes a review of recent operating results and trends, recent sales/acquisitions of the investee securities and other publicly available data.

Equity Price Risk

We are exposed to equity price risk on marketable equity instruments due to market volatility. At June 30, 2012, the total fair value of our marketable equity instruments (primarily related to our equity holdings in MercadoLibre) was $616 million, which represented approximately 7% of our total cash and investment portfolio.

Foreign Currency Risk

We have significant operations internationally that are denominated in foreign currencies, primarily the Euro, British pound, Korean won and Australian dollar, subjecting us to foreign currency risk which may adversely impact our financial results. We transact business in various foreign currencies and have significant international revenues as well as costs. In addition, we charge our international subsidiaries for their use of intellectual property and technology and for certain corporate services provided by eBay and by PayPal.

We have a foreign exchange exposure management program whose objectives are to identify material foreign currency exposures, manage these exposures and reduce the potential effects of currency fluctuations on our reported consolidated cash flow and results of operations through the purchase of foreign currency exchange contracts. These foreign currency exchange contracts are accounted for as derivative instruments; for additional details related to our derivative instruments, please see "Note 7 – Derivative Instruments" to the condensed consolidated financial statements included in this report.

European Debt Exposures

We actively monitor our exposure to the European markets, including the impact of sovereign debt issues associated with Greece, Ireland, Portugal, Italy and Spain. As of June 30, 2012, we did not have any direct or indirect investments in the sovereign debt of these countries or in debt securities issued by corporations or financial institutions organized in these countries. We maintain a small number of operating bank accounts with Spanish and Italian banks that have balances that we do not consider material.

Item 4: Controls and Procedures

(a) Evaluation of disclosure controls and procedures. Based on the evaluation of our disclosure controls and procedures (as defined in Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)) required by Securities Exchange Act Rules 13a-15(b) or 15d-15(b), our Chief Executive Officer and our Chief Financial Officer have concluded that as of the end of the period covered by this report, our disclosure controls and procedures were effective.

(b) Changes in internal controls. There were no changes in our internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II: OTHER INFORMATION

Item 1: Legal Proceedings

The information set forth under “Note 9 — Commitments and Contingencies — Litigation and Other Legal Matters” to the condensed consolidated financial statements included in Part I, Item 1 of this report is incorporated herein by reference.

Item 1A: RISK FACTORS

Risk Factors That May Affect Results of Operations and Financial Condition
Our operations and financial results are subject to various risks and uncertainties that could adversely affect our business, financial condition, results of operations and cash flows, as well as the trading price of our common stock.
Our operating results have varied on a quarterly basis during our operating history. Our operating results may fluctuate significantly as a result of a variety of factors, many of which are outside our control. Factors that may affect our operating results include risks described elsewhere in this section and the following:

- general economic conditions, including the possibility of a prolonged period of limited economic growth or possible economic decline in the U.S. and Europe; adverse effects of the ongoing sovereign debt crisis in Europe, including increased Euro currency exchange rate volatility, the negative impact of the crisis and related austerity measures on European economic growth, potential negative spillover effects to the rest of the world, the “contagion” risk of the crisis spreading to additional countries in Europe, the possibility that one or more countries leaves the Euro zone and re-introduces its individual currency, and, in more extreme circumstances, the possible dissolution of the Euro currency; disruptions to the credit and financial markets in Europe, the U.S., and elsewhere; contractions or limited growth in consumer spending or consumer credit; and adverse economic conditions that may be specific to the Internet, ecommerce and payments industries; the primary and secondary effects of previously announced and possible future changes to our pricing, products and policies, including, among other changes, restrictions or holds on payments made to certain sellers or in connection with certain transactions; changes to our dispute resolution process; upgrades to eBay checkout services, including the introduction of a new eBay shopping cart/basket that enables buyers to add items from multiple sellers and pay in a single checkout; and changes to our fee structure, including new requirements to qualify for "eBay Trusted Seller" discounts;
- our ability to manage the rapid shift from online commerce and payments to mobile commerce and payments;
- our ability to improve the quality of the user experience on our websites and through mobile devices (including our customer support in the event of a problem) in light of the improved quality generally of the user experience offered by competitive merchants;
- our ability to retain an active user base, attract new users, and encourage existing users to list items for sale, purchase items through our websites and mobile platforms, or use our payment services, especially when consumer spending is weak;
- consumer confidence in the safety and security of transactions using our websites or technology and the effect of any changes in our practices and policies on such confidence;
- our ability to manage the costs of and effectively implement our user protection programs;
- our ability to comply with existing and new laws and regulations, especially those affecting our Payments business, as we expand the range and geographical scope of our products and services and as we grow larger, including those laws and regulations discussed below under the caption "If our Payments business is found to be subject to or in violation of any laws or regulations, including those governing money transmission, electronic funds transfers, money laundering, terrorist financing, sanctions, consumer protection, banking and lending, it could be subject to liability, licensure and regulatory approval and may be forced to change its business practices;"
- new laws or regulations (such as those that may stem from the proposed Anti-Counterfeiting Trade Agreement (ACTA) and Trans-Pacific Partnership Agreement (TPP) and the proposed revisions to the European Data Directive)

and interpretations of existing laws or regulations, including national court interpretations of the European Court of Justice's decision in the L'Oréal case (see “Item 1: Legal Proceedings” above), that impose liability on us for the actions of our users or otherwise harm our business models, especially as we become more actively involved in various aspects of transactions on our platforms;

- regulatory and legal actions imposing obligations on our businesses or our users, including the injunction related to certain cosmetic and perfume brands (see “Item 1: Legal Proceedings” above);
- the impact on PayPal or Bill Me Later of regulations enacted pursuant to new laws regulating financial institutions, including the Dodd-Frank Wall Street Reform and Consumer Protection Act in the U.S.;

- our ability to manage the costs of compliance with existing and new laws and regulations that affect our businesses;
- the volume, velocity, size, timing, monetization, and completion rates of transactions using our websites or technology;
- our ability to reduce the loss of active buyers and sellers and increase activity of the users of our Marketplaces business, especially with respect to our top buyers and sellers, and increase activity of PayPal account holders, particularly in merchant services business;
- our ability to develop product enhancements, programs, and features on different platforms and mobile devices at a reasonable cost and in a timely manner, including our initiatives to make PayPal solutions available at the retail point of sale;
- changes to our use of advertising on our sites;
- our ability to upgrade and develop our systems (including the migration to GSI's new technology platform), infrastructure and customer service capabilities to accommodate growth and to improve the functionality and reliability of our websites and services at a reasonable cost while maintaining 24/7 operations;
- the actions of our competitors, including the introduction of new stores, channels, sites, applications, services, products and functionality;
- the costs and results of litigation or regulatory actions that involve us;
- technical difficulties or service interruptions involving our websites or services provided to us or our users by third parties;
- our ability to manage the transaction loss rate in our Marketplaces, Payments and GSI ecommerce services businesses;
- our ability to manage funding costs, credit risk and interest-rate risk associated with our Bill Me Later business;
- our ability to successfully and cost-effectively integrate and manage businesses that we acquire, including GSI;
- the amount and timing of operating costs and capital expenditures relating to the maintenance and expansion of our businesses, operations and infrastructure;
- our ability to comply with the requirements of entities whose services are required for our operations, such as payment card networks and banks;
- the cost and availability of traditional and online advertising, and the success of our brand building and marketing campaigns;
- our ability to attract new personnel in a timely and effective manner and to retain key employees;
- the continued healthy operation of our technology suppliers and other parties with which we have commercial relations;
- continued consumer acceptance of the Internet and emerging consumer acceptance of mobile devices as a medium for ecommerce and payments in the face of increasing publicity about fraud, spoofing, phishing, viruses, spyware, malware and other dangers; and
- macroeconomic and geopolitical events affecting commerce generally.

It is difficult for us to forecast the level or source of our revenues or earnings accurately. In view of the rapidly evolving nature of our business, we believe that period-to-period comparisons of our operating results may not be meaningful, and you should not rely upon them as an indication of future performance. We do not have backlog, and substantially all of our net revenues each quarter come from transactions involving sales or payments during that quarter. Due to the inherent difficulty in forecasting revenues, it is also difficult to forecast income statement expenses as a percentage of net revenues. Quarterly and annual income statement expenses as a percentage of net revenues may be significantly different from historical or projected rates. Our operating results in one or more future quarters may fall below the expectations of securities analysts and investors. In that event, the trading price of our common stock would almost certainly decline.

We invest heavily in technology, marketing and promotion, customer support, protection programs and further development of the operating infrastructure for our core and non-core operations. Some of this investment entails long-term contractual commitments. As a result, we may be unable to adjust our spending rapidly enough to compensate for any unexpected revenue shortfall, which may harm our profitability.

Growth rates of our Marketplaces businesses in some of our most established markets have been slower than that for ecommerce generally and have declined in certain periods. The growth of Internet users is slowing in many countries where we have a significant presence. Despite our efforts to stem our loss of share in these and other markets, we may not be successful. As our growth rates in established markets slow, we will increasingly need to focus on keeping existing Marketplaces users (especially our top buyers and sellers) and PayPal account holders (especially in our merchant services business) active and increasing their activity level on our websites and mobile platforms and their use of our payment services, respectively, in order to continue to grow those respective businesses. The growth of Internet users is accelerating in some countries and regions where we do not have a significant presence (e.g., Brazil/Latin America, Russia, China and certain developing countries in which we do not have a meaningful (or, in some cases, any) domestic business). If we are unable to establish our businesses and drive adoption of our services in such markets, our future growth would be negatively impacted.

Our Marketplaces business continues to face increased competitive pressure both online and offline. In particular, the competitive norm for, and the expected level of service from, Internet ecommerce websites has significantly increased, due to, for example, improved user experience, greater ease of buying goods, lower (or no) shipping costs, faster shipping times and more favorable return policies. If we are unable to change our services in ways that reflect the changing demands of the ecommerce marketplace, particularly the higher growth of sales of fixed-price items and higher service levels (some of which depend on services provided by sellers on our platforms), our business will suffer.

We have announced changes to our Marketplaces business that are intended to drive more sales and improve seller efficiency and buyer experiences. For example, in the U.S., the U.K. and Canada, we may request that PayPal place temporary holds on seller funds in certain instances (e.g., for sellers with a limited selling history or below-standard performance ratings), which is intended to help improve seller performance and increase buyer satisfaction. We may expand the scope of such programs in the future and introduce and implement additional programs with similar aims in different businesses and geographies. Some of the changes that we have announced to date have been controversial with, and led to dissatisfaction among, our sellers, and additional changes that we announce in the future may also be negatively received by some of our sellers. This may not only impact the supply of items listed on our websites, but because many sellers also buy from our sites, it may adversely impact demand as well. Given the number of recent changes that we have made to our policies and pricing, it may take our sellers some time to fully assess and adjust to these changes, and sellers may elect to reduce volume on our sites while making such assessments and adjustments or in response to these changes. If any of these changes cause sellers to move their business (in whole or in part) away from our websites or otherwise fail to improve gross merchandise volume or the number of successful listings, our operating results and profitability will be harmed.

We believe that the mix of sales under our traditional auction-style listing format and fixed-price listing format will continue to shift towards our fixed-price format. Accordingly, we have eliminated some of the features related to our traditional auction-style format and expect others will continue to become less meaningful to, and used less frequently by, our sellers, resulting in a corresponding decrease in revenues from those features. We also expect that the costs associated with our seller discount programs will increase as more sellers become eligible for such discounts. In addition, because a large percentage of PayPal transactions originate on the eBay platform, declines in growth rates in major Marketplaces markets also adversely affect PayPal's growth. The expected future growth of our PayPal, GSI, StubHub and our other lower margin businesses may also cause downward pressure on our profit margins because those businesses have lower gross margins than our Marketplaces platforms.

The sluggish economy and the sovereign debt crisis could harm our business.

Our Marketplaces, Payments and GSI ecommerce services businesses are dependent on consumer purchases, and our GSI business is also impacted by the offline businesses of our GSI clients. The economic downturn resulted in reduced buyer demand and reduced selling prices and the slow recovery in the U.S. and the impact of the sovereign debt crisis in Europe may reduce the volume and prices of purchases on our Marketplaces platforms and the volume and prices of transactions paid for using our Payment services and the online and offline businesses of our GSI clients, any of which would adversely affect our business. The sovereign debt crisis could also have a negative and adverse impact on companies with which we do business, which in turn could have an adverse effect on our business.

We are exposed to fluctuations in currency exchange rates and interest rates.

Because we generate substantial revenues outside the U.S. but report our financial results in U.S. dollars, we face exposure to adverse movements in currency exchange rates. In connection with its multi-currency service, PayPal fixes exchange rates twice per day, and may face financial exposure if it incorrectly fixes the exchange rate or if exposure reports are delayed. Given that PayPal also holds some corporate and customer funds in non-U.S. currencies, its financial results are affected by the translation of these non-U.S. currencies into U.S. dollars. In addition, the results of operations of many of our internationally focused websites are exposed to foreign exchange rate fluctuations as the financial results of the applicable subsidiaries are translated from the local currency into U.S. dollars upon consolidation. If the U.S. dollar weakens against foreign currencies, the translation of these foreign currency denominated transactions will result in increased revenues, operating expenses and net income. Similarly, if the U.S.

dollar strengthens against foreign currencies, our translation of foreign currency denominated transactions will result in lower net revenues, operating expenses and net income. If the U.S. dollar continues to strengthen against major European currencies (e.g., the Euro and British pound) whether because of the ongoing sovereign debt crisis in Europe or worsening economic conditions, our revenues and operating results would be adversely impacted. For the six months ended June 30, 2012, foreign currency movements relative to the U.S. dollar negatively impacted net revenues of $6.7 billion by approximately $122 million (net of a $26 million positive impact from hedging activities included in PayPal's net revenue) compared to the prior year. As exchange rates vary, net revenues and other operating results, when translated, may differ materially from expectations. In particular, to the extent the U.S. dollar strengthens against the Euro, British pound, Korean won, Australian dollar or Canadian dollar, our foreign revenues and profits will be reduced as a result of these translation adjustments. While from time to time we enter into transactions to hedge portions of our foreign currency translation exposure, it is impossible to predict or completely eliminate the effects of this exposure. In addition, to the extent the U.S. dollar strengthens against the Euro, the British pound, the Australian dollar or other currencies, cross-border trade related to purchases of dollar-denominated goods (or goods from Asia-Pacific countries whose currencies tend to follow the dollar) by non-U.S. purchasers will likely decrease, and that decrease will likely not be offset by a corresponding increase in cross-border trade involving purchases by U.S. buyers of goods denominated in other currencies, which would adversely affect our business. In addition, we face exposure to fluctuations in interest rates. Relatively low interest rates have continued to limit our investment income, including income we earn on PayPal customer balances.

Bill Me Later's operations depend on lending services provided by an unaffiliated lender.

In November 2008, we acquired Bill Me Later, a company that facilitates credit services offered by an unaffiliated bank. Bill Me Later is neither a chartered financial institution nor is it licensed to make loans in any state. Accordingly, Bill Me Later must rely on a bank or licensed lender to issue the Bill Me Later credit products and extend credit to customers to offer the Bill Me Later service. Currently, when a consumer makes a purchase using a Bill Me Later credit product, the chartered financial institution extends credit to the consumer, funds the extension of credit at the point of sale and advances funds to the merchant. We subsequently purchase the receivables related to the extensions of credit made by the chartered financial institution and, as a result of the purchase, bear the risk of loss in the event of loan defaults. Although the chartered financial institution continues to own each customer account, we own the related receivable and Bill Me Later is responsible for all servicing functions related to the account.

In September 2010, WebBank became the issuer of the Bill Me Later credit products. WebBank is an industrial bank chartered by the State of Utah. Any termination or interruption of WebBank's ability to lend could result in our being unable to originate any new transactions for the Bill Me Later service, which would require us to either reach a similar arrangement with another chartered financial institution, which may not be available on favorable terms, if at all, or to obtain our own bank charter, which would be a time-consuming and costly process and would subject us to a number of additional laws and regulations, compliance with which would likely be burdensome.

A lawsuit was filed against Bill Me Later, PayPal and eBay in the U.S. District Court for the Northern District of California, alleging that in its relationship with the chartered financial institution, Bill Me Later is acting as the true lender to customers in violation of various California laws, including the state's usury law. The court dismissed the usury claims in December 2010, but breach of contract and other claims remain. WebBank requested to intervene in the action and has been added as a party to the action, and in October 2011, the court transferred the case to the U.S. District Court for the District of Utah. The Utah Court allowed plaintiffs the opportunity to amend the complaint, the complaint was amended and plaintiffs re-alleged the usury claims previously dismissed. We and WebBank have filed a motion to dismiss the lawsuit. We believe that plaintiffs' allegations are without merit and intend to defend ourselves vigorously. However, this area of law is uncertain and if the lawsuit is successful, Bill Me Later may be required to change its methods of operations, pay very substantial damages and reduce some of its charges and fees, which would adversely affect our business.

If our Payments business is found to be subject to or in violation of any laws or regulations, including those governing money transmission, electronic funds transfers, money laundering, terrorist financing, sanctions, consumer protection, banking and lending, it could be subject to liability, licensure and regulatory approval and may be forced to change its business practices.

Our Payments business is subject to various laws and regulations in the U.S. and other countries where it operates, including those governing money transmission, electronic funds transfers, money laundering, terrorist financing, sanctions, consumer protection, banking and lending. The legal and regulatory requirements that apply to our Payments business vary in the markets where we operate. While PayPal has a compliance program focused on compliance with applicable laws and regulations and has significantly increased the resources of that program in the last several years, there can be no assurance that we will not be subject to fines or other enforcement actions in one or more jurisdictions or be required to make changes to our business practices or compliance programs to comply in the future.

While PayPal currently allows its customers with credit cards to send payments from 190 markets, PayPal only allows customers in 110 of those markets (including the U.S.) to receive payments, in some cases with significant restrictions on the manner in which customers can withdraw funds. These limitations may affect PayPal's ability to grow in these markets. Of the 190 markets whose residents can use the PayPal service, 31 (27 countries plus four French overseas departments) are members of the European Union, or EU. Since 2007, PayPal has provided localized versions of its service to customers in the EU through PayPal (Europe) S.à r.l. et Cie, SCA, a wholly-owned subsidiary of PayPal that is licensed and subject to regulation as a bank in Luxembourg by the Commission de Surveillance du Secteur Financier (CSSF). Accordingly, PayPal (Europe) is subject to significant fines or other enforcement action if it violates the disclosure, reporting, anti-money laundering, capitalization, funds management, corporate governance, information security, sanctions or other requirements imposed on Luxembourg banks. Any fines or other enforcement actions imposed by the Luxembourg regulator could adversely affect PayPal's business. PayPal (Europe) implements its localized services in EU countries through a “passport” notification process through the Luxembourg regulator to regulators in other EU member states pursuant to EU Directives, and has completed the “passport” notification process in all EU member countries. The regulators in these countries could notify PayPal (Europe) of local consumer protection laws that will apply to its business, in addition to Luxembourg consumer protection law, and could also seek to persuade the Luxembourg regulator to order PayPal (Europe) to conduct its activities in the local country through a branch office. These or similar actions by these regulators could increase the cost of, or delay, PayPal's plans for expanding its business in EU countries. In addition, national interpretations of regulations implementing the EU Payments Service Directive, which established a new regulatory regime for payment services providers, may be inconsistent, which could make compliance more costly and operationally difficult to manage.

In 2011, we began implementing a new payment process in Germany and Austria in which eBay intermediated payments, receiving funds directly from buyers for items purchased from newly registered sellers on the localized eBay websites in those countries and subsequently paying the sellers upon shipment of the items. The German Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) and the Austrian Finanzmarktaufsicht (FMA) subsequently determined that eBay was required to obtain a license in order to introduce the new payment method. eBay's payment processing unit is based in Luxembourg and is governed by the CSSF, which had advised that there was no need for such a license. In accordance with the BaFin and FMA positions, eBay has agreed to stop intermediating payments and is working with the CSSF with respect to obtaining an appropriate license.

In Australia, PayPal serves its customers through PayPal Australia Pty. Ltd., which is licensed by the Australian Prudential Regulatory Authority as a purchased payment facility provider, which is a type of authorized depository institution. Accordingly, PayPal Australia is subject to significant fines or other enforcement action if it violates the disclosure, reporting, anti-money laundering, capitalization, corporate governance or other requirements imposed on Australian depository institutions. In China, PayPal is affiliated with Shanghai Wangfuyi Information Technology Ltd., which is licensed as an Internet Content Provider and operates a payments service only for Chinese customers and only for transactions denominated in Chinese currency. The People's Bank of China (PBOC) has enacted regulations to establish a new type of license, called a Payment Clearing Organization (PCO) license, which will be required for non-bank payment services. The PBOC regulations leave unclear whether a foreign-owned company such as PayPal can control or invest in a Payment Clearing Organization, and whether Wangfuyi or PayPal's wholly-owned subsidiary in China would be eligible to obtain a PCO license.

To date, PayPal has obtained licenses to operate as a money transmitter in 42 U.S. states, the District of Columbia and Puerto Rico. PayPal is also licensed as an escrow agent in one U.S. state. PayPal is applying for money transmitter licenses in five additional states to facilitate its planned offering of payment services at the retail point of sale. The two remaining U.S. states do not currently regulate money transmitters. As a licensed money transmitter, PayPal is subject to restrictions on its investment of customer funds, reporting requirements, bonding requirements, and inspection by state regulatory agencies. If PayPal were found to be in violation of money services laws or regulations, PayPal could be subject to liability and/or additional restrictions, forced to cease doing business with residents of certain states, forced to change its business practices, or required to obtain additional licenses or regulatory approvals that could impose a substantial cost on PayPal. Any change to PayPal's business practices that makes the service less attractive to customers or prohibits its use by residents of a particular jurisdiction could also decrease the velocity of trade on eBay and websites operated by GSI's clients that accept PayPal as a form of payment, which would further harm our business. PayPal's California regulator, the California Department of Financial Institutions (DFI), recently notified PayPal that PayPal's current practice of holding the funds underlying U.S. customer balances as an agent on behalf of its customers, rather than as owner of those funds, causes PayPal to be in violation of the liquidity rules applicable to California money transmitter licensees. PayPal has established this current practice in part to maintain potential eligibility of those funds for pass-through Federal Deposit Insurance Corporation (FDIC) insurance coverage when those funds are placed in U.S. bank accounts. PayPal has requested the DFI to grant a waiver that would allow PayPal to continue to hold those funds as an agent or custodian on behalf of customers and still qualify those funds as liquid assets. The DFI has indicated that it cannot grant a waiver under its interpretation of current law and that PayPal must become compliant before the end of 2012. A change to direct ownership will likely disqualify the funds from pass-through FDIC insurance, and could also result in decreased revenue to PayPal if it decides to shift the funds from interest-bearing bank accounts to securities that bear lower interest rates. Any potential decrease in revenue to PayPal resulting from this change is not expected to be material. This would also result in these funds, which are currently not reported as assets owned by PayPal on our consolidated balance sheet, moving onto our consolidated balance sheet (along with the accompanying liabilities). For additional information, please see “Part I - Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations” under the caption “Off-Balance Sheet Arrangements,” above. As of June 30, 2012, these funds totaled approximately $3 billion.

In markets other than the U.S., the EU, Australia, the China domestic business and Brazil, PayPal serves its customers through PayPal Private Ltd., a wholly-owned subsidiary of PayPal that is based in Singapore. PayPal Private Ltd. is regulated in Singapore as a stored value issuer. In many of these markets, it is not clear whether PayPal's Singapore-based service is subject only to Singaporean law or, if it were subject to local laws, whether such local law would require a payment processor like PayPal to be licensed as a bank or financial institution or otherwise. In such markets, the business may rely on partnerships with local banks to process payments and conduct foreign exchange in local currency. Local regulators who do not have direct jurisdiction over Singapore-based PayPal Private Ltd. may use their local regulatory power to slow or halt payments to local merchants conducted through the local banking partner. Such regulatory actions impacting local banking partner arrangements could impose substantial costs and involve considerable delay to the provision or development of PayPal services in that market, or could prevent PayPal from providing any services in a given market. The Reserve Bank of India has asserted that PayPal's previous offering of payment services to customers outside of India to send personal, non-commercial payments to recipients in India required a license from the Reserve Bank. For a period of time in 2010, the Reserve Bank directed the Indian affiliate of PayPal's processing bank to suspend withdrawals to the Indian bank accounts of PayPal customers for both personal and business customers. PayPal has ended personal non-commercial payments to and from Indian accounts and has ended the ability of Indian sellers to spend payments they receive, and has also stopped offering certain commercial payments between Indian buyers and Indian sellers. In November 2010, the Reserve Bank of India issued guidelines to Indian banks on the requirements for processing export-related transactions for online payment gateway service providers such as PayPal, including a limitation on the amount of individual transactions to no more than $500 (increased in October 2011 to $3,000). The Reserve Bank may again impose a suspension if it is not satisfied with PayPal's and its partner bank's actions to comply with these guidelines. In the event of any non-compliance, PayPal could be subject to fines from the Reserve Bank, and PayPal's prospects for future business in India, both cross-border and domestic, could be materially and adversely affected.

Even if PayPal is not currently required to be licensed in some jurisdictions, future localization or targeted marketing of PayPal's service or expansion of the financial products offered by PayPal (whether alone, through a commercial alliance or through an acquisition) in those countries could subject PayPal to additional licensure requirements, laws and regulations and increased regulatory scrutiny, any of which may harm PayPal's business. For example, PayPal will be required to obtain licenses in Japan and Russia to expand its services in those countries, and has applied for such licenses. There can be no assurance that PayPal will be able to obtain such licenses. Even if PayPal were able to obtain such licenses, there would be substantial costs involved in maintaining such licenses, and PayPal would be subject to fines or other enforcement action if it violates disclosure, reporting, anti-money laundering, capitalization, corporate governance or other requirements of such licenses. These factors could impose substantial costs and involve considerable delay to the provision or development of PayPal's products. Delay or failure to receive such a license or regulatory approval could require PayPal to change its business practices or features in ways that would adversely affect PayPal's expansion plans, and force PayPal to suspend providing products and services to customers in one or more countries.

PayPal is also subject to various anti-money laundering and counter-terrorist financing laws and regulations around the world that prohibit, among other things, its involvement in transferring the proceeds of criminal activities. PayPal is focused on compliance with these laws and regulations and has programs designed to comply with new and existing legal and regulatory requirements. However, any errors, failures or delays in complying with federal, state or foreign anti-money laundering and counter-terrorist financing laws could result in significant criminal and civil lawsuits, penalties and forfeiture of significant assets or other enforcement actions. In the U.S., PayPal is subject to regulations that require it to report, within required timeframes, suspicious activities involving transactions of $2,000 or more, and may be required to obtain and keep more detailed records on the senders and recipients in certain transfers of $3,000 or more. New regulations on prepaid access programs which took full effect in March 2012 require PayPal to take additional steps to verify the identity of customers who pre-fund a PayPal balance. U.S. regulators have increased scrutiny of compliance with these obligations. Existing and new regulations may require PayPal to revise further its compliance program, including the procedures it uses to verify the identity of its customers and to monitor international and domestic transactions.

Several countries in which PayPal is regulated, including Australia, Luxembourg and Singapore, have implemented new anti-money laundering and counter-terrorist financing laws and regulations, and PayPal has had to make changes to its procedures in response. In November 2009, the Australian anti-money laundering and counter-terrorist financing regulator (AUSTRAC) accepted an enforceable undertaking from PayPal Australia pursuant to which PayPal Australia agreed, among other things, to appoint an independent auditor to assess PayPal Australia's anti-money laundering compliance policies and procedures and issue a report identifying any unremediated deficiencies accompanied by a plan by PayPal to remedy any such deficiencies. In the enforceable undertaking, AUSTRAC expressed concern that PayPal Australia did not have systems and controls in place to manage adequately its money laundering and terrorist financing risk. In September 2010, the independent auditor completed its review and issued its report, and PayPal Australia submitted a remediation plan, which has been accepted by AUSTRAC. PayPal Australia has invested in improvements to its anti-money laundering and counter-terrorist financing systems, policies and operations as part of its remediation plan. In addition, PayPal Australia is required to obtain additional information from customers, verify that information, and monitor its customers' activities more closely. As PayPal continues to localize its services in additional jurisdictions, it could be required to meet standards similar to or more burdensome than those in Australia. The European Commission has also announced a consultation process to consider revisions to the European Anti-Money Laundering Directive. These requirements could impose significant costs on PayPal, cause delay to other planned product improvements, make it more difficult for new customers to join its network and reduce the attractiveness of its products.

Although there have been no definitive interpretations to date, PayPal has taken actions as though its service is subject to the Electronic Fund Transfer Act and Regulation E of the U.S. Federal Reserve Board. Under such regulations, among other things, PayPal is required to provide advance disclosure of changes to its service, to follow specified error resolution procedures and to reimburse consumers for losses from certain transactions not authorized by the consumer. PayPal seeks to pass most of these losses on to the relevant merchants, but PayPal incurs losses if the merchant does not have sufficient funds in its PayPal account. Additionally, even technical violations of these laws can result in penalties of up to $1,000 for each non-compliant transaction or up to $500,000 per violation in any class action, and we could also be liable for plaintiffs' attorneys' fees. In the second quarter of 2010, two putative class-action lawsuits (Devinda Fernando and Vadim Tsigel v. PayPal, Inc. and Moises Zepeda v. PayPal, Inc.) were filed in the U.S. District Court in the Northern District of California. These lawsuits contain allegations related to violations of aspects of the Electronic Fund Transfer Act and Regulation E and violations of a previous settlement agreement related to Regulation E, and/or allege that PayPal improperly held users' funds or otherwise improperly limited users' accounts. These lawsuits seek damages as well as changes to PayPal's practices among other remedies. A determination that there have been violations of the Electronic Fund Transfer Act, Regulation E or violations of other laws relating to PayPal's practices could expose PayPal to significant liability. Any changes to PayPal's practices resulting from these lawsuits could require PayPal to incur significant costs and to expend substantial resources, which could delay other planned product launches or improvements and further harm our business.

In January 2012, the Consumer Financial Protection Bureau finalized new rules under Regulation E, mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act, which will require PayPal, starting in February 2013, to provide additional disclosures, error resolution rights and cancellation rights to U.S. consumers who make international remittance payments. These new requirements could increase our costs of processing international payments and could adversely affect our business.

Our Bill Me Later service is similarly subject to a variety of laws and regulations. Although we do not originate loans under the Bill Me Later service, we do purchase receivables related to the consumer loans extended by the bank which originates them. One or more jurisdictions may conclude that the eBay company which purchases those receivables is a lender or money transmitter or loan broker, which could subject us to liability or regulation in such jurisdictions. As described under the caption “Bill Me Later's operations depend on lending services provided by an unaffiliated lender” above, a lawsuit was filed against Bill Me Later in the U.S. District Court for the Northern District of California alleging that in its relationship with the former issuer of the Bill Me Later credit products, Bill Me Later was acting as the true lender to customers in violation of various California laws, including the state's usury law. Additionally, federal regulators could mandate changes to the relationship between us and the issuing bank of the Bill Me Later credit products. Any termination or interruption of the issuing bank's lending services to consumers could result in an interruption of Bill Me Later services, as described under the caption “Bill Me Later's operations depend on lending services provided by an unaffiliated lender” above.

Given that our Payments business is subject to regulations in the manner described above, any determination that we have not properly complied with laws and regulations or any instances in which we are criminally indicted or found to have violated a criminal statute or regulation could adversely impact our regulatory status in one or more jurisdictions, which would harm our business.

The listing or sale by our users of pirated or counterfeit items may harm our business.

We have received in the past, and we anticipate receiving in the future, communications alleging that certain items listed or sold through our service by our users infringe third-party copyrights, trademarks and trade names, or other intellectual property rights. See “Item 1: Legal Proceedings” above. Although we have sought to work actively with the owners of intellectual property rights to eliminate listings offering infringing items on our websites, some rights owners have expressed the view that our efforts are insufficient. Content owners and other intellectual property rights owners have actively asserted their purported rights against online companies, including eBay. Allegations of infringement of intellectual property rights have

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resulted in threatened and actual litigation against us from time to time by rights owners, including litigation brought by luxury brand owners such as Tiffany & Co. in the U.S.; Rolex S.A. and Coty Prestige Lancaster Group GmbH in Germany; Louis Vuitton Malletier and Christian Dior Couture in France; and L'Oréal SA, Lancôme Parfums et Beauté & Cie and Laboratoire Garnier & Cie in several European countries. The plaintiffs in these cases seek to hold eBay liable for alleged counterfeit items listed on our sites by third parties; for "tester" and other consumer products labeled in a manner to prevent resale and for unboxed and other allegedly nonconforming products in each case listed on our sites by third parties; for the alleged misuse of trademarks or copyrights in listings or otherwise on our sites and in connection with paid search advertisements; for alleged violations of selective distribution channel laws or parallel import laws for listings of authentic items; and for alleged non-compliance with consumer protection laws. Such plaintiffs seek, among other remedies, injunctive relief and damages. In the aggregate, these suits could result in significant damage awards and injunctions that could, individually or in the aggregate, adversely affect our business. There are approximately 36,000 rights owners in our verified rights owner (VeRO) program, and each rights owner has anywhere from one to several hundred brands. Statutory damages for copyright or trademark violations could range up to $30,000 per copyright violation and $100,000 per trademark violation in the U.S., and may be even higher in other jurisdictions. These and similar suits may force us to modify our business practices, which could lower our revenue, increase our costs or make our websites less convenient to our customers, any of which could materially harm our business. In addition, rights owners have aggressively sought to reduce the applicability of limitations to intellectual property rights such as copyright exhaustion and the first sales doctrine in cases such as Vernor v. Autodesk Inc. (Ninth Circuit Court of Appeals) and Wiley v. Kirtsaeng (Second Circuit Court of Appeals, currently on appeal to the U.S. Supreme Court). To the extent such doctrines are limited, the supply of goods available for resale on our sites may be adversely affected.

In addition to litigation from rights owners, we may be subject to regulatory, civil or criminal proceedings and penalties if governmental authorities believe we have aided in the sale of counterfeit goods. While we have had some early success in defending against such litigation, more recent cases have been based, at least in part, on different legal theories than those of earlier cases, and there is no guarantee that we will continue to be successful in defending against such litigation. Plaintiffs in recent cases have argued that we are not entitled to safe harbors under the Digital Millennium Copyright Act in the U.S. or as a hosting provider in the European Union under the Electronic Commerce Directive because of the alleged active nature of our involvement with our sellers, and that whether or not such safe harbors are available, we should be found liable because we supposedly have not adequately removed listings that are counterfeit or are authentic but allegedly violate trademark or copyright law or effectively suspended users who have created such listings. While we do not believe the European Court of Justice decision in the L'Oréal case (see "Item 1: Legal Proceedings" above) changes the standard for hosting immunity under the Electronic Commerce directive, rights owners in European jurisdictions have asserted that our degree of participation in the transaction should cause us to be unable to take advantage of the hosting immunity exception. Final resolution of this issue has been left to the national courts of countries in the European Union. We believe that the legal climate, especially in Europe, is becoming more adverse to our positions, which may require us to take actions which could lower our revenues, increase our costs, or make our websites less convenient to our customers, any of which could materially harm our business. In addition, a public perception that counterfeit or pirated items are commonplace on our sites, even if factually incorrect, would damage our reputation, lower the price our sellers receive for their items and damage our business.

We are continuously seeking to improve and modify our efforts to eliminate counterfeit and pirated items through ongoing business initiatives designed to reduce bad buyer experiences and improve customer satisfaction and by responding to new patterns we are seeing among counterfeiters and others committing fraud on our users. Increased intermediation of transactions between buyers and sellers, which we generally refer to as our Managed Marketplace initiative, may result in us being unable to rely, to the same extent that we have in the past, on hosting immunity and other secondary liability safe harbors when sued by users and rights owners over actions taken on our site by our users. While we are taking steps to mitigate this impact on our safe harbor defenses, we may be subject to more intellectual property litigation and may lose more cases as a result of these business model changes, which would adversely affect our business.

Content owners and other intellectual property rights owners may also seek to bring legal action against entities that are peripherally involved in the sale of infringing items, such as payment companies. To the extent that intellectual property rights owners bring legal action against PayPal based upon the use of PayPal's payment services in a transaction involving the sale of infringing items, including on our websites, our business could be harmed. Several jurisdictions have adopted new laws in these areas, and others are considering imposing additional restrictions.

In addition, new laws have been proposed regulating Internet companies with respect to intellectual property issues. For example, ACTA and TPP are trade agreements that include international standards for enforcing intellectual property rights, including provisions regarding counterfeit goods and online piracy. The European Commission is considering revising the Intellectual Property Enforcement Directive, which could potentially increase our exposure to enforcement actions from rights owners. Implementation of these or similar laws could require us to change our business practices, increase our compliance costs and harm our business.

We are subject to patent litigation.

We have repeatedly been sued for allegedly infringing other parties' patents. We are a defendant in a number of patent suits and we have been notified of several other potential patent disputes. We expect that we will increasingly be subject to patent infringement claims involving various aspects of our Marketplaces, Payments and GSI segments as our products and services continue to expand in scope and complexity (e.g., our mobile, local, social and digital initiatives), as we expand into new businesses, including through acquisitions, and as the universe of patent owners who may claim that we, companies that we have acquired, or our customers infringe their patents and the aggregate number of patents controlled by such patent owners correspondingly increases. Such claims may be brought directly against our companies and/or against our customers (whom we may indemnify either because we are contractually obligated to do so or as a business matter). We and other technology companies have seen more of these claims from an increasing number of third parties whose sole or primary business is to assert such claims. In addition, we have seen significant patent disputes between operating companies in some technology industries (e.g., mobile telephony). Patent claims, whether meritorious or not, are time consuming and costly to resolve, and could require expensive changes in our methods of doing business, could require us to enter into costly royalty or licensing agreements, or could require us to cease conducting certain operations, which would harm our business.

Use of our services for illegal purposes could harm our business.

We may be unable to prevent our users from selling unlawful or stolen goods or unlawful services, or selling goods or services in an unlawful manner, and we may be subject to allegations of civil or criminal liability for unlawful activities carried out by users through our services. We have been subject to several lawsuits based upon such allegations. In December 2004, an executive of Baazee.com, our Indian subsidiary, was arrested in connection with a user's listing of a pornographic video clip on that website. The charges related to this arrest were recently quashed. Similarly, one of our Korean subsidiaries (IAC) and one of its employees were found criminally liable for listings (which occurred prior to our acquisition of IAC) on IAC's website. The German Federal Supreme Court has ruled that we may have a duty to take reasonable measures to prevent prohibited DVDs from being sold on our site to minors and that competitors may be able to enforce this duty. In a number of circumstances, third parties, including government regulators and law enforcement officials, have alleged that our services aid and abet certain violations of certain laws, including antiscalping laws with respect to the resale of tickets, laws regarding the sale of counterfeit items, the fencing of stolen goods, selective distribution channel laws, distance selling laws and the sale of items outside of the U.S. that are regulated by U.S. export controls. As we seek to reduce bad buying experiences and improve the customer experience on our sites, our level of interaction with buyers and sellers may increase over time, which could in turn increase our potential exposure to allegations of civil or criminal liability for unlawful activities carried out by users through our services.

Although we have prohibited the listing of illegal and stolen goods and certain high-risk items and implemented other protective measures, we may be required to spend substantial resources to take additional protective measures or discontinue certain service offerings, any of which could harm our business. Any costs incurred as a result of potential liability relating to the alleged or actual sale of unlawful goods or the unlawful sale of goods could harm our business. Certain manufacturers and large retailers have sought new U.S. federal and state legislation regarding stolen goods that could limit our ability to allow sellers to use our sites without confirming the source of, and their legal rights to sell, the underlying goods. In addition, from time to time we have received significant media attention relating to the listing or sale of illegal goods and stolen goods using our services. This negative publicity could damage our reputation, diminish the value of our brand names and make users reluctant to use our services.

PayPal's payment system is also susceptible to potentially illegal or improper uses, including illegal online gambling, fraudulent sales of goods or services, illicit sales of prescription medications or controlled substances, piracy of software, movies, music and other copyrighted or trademarked goods, money laundering, terrorist financing, bank fraud, child pornography trafficking, prohibited sales of alcoholic beverages or tobacco products, online securities fraud and encouraging, promoting, facilitating or instructing others to engage in illegal activities. There has been an increased focus by rights owners and U.S. government officials on the role that payments systems play in the sale of, and payment for, pirated digital goods on the Internet. Recent changes in law have increased the penalties for intermediaries providing payment services for certain illegal activities and additional payments-related proposals are under active consideration by government policymakers. Despite measures PayPal has taken to detect and lessen the risk of this kind of conduct, illegal activities could still be funded using PayPal. Any resulting claims, liabilities or loss of transaction volume could harm our business.

If our GSI business is unable to enhance its platform and migrate clients to its new platform in a timely and cost-effective manner, it would be substantially harmed.

Our GSI business is in the process of enhancing and unbundling the components of its ecommerce and payments platform and migrating its existing customers to its new platform. This project is very expensive and time consuming and involves significant technical risk. Previously planned migrations of certain clients to the new platform have been delayed into 2012 and beyond. If client migrations to the new platform continue to be delayed, the functionality of the new platform is not accepted by GSI's existing clients or prospective clients targeted by GSI, the new platform contains an unacceptable amount of design flaws or does not perform or operate as expected, or GSI fails to meet client commitments and services level agreements, GSI could be subject to substantial penalties under its agreements with its clients (including significant financial penalties and termination rights for its affected clients), its relationships with its clients and their respective businesses could be substantially harmed, and GSI clients may seek to terminate their contracts with GSI early based on actual or proposed breach. In addition, GSI's new platform also provides for substantially more client control over certain platform functionality, such as promotions and marketing, operations and performance analytics. If GSI is unable to help clients understand, assess and address their internal preparedness needs for the new platform, this could result in delays in deployment, client dissatisfaction due to lack of preparedness, degraded site performance, and additional support costs attributable to client-induced issues. We believe that GSI's ability to secure new clients and retain current clients will be negatively impacted until GSI is able to successfully roll out the new platform in a live client implementation. Any of these events or circumstances could materially and adversely affect our GSI business. Even if accomplished successfully, this development and migration project may cost more than expected or take longer than currently planned, which could harm our GSI business.

We are subject to risks associated with information disseminated through our service.

The law relating to the liability of online services companies for information carried on or disseminated through their services remains unsettled in many jurisdictions. Claims could be made against online services companies under both U.S. and foreign law for defamation, libel, invasion of privacy, negligence, copyright or trademark infringement, or other theories based on the nature and content of the materials disseminated through their services. Several private lawsuits seeking to impose liability under a number of these theories have been brought against us, as well as other online service companies. In addition, domestic and foreign legislation has been proposed that would prohibit or impose liability for the transmission over the Internet of certain types of information. Our Marketplaces service features a Feedback Forum, which includes information from users regarding other users. Although all such feedback is generated by users and not by us, claims of defamation or other injury have been made in the past and could be made in the future against us for not removing content posted in the Feedback Forum.

Furthermore, several court decisions arguably have narrowed the scope of the immunity provided to Internet service providers like us in the U.S. under the Communications Decency Act. For example, the Ninth Circuit has held that certain immunity provisions under the Communications Decency Act might not apply to the extent that a website owner materially contributes to the development of unlawful content on its website. As our websites evolve, challenges to the applicability of these immunities can be expected to continue. In addition, the Paris Court of Appeal has ruled in the Louis Vuitton Malletier and Christian Dior Couture cases that applicable laws protecting passive Internet “hosts” from liability are inapplicable to eBay given that eBay actively promotes bidding on its sellers' listings and receives a commission on successful transactions, and is therefore a broker. The ECJ decision in the L'Oréal case (see “Item 1: Legal Proceedings” above) gave broad discretion to national courts in Europe to determine if Internet hosting immunity applies to eBay. Accordingly, our potential liability to third parties for the user-provided content on our sites, particularly in jurisdictions outside the U.S. where laws governing Internet transactions are unsettled, may increase. If we become liable for information provided by our users and carried on our service in any jurisdiction in which we operate, we could be directly harmed and we may be forced to implement new measures to reduce our exposure to this liability, including expending substantial resources or discontinuing certain service offerings, which would negatively affect our financial results. In addition, the increased attention focused upon liability issues as a result of these lawsuits and legislative proposals could require us to incur additional costs and harm our reputation and our business.

Government inquiries may lead to charges or penalties.

A large number of transactions occur on our websites on a daily basis. Government regulators have received a significant number of consumer complaints about eBay, PayPal and GSI, which, while small as a percentage of our total transactions, are large in aggregate numbers. As a result, from time to time we have been contacted by various U.S. and foreign governmental regulatory agencies that have questions about our operations and the steps we take to protect our users from fraud. PayPal has received inquiries regarding its restriction and disclosure practices from the Federal Trade Commission and regarding these and other business practices from the attorneys general of a number of states. In September 2006, PayPal entered into a settlement agreement with the attorneys general of a number of states under which it agreed to pay $1.7 million to the attorneys general, shorten and streamline its user agreement, increase educational messaging to users about funding choices and communicate

more information regarding protection programs to users.
From time to time, we face inquiries from government regulators in various jurisdictions related to actions that we have taken that are designed to improve the security of transactions and the qualit