

ADVANCED DRAINAGE SYSTEMS, INC.

Form 10-Q/A

March 29, 2016

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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q/A**

(Mark One)

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

**For the quarterly period ended September 30, 2014**

**OR**

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

**Commission file number: 001-36557**

**Advanced Drainage Systems, Inc.**

**(Exact name of registrant as specified in its charter)**

**Delaware**  
**(State or Other Jurisdiction of**

**51-0105665**  
**(I.R.S. Employer**

**Incorporation or Organization)**

**Identification No.)**

**4640 Trueman Boulevard, Hilliard, Ohio 43026**

**(Address of Principal Executive Offices, Including Zip Code)**

**(614) 658-0050**

**(Registrant's Telephone Number, Including Area Code)**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

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



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**EXPLANATORY NOTE**

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

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

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

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

**LIABILITIES, MEZZANINE EQUITY AND STOCKHOLDERS EQUITY (DEFICIT)**

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

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

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

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

(Unaudited, as restated)<sup>(1)</sup>

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



**Net income per share:**

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

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

See accompanying notes to condensed consolidated financial statements.

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

(Unaudited, as restated)<sup>(1)</sup>

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

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

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

(Unaudited, as restated)<sup>(1)</sup>

(Amounts in thousands)	<b>Six Months Ended September 30,</b>	
	<b>2014</b>	<b>2013</b>
<b>Cash Flows from Operating Activities</b>	\$ 14,906	\$ 8,385
<b>Cash Flows from Investing Activities</b>		
Capital expenditures	(15,596)	(21,561)
Proceeds from sale of assets or businesses	156	6,056
Investment in unconsolidated affiliate	(7,566)	(5,300)
Additions of capitalized software	(441)	(186)
Other investing activities	(525)	(533)
Net cash used in investing activities	(23,972)	(21,524)
<b>Cash Flows from Financing Activities</b>		
Proceeds from Revolving Credit Facility	174,760	225,400
Payments on Revolving Credit Facility	(227,000)	(242,300)
Proceeds from term loan		100,000
Payments on term loan	(2,500)	(77,500)
Proceeds from Senior Notes		25,000
Payments of notes, mortgages, and other debt	(1,665)	(963)
Payments on capital lease obligation	(5,467)	(5,899)
Payments for deferred initial public offering costs	(4,458)	
Debt issuance costs		(2,311)
Proceeds from initial public offering of common stock, net of underwriter discounts and commissions	79,131	
Cash dividends paid	(1,007)	(4,293)
Redemption of Redeemable convertible preferred stock		(3,146)
Other financing activities	152	(183)
Net cash provided by financing activities	11,946	13,805
Effect of exchange rate changes on cash and cash equivalents	(230)	9
Net change in cash	2,650	675
Cash at beginning of period	3,931	1,361
<b>Cash at end of period</b>	<b>\$ 6,581</b>	<b>\$ 2,036</b>

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

See accompanying notes to condensed consolidated financial statements.

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**ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (DEFICIT) AND MEZZANINE EQUITY**

(Unaudited)

End-In Period	Common Stock in Treasury		Accumulated Other Comprehensiv Loss		Retained Earnings (Deficit)	Total ADS Stockholders Equity (Deficit)	Non- controlling Interest in Subsidiaries	Total Stock- holders Equity (Deficit)	Redeemable Common Stock		Redeemabl Convertibl Preferred Stock	
	Shares	Amount							Shares	Amount	Shares	Am
1,152	101,191	\$ (448,571)	\$ (856)	\$ 87,331	\$ (308,987)	\$ 23,265	\$ (285,722)	38,292	\$ 522,276	26,547	\$ 28	
1,126)			(225)	(8,129)	(9,480)	(4,721)	(14,201)					
0,026	101,191	\$ (448,571)	\$ (1,081)	\$ 79,202	\$ (318,467)	\$ 18,544	\$ (299,923)	38,292	\$ 522,276	26,547	\$ 28	
				27,714	27,714	3,492	31,206					
			(1,807)		(1,807)	(1,266)	(3,073)					
				(355)	(355)		(355)					
				(2,724)	(2,724)		(2,724)					
						(1,214)	(1,214)					
1,023)					(1,023)		(1,023)					
109	(94)	417			526		526					

204	14	(204)									
462				462		462					
850	(104)	328		1,178		1,178					
										(297)	(3)
	14	(171)		(171)		(171)					
(385)				(385)		(385)	28	385			
				(4,764)	(4,764)	(4,764)					10
				(30,528)	(30,528)	(30,528)		30,528			
<b>0,243</b>	<b>101,021</b>	<b>\$ (448,201)</b>	<b>\$ (2,888)</b>	<b>\$ 68,545</b>	<b>\$ (330,344)</b>	<b>\$ 19,556</b>	<b>\$ (310,788)</b>	<b>38,320</b>	<b>\$ 553,189</b>	<b>26,250</b>	<b>\$ 29</b>
<b>2,547</b>	<b>100,810</b>	<b>\$ (448,439)</b>	<b>\$ (5,977)</b>	<b>\$</b>	<b>\$ (419,912)</b>	<b>\$ 22,576</b>	<b>\$ (397,336)</b>	<b>38,320</b>	<b>\$ 549,119</b>	<b>26,129</b>	<b>\$ 29</b>
(,109)			(853)	(2,412)	(13,374)	(3,992)	(17,366)				
2,438	100,810	\$ (448,439)	\$ (6,830)	\$ (2,412)	\$ (433,286)	\$ 18,584	\$ (414,702)	38,320	\$ 549,119	26,129	\$ 29

				25,410	25,410	3,028	28,438			
				(2,525)	(2,525)	(907)	(3,432)			
						(1,007)	(1,007)			
					(1,339)		(1,339)			
	174	(78)	349		523		523			
	93	7	(93)							
					1,778		1,778			
		(114)	509		1,998		1,998			
					72,298		72,298			
					1,522		1,522			
					2,023	(11,054)	(11,054)		3	
					(65,921)		(65,921)	65,921		
					615,040		615,040	(38,320)	(615,040)	
	<b>9,980</b>	<b>100,625</b>	<b>\$ (447,674)</b>	<b>\$ (9,355)</b>	<b>\$ (40,900)</b>	<b>\$ 204,444</b>	<b>\$ 19,698</b>	<b>\$ 224,142</b>	<b>\$ 26,129</b>	<b>\$ 32</b>

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

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**ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

**(Amounts in thousands, except per share data)**

**1. BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Organization***

Advanced Drainage Systems, Inc. (collectively with its subsidiaries referred to as *ADS*, the *Company*, *we*, *us* and *our*), incorporated in Delaware, designs, manufactures and markets high performance thermoplastic corrugated pipe and related water management products, primarily in North and South America and Europe. Our broad product line includes corrugated high density polyethylene (or *HDPE*) pipe, polypropylene (or *PP*) pipe and related water management products.

The Company is managed based primarily on the geographies in which it operates and reports results of operations in two reportable segments. The reportable segments are Domestic and International.

***2014 Initial Public Offering ( IPO )***

On July 11, 2014, in anticipation of the IPO, we executed a 4.707-for-one split of our common and our preferred stock. The effect of the stock split on outstanding shares and earnings per share has been retroactively applied to all periods presented.

On July 25, 2014, we completed the IPO of our common stock, which resulted in the sale by the Company of 5,289 shares, bringing the total number of shares issued and outstanding as of July 25, 2014 to 52,881. We received total proceeds from the IPO of \$79,131 after excluding underwriter discounts and commissions of \$5,501, based upon the price to the public of \$16.00 per share. After deducting other offering expenses, we used the net proceeds to reduce the outstanding indebtedness under the revolving portion of our credit facility. The common stock is listed on the New York Stock Exchange under the symbol *WMS*.

On August 22, 2014, an additional 600 shares of common stock were sold by certain selling stockholders of the Company as a result of the partial exercise by the underwriters of the over-allotment option granted by the selling stockholders to the underwriters in connection with the IPO. The shares were sold at the public offering price of \$16.00 per share. The Company did not receive any proceeds from the sale of such additional shares.

***Basis of Presentation***

The Company prepares its condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ( *U.S. GAAP* ). The Condensed Consolidated Balance Sheet as of March 31, 2014 was derived from audited financial statements. In our opinion, the accompanying unaudited condensed consolidated financial statements contain all adjustments, of a normal recurring nature, in addition to the restatement adjustments described in Note 2. Restatement of Previously Issued Financial Statements, necessary to present fairly its financial position as of September 30, 2014 and the results of operations for the three and six months

ended September 30, 2014 and 2013 and cash flows for the six months ended September 30, 2014 and 2013. The interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements, including the notes thereto, filed in our Annual Report on Form 10-K for the year ended March 31, 2015, filed concurrently with this Form 10-Q/A.

***Principles of Consolidation***

Our condensed consolidated financial statements include the Company, our wholly-owned subsidiaries, our majority-owned subsidiaries, including ADS Mexicana, S.A. de C.V. (together with its affiliate ADS Corporativo, S.A. de C.V., ADS Mexicana ), and variable interest entities ( VIEs ) of which we are the primary beneficiary. We use the equity method of accounting for equity investments where we exercise significant influence but do not hold a controlling financial interest. Such investments are recorded in Other assets in our Condensed Consolidated Balance Sheets and the related equity earnings from these investments are included in Equity in net loss of unconsolidated affiliates in our Condensed Consolidated Statements of Operations. All intercompany balances and transactions have been eliminated in consolidation.

***Estimates***

The preparation of our condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingencies and

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liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Significant estimates include, but are not limited to, our allowance for doubtful accounts, inventory, useful lives of our property, plant and equipment and amortizing intangible assets, determination of the proper accounting for leases, accounting for investments, evaluation of goodwill, intangible assets and other long-lived assets for impairment, accounting for stock-based compensation and our ESOP, valuation of our Redeemable common stock and Redeemable convertible preferred stock, determination of allowances for sales returns, rebates and discounts, determination of the valuation allowance, if any, on deferred tax assets, and reserves for uncertain tax positions. Management's estimates and assumptions are evaluated on an ongoing basis and are based on historical experience, current conditions and available information. Management believes the accounting estimates are appropriate and reasonably determined; however, due to the inherent uncertainties in making these estimates, actual results could differ from those estimates.

***Property, Plant and Equipment and Depreciation Method***

Property, plant and equipment are recorded at cost less accumulated depreciation, with the exception of assets acquired through acquisitions, which are initially recorded at fair value. Equipment acquired under capital lease is recorded at the lower of fair market value or the present value of the future minimum lease payments. Depreciation is computed for financial reporting purposes using the straight-line method over the estimated useful lives of the related assets or the lease term, if shorter, as follows:

	<b>Years</b>
Buildings	40
Machinery and equipment	3 - 15
Leasehold improvements	Shorter of useful life or life of lease

Costs of additions and major improvements are capitalized, whereas maintenance and repairs that do not improve or extend the life of the asset are charged to expense as incurred. When assets are retired or disposed, the cost and related accumulated depreciation are removed from the asset accounts and any resulting gain or loss is reflected in Loss (gain) on disposal of assets or businesses in our Condensed Consolidated Statements of Operations. Construction in progress is also recorded at cost and includes capitalized interest, capitalized payroll costs and related costs such as taxes and other fringe benefits. Interest capitalized was \$177 and \$316 during the three and six months ended September 30, 2014, respectively, and \$246, and \$410 during the three and six months ended September 30, 2013, respectively.

***Leases***

Leases are reviewed for capital or operating classification at their inception. The Company uses the lower of the rate implicit in the lease or its incremental borrowing rate in the assessment of lease classification and assumes the initial lease term includes cancellable and renewal periods that are reasonably assured. For leases classified as capital leases at lease inception, we record a capital lease asset and lease financing obligation equal to the lesser of the present value of the minimum lease payments or the fair market value of the leased asset. The capital lease asset is recorded in Property, plant and equipment, net and amortized to its expected residual value at the end of the lease term using the straight-line method, and the lease financing obligation is amortized using the effective interest method over the lease term with the rental payments being allocated to principal and interest. For leases classified as operating leases, we record rent expense over the lease term using the straight-line method.

***Recent Accounting Pronouncements Not Yet Adopted***

In April 2014, the Financial Accounting Standards Board issued authoritative guidance amending existing requirements for reporting discontinued operations. Under the new guidance, discontinued operations reporting will be limited to disposal transactions that represent strategic shifts having a major effect on operations and financial results. The amended guidance also enhances disclosures and requires assets and liabilities of a discontinued operation to be classified as such for all periods presented in the financial statements. Public entities will apply the amended guidance prospectively to all disposals occurring within annual periods beginning on or after December 15, 2014, and interim periods within those years. We will adopt this standard effective April 1, 2015. We are currently evaluating the impact of this amendment on our consolidated financial statements.

In May 2014, the Financial Accounting Standards Board issued an accounting standards update which amends the guidance for revenue recognition. This amendment contains principles that will require an entity to recognize revenue to depict the transfer of goods and services to customers at an amount that an entity expects to be entitled to in exchange for goods or services. The amendment sets forth a new revenue recognition model that requires identifying the contract, identifying the performance

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obligations and recognizing the revenue upon satisfaction of performance obligations. This amendment is effective for annual periods beginning on or after December 15, 2016, and interim periods within those years, with earlier adoption not permitted. We will adopt this standard effective April 1, 2017. We are currently evaluating the impact of this amendment on our consolidated financial statements.

In August 2014, the Financial Accounting Standards Board issued an accounting standards update which provides guidance for management's assessment of an entity's ability to continue as a going concern. The new guidance is intended to define management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. The guidance provides a definition of the term substantial doubt and requires an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). It also requires certain disclosures when substantial doubt is alleviated as a result of the consideration of management's plans and requires an express statement and other disclosures when substantial doubt is not alleviated. The new standard will be effective for annual periods beginning on or after December 15, 2016, and interim periods within those years, with earlier adoption permitted. We will adopt this standard effective April 1, 2017. We are currently evaluating the impact of this new standard on our consolidated financial statements.

## **2. RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS**

### ***Background***

In June of 2015, in connection with the preparation of the Company's consolidated annual financial statements for the fiscal year ended March 31, 2015, certain errors related to the Company's accounting treatment for its transportation and equipment leases and inventory methodology were identified. As the Company completed additional accounting review procedures, it identified additional errors related to long-lived assets, ADS Mexicana, and certain other miscellaneous items.

Due to these errors, as further described below, and based upon the recommendation of management, the Audit Committee of the Company's Board of Directors (the "Audit Committee") determined on August 14, 2015 that the Company's previously issued financial statements should no longer be relied upon. As a result of the foregoing, the Company has restated its condensed consolidated financial statements as of September 30, 2014 and March 31, 2014 and for the three and six months ended September 30, 2014 and 2013. The restatement also affects periods prior to fiscal year 2014, with the cumulative effect of the errors reflected as an adjustment to the fiscal year 2014 opening stockholders' equity (deficit) balance.

### ***Accounting Adjustments***

The following is a discussion of the significant accounting adjustments that were made to the Company's historical condensed consolidated financial statements.

#### ***Lease Accounting Adjustments***

The Company leases real estate and equipment under various lease agreements. Historically, assets leased under the Company's transportation and equipment leasing program ("Fleet Leases") have been classified as operating leases. However, based upon a reexamination of the Company's historic assumptions, estimates and judgments with respect to lease accounting, the Company has determined that a substantial portion of the Fleet Leases should instead be classified as capital leases.

The Company has also reexamined its historic assumptions, estimates and judgments with respect to the accounting for real estate and aircraft leases that were previously classified as operating leases. In many cases, the Company has determined that the leases should instead be classified as capital leases due to the inclusion of contingent penalty amounts in the minimum lease payments used for purposes of the lease classification assessment.

*Inventory Accounting Adjustments*

The Company identified and corrected certain errors related to its accounting for inventory. The errors primarily related to the Company's incorrect historical calculation of inventory costing based on the first-in first-out ( FIFO ) method, the inappropriate capitalization of certain inter-plant freight expense and other overhead costs, the misclassification of certain overhead costs between general and administrative expense and cost of goods sold and the misclassification of our financial fuel hedge losses between Cost of goods sold and Other miscellaneous (income) expense, net.

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### *Long-Lived Assets Accounting Adjustments*

The Company identified and corrected certain errors related to the accounting for long-lived assets included in Property, plant and equipment, Goodwill, Intangible assets and Other assets in the condensed consolidated balance sheets. These errors primarily related to either the initial capitalization, subsequent depreciation or amortization, or the timing or amount of impairment charges.

### *ADS Mexicana Accounting Adjustments*

In October 2015, the Company became aware of questions related to the proper characterization of certain ADS Mexicana transactions including an aircraft leasing arrangement, a real estate leasing arrangement and several service arrangements that involved ADS Mexicana related parties. Based on the results of a management review and an independent investigation authorized by the Audit Committee, it was determined that the various lease and services arrangements described above, as well as certain additional services arrangements with former related parties identified during the course of the investigation, lacked commercial and economic substance or proper supporting documentation as to the service performed, and therefore were not appropriately reflected in the Company's consolidated financial statements. These errors have been corrected in the restated condensed consolidated financial statements, with these adjustments primarily impacting Other miscellaneous (income) expense, net, Net income attributable to noncontrolling interest and Noncontrolling interest in subsidiaries.

Management also identified potential accounting errors related to ADS Mexicana's revenue recognition cut-off practices, which were included in the scope of the independent investigation authorized by the Audit Committee. As a result, the Company identified instances where ADS Mexicana recognized revenue prior to the date of shipment or transfer of title/ownership, which is not in accordance with U.S. GAAP.

The Company also identified and corrected certain other errors related to the accounting for ADS Mexicana. These adjustments related to the increase of the allowance for doubtful accounts, errors related to the inventory costing methodology, and certain other miscellaneous items.

### *Income Taxes and Other Accounting Adjustments*

The Company recorded adjustments to income taxes to reflect the impact of the restatement adjustments, as well as discrete tax adjustments related to transfer pricing. See Note 18. Income Taxes for discussion of the related impact to our effective tax rate. The Company also identified and corrected certain other errors, all of which are insignificant individually and in the aggregate. The nature of the primary items besides income taxes in this category of adjustments is described as follows:

The adjustments to the accrued liability for customer rebates are the result of the Company's prior methodology not properly capturing all rebates due at period end.

The adjustments related to the Tuberias Tigre ADS Limitada joint venture (South American Joint Venture) were the result of an impairment of equipment in the fiscal year ended March 31, 2014 that was not identified until the time of a subsequent-year statutory audit. As a result, the Company has corrected its equity method accounting to properly reflect the impairment charge.

### ***Impact on Condensed Consolidated Statements of Operations***

The net effect of the restatement described above on the Company's previously reported condensed consolidated statements of operations for the three months ended September 30, 2014 and 2013 is as follows:

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**Table of Contents****Three Months Ended September 30, 2014  
Adjustments**

(Amounts in thousands, except per share data)	As Previously Reported	Leases	Inventory	Long-Lived Assets	ADS Mexicana	Income Taxes and Other	As Restated
Net sales	\$ 364,724	\$	\$	\$	\$ 1,856	\$ 134	\$ 366,714
Cost of goods sold	282,282	531	11,665	16	1,815	642	296,951
Gross profit	82,442	(531)	(11,665)	(16)	41	(508)	69,763
Operating expenses:							
Selling	19,762	281	(24)	143	162	(84)	20,240
General and administrative	18,879	(18)	(4,574)	75	(477)	(42)	13,843
Loss on disposal of assets or businesses		23		258			281
Intangible amortization	2,638			(28)			2,610
Income from operations	41,163	(817)	(7,067)	(464)	356	(382)	32,789
Other expense:							
Interest expense	4,338	706					5,044
Other miscellaneous income, net	(7)			(16)	(217)		(240)
Income before income taxes	36,832	(1,523)	(7,067)	(448)	573	(382)	27,985
Income tax expense	14,062					(5,136)	8,926
Equity in net loss of unconsolidated affiliates	2					60	62
Net income	22,768	(1,523)	(7,067)	(448)	573	4,694	18,997
Less net income attributable to noncontrolling interest	378				437	1,338	2,153
Net income attributable to ADS	22,390	(1,523)	(7,067)	(448)	136	3,356	16,844
Change in fair value of Redeemable convertible preferred stock	7,319						7,319
Dividends to Redeemable convertible preferred stockholders	(37)						(37)
Dividends paid to unvested restricted stockholders							
	29,672	(1,523)	(7,067)	(448)	136	3,356	24,126

Net income available to  
common stockholders  
and participating  
securities

Undistributed income allocated to participating securities	(3,404)	175	811	51	(16)	(385)	(2,768)
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**Net income available to  
common stockholders**

\$ 26,268	\$ (1,348)	\$ (6,256)	\$ (397)	\$ 120	\$ 2,971	\$ 21,358
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Weighted average  
common shares  
outstanding:

Basic	51,518	51,518
Diluted	56,463	56,463

**Net income per share:**

Basic	\$ 0.51	\$ 0.41
Diluted	\$ 0.51	\$ 0.41

### Three Months Ended September 30, 2013

#### Adjustments

(Amounts in thousands, except per share data)	As Previously Reported	Leases	Inventory	Long-Lived Assets	ADS Mexicana	Income Taxes and Other	As Restated
Net sales	\$ 333,240	\$	\$	\$	\$ 452	\$ (965)	\$ 332,727
Cost of goods sold	260,021	(623)	6,690	(40)	377	714	267,139
Gross profit	73,219	623	(6,690)	40	75	(1,679)	65,588
Operating expenses:							
Selling	18,166	(127)	(87)	179		504	18,635
General and administrative	17,917	(104)	(3,948)	101	(455)	144	13,655
Loss on disposal of assets or businesses		4		200			204
Intangible amortization	2,861			(241)			2,620
Income from operations	34,275	850	(2,655)	(199)	530	(2,327)	30,474
Other expense:							
Interest expense	3,866	855					4,721
Other miscellaneous expense (income), net	287			(27)	(284)		(24)
Income before income taxes	30,122	(5)	(2,655)	(172)	814	(2,327)	25,777
Income tax expense	12,242					(3,314)	8,928
Equity in net loss of unconsolidated affiliates	97					95	192
Net income	17,783	(5)	(2,655)	(172)	814	892	16,657
	461				513	943	1,917

Less net income attributable to noncontrolling interest							
Net income attributable to ADS	17,322	(5)	(2,655)	(172)	301	(51)	14,740
Change in fair value of Redeemable convertible preferred stock	(3,186)						(3,186)
Dividends to Redeemable convertible preferred stockholders	(214)						(214)
Dividends paid to unvested restricted stockholders	(8)						(8)
Net income available to common stockholders and participating securities	13,914	(5)	(2,655)	(172)	301	(51)	11,332
Undistributed income allocated to participating securities	(1,536)	1	320	21	(36)	27	(1,203)
<b>Net income available to common stockholders</b>	<b>\$ 12,378</b>	<b>\$ (4)</b>	<b>\$ (2,335)</b>	<b>\$ (151)</b>	<b>\$ 265</b>	<b>\$ (24)</b>	<b>\$ 10,129</b>
Weighted average common shares outstanding:							
Basic	47,250						47,250
Diluted	47,579						47,579
<b>Net income per share:</b>							
Basic	\$ 0.26						\$ 0.21
Diluted	\$ 0.26						\$ 0.21
<b>Cash dividends declared per share</b>	<b>\$ 0.03</b>						<b>\$ 0.03</b>

The net effect of the restatement described above on the Company's previously reported condensed consolidated statements of operations for the six months ended September 30, 2014 and 2013 is as follows:

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**Six Months Ended September 30, 2014**  
**Adjustments**

<b>(Amounts in thousands, except per share data)</b>	<b>As Previously Reported</b>	<b>Leases</b>	<b>Inventory</b>	<b>Long-Lived Assets</b>	<b>ADS Mexicana</b>	<b>Income Taxes and Other</b>	<b>As Restated</b>
Net sales	\$ 693,021	\$	\$	\$	\$ 1,850	\$ (1,723)	\$ 693,148
Cost of goods sold	538,546	171	21,120	67	2,349	274	562,527
Gross profit	154,475	(171)	(21,120)	(67)	(499)	(1,997)	130,621
Operating expenses:							
Selling	39,008	171	129	370	49	65	39,792
General and administrative	39,411	(98)	(8,488)	198	(1,015)	(367)	29,641
Loss on disposal of assets or businesses		74		271			345
Intangible amortization	5,279			(56)			5,223
Income from operations	70,777	(318)	(12,761)	(850)	467	(1,695)	55,620
Other expense:							
Interest expense	8,953	1,142					10,095
Other miscellaneous expense (income), net	7			(33)	(432)	2	(456)
Income before income taxes	61,817	(1,460)	(12,761)	(817)	899	(1,697)	45,981
Income tax expense	23,757					(6,938)	16,819
Equity in net loss of unconsolidated affiliates	623					101	724
Net income	37,437	(1,460)	(12,761)	(817)	899	5,140	28,438
Less net income attributable to noncontrolling interest	806				664	1,558	3,028
Net income attributable to ADS	36,631	(1,460)	(12,761)	(817)	235	3,582	25,410
Change in fair value of Redeemable convertible preferred stock	(11,054)						(11,054)
Dividends to Redeemable convertible preferred stockholders	(75)						(75)
Dividends paid to unvested restricted stockholders							
	25,502	(1,460)	(12,761)	(817)	235	3,582	14,281

Net income available to  
common stockholders  
and participating  
securities

Undistributed income allocated to participating securities	(3,040)	174	1,521	97	(28)	(426)	(1,702)
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**Net income available to  
common stockholders**

	\$ 22,462	\$(1,286)	\$(11,240)	\$ (720)	\$ 207	\$ 3,156	\$ 12,579
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Weighted average  
common shares  
outstanding:

Basic	49,538						49,538
Diluted	52,198						52,198

**Net income per share:**

Basic	\$ 0.45						\$ 0.25
Diluted	\$ 0.45						\$ 0.25

### Six Months Ended September 30, 2013

#### Adjustments

(Amounts in thousands, except per share data)	As Previously Reported	Leases	Inventory	Long-Lived Assets	ADS Mexicana	Income Taxes and Other	As Restated
Net sales	\$ 626,342	\$	\$	\$	\$ 991	\$ (2,027)	\$ 625,306
Cost of goods sold	487,120	(784)	15,038	(497)	1,508	983	503,368
Gross profit	139,222	784	(15,038)	497	(517)	(3,010)	121,938
Operating expenses:							
Selling	35,843	(272)	151	193	(1,456)	696	35,155
General and administrative	35,576	(186)	(7,933)	106	(910)	89	26,742
Gain on disposal of assets or businesses	(4,848)	140		176			(4,532)
Intangible amortization	5,722			(482)			5,240
Income from operations	66,929	1,102	(7,256)	504	1,849	(3,795)	59,333
Other expense:							
Interest expense	7,967	1,483					9,450
Other miscellaneous expense, net	816			(50)	(746)		20
Income before income taxes	58,146	(381)	(7,256)	554	2,595	(3,795)	49,863
Income tax expense	23,308					(5,169)	18,139
Equity in net loss of unconsolidated affiliates	345					173	518
Net income	34,493	(381)	(7,256)	554	2,595	1,201	31,206
	875				1,482	1,135	3,492

Less net income attributable to noncontrolling interest							
Net income attributable to ADS	33,618	(381)	(7,256)	554	1,113	66	27,714
Change in fair value of Redeemable convertible preferred stock	(4,764)						(4,764)
Dividends to Redeemable convertible preferred stockholders	(430)						(430)
Dividends paid to unvested restricted stockholders	(16)						(16)
Net income available to common stockholders and participating securities	28,408	(381)	(7,256)	554	1,113	66	22,504
Undistributed income allocated to participating securities	(3,124)	46	882	(67)	(135)	(8)	(2,406)
<b>Net income available to common stockholders</b>	<b>\$ 25,284</b>	<b>\$ (335)</b>	<b>\$ (6,374)</b>	<b>\$ 487</b>	<b>\$ 978</b>	<b>\$ 58</b>	<b>\$ 20,098</b>
Weighted average common shares outstanding:							
Basic	47,220						47,220
Diluted	47,634						47,634
<b>Net income per share:</b>							
Basic	\$ 0.54						\$ 0.43
Diluted	\$ 0.53						\$ 0.42
<b>Cash dividends declared per share</b>	<b>\$ 0.06</b>						<b>\$ 0.06</b>

***Impact on Condensed Consolidated Statements of Comprehensive Income***

The net effect of the restatement described above on the Company's previously reported condensed consolidated statements of comprehensive income for the three months ended September 30, 2014 and 2013 is as follows:

**Table of Contents****Three Months Ended September 30, 2014****Adjustments**

(Amounts in thousands)	As Previously		Adjustments				As Restated
	Reported	Leases	Inventory	Long-Lived Assets	ADS Mexicana	Income Taxes and Other	
Net income	\$ 22,768	\$ (1,523)	\$ (7,067)	\$ (448)	\$ 573	\$ 4,694	\$ 18,997
Comprehensive income	19,198	(1,523)	(7,067)	(456)	560	4,694	15,406
Less other comprehensive loss attributable to noncontrolling interest, net of tax	(759)				(2)		(761)
Less net income attributable to noncontrolling interest	378				437	1,338	2,153
Total comprehensive income attributable to ADS	\$ 19,579	\$ (1,523)	\$ (7,067)	\$ (456)	\$ 125	\$ 3,356	\$ 14,014

**Three Months Ended September 30, 2013****Adjustments**

(Amounts in thousands)	As Previously		Adjustments				As Restated
	Reported	Leases	Inventory	Long-Lived Assets	ADS Mexicana	Income Taxes and Other	
Net income	\$ 17,783	\$ (5)	\$ (2,655)	\$ (172)	\$ 814	\$ 892	\$ 16,657
Comprehensive income	19,193	(5)	(2,655)	(174)	810	893	18,062
Less other comprehensive loss attributable to noncontrolling interest, net of tax	(297)				3	1	(293)
Less net income attributable to noncontrolling interest	461				513	943	1,917
Total comprehensive income attributable to ADS	\$ 19,029	\$ (5)	\$ (2,655)	\$ (174)	\$ 294	\$ (51)	\$ 16,438

The net effect of the restatement described above on the Company's previously reported condensed consolidated statements of comprehensive income for the six months ended September 30, 2014 and 2013 is as follows:

**Six Months Ended September 30, 2014**

(Amounts in thousands)	As Previously		Adjustments		As Restated
	Reported	Leases	Inventory	Long-Lived Assets	

					<b>ADS</b>	<b>Income Taxes and</b>	
					<b>Mexicana</b>	<b>Other</b>	
Net income	\$ 37,437	\$ (1,460)	\$ (12,761)	\$ (817)	\$ 899	\$ 5,140	\$ 28,438
Comprehensive income	34,019	(1,460)	(12,761)	(832)	900	5,140	25,006
Less other comprehensive loss attributable to noncontrolling interest, net of tax	(912)				5		(907)
Less net income attributable to noncontrolling interest	806				664	1,558	3,028
Total comprehensive income attributable to ADS	\$ 34,125	\$ (1,460)	\$ (12,761)	\$ (832)	\$ 231	\$ 3,582	\$ 22,885

## Six Months Ended September 30, 2013

## Adjustments

(Amounts in thousands)	As					Income	As
	Previously Reported	Leases	Inventory	Long-Lived Assets	ADS Mexicana	Taxes and Other	Restated
Net income	\$ 34,493	\$ (381)	\$ (7,256)	\$ 554	\$ 2,595	\$ 1,201	\$ 31,206
Comprehensive income	31,440	(381)	(7,256)	550	2,577	1,203	28,133
Less other comprehensive loss attributable to noncontrolling interest, net of tax	(1,270)				2	2	(1,266)
Less net income attributable to noncontrolling interest	875				1,482	1,135	3,492
Total comprehensive income attributable to ADS	\$ 31,835	\$ (381)	\$ (7,256)	\$ 550	\$ 1,093	\$ 66	\$ 25,907

***Impact on Condensed Consolidated Balance Sheets***

The net effect of the restatement described above on the Company's previously reported condensed consolidated balance sheets as of September 30, 2014 and March 31, 2014 is as follows:



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**September 30, 2014**  
**Adjustments**

(Amounts in thousands)	As Previously Reported	Leases	Inventory	Long-Lived Assets	ADS Mexicana	Income Taxes and Other	As Restated
<b>ASSETS</b>							
Cash	\$ 6,581	\$	\$	\$	\$	\$	\$ 6,581
Receivables, net	248,120				(1,545)	(529)	246,046
Inventories	247,368	(275)	(17,158)	(65)	1,093	1,299	232,262
Deferred income taxes and other current assets	12,848			325		564	13,737
Property, plant and equipment, net	288,170	76,327		(4,833)		78	359,742
Goodwill	86,280			1,805		(85)	88,000
Intangible assets, net	60,266			(6,134)			54,132
Other assets	68,591	(9)		(7,413)		6,491	67,660
<b>Total assets</b>	<b>\$ 1,018,224</b>	<b>\$ 76,043</b>	<b>\$ (17,158)</b>	<b>\$ (16,315)</b>	<b>\$ (452)</b>	<b>\$ 7,818</b>	<b>\$ 1,068,160</b>
<b>LIABILITIES, MEZZANINE EQUITY AND STOCKHOLDERS EQUITY (DEFICIT)</b>							
Current maturities of debt obligations	\$ 11,148	\$	\$	\$	\$	\$	\$ 11,148
Current maturities of capital lease obligations		12,225					12,225
Accounts payable	113,530		577			1,609	115,716
Other accrued liabilities	43,508	516				6,216	50,240
Accrued income taxes	22,360					(2,662)	19,698
Long-term debt obligation	386,435						386,435
Long-term capital lease obligation		49,237					49,237
Deferred tax liabilities	64,398					(3,997)	60,401
Other liabilities	14,263	65				12,991	27,319
<b>Total liabilities</b>	<b>655,642</b>	<b>62,043</b>	<b>577</b>			<b>14,157</b>	<b>732,419</b>
Mezzanine equity	109,277					2,322	111,599
Common stock	12,393						12,393
Paid-in capital	675,183					14,797	689,980
Common stock in treasury, at cost	(447,674)						(447,674)
Accumulated other comprehensive loss	(8,483)			(25)	(545)	(302)	(9,355)
Retained earnings (deficit)		14,000	(17,735)	(16,290)	126	(21,001)	(40,900)
Noncontrolling interest in subsidiaries	21,886				(33)	(2,155)	19,698

<b>Total liabilities, mezzanine equity and stockholders equity (deficit)</b>	\$ 1,018,224	\$ 76,043	\$ (17,158)	\$ (16,315)	\$ (452)	\$ 7,818	\$ 1,068,160
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**March 31, 2014  
Adjustments**

(Amounts in thousands)	As Previously Reported	Leases	Inventory	Long-Lived Assets	ADS Mexicana	Income Taxes and Other	As Restated
<b>ASSETS</b>							
Cash	\$ 3,931	\$	\$	\$	\$	\$	\$ 3,931
Receivables, net	150,713				(3,404)	962	148,271
Inventories	260,300	(86)	(4,270)	(130)	2,475	1,602	259,891
Deferred income taxes and other current assets	13,555			343		567	14,465
Property, plant and equipment, net	292,082	62,903		(4,663)		29	350,351
Goodwill	86,297			1,805		(85)	88,017
Intangible assets, net	66,184			(6,991)		1	59,194
Other assets	64,533	(15)		(5,759)		6,688	65,447
<b>Total assets</b>	<b>\$ 937,595</b>	<b>\$ 62,802</b>	<b>\$ (4,270)</b>	<b>\$ (15,395)</b>	<b>\$ (929)</b>	<b>\$ 9,764</b>	<b>\$ 989,567</b>

**LIABILITIES,  
MEZZANINE EQUITY  
AND STOCKHOLDERS  
DEFICIT**

Current maturities of debt obligations	\$ 11,153	\$	\$	\$	\$	\$	\$ 11,153
Current maturities of capital lease obligations		12,364					12,364
Accounts payable	108,111		704	88		2,069	110,972
Other accrued liabilities	37,956	530				4,599	43,085
Accrued income taxes	7,372					608	7,980
Long-term debt obligation	442,895						442,895
Long-term capital lease obligation		34,366					34,366
Deferred tax liabilities	69,169					(2,836)	66,333
Other liabilities	15,324	82				16,764	32,170
<b>Total liabilities</b>	<b>691,980</b>	<b>47,342</b>	<b>704</b>	<b>88</b>		<b>21,204</b>	<b>761,318</b>
Mezzanine equity	642,951						642,951
Common stock	11,957						11,957
Paid-in capital	22,547					(10,109)	12,438
Common stock in treasury, at cost	(448,439)						(448,439)
Accumulated other comprehensive loss	(5,977)			(9)	(541)	(303)	(6,830)

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Retained earnings (deficit)	15,460	(4,974)	(15,474)	(108)	2,684	(2,412)
Noncontrolling interest in subsidiaries	22,576			(280)	(3,712)	18,584
<b>Total liabilities, mezzanine equity and stockholders deficit</b>	<b>\$ 937,595</b>	<b>\$ 62,802</b>	<b>\$ (4,270)</b>	<b>\$ (15,395)</b>	<b>\$ (929)</b>	<b>\$ 989,567</b>

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**Table of Contents*****Cumulative Effect of Prior Period Adjustments***

The following table presents the impact of the restatement described above to the Company's beginning stockholders equity (deficit) balances, cumulatively to reflect adjustments booked to all periods prior to April 1, 2013:

(Amounts in thousands)	Common Stock	Paid in Capital	Common stock in treasury	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total ADS Stockholders Equity (Deficit)	Non-controlling interest in subsidiaries	Total Stockholders Equity (Deficit)
Stockholders equity (deficit), April 1, 2013 (as previously reported)	\$ 11,957	\$ 41,152	\$ (448,571)	\$ (856)	\$ 87,331	\$ (308,987)	\$ 23,265	\$ (285,722)
Adjustments from:								
Lease Accounting, before income tax effect					17,883	17,883		17,883
Inventory, before income tax effect					(3,490)	(3,490)		(3,490)
Long-Lived Assets, before income tax effect				1	(15,780)	(15,779)		(15,779)
ADS Mexicana, before income tax effect				(496)	(586)	(1,082)	(649)	(1,731)
All other non-income tax adjustments		(1,126)		270	(14)	(870)	(4,072)	(4,942)
Income tax adjustments					(6,142)	(6,142)		(6,142)
<b>Total adjustments</b>		(1,126)		(225)	(8,129)	(9,480)	(4,721)	(14,201)
Stockholders equity (deficit), April 1, 2013 (As Restated)	\$ 11,957	\$ 40,026	\$ (448,571)	\$ (1,081)	\$ 79,202	\$ (318,467)	\$ 18,544	\$ (299,923)

***Impact on Condensed Consolidated Statements of Cash Flows***

The net effect of the restatement on the Company's previously reported condensed consolidated statements of cash flows for the six months ended September 30, 2014 and 2013 is as follows:

<b>(Amounts in thousands)</b>	<b>For the Six Months Ended September 30, 2014</b>		
	<b>As Previously Reported</b>	<b>Adjustments</b>	<b>As Restated</b>
Net cash provided by operating activities	\$ 10,807	\$ 4,099	\$ 14,906
Net cash used in investing activities	(25,742)	1,770	(23,972)
Net cash provided by financing activities	17,836	(5,890)	11,946

<b>(Amounts in thousands)</b>	<b>For the Six Months Ended September 30, 2013</b>		
	<b>As Previously Reported</b>	<b>Adjustments</b>	<b>As Restated</b>
Net cash provided by operating activities	\$ 3,283	\$ 5,102	\$ 8,385
Net cash used in investing activities	(23,036)	1,512	(21,524)
Net cash provided by financing activities	20,428	(6,623)	13,805

### 3. DISPOSAL OF ASSETS OR BUSINESSES

On June 28, 2013, we entered into an Asset Purchase Agreement (the "NDS Agreement") to sell substantially all of the assets used in connection with our Draintech product line to National Diversified Sales, Inc. ("NDS") in exchange for cash. The NDS Agreement defined the purchase price to consist of a cash payment of \$5,877. The net book value for the related assets, consisting of inventory and property and equipment, was \$1,029, bringing the net gain recognized to \$4,848. The sale transaction closed on June 28, 2013. The Company determined that this sale did not qualify for discontinued operations reporting.

### 4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, net as of September 30, 2014 and March 31, 2014 consisted of the following:

<b>(Amounts in thousands)</b>	<b>September 30, 2014</b>	<b>March 31, 2014</b>
Land, buildings and improvements	\$ 161,415	\$ 158,588
Machinery and equipment	664,574	640,529
Construction in Progress	15,597	11,003
Total cost	841,586	810,120
Less accumulated depreciation	(481,844)	(459,769)
<b>Property, plant and equipment - net</b>	<b>\$ 359,742</b>	<b>\$ 350,351</b>

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The following table sets forth depreciation expense for the three and six months ended September 30, 2014 and 2013, respectively:

(Amounts in thousands)	Three Months Ended		Six Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Depreciation expense	\$ 12,533	\$ 12,107	\$ 24,790	\$ 24,188

**5. INVENTORIES**

Inventories as of September 30, 2014 and March 31, 2014 consisted of the following:

(Amounts in thousands)	September 30,	March 31,
	2014	2014
Raw materials	\$ 56,859	\$ 51,785
Finished goods	175,403	208,106
<b>Total inventory</b>	<b>\$ 232,262</b>	<b>\$ 259,891</b>

We had no work-in-process inventories as of September 30, 2014 and March 31, 2014.

**6. LEASES*****Capital Leases***

The Company leases certain buildings and transportation equipment including its fleet of trucks and trailers, under capital lease agreements.

Leased assets accounted for as capital leases and included in Property, plant and equipment, net consisted of the following:

(Amounts in thousands)	September 30, 2014	March 31, 2014
Buildings and improvements	\$ 7,163	\$ 7,716
Machinery and equipment	165,899	145,980
Total cost	173,062	153,696
Less accumulated amortization	(95,858)	(89,599)
<b>Leased assets in Property, plant and equipment, net</b>	<b>\$ 77,204</b>	<b>\$ 64,097</b>

The following is a schedule by year of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of September 30, 2014:

<b>(Amounts in thousands)</b>	
September 30, 2015	\$ 15,157
September 30, 2016	15,115
September 30, 2017	13,181
September 30, 2018	9,913
September 30, 2019	7,517
Thereafter	9,407
<b>Total minimum lease payments<sup>(a)</sup></b>	<b>70,290</b>
<b>Less: amount representing interest<sup>(b)</sup></b>	<b>8,828</b>
<b>Present value of net minimum lease payments</b>	<b>\$ 61,462</b>
Lease obligation    Current	\$ 12,225
Lease obligation    Long-term	49,237
<b>Total lease obligation</b>	<b>\$ 61,462</b>

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- (a) Excludes contingent rentals which may be paid. Contingent rentals amounted to \$375 and \$10 for the six months ended September 30, 2014 and 2013, respectively.
- (b) Amount necessary to reduce minimum lease payments to present value calculated at the lower of the rate implicit in the lease or the Company's incremental borrowing rate at lease inception.

During the three months ended September 30, 2014 and 2013, the Company acquired equipment under capital lease and incurred lease obligations of \$5,496 and \$5,053, respectively, and during the six months ended September 30, 2014 and 2013, the Company acquired equipment under capital lease and incurred lease obligations of \$20,158 and \$16,373, respectively.

Certain leases contain residual value guarantees that create a contingent obligation on the part of the Company to compensate the lessor if the leased asset cannot be sold for an amount in excess of a specified minimum value at the conclusion of the lease term. The calculation is based on the original cost of the transportation equipment, less lease payments made, compared to a percentage of the transportation equipment's fair market value at the time of sale. All leased units covered by this guarantee have been classified as capital leases and a corresponding capital lease obligation was recorded. Therefore, no further contingent obligation is needed.

**Operating leases**

We lease certain real estate and office equipment under various cancelable and non-cancelable operating lease agreements that expire at various dates through fiscal year 2037.

Total rent expense was \$645 and \$928 for the three months ended September 30, 2014 and 2013, respectively, and \$1,625 and \$2,231 for the six months ended September 30, 2014 and 2013, respectively.

Future minimum rental commitments under operating leases as of September 30, 2014, are summarized below (amounts in thousands):

	Twelve Months Ended September 30,					
	2015	2016	2017	2018	2019	Thereafter
Future operating lease payments	\$ 2,842	\$ 2,245	\$ 1,224	\$ 638	\$ 416	\$ 2,245

**7. GOODWILL AND INTANGIBLE ASSETS****Goodwill**

The carrying amount of goodwill by reportable segment is as follows:

(Amounts in thousands)	Domestic	International	Total
Balance at March 31, 2014	\$ 87,507	\$ 510	\$ 88,017
Currency translation		(17)	(17)
<b>Balance at September 30, 2014</b>	<b>\$ 87,507</b>	<b>\$ 493</b>	<b>\$ 88,000</b>

**Intangible Assets**



Intangible assets as of September 30, 2014 and March 31, 2014 consisted of the following:

(Amounts in thousands)	September 30, 2014			March 31, 2014		
	Gross Intangible	Accumulated Amortization	Net Intangible	Gross Intangible	Accumulated Amortization	Net Intangible
Definite-lived intangible assets						
Developed technology	\$ 40,579	\$ (24,497)	\$ 16,082	\$ 40,579	\$ (22,588)	\$ 17,991
Customer relationships	38,252	(24,244)	14,008	38,252	(21,793)	16,459
Patents	6,338	(3,235)	3,103	6,175	(2,921)	3,254
Non-compete and other contractual agreements	1,088	(667)	421	1,088	(491)	597
Trademarks and tradenames	11,157	(2,627)	8,530	11,157	(2,254)	8,903
<b>Total definite-lived intangible assets</b>	<b>97,414</b>	<b>(55,270)</b>	<b>42,144</b>	<b>97,251</b>	<b>(50,047)</b>	<b>47,204</b>
Indefinite-lived intangible assets						
Trademarks	11,988		11,988	11,990		11,990
<b>Total intangible assets</b>	<b>\$ 109,402</b>	<b>\$ (55,270)</b>	<b>\$ 54,132</b>	<b>\$ 109,241</b>	<b>\$ (50,047)</b>	<b>\$ 59,194</b>

**Table of Contents****8. FAIR VALUE MEASUREMENT**

The fair value measurements and disclosure principles of ASC 820 - Fair Value Measurements and Disclosures define fair value, establish a framework for measuring fair value and provide disclosure requirements about fair value measurements. These principles define a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity has the ability to access as of the measurement date.

Level 2 Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

When applying fair value principles in the valuation of assets and liabilities, we are required to maximize the use of quoted market prices and minimize the use of unobservable inputs. The Company has not changed its valuation techniques used in measuring the fair value of any financial assets or liabilities during the periods presented. Our fair value estimates take into consideration the credit risk of both the Company and our counterparties.

When active market quotes are not available for financial assets and liabilities, we use industry standard valuation models. Where applicable, these models project future cash flows and discount the future amounts to a present value using market-based observable inputs including credit risk, interest rate curves, foreign currency rates and forward and spot prices for currencies. In circumstances where market-based observable inputs are not available, management judgment is used to develop assumptions to estimate fair value. Generally, the fair value of our Level 3 instruments is estimated as the net present value of expected future cash flows based on internal and external inputs.

***Recurring Fair Value Measurements***

The assets and liabilities carried at fair value as of September 30, 2014 and March 31, 2014 were as follows:

(Amounts in thousands)	Total	September 30, 2014		
		Level 1	Level 2	Level 3
<b>Liabilities:</b>				
Derivative liability - interest rate swaps	\$ 639	\$	\$ 639	\$
Derivative liability - diesel fuel contracts	8		8	
Derivative liability - propylene swaps	491		491	
Contingent consideration for acquisitions	2,526			2,526
<b>Total liabilities at fair value on a recurring basis</b>	<b>\$ 3,664</b>	<b>\$</b>	<b>\$ 1,138</b>	<b>\$ 2,526</b>

(Amounts in thousands)	Total	March 31, 2014	
		Level 1	Level 3

		<b>Level 1</b>	<b>Level 2</b>	
<b>Assets:</b>				
Derivative assets - propylene swaps	\$	27	\$	\$ 27
				\$
<b>Total assets at fair value on a recurring basis</b>	<b>\$</b>	<b>27</b>	<b>\$</b>	<b>\$ 27</b>
				<b>\$</b>
<b>Liabilities &amp; Mezzanine Equity:</b>				
Derivative liability - interest rate swaps	\$	1,001	\$	\$ 1,001
Contingent consideration for acquisitions		2,898		2,898
Redeemable common stock		549,119		549,119
Redeemable convertible preferred stock		291,720		291,720
Deferred compensation - unearned ESOP shares		(197,888)		(197,888)
<b>Total liabilities &amp; mezzanine equity at fair value on a recurring basis</b>	<b>\$</b>	<b>646,850</b>	<b>\$</b>	<b>\$ 1,001</b>
				<b>\$ 645,849</b>

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Changes in the fair value of recurring fair value measurements using significant unobservable inputs (Level 3) for the three and six months ended September 30, 2014 and 2013 were as follows:

(amounts in thousands)	<b>Three Months Ended September 30, 2014</b>				
	<b>Contingent consideration</b>	<b>Redeemable common stock</b>	<b>Redeemable convertible preferred stock</b>	<b>Deferred compensation - unearned ESOP shares</b>	<b>Total</b>
<b>Balance at June 30, 2014</b>	<b>\$ 2,697</b>	<b>\$ 659,431</b>	<b>\$ 348,898</b>	<b>\$ (233,106)</b>	<b>\$ 777,920</b>
Allocation of ESOP shares to participants				\$ 804	\$ 804
Change in fair value	20	(44,391)	(22,275)	14,956	(51,690)
Payments of contingent consideration liability	(191)				(191)
Transfer from Level 3		(615,040)	(326,623)	217,346	(724,317)
<b>Balance at September 30, 2014</b>	<b>\$ 2,526</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$ 2,526</b>

(amounts in thousands)	<b>Three Months Ended September 30, 2013</b>				
	<b>Contingent consideration</b>	<b>Redeemable common stock</b>	<b>Redeemable convertible preferred stock</b>	<b>Deferred compensation - unearned ESOP shares</b>	<b>Total</b>
<b>Balance at June 30, 2013</b>	<b>\$ 2,571</b>	<b>\$ 532,836</b>	<b>\$ 286,828</b>	<b>\$ (197,310)</b>	<b>\$ 624,925</b>
Allocation of ESOP shares to participants				3,122	3,122
Change in fair value	40	20,353	10,835	(7,649)	23,579
Payments of contingent consideration liability	(144)				(144)
Redemption of Redeemable convertible preferred stock			(2,089)		(2,089)
<b>Balance at September 30, 2013</b>	<b>\$ 2,467</b>	<b>\$ 553,189</b>	<b>\$ 295,574</b>	<b>\$ (201,837)</b>	<b>\$ 649,393</b>

(amounts in thousands)	<b>Six Months Ended September 30, 2014</b>				
	<b>Contingent consideration</b>	<b>Redeemable common stock</b>	<b>Redeemable convertible preferred stock</b>	<b>Deferred compensation - unearned ESOP shares</b>	<b>Total</b>
<b>Balance at March 31, 2014</b>	<b>\$ 2,898</b>	<b>\$ 549,119</b>	<b>\$ 291,720</b>	<b>\$ (197,888)</b>	<b>\$ 645,849</b>
Allocation of ESOP shares to participants				\$ 4,391	\$ 4,391

Change in fair value	2	65,921	34,903	(23,849)	76,977
Payments of contingent consideration liability	(374)				(374)
Transfer from Level 3		(615,040)	(326,623)	217,346	(724,317)
<b>Balance at September 30, 2014</b>	<b>\$ 2,526</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$ 2,526</b>

## Six Months Ended September 30, 2013

(amounts in thousands)	Contingent consideration	Redeemable common stock	Redeemable convertible preferred stock	Deferred compensation - unearned ESOP shares	Total
<b>Balance at March 31, 2013</b>	<b>\$ 2,679</b>	<b>\$ 522,276</b>	<b>\$ 282,547</b>	<b>\$ (196,477)</b>	<b>\$ 611,025</b>
Allocation of ESOP shares to participants				6,049	6,049
Change in fair value	129	30,528	16,173	(11,409)	35,421
Payments of contingent consideration liability	(341)				(341)
Redemption of Redeemable convertible preferred stock			(3,146)		(3,146)
Transfer to Level 3		385			385
<b>Balance at September 30, 2013</b>	<b>\$ 2,467</b>	<b>\$ 553,189</b>	<b>\$ 295,574</b>	<b>\$ (201,837)</b>	<b>\$ 649,393</b>

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For the six months ended September 30, 2014 our Redeemable common stock transferred out of Level 3, as these securities started actively trading on the NYSE during the second quarter of fiscal 2015. In addition, our Redeemable convertible preferred stock and Deferred compensation unearned ESOP were reclassified from a recurring Level 3 fair value measurement to a non-recurring Level 3 fair value measurement as a result of the IPO. See Note 1. Significant Accounting Policies for further information on the IPO. There were no further transfers in or out of Levels 1, 2 and 3 for the fiscal year ended March 31, 2014 and the six months ended September 30, 2014.

### *Valuation of our Contingent Consideration for Acquisitions*

The fair values of the contingent consideration payables were calculated with reference to the estimated future value of the Inserta Tee and Flexstorm businesses, which are based on a discounted cash flow model. The undiscounted value is discounted at the present value using a market discount rate. The categorization of the framework used to price this liability is considered a Level 3, due to the subjective nature of the unobservable inputs used to determine the fair value.

### *Valuation of our Redeemable Common Stock*

The Company has certain shares of common stock outstanding allowing the holder to put its shares to us for cash. This Redeemable common stock was historically recorded at its fair value in the mezzanine equity section of our Condensed Consolidated Balance Sheets and changes in fair value were recorded in Retained earnings. Historically, the fair value of a share of common stock was determined by management by applying industry-appropriate multiples to EBITDA and performing a discounted cash flow analysis. Under the industry-appropriate multiples approach, to arrive at concluded multiples, we considered differences between the risk and return characteristics of ADS and the guideline companies. Under the discounted cash flow analysis, the cash flows expected to be generated by the Company are discounted to their present value equivalent using a rate of return that reflects the relative risk of an investment in ADS, as well as the time value of money. This return is an overall rate based upon the individual rates of return for invested capital (equity and interest-bearing debt). The return, known as the weighted average cost of capital ( WACC ), is calculated by weighting the required returns on interest-bearing debt and common stock in proportion to their estimated percentages in an expected capital structure. The WACC used was 11% as of March 31, 2014. An increase in the WACC would decrease the fair value of the Redeemable common stock. The categorization of the framework used to price this temporary equity is considered a Level 3, due to the subjective nature of the unobservable inputs used to determine the fair value.

The redemption feature of our Redeemable common stock allowing the holder to put its shares to us for cash, as discussed in the previous paragraph, was not in effect upon effectiveness of the IPO on July 25, 2014. As a result, the Redeemable common stock was recorded as mezzanine equity at fair value through the effective date of the IPO and was subsequently reclassified at that fair value to stockholders' equity. See Note 1. Background and Summary of Significant Accounting Policies for more information on the IPO.

### *Nonrecurring Fair Value Measurements*

#### *Valuation of our Redeemable Convertible Preferred Stock*

The Trustee of the Company's ESOP has the ability to put the shares of our Redeemable convertible preferred stock to the Company. Our Redeemable convertible preferred stock is recorded at its fair value in the mezzanine equity section of our Condensed Consolidated Balance Sheets and changes in fair value are recorded in Retained earnings. Accordingly, we estimated the fair value of the Redeemable convertible preferred stock through estimating the fair value of the Company's common stock and applying certain adjustments including for the fair value of the total

dividends to be received and assuming conversion of the Redeemable convertible preferred stock to common stock at the stated conversion ratio per our Certificate of Incorporation. The categorization of the framework used to price this temporary equity is considered a Level 3, due to the subjective nature of the unobservable inputs used to determine the fair value.

Upon the effective date of the IPO, the redemption feature of our Redeemable convertible preferred stock allowing the Trustee of the Company's ESOP to put shares to us for cash was no longer applicable. However, if our common stock, which our Redeemable convertible preferred stock may convert to, is no longer a registration-type class of security (e.g., in the event of a delisting), the option held by the Trustee, which granted it the ability to put the shares of our Redeemable convertible preferred stock to us, would then become applicable. Preferred securities that become redeemable upon a contingent event that is not

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solely within the control of the Company should be classified outside of permanent equity. As of September 30, 2014, the Company has determined that it is not probable that the redemption feature will become applicable. Since the Redeemable convertible preferred stock is not currently redeemable and it is not probable that the instrument will become redeemable, subsequent adjustment to fair value is not required. As such, the Redeemable convertible preferred stock was recorded to fair value at the effective date of the IPO on July 25, 2014 and will remain in mezzanine equity without further adjustment to carrying value unless it becomes probable that the redemption feature will become applicable. See Note 1. Background and Summary of Significant Accounting Policies for more information on the 2014 Initial Public Offering and Note 16. Redeemable Convertible Preferred Stock for further information on the Redeemable convertible preferred stock.

*Valuation of our Goodwill and Indefinite Lived Intangible Assets*

Goodwill and indefinite lived intangible assets are tested for impairment annually as of March 31 or whenever events or changes in circumstances indicate the carrying value may be greater than fair value.

**9. ADS MEXICANA**

We participate in joint ventures from time to time for the purpose of expanding upon our growth of manufacturing and selling HDPE corrugated pipe in emerging markets. We invested in ADS Mexicana for the purpose of expanding upon our growth of manufacturing and selling ADS licensed HDPE corrugated pipe and related products in the Mexican and Central American markets via the joint venture partner's local presence and expertise throughout the region. In April 2013, ADS Worldwide acquired an additional 1% equity interest in its consolidated subsidiary ADS Mexicana stock for \$520, increasing the Company's ownership percentage to 51% from 50%. We have executed a Technology, Patents and Trademarks Sub-License Agreement and a Distribution Agreement with ADS Mexicana that provides ADS Mexicana with the rights to manufacture and sell ADS licensed products in Mexico and Central America. We have concluded that we hold a variable interest in and are the primary beneficiary of ADS Mexicana based on our power to direct the most significant activities of ADS Mexicana and our obligation to absorb losses and our right to receive benefits that could be significant to ADS Mexicana. As the primary beneficiary, we are required to consolidate the assets and liabilities of ADS Mexicana. The equity owned by our joint venture partner is shown as Noncontrolling interest in subsidiaries in our Condensed Consolidated Balance Sheets and our joint venture partner's portion of net income is shown as Net income attributable to noncontrolling interest in our Condensed Consolidated Statements of Operations.

The table below includes the assets and liabilities of ADS Mexicana that are consolidated as of September 30, 2014 and March 31, 2014. The balances exclude intercompany transactions that are eliminated upon consolidation.

(Amounts in thousands)	September 30, 2014	March 31, 2014
<b>Assets</b>		
Current assets	\$ 34,534	\$ 32,877
Property, plant and equipment, net	20,542	21,633
Other noncurrent assets	3,013	3,378
<b>Total assets</b>	<b>\$ 58,089</b>	<b>\$ 57,888</b>
<b>Liabilities</b>		



Current liabilities	\$	11,019	\$	11,595
Noncurrent liabilities		6,539		7,020
<b>Total liabilities</b>	<b>\$</b>	<b>17,558</b>	<b>\$</b>	<b>18,615</b>

#### 10. INVESTMENT IN UNCONSOLIDATED AFFILIATES

We participate in three unconsolidated joint ventures, South American Joint Venture, which is 50%-owned by our wholly-owned subsidiary ADS Chile; BaySaver Technologies, LLC ( BaySaver ), which is 55% owned by our wholly-owned subsidiary ADS Ventures, Inc; and Tigre-ADS USA, Inc. ( Tigre-ADS USA ), which is 49% owned by our wholly-owned subsidiary ADS Ventures, Inc. In each case, the Company has concluded that it is appropriate to account for these investments using the equity method, whereby our share of the income or loss of the joint venture is reported in the Condensed Consolidated Statements of Operations under Equity in net (income) loss of unconsolidated affiliates and our investment in the joint venture is included in Other assets in the Condensed Consolidated Balance Sheets.

**Table of Contents*****South American Joint Venture***

Our investment in this unconsolidated joint venture was formed for the purpose of expanding upon our growth of manufacturing and selling HDPE corrugated pipe in the South American market via the joint venture partner's local presence and expertise throughout the region. We are not required to consolidate South American Joint Venture under ASC 810-10 as we are not the primary beneficiary, although we do hold a significant variable interest through our equity investment and debt guarantee. The results of South American Joint Venture are accounted for in the condensed consolidated financial statements using the equity method of accounting. Our share of the loss of this joint venture is reported in the Condensed Consolidated Statements of Operations under Equity in net loss of unconsolidated affiliates. Our investment in this joint venture is included in Other assets in the Condensed Consolidated Balance Sheets which includes additional capital contributions of \$4,000 and \$2,875 made during the six months ended September 30, 2014 and the fiscal year ended March 31, 2014, respectively. Summarized financial data as of September 30 and March 31, 2014 for the South American Joint Venture is as follows:

<b>(Amounts in thousands)</b>	<b>September 30, 2014</b>	<b>March 31, 2014</b>
Investment in South American Joint Venture	\$ 19,782	\$ 18,422
Receivable from South American Joint Venture	4,660	8,313

***BaySaver***

On July 15, 2013, ADS Ventures, Inc., a wholly-owned subsidiary of the Company, BaySaver Technologies, Inc. ( BTI ) and Mid Atlantic Storm Water Research Center, Inc. entered into an LLC agreement to form a new joint venture, BaySaver. The joint venture was established to design, engineer, manufacture, market and sell water quality filters and separators used in the removal of sediment and pollution from storm water anywhere in the world except New Zealand, Australia and South Africa. The Company contributed \$3,500 in cash, \$1,285 in inventory, and other intangible assets with no carrying value, in exchange for a 55% equity interest and a 50% voting interest in BaySaver. We are not required to consolidate BaySaver under ASC 810-10 as we are not the primary beneficiary, although we do hold a significant variable interest in BaySaver through our equity investment. The Company accounts for its investment in BaySaver under the equity method of accounting. In connection with this investment, the Company acquired a call option to purchase the remaining 45% interest in BaySaver. Also, in connection with the investment, the Company granted a put option enabling the other equity holders to sell their remaining shares in BaySaver to the Company upon the passage of time or the occurrence of certain events. Our share of the income of this joint venture is reported in the Condensed Consolidated Statements of Operations under Equity in net loss of unconsolidated affiliates. Our investment in this joint venture is included in Other assets in the Condensed Consolidated Balance Sheets.

Summarized financial data as of September 30 and March 31, 2014 for the BaySaver joint venture is as follows:

<b>(Amounts in thousands)</b>	<b>September 30, 2014</b>	<b>March 31, 2014</b>
Investment in BaySaver	\$ 5,217	\$ 5,202
Receivable from BaySaver	216	6

Our share of the income of this joint venture is decreased by amortization expense relating to the basis difference between our cost basis in the investment and the basis reflected at the joint venture level. This basis difference is being

recorded over the lives of the underlying assets which gave rise to the basis difference, which is 10 years. The unamortized basis difference as of September 30, 2014 is \$1,739.

***Tigre-ADS USA***

On April 7, 2014, ADS Ventures, Inc., a wholly-owned subsidiary of the Company, and Tigre S.A. Tubos e Conexoes entered into a stock purchase agreement to form a new joint venture, Tigre-ADS USA Inc. The new joint venture was established to manufacture and sell PVC fittings for waterworks, plumbing, and HVAC applications primarily in the United States and Canadian markets. The Company acquired 49% of the outstanding shares of capital stock of Tigre USA, Inc. for \$3,566. The new joint venture represents a continuation of the existing activities of Tigre USA through its Janesville, Wisconsin manufacturing facility. We are not required to consolidate Tigre-ADS USA under ASC 810-10 as we are not the primary beneficiary, although we do hold a significant variable interest in Tigre-ADS USA through our equity investment. The Company accounts for its investment in Tigre-ADS USA under the equity method of accounting. Our share of the loss of this joint venture is reported in the Condensed Consolidated Statements of Operations under Equity in net loss of unconsolidated affiliates. Our investment in this joint venture is included in Other assets in the Condensed Consolidated Balance Sheets.

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Summarized financial data as of September 30, 2014 for the Tigre-ADS USA joint venture is as follows:

<b>(Amounts in thousands)</b>	<b>As reported on Balance Sheet</b>
Investment in Tigre-ADS USA	\$ 3,406
Receivable from Tigre-ADS USA	22

**11. RELATED PARTY TRANSACTIONS***ADS Mexicana*

ADS conducts business in Mexico and Central America through its joint venture ADS Mexicana. ADS owns 51% of the outstanding stock of ADS Mexicana and consolidates its interest in ADS Mexicana for financial reporting purposes. During the three and six months ended September 30, 2014 and 2013, ADS Mexicana compensated certain owners and former owners of Grupa Altima, the JV partner of ADS Mexicana, for consulting services related to the operations of the business and a noncompete arrangement, respectively. These cash payments totaled \$94 and \$169 for the three and six months ended September 30, 2014, respectively, and \$68 and \$99 for the three and six months ended September 30, 2013, respectively.

Occasionally, ADS and ADS Mexicana jointly enter into agreements for pipe sales with their related parties which totaled \$1,027 and \$2,339 for the three and six months ended September 30, 2014, respectively, and \$1,908 and \$3,776 for the three and six months ended September 30, 2013, respectively. Outstanding receivables related to these sales were \$2,052 and \$2,480 as of September 30, 2014 and March 31, 2014, respectively.

We are the guarantor of 100% of ADS Mexicana's credit facility and our maximum potential payment under this guarantee totals \$12,000.

*South American Joint Venture*

Our South American Joint Venture manufactures and sells HDPE corrugated pipe in the South American market. We are the guarantor for 50% of the South American Joint Venture's credit facility, and the debt guarantee is shared equally with the joint venture partner. Our maximum potential obligation under this guarantee totals \$7,000 as of September 30, 2014. The maximum borrowings permitted under the South American Joint Venture's credit facility is \$19,000. This credit facility allows borrowings in either Chilean pesos or US dollars at a fixed interest rate determined at inception of each draw on the facility. The guarantee of South American Joint Venture's debt is for the life of the credit facility which matures on February 5, 2017. ADS does not anticipate any required contributions related to the balance of this credit facility. As of September 30, 2014 and March 31, 2014, the outstanding principal balance of the credit facility including letters of credit was \$12.3 million and \$11.1 million, respectively. The weighted average interest rate as of September 30, 2014 was 3.53% on U.S. dollar denominated loans and 6.76% on Chilean peso denominated loans.

ADS and the South American Joint Venture have entered into shared services arrangements in order to execute the joint venture services. Included within these arrangements are the lease of an office and plant location used to conduct business and operating expenses related to these leased facilities. Occasionally, ADS and South American Joint Venture jointly enter into agreements for pipe sales with their related parties in immaterial amounts.

*BaySaver*

Additionally, ADS holds an equity method investment in BaySaver of approximately 55% which is a joint venture that was established to produce and distribute water quality filters and separators used in the removal of sediment and pollution from storm water. BaySaver may at times provide short-term financing to ADS to enhance liquidity. As of September 30, 2014, BaySaver held an unsecured, interest-free, note receivable from ADS in the amount of \$1,000 which was fully paid subsequent to quarter end.

ADS and BaySaver have entered into shared services arrangements in order to execute the joint venture services. Included within these arrangements are the lease of a plant and adjacent yard used to conduct business and operating expenses related to the leased facility. Occasionally, ADS and BaySaver jointly enter into agreements for sales of pipe and Allied Products with their related parties in immaterial amounts.

**Table of Contents****12. DEBT**

Long-term debt as of September 30 and March 31, 2014 consisted of the following:

(Amounts in thousands)	September 30, 2014	March 31, 2014
<b>Bank Term Loans</b>		
Revolving Credit Facility ADS	\$ 193,800	\$ 248,100
Revolving Credit Facility ADS Mexicana	2,000	
Term note	95,000	97,500
<b>Senior Notes payable</b>	<b>100,000</b>	<b>100,000</b>
<b>Mortgage notes payable</b>	<b>2,833</b>	<b>3,733</b>
<b>Industrial revenue bonds</b>	<b>3,950</b>	<b>4,715</b>
<b>Total</b>	<b>397,583</b>	<b>454,048</b>
Current maturities	(11,148)	(11,153)
<b>Long-term debt obligation</b>	<b>\$ 386,435</b>	<b>\$ 442,895</b>

**Bank Term Loans**

The Bank Term Loans include a Revolving Credit Facility with borrowing capacity of \$325,000 for ADS, Inc., a Revolving Credit Facility for ADS-Mexicana with borrowing capacity of \$12,000 ( the Revolving Credit Facilities ) and a \$100,000 term note ( Term note ). The Revolving Credit Facilities expire and the Term note is due in June 2018. The Revolving Credit Facilities and the Term note have a variable interest rate that depends upon the Company's pricing ratio as defined in the agreements for the Revolving Credit Facilities. The interest rate is derived from the London InterBank Offered Rate ( LIBOR ) or alternate base rate ( Prime Rate ) at the Company's option. The average rate at September 30, 2014 was 2.603%. Any letters of credit outstanding reduce the availability on the revolver. The Company had outstanding letters of credit at September 30, 2014 in the amount of \$8,005. The amount available for borrowing for ADS was \$123,195, plus \$10,000 available under a separate revolving credit facility with our subsidiary, ADS Mexicana, at September 30, 2014.

Per the terms of the agreements for the Revolving Credit Facilities, ADS is not required to hedge its interest exposure using interest rate swaps; however, it is currently the objective of ADS to manage its exposure to variable rate debt. On October 7, 2010, ADS executed two Spot Interest Rate Swaps on the 90-Day LIBOR interest rate. One swap is related to the \$100,000 Term note which was part of the previous credit agreement. This swap is at a fixed rate of 1.105% for a period of four years, and expired on September 1, 2014. The second swap on the Revolving Credit Facility had a value of \$50,000 at a fixed rate of 0.890% for a period of three years, and expired on September 1, 2013.

On July 18, 2013, ADS executed two Forward Interest Rate Swaps on the 30-Day LIBOR interest rate. One swap was for \$50,000 on the Revolving Credit Facility starting on September 3, 2013 at a fixed rate of 0.86% for a period of three years, expiring on September 1, 2016. The second swap executed on July 18, 2013 was for \$50,000 on the Revolving Credit Facility starting on September 2, 2014 at a fixed rate of 1.08% for a period of two years, expiring on September 1, 2016.

**Senior Notes Payable**

In December 2009, we signed an agreement with Prudential Investment Management, Inc. for the issuance of senior promissory notes ( Senior Notes ), for an aggregate amount of up to \$100,000. During fiscal 2010, we issued \$75,000 of Senior Notes with interest fixed at 5.6% and payable quarterly. The rate is subject to an additional 200 basis point excess leverage fee if our calculated leverage ratio exceeds 3 to 1 at the end of a fiscal quarter. A principal payment of \$25,000 is due in each of fiscal years 2017, 2018, and 2019.

In July 2013, ADS issued an additional \$25,000 of Senior Notes. Interest for the additional \$25,000 is payable quarterly and is fixed at 4.05%. The rate is subject to an additional 200 basis point excess leverage fee if calculated leverage ratio exceeds 3 to 1 at the end of a fiscal quarter. A principal payment of \$25,000 is due in September of the fiscal year 2020.

The carrying and fair values of the Company's Senior Notes were \$100,000 and \$103,303, respectively, as of September 30, 2014 and \$100,000 and \$104,511, respectively, at March 31, 2014. The fair value of the Senior Notes was determined based on the interest rate and terms of such borrowings to the rates and terms of similar debt available for the period. The categorization of the framework used to evaluate this debt is considered Level 2. See Note 8. Fair Value Measurement to these financial statements.

**Table of Contents*****Mortgage Notes Payable***

One mortgage note payable with a fixed rate of 5.1% (Hilliard, Ohio) requires monthly installments through fiscal year 2015. In September 2014, a second mortgage with a variable interest rate was paid off (New Miami, Ohio). Land and building with a net book value of approximately \$4,971 at September 30, 2014 collateralize the mortgage note.

***Industrial Revenue Bonds***

Between 1996 and 2007, ADS issued industrial revenue bonds for the construction of four production facilities. Two of the bonds were retired during fiscal 2011 year and one of the bonds was retired in July of fiscal year 2015. The remaining bond has a variable interest rate based on Securities Industry and Financial Markets Association (SIFMA) municipal swap index rate which is computed weekly. The rate on this bond at September 30, 2014 was 3.84%, including a letter of credit fee of 3.75%. Land and buildings with a net book value of approximately \$10,116 at September 30, 2014 collateralize the bond. This bond is not considered an auction rate security.

***Debt Covenants and Dividend Restrictions***

The Bank Term Loans and the Senior Notes require, among other provisions, that we (1) maintain a 1.25 to 1 minimum fixed charge coverage ratio; (2) maintain a maximum leverage ratio of 4 to 1; and (3) establish certain limits on permitted transactions, principally related to indebtedness, capital distributions, loans and investments, and acquisitions and dispositions of assets. Capital distributions, including dividends, are prohibited if we are not in compliance with our debt covenants. In any fiscal year, if we are in compliance with all debt covenants and the pro-forma leverage ratio exceeds 3 to 1, capital distributions are permitted up to a limit of \$50,000.

**13. DERIVATIVE TRANSACTIONS**

The Company uses interest rate swaps, commodity options in the form of collars and swaps, and foreign currency forward contracts to manage its various exposures to interest rate, commodity price, and exchange rate fluctuations. For interest rate swaps, the difference between the spot rate and applicable base rate is recorded in interest expense. For collars, commodity swaps and forward contracts, contract settlement gains and losses are recorded in the Condensed Consolidated Statements of Operations in Cost of goods sold. Gains and (losses) related to the mark-to-market adjustments for changes in fair value of the derivative contracts are recorded in the Condensed Consolidated Statements of Operations as Other miscellaneous expense (income), net. The Company recognized (losses) on mark-to-market adjustments for changes in fair value on derivative contracts of \$(67) and \$(319) for the three months ended September 30, 2014 and 2013, respectively, and \$(163) and \$(238) for the six months ended September 30, 2014 and 2013, respectively.

A summary of the fair values for the various derivatives at September 30, 2014 and March 31, 2014 is presented below:

(Amounts in thousands)	September 30, 2014		March 31, 2014	
	Asset	Liability	Asset	Liability
Interest rate swaps	\$	\$ (639)	\$	\$ (1,001)
Diesel fuel option collars		(8)		
Propylene swaps		(491)	27	



## **14. COMMITMENTS AND CONTINGENCIES**

### ***Purchase Commitments***

We will, from time to time, secure supplies of resin raw material by agreeing to purchase quantities during a future given period at a fixed price. These purchase contracts are short term in nature and occur in the ordinary course of business. Under such purchase contracts, we have agreed to purchase 30,000 pounds of resin over the period October 2014 through December 2014 at a committed purchase cost of \$20,153.

### ***Litigation***

We have been named as a defendant in various litigation matters. Management intends to defend these outstanding claims. We believe we have adequate accrued loss contingencies and that current or threatened litigation matters will not have a material adverse impact on our condensed consolidated results of operations or condensed consolidated financial condition. In management's opinion, none of these proceedings will materially affect our consolidated operations, cash flows, or financial position, and we have recorded adequate accrued liabilities to cover our estimated probable loss exposure.

**Table of Contents****15. ACCUMULATED OTHER COMPREHENSIVE LOSS**

The following table presents the changes in balances of each component of Accumulated other comprehensive loss ( AOCL ) for the period ending September 30:

(Amounts in thousands)	Currency Translation	Other	Accumulated Other Comprehensive Loss
Balance at April 1, 2013	\$ (1,085)	\$ 4	\$ (1,081)
Other comprehensive loss	(1,810)	5	(1,805)
Income tax expense (benefit)		(2)	(2)
<b>Balance at September 30, 2013</b>	<b>\$ (2,895)</b>	<b>\$ 7</b>	<b>\$ (2,888)</b>
Balance at April 1, 2014	(6,838)	8	(6,830)
Other comprehensive loss	(2,525)		(2,525)
<b>Balance at September 30, 2014</b>	<b>\$ (9,363)</b>	<b>\$ 8</b>	<b>\$ (9,355)</b>

**16. REDEEMABLE CONVERTIBLE PREFERRED STOCK**

The Trustee of the Company's ESOP has the ability to put the shares of our Redeemable convertible preferred stock to the Company. The redeemable convertible preferred stock has a required cumulative 2.5% dividend and is convertible at a rate of 0.7692 shares of common stock for each share of Redeemable convertible preferred stock. We guarantee the value of the redeemable convertible preferred stock at \$0.78 per share. The put option requirements of the Internal Revenue Code apply in the event that the Company's common stock is not a registration type class of security. Therefore, the holders of convertible preferred stock have a put right to require us to repurchase such shares in the event that our common stock is not listed for trading or otherwise quoted on the NYSE, AMEX, NASDAQ, or any other market more senior than the OTC Bulletin Board.

Given that the event may trigger redemption of the convertible preferred stock (the listing or quotation on a market more senior than the OTCBB), is not solely within our control, this results in the classification of our convertible preferred stock recorded in the mezzanine section of our Condensed Consolidated Balance Sheets as of September 30, 2014.

In accordance with ASC 480-10-S99, as of September 30, 2014, we did not adjust the carrying value of the convertible preferred stock to its redemption value or recognize any changes in fair value as we did not consider it probable that the convertible preferred stock would become redeemable.

**17. STOCK-BASED COMPENSATION**

*Deferred Compensation    Unearned ESOP Shares*

The fair value of Redeemable convertible preferred stock held by the ESOP trust, but not yet earned by the ESOP participants or used for dividends, is reported as Deferred compensation unearned ESOP shares within the mezzanine equity section of our Condensed Consolidated Balance Sheets.

Compensation expense and related dividends paid with ESOP shares are recognized based upon the average annual fair value of the shares allocated. The shares allocated are for services rendered throughout the period and, therefore, a simple average is used to calculate average annual fair value. Deferred compensation unearned ESOP shares are relieved at the fair value, with any difference between the average fair value and the fair value shares when allocated being added to Additional paid in capital. The fair value of the shares allocated was \$12.50 and \$11.26 per share of Redeemable convertible preferred stock at September 30, 2014 and 2013, respectively, resulting in an average fair value per share of \$12.34 and \$10.92 for the six months ended September 30, 2014 and 2013, respectively. We recognized compensation expense of \$2,687 and \$2,506 for the three months ended September 30, 2014 and 2013, respectively, and \$5,374 and \$5,026 for the six months ended September 30, 2014 and 2013, respectively, related to allocation of ESOP shares to participants for compensation.

### ***Stock Options***

Our 2000 stock option plan ( 2000 Plan ) provides for the issuance of incentive common stock options and nonstatutory common stock options to management based upon the discretion of the Board of Directors. The plan generally provides for grants with the exercise price equal to fair value on the date of grant, which vest in three equal annual amounts beginning in year five and expire after 10 years from issuance.

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In August 2013, a new stock option plan ( 2013 Plan ) was approved by the Board of Directors and, as amended, provides for the issuance of up to 3,323 nonstatutory common stock options to management subject to the Board's discretion. The plan generally provides for grants with the exercise price equal to fair value on the date of grant. The grants vest in five equal annual amounts beginning in year one and expire after 10 years from issuance. Options issued to the Chief Executive Officer vest equally over four years and expire after 10 years from issuance.

For both stock option plans, management determines the fair value of the options based on the Black-Scholes option pricing model. This methodology requires significant inputs including the fair value of our common stock, which is determined with the assistance of an independent appraisal performed by a reputable valuation firm. We recognized total stock-based compensation expense under both plans of \$1,042 and \$387 for the three months ended September 30, 2014 and 2013, respectively, and \$2,379 and \$462 for the six months ended September 30, 2014 and 2013, respectively, which was included with General and administrative expenses in our Condensed Consolidated Statements of Operations. As of September 30, 2014 and 2013, there was a total of \$5,307 and \$9,319, respectively, of unrecognized compensation expense related to unvested stock option awards that will be recognized as an expense as the awards vest over the remaining service period. We had approximately 1,097 and 1,412 shares available for granting under the 2000 and 2013 plans, respectively, as of September 30, 2014.

We estimate the fair value of stock options granted after April 1, 2006, using a Black-Scholes option-pricing model, with assumptions as follows:

	<b>September 30,</b>	
	<b>2014</b>	<b>2013</b>
Expected stock price volatility	40%	44%
Risk-free interest rate	2.1%	2.3%
Weighted-average expected option life (years)	8	8
Dividend yield	0.86%	0.84%

In May 2014, the Board of Directors approved the increase of shares available for granting under the 2013 plan to 1,412 shares.

*2000 Plan*

The stock option transactions as of the six months ended September 30 are summarized as follows:

	<b>2014</b>			<b>2013</b>		
	<b>Number</b>	<b>Weighted</b>	<b>Weighted</b>	<b>Number</b>	<b>Weighted</b>	<b>Weighted</b>
	<b>of Shares</b>	<b>Average</b>	<b>Average</b>	<b>of Shares</b>	<b>Average</b>	<b>Average</b>
		<b>Exercise</b>	<b>Remaining</b>		<b>Exercise</b>	<b>Remaining</b>
		<b>Price</b>	<b>Contractual</b>		<b>Price</b>	<b>Contractual</b>
			<b>Term</b>			<b>Term</b>
Outstanding at beginning of period	913	\$ 9.48	4.1	1,333	\$ 8.10	4.0
Issued	78	15.74		15	13.64	
Exercised	78	7.36		94	7.77	
Forfeited				17	10.77	

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Outstanding at end of period	913	10.20	4.3	1,237	8.19	3.7
Exercisable and vested at end of period	835	9.67	3.8	846	6.80	2.1
Unvested at end of period	78	15.74	9.9	391	11.16	7.1
Vested and expected to vest at end of period	901	\$ 10.12	7.7	1,167	\$ 8.03	3.5

As a result of the 2014 Initial Public Offering (See Note 1. Background and Summary of Significant Accounting Policies), all unvested stock options from prior issuances immediately vest. A new grant of 78 shares was issued in August 2014 at a fair market value of \$15.74 per share. Vesting on this issuance will be recognized as expense as the awards vest over the remaining service period.

The following table summarizes information about the nonvested stock option grants as of the six months ended September 30, 2014:

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	<b>Number of Shares</b>	<b>Weighted Average Grant Date Fair Value</b>
Unvested at beginning of period	428	\$ 5.82
Granted	78	6.76
Vested	428	5.82
Forfeited		
<b>Unvested at end of period</b>	<b>78</b>	<b>\$ 6.76</b>

*2013 Plan*

The stock option transactions as of the six months ended September 30, 2014 for the 2013 Stock Option Plan are summarized as follows:

	<b>September 30, 2014</b>			<b>September 30, 2013</b>		
	<b>Number of Shares</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Term</b>	<b>Number of Shares</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Term</b>
Outstanding at beginning of period	1,911	\$ 13.64	9.4			
Issued equity classified				1,440	13.64	
Issued liability classified				518	13.64	
Exercised					13.64	
Forfeited equity classified				47	13.64	
Outstanding at end of period	1,911	13.64	8.9	1,911	13.64	9.9
Exercisable and vested at end of period	408	13.64	8.9			
Unvested at end of period	1,503	13.64	8.9	1,911	13.64	9.9
Vested and expected to vest at end of period	1,881	13.64	8.9	1,704	13.64	9.9
Fair value of options granted during the period		\$			\$ 6.22	

The following table summarizes information about the nonvested stock option grants as of September 30, 2014:

<b>Number of Shares</b>	<b>Weighted Average Grant Date Fair Value</b>
-----------------------------	---

Unvested at beginning of period	1,911	\$	6.22
Granted			
Vested	408		13.64
Forfeited			
<b>Unvested at end of period</b>	<b>1,503</b>	<b>\$</b>	<b>3.64</b>

***Restricted Stock***

On September 16, 2008, the Board of Directors adopted the restricted stock plan, which provides for the issuance of restricted stock awards to certain key employees. The restricted stock generally vest ratably over a five-year period from the original restricted stock grant date, contingent on the employee's continuous employment by ADS. In certain instances, however, a portion of the grants vested immediately or for accounting purposes were deemed to have vested immediately, including the grants to the Chief Executive Officer, which do not have a substantial risk of forfeiture as a result of different vesting provisions. Under the restricted stock plan, vested shares are considered issued and outstanding. Employees with restricted stock have the right to dividends on the shares awarded (vested and unvested) in addition to voting rights on non-forfeited shares. The Company recognized compensation expense of \$639 and \$593 for the three months ended September 30, 2014 and 2013, respectively, and \$1,548 and \$1,178 for the six months ended September 30, 2014 and 2013, respectively, relating to the issuance of these shares; of this amount, \$0 and \$385 relates to the restricted shares that vested immediately during the six months ended September 30, 2014 and 2013, respectively. We had approximately 333 shares available for granting under this plan as of September 30, 2014.

The following table summarizes information about the unvested restricted stock grants as of September 30, 2014:

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	<b>Number of Shares</b>	<b>Weighted Average Grant Date Fair Value</b>
Unvested at beginning of period	311	\$ 12.40
Granted		
Vested	118	12.06
Forfeited	3	10.66
<b>Unvested at end of period</b>	<b>190</b>	<b>\$ 12.60</b>

We expect most, if not all, restricted stock grants to vest.

As of September 30, 2014, there was approximately \$2,306 of unrecognized compensation expense related to the restricted stock that will be recognized over the remaining service period.

***Non-Employee Director Compensation Plan***

On June 18, 2014, the Company amended its then-existing Stockholder s Agreement to authorize shares of stock to be granted to non-employee members of its Board of Directors. The number of shares authorized amounted to 282. The shares typically vest one year from the date of issuance. Under this stock plan, the vested shares granted are considered issued and outstanding. Non-Employee directors with this stock have the right to dividends on the shares awarded (vested and unvested) in addition to voting rights. On September 6, 2014, a total of 48 shares were granted to seven directors at a fair market value of \$18.88 per share. These shares will vest on February 27, 2015. The Company recognized compensation expense of \$450 and \$0 for the three months ended September 30, 2014 and 2013, respectively, and \$450 and \$0 for the six months ended September 30, 2014 and 2013, respectively, relating to the issuance of these shares. We had approximately 234 shares available for granting under this plan as of September 30, 2014.

The following table summarizes information about the unvested Non-Employee Director compensation stock grants as of September 30, 2014:

	<b>Number of Shares</b>	<b>Weighted Average Grant Date Fair Value</b>
Unvested at beginning of period		\$
Granted	48	18.88
Vested		
Forfeited		
<b>Unvested at end of period</b>	<b>48</b>	<b>\$</b>

We expect all the stock grants to vest.

As of September 30, 2014, there was approximately \$450 of unrecognized compensation expense related to the restricted stock that will be recognized over the remaining service period.



## **18. INCOME TAXES**

The Company's effective tax rate will vary based on a variety of factors, including overall profitability, the geographical mix of income before taxes and related tax rates in jurisdictions where it operates, as well as discrete events. For the six months ended September 30, 2014 and 2013, the Company utilized an effective tax rate of 36.6% and 36.4%, respectively, to calculate its provision for income taxes. These rates are higher than the federal statutory rate of 35% due principally to state and local taxes, partially offset by foreign income taxed at lower rates.

## **19. NET INCOME PER SHARE**

Basic net income per share is calculated by dividing the Net income attributable to common stockholders by the weighted-average number of common shares outstanding during the period, without consideration for common stock equivalents. Diluted net income per share is computed by dividing the Net income attributable to common stockholders by the weighted-average number of common share equivalents outstanding for the period.

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Holders of unvested restricted stock have nonforfeitable rights to dividends when declared on common stock, and holders of Redeemable convertible preferred stock participate in dividends on an as-converted basis when declared on common stock. As a result, unvested restricted stock and Redeemable convertible preferred stock meet the definition of participating securities, which requires us to apply the two-class method to compute both basic and diluted net income per share. The two-class method is an earnings allocation formula that treats participating securities as having rights to earnings that would otherwise have been available to common stockholders.

The dilutive effect of stock options and unvested restricted stock is based on the more dilutive of the treasury stock method or the diluted two-class method. In computing diluted net income per share, income available to common shareholders used in the basic net income per share calculation (numerator) is adjusted, subject to sequencing rules, for certain adjustments that would result from the assumed issuance of potential common shares. Diluted net income per share assumes the Redeemable convertible preferred stock would be cash settled through the effective date of the IPO on July 25, 2014, as we have the choice of settling in cash or shares and we have demonstrated past practice and intent of cash settlement. Therefore these shares are excluded from the calculation through the effective date of the IPO. After the effective date of the IPO, Management's intent is to share settle; therefore, these shares are included in the calculation from July 26, 2014 through September 30, 2014, if dilutive. For purposes of the calculation of diluted net income per share, stock options and unvested restricted stock are considered to be potential common stock and are only included in the calculations when their effect is dilutive.

The Company's Redeemable common stock is included in the weighted-average number of common shares outstanding for calculating basic and diluted net income per share.

The following table presents information necessary to calculate net income per share for the three and six months ended September 30, 2013 and 2014, as well as potentially dilutive securities excluded from the weighted average number of diluted common shares outstanding because their inclusion would have been anti-dilutive:

(Amounts in thousands, except per share data)	Three Months Ended September 30,		Six Months Ended September 30,	
	2014	2013	2014	2013
<b>Net income per share - Basic</b>				
Net income attributable to ADS	\$ 16,844	\$ 14,740	\$ 25,410	\$ 27,714
Adjustment for:				
Change in fair value of redeemable convertible preferred stock	7,319	(3,186)	(11,054)	(4,764)
Dividends to redeemable convertible preferred stock	(37)	(214)	(75)	(430)
Dividends paid to unvested restricted stockholders		(8)		(16)
Net income available to common stockholders and participating securities	24,126	11,332	14,281	22,504
Undistributed income allocated to participating securities	(2,768)	(1,203)	(1,702)	(2,406)
Net income available to common stockholders - Basic	21,358	10,129	12,579	20,098
Weighted average number of common shares outstanding - Basic	51,518	47,250	49,538	47,220
<b>Net income per common share - Basic</b>	<b>\$ 0.41</b>	<b>\$ 0.21</b>	<b>\$ 0.25</b>	<b>\$ 0.43</b>

**Net income per share - Diluted**

Net income available to common stockholders - Basic	\$ 21,358	\$ 10,129	\$ 12,579	\$ 20,098
Undistributed income allocated to participating securities	1,952		601	
Net income available to common stockholders - Diluted	23,310	10,129	13,180	20,098
Weighted average number of common shares outstanding - Basic	51,518	47,250	49,538	47,220
Assumed exercise of preferred stock	4,714		2,382	
Assumed exercise of stock options	231	329	278	414
Weighted average number of common shares outstanding - Diluted	56,463	47,579	52,198	47,634
<b>Net income per common share - Diluted</b>	<b>\$ 0.41</b>	<b>\$ 0.21</b>	<b>\$ 0.25</b>	<b>\$ 0.42</b>
Potentially dilutive securities excluded as anti-dilutive	22	38	57	63

**20. BUSINESS SEGMENTS INFORMATION**

We operate our business in two distinct operating and reportable segments based on the markets we serve: Domestic and International. The Chief Operating Decision Maker ( CODM ) evaluates segment reporting based on net sales and Segment Adjusted EBITDA (a non-GAAP measure). We calculate Segment Adjusted EBITDA as net income or loss before interest, income taxes, depreciation and amortization, stock-based compensation expense, non-cash charges and certain other expenses.

**Domestic** - Our Domestic segment manufactures and markets products throughout the United States. We maintain and serve these markets through strong product distribution relationships with many of the largest national and independent waterworks distributors, major national retailers as well as an extensive network of hundreds of small to medium-sized

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distributors across the U.S. We also sell through a broad variety of buying groups and co-ops in the United States. Products include single wall pipe, N-12 HDPE pipe sold into the Storm sewer and Infrastructure markets, High Performance PP pipe sold into the Storm sewer and sanitary sewer markets, and our broad line of Allied Products including StormTech, Nyloplast, Arc Septic Chambers, Inserta Tee, BaySaver filters and water quality structures, Fittings, and FleXstorm. Our Domestic segment sales are diversified across all regions of the country.

**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 through our joint-ventures, with best-in-class local partners in Mexico, Central America and South America. Our joint venture strategy provides us with local and regional access to new markets such as Brazil, Chile, Argentina, Peru and Colombia. We have been serving the Canadian market through Hancor of Canada since 2003. Our Mexican joint venture through ADS Mexicana primarily serves the Mexican markets, while our joint venture through Tigre ADS is our primary channel to serve the South American markets. Our product line includes single wall pipe, N-12 HDPE pipe, and High Performance PP pipe. The Canadian market also sells our broad line of Allied Products, while sales in Latin America are currently concentrated in fittings and Nyloplast.

The following table sets forth reportable segment information with respect to the amount of net sales contributed by each class of similar products of our consolidated gross profit for the three and six months ended September 30, 2014 and 2013, respectively:

(Amounts in thousands)	Three Months Ended September 30,		Six Months Ended September 30,	
	2014	2013	2014	2013
<b>Domestic</b>				
Pipe	\$ 241,713	\$ 223,099	\$ 457,749	\$ 411,179
Allied Products	78,063	72,008	151,652	138,455
<b>Total domestic</b>	<b>319,776</b>	<b>295,107</b>	<b>609,401</b>	<b>549,634</b>
<b>International</b>				
Pipe	38,218	30,496	68,149	60,600
Allied Products	8,720	7,124	15,598	15,072
<b>Total international</b>	<b>46,938</b>	<b>37,620</b>	<b>83,747</b>	<b>75,672</b>
<b>Total net sales</b>	<b>\$ 366,714</b>	<b>\$ 332,727</b>	<b>\$ 693,148</b>	<b>\$ 625,306</b>

The following sets forth certain additional financial information attributable to our reportable segments for the three and six months ended September 30, 2014, and 2013, respectively:

(Amounts in thousands)	Three Months Ended September 30,		Six Months Ended September 30,	
	2014	2013	2014	2013
<b>Net sales</b>				

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Domestic	\$ 319,776	\$ 295,107	\$ 609,401	\$ 549,634
International	46,938	37,620	83,747	75,672
<b>Total</b>	<b>\$ 366,714</b>	<b>\$ 332,727</b>	<b>\$ 693,148</b>	<b>\$ 625,306</b>
<b>Gross profit</b>				
Domestic	\$ 65,574	58,073	119,641	107,804
International	4,189	7,515	10,980	14,134
<b>Total</b>	<b>\$ 69,763</b>	<b>\$ 65,588</b>	<b>\$ 130,621</b>	<b>\$ 121,938</b>
<b>Segment Adjusted EBITDA</b>				
Domestic	\$ 53,904	45,290	94,896	83,426
International	1,296	5,228	5,432	10,568
<b>Total</b>	<b>\$ 55,200</b>	<b>\$ 50,518</b>	<b>\$ 100,328</b>	<b>\$ 93,994</b>
<b>Interest expense, net</b>				
Domestic	\$ 5,020	4,667	10,062	9,360
International	24	54	33	90
<b>Total</b>	<b>\$ 5,044</b>	<b>\$ 4,721</b>	<b>\$ 10,095</b>	<b>\$ 9,450</b>
<b>Depreciation and amortization</b>				
Domestic	\$ 14,937	14,550	29,595	28,993
International	1,437	1,335	2,805	2,717
<b>Total</b>	<b>\$ 16,374</b>	<b>\$ 15,885</b>	<b>\$ 32,400</b>	<b>\$ 31,710</b>

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(Amounts in thousands)	Three Months Ended		Six Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
<b>Equity in net income (loss) of unconsolidated affiliates</b>				
Domestic	\$ 251	114	404	114
International	(313)	(306)	(1,128)	(632)
<b>Total</b>	<b>\$ (62)</b>	<b>\$ (192)</b>	<b>\$ (724)</b>	<b>\$ (518)</b>
<b>Capital expenditures</b>				
Domestic	\$ 7,869	6,926	14,788	17,864
International	295	1,493	808	3,697
<b>Total</b>	<b>\$ 8,164</b>	<b>\$ 8,419</b>	<b>\$ 15,596</b>	<b>\$ 21,561</b>

The following sets forth certain additional financial information attributable to our reporting segments as of September 30, 2014, and March 31, 2014, respectively:

	September 30,	March
	2014	31,
		2014
<b>Investment in unconsolidated affiliates</b>		
Domestic	\$ 8,623	\$ 5,202
International	19,782	18,422
<b>Total</b>	<b>\$ 28,405</b>	<b>\$ 23,624</b>
<b>Total identifiable assets</b>		
Domestic	\$ 962,465	\$ 889,263
International	121,153	113,612
Eliminations	(15,458)	(13,308)
<b>Total</b>	<b>\$ 1,068,160</b>	<b>\$ 989,567</b>

**Reconciliation of Segment EBITDA and Segment Adjusted EBITDA to Net Income**

(Amounts in thousands)	Three Months Ended September 30,			
	2014		2013	
	Domestic	International	Domestic	International
Net income	\$ 17,603	\$ 1,394	\$ 12,263	\$ 4,394
Depreciation and amortization	14,937	1,437	14,550	1,335
Interest expense	5,020	24	4,667	54
Income tax expense	10,897	(1,971)	9,778	(850)

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Segment EBITDA	48,457	884	41,258	4,933
Derivative fair value adjustment	67		319	
Foreign currency transaction losses		(205)		(181)
Loss on disposal of assets or businesses	251	30	186	18
Unconsolidated affiliates interest, tax, depreciation and amortization (a)	291	587	1	458
Contingent consideration remeasurement	20		40	
Stock-based compensation	2,131		980	
ESOP deferred compensation	2,687		2,506	
<b>Segment Adjusted EBITDA</b>	<b>\$ 53,904</b>	<b>\$ 1,296</b>	<b>\$ 45,290</b>	<b>\$ 5,228</b>

- (a) Includes our proportional share of interest, income taxes, depreciation and amortization related to our South American Joint Venture, our BaySaver Joint Venture and our Tigre-ADS USA Joint Venture, which are accounted for under the equity method of accounting.

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**Table of Contents****Reconciliation of Segment EBITDA and Segment Adjusted EBITDA to Net Income**

(Amounts in thousands)	Six Months Ended September 30,			
	2014		2013	
	Domestic	International	Domestic	International
Net income	\$ 25,446	\$ 2,992	\$ 24,097	\$ 7,109
Depreciation and amortization	29,595	2,805	28,993	2,717
Interest expense	10,062	33	9,360	90
Income tax expense	18,311	(1,492)	18,369	(230)
<b>Segment EBITDA</b>	<b>83,414</b>	<b>4,338</b>	<b>80,819</b>	<b>9,686</b>
Derivative fair value adjustment	163		238	
Foreign currency transaction losses		(75)		(87)
Loss (gain) on disposal of assets or businesses	311	34	(4,546)	14
Unconsolidated affiliates interest, tax, depreciation and amortization <sup>(a)</sup>	540	1,135	2	955
Contingent consideration remeasurement	2		129	
Stock-based compensation	4,377		1,640	
ESOP deferred compensation	5,374		5,026	
Transaction costs <sup>(b)</sup>	715		118	
<b>Segment Adjusted EBITDA</b>	<b>\$ 94,896</b>	<b>\$ 5,432</b>	<b>\$ 83,426</b>	<b>\$ 10,568</b>

(a) Includes our proportional share of interest, income taxes, depreciation and amortization related to our South American Joint Venture, our BaySaver Joint Venture and our Tigre-ADS USA Joint Venture, which are accounted for under the equity method of accounting.

(b) Represents expenses recorded related to legal, accounting and other professional fees incurred in connection with our debt refinancing and completion of the IPO.

**21. SUBSEQUENT EVENTS**

We evaluated subsequent events through November 10, 2014, the date these condensed consolidated financial statements were originally available to be issued.



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### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*Our fiscal year begins on April 1 and ends on March 31. Unless otherwise noted, references to year pertain to our fiscal year. For example, 2015 refers to fiscal 2015, which is the period from April 1, 2014 to March 31, 2015.*

*The following discussion and analysis of the financial condition and results of our operations should be read in conjunction with our condensed consolidated financial statements and related footnotes included elsewhere in this report and with our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended March 31, 2015 (filed concurrently with this Amendment No. 1 to our Form 10-Q) which includes our restated consolidated financial statements for the year ended March 31, 2014. In addition to historical condensed consolidated financial information, the following discussion contains forward-looking statements that reflect our plans, estimates, and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. 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 in the forward-looking statements. For more information, see the section below entitled *Forward Looking Statements*.*

*We consolidate all of our joint ventures for purposes of GAAP, except for our South American Joint Venture, our BaySaver Joint Venture, and our Tigre-ADS USA 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 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.

**Recent Developments**

On July 11, 2014, in anticipation of the IPO, we executed a 4.707-for-one split of our common and our preferred stock. The effect of the stock split on outstanding shares and earnings per share has been retroactively applied to all periods presented.

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On July 25, 2014, we completed the IPO of our common stock, which resulted in the sale by the Company of 5,289,000 shares, bringing the total number of shares issued and outstanding as of July 25, 2014 to 52,881,000. We received total proceeds from the IPO of \$79.1 million after excluding underwriter discounts and commissions of \$5.5 million, based upon the price to the public of \$16.00 per share. After deducting other offering expenses, we used the net proceeds to reduce the outstanding indebtedness under the revolving portion of our credit facility. The common stock is listed on the New York Stock Exchange under the symbol WMS.

On August 22, 2014, an additional 600,000 shares of common stock were sold by certain selling stockholders of the Company to the underwriters as part of the Company's IPO. The sale of additional shares resulted from a partial exercise by the underwriters of the over-allotment option granted by the selling stockholders to the underwriters in connection with the IPO. The shares were sold at the public offering price of \$16.00 per share. The Company did not receive any proceeds from the sale of such additional shares.

**Restatement of Previously Issued Financial Statements**

The accompanying Management's Discussion and Analysis of Financial Condition and Results of Operations gives effect to the restatement adjustments made to the previously reported Condensed Consolidated Statements of Operations for the three and six months ended September 30, 2014 and the Condensed Consolidated Balance Sheets as of September 30, 2014 and March 31, 2014. For additional information and a detailed discussion of the restatement, see Note 2. Restatement of Previously Issued Financial Statements included in Part I. Financial Information, of this Form 10-Q/A.

**Results of Operations****Three Months Ended September 30, 2014 Compared With Three Months Ended September 30, 2013**

The following tables summarize certain financial information relating to our operating results that have been derived from our condensed consolidated financial statements for the three months ended September 30, 2014 and 2013. 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)	Three Months Ended		Three Months Ended		% Variance
	September 30, 2014 (As Restated) <sup>(a)</sup>	% of Net Sales	September 30, 2013 (As Restated) <sup>(a)</sup>	% of Net Sales	
<b>Consolidated Statements of Operations data:</b>					
Net sales	\$ 366,714	100.0%	\$ 332,727	100.0%	10.2%
Cost of goods sold	296,951	81.0%	267,139	80.3%	11.2%
Gross profit	69,763	19.0%	65,588	19.7%	6.4%
Selling expenses	20,240	5.5%	18,635	5.6%	8.6%
General and administrative expenses	13,843	3.8%	13,655	4.1%	1.4%
Loss on sale of assets or businesses	281	0.1%	204	0.1%	37.7%

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Intangible amortization	2,610	0.7%	2,620	0.8%	(0.4%)
Income from operations	32,789	8.9%	30,474	9.2%	7.6%
Interest expense	5,044	1.4%	4,721	1.4%	6.8%
Other miscellaneous income, net	(240)	(0.1%)	(24)	%	900.0%
Income before income taxes	27,985	7.6%	25,777	7.7%	8.6%
Income tax expense	8,926	2.4%	8,928	2.7%	%
Equity in net loss of unconsolidated affiliates	62	%	192	0.1%	(67.7%)
Net income	18,997	5.2%	16,657	5.0%	14.0%
Less net income attributable to the non-controlling interest	2,153	0.6%	1,917	0.6%	12.3%
Net income attributable to ADS	\$ 16,844	4.6%	\$ 14,740	4.4%	14.3%
<b>Other financial data:</b>					
Adjusted EBITDA <sup>(b)</sup>	\$ 55,200	15.1%	\$ 50,518	15.2%	9.3%
System-Wide Net Sales <sup>(b)</sup>	\$ 390,610	106.5%	\$ 351,886	105.8%	11.0%
Adjusted Earnings Per Fully Converted Share <sup>(b)</sup>	\$ 0.27		\$ 0.25		7.1%

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- (a) See Note 2. Restatement of Previously Issued Financial Statements to our consolidated financial statements.  
 (b) See section entitled Non-GAAP Financial Measures for further information.

*Net sales*

(Amounts in thousands)	Three Months Ended September 30,	
	2014 (As Restated) <sup>(a)</sup>	2013 (As Restated) <sup>(a)</sup>
<b>Domestic</b>		
Pipe	\$ 241,713	\$ 223,099
Allied Products	78,063	72,008
Total domestic	<b>319,776</b>	<b>295,107</b>
<b>International</b>		
Pipe	38,218	30,496
Allied Products	8,720	7,124
Total international	46,938	37,620
<b>Total net sales</b>	<b>\$ 366,714</b>	<b>\$ 332,727</b>

- (a) See Note 2. Restatement of Previously Issued Financial Statements to our consolidated financial statements. Net sales for the second quarter ended September 30, 2014 totaled \$366.7 million, increasing \$34.0 million, or 10.2%, over the comparable prior year period.

Domestic net sales increased \$24.7 million, or 8.4%, for the second quarter ended September 30, 2014, as compared to the prior year period. The sales growth was broken down between our domestic pipe and Allied Products, which increased \$18.6 million and \$6.1 million, respectively, for the three months ended September 30, 2014. Domestic pipe sales increased \$18.6 million, or 8.3%, due to continued growth in our N-12 HDPE and High Performance PP product lines offsetting lower Agricultural single wall sales. Pipe selling prices increased 5.7% as compared to the prior year. Domestic Allied Product sales increased \$6.1 million, or 8.4%, led by our StormTech, Nyloplast, Inserta Tee and FleXstorm product lines. Excluding \$2.2 million of domestic Allied Product lines sold in fiscal 2014 (a Precast structures business), Domestic Allied Product sales increased \$8.3 million, or 11.8%, for the three months ended September 30, 2014 as compared to prior year sales of continuing products.

International net sales for the second quarter ended September 30, 2014 increased \$9.3 million, or 24.8%, over the comparable fiscal year 2014 period. The growth was primarily due to increased sales in Canada and Mexico. Favorable weather conditions in Canada for the second quarter resulted in strong sales in the agricultural markets as well as continued acceptance and sales growth of Allied Products across all end markets. Improved public spending and continued positive sales momentum in the electrical conduit market were the main factors in increased second quarter net sales in Mexico versus the comparable prior year period.

System-Wide Net Sales for the second quarter ended September 30, 2014 were \$390.6 million, an increase of \$38.7 million, or 11.0%, over System-Wide Net Sales of \$351.9 million for the second quarter of fiscal 2014. Net sales at our South American Joint Venture operation were negatively impacted by continued softness in the mining markets and an overall construction slowdown due to a declining economic environment and reduced public spending. Net sales growth from our domestic joint ventures (Tigre-ADS USA and BaySaver) provided a combined increase of \$5.5 million in net sales for the unconsolidated joint ventures for the three months ended September 30 2014, as compared to the prior year period. Tigre-ADS USA was formed in the first quarter of fiscal year 2015 and our BaySaver was formed in the second quarter of fiscal year 2014.

*Cost of goods sold and Gross profit*

Gross profit for the second quarter ended September 30, 2014 increased \$4.2 million, or 6.4%, over the comparable period for fiscal year 2014.

Domestic gross profit increased \$7.5 million, or 12.9%, to \$65.6 million for the three months ended September 30, 2014 as compared to \$58.1 million during the prior year. The increase was primarily due to sales growth in our N-12 HDPE pipe and High Performance PP pipe product lines and Allied Product lines. Raw material prices increased 11.5% due to higher virgin and non-virgin resin prices for the second quarter of fiscal 2015 as compared to the prior period. Freight costs totaled 8.9% of Domestic net sales for the three months ended September 30, 2014, compared to 9.3% for the prior year period. Strong sales growth in higher margin Allied Products provided an improved profitability mix for the quarter compared to the prior year.

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International gross profit decreased \$3.3 million, or 44.3%, for the second quarter of fiscal year 2015 over the comparable fiscal year 2014 period despite the strong sales growth in the quarter. International gross profit decreased primarily due to the impact of continued devaluation of the Canadian dollar versus the U.S. dollar and its impact on overall Canadian market selling prices in the second quarter. Raw material prices moved sharply higher (which are primarily purchased in U.S. dollars) and higher freight costs compared to the prior year period also contributed to the declining gross profit for the three months ended September 30, 2014.

Gross profit as a percentage of net sales totaled 19.0% for the second quarter ended September 30, 2014 as compared to 19.7% for the comparable second quarter fiscal 2014.

### *Selling expenses*

Selling expenses consist of field selling, customer service and commission expenditures for personnel engaged in sales and sales support functions. Field selling and customer service expenditures primarily consists of personnel costs (salaries, benefits, and variable sales commissions), travel and entertainment expenses, marketing, promotion, and advertising expenses, as well as bad debt provisions.

Selling expenses for the three months ended September 30, 2014 increased \$1.6 million, or 8.6%, over the comparable fiscal year 2014 period. The increase was primarily the result of increases in variable selling expenses due to higher sales volume and investments in additional sales coverage and growth initiatives. As a percentage of net sales, selling expenses remained relatively flat at 5.5% for the second quarter of fiscal 2015 as compared to 5.6% the prior fiscal year 2014 period.

### *General and administrative expenses*

General and administrative expenses consists 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.

General and administrative expenses for the three months ended September 30, 2014 increased \$0.2 million, or 1.4%, over the comparable fiscal year 2014 period.

The modest increase in overall expenses was the result of offsetting activity. The \$1.2 million increase in non-cash stock-based compensation was due to an increase of \$0.7 million of non-cash compensation related to stock option plans and \$0.5 million of non-cash compensation expense related to the non-employee director compensation stock plan created in the second quarter of fiscal 2015. This higher expense was partially offset by lower corporate overhead and departmental expenses that amount to a reduction of approximately \$1.0 million.

### *Intangibles amortization*

Intangibles amortization for the three months ended September 30, 2014 was essentially flat compared to the three months ended September 30, 2013.

### *Interest expense*

Interest expense for the three months ended September 30, 2014 increased \$0.3 million, or 6.8%, over the comparable fiscal year 2014 period. The increase in the current year second quarter was due to a higher average interest rate on

our outstanding indebtedness and a higher average long term debt balance.

*Income tax expense*

Income tax expense for the three months ended September 30, 2014 was essentially flat compared to the three months ended September 30, 2013.

*Net income attributable to ADS and Net income per share*

Second quarter net income attributable to ADS for fiscal year 2015 of approximately \$16.8 million increased 14.3% from the preceding fiscal year's net income attributable to ADS for the quarter of \$14.7 million, as influenced by the factors noted above. Net income per share for the second quarter fiscal year 2015 totaled \$0.41 per basic and diluted share, as compared to \$0.21 per basic and diluted share recorded in the comparable prior year period. The income per share for the three months ended September 30, 2014 is



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primarily related to higher revenues as well as a favorable adjustment related to the fair value appreciation on convertible preferred stock classified in mezzanine equity which increased income available to common shareholders by \$7.3 million, or \$0.14 and \$0.13 per basic and diluted share, respectively, for common shareholders.

*Adjusted EBITDA*

(Amounts in thousands)	Three Months Ended September 30,		
	2014 (As Restated) (a)	2013 (As Restated) (a)	% Change
Domestic	\$ 53,904	\$ 45,290	19.0%
International	1,296	5,228	(75.2%)
<b>Total adjusted EBITDA</b>	<b>\$ 55,200</b>	<b>\$ 50,518</b>	<b>9.3%</b>
As a percentage of net sales	15.1%	15.2%	

(a) See Note 2. Restatement of Previously Issued Financial Statements to our consolidated financial statements. Adjusted EBITDA for the second quarter of fiscal year 2015 increased by \$4.7 million or 9.3% over the comparable fiscal year 2014 period.

Domestic adjusted EBITDA totaled \$53.9 million for the three months ended September 30, 2014 compared to \$45.3 million for the prior year second quarter. International adjusted EBITDA totaled \$1.3 million for the second quarter of fiscal 2015 compared to earnings of \$5.2 million for the prior period.

Adjusted EBITDA as a percentage of net sales totaled 15.1% and 15.2% for the three months ended September 30, 2014 and 2013, respectively.

***Six Months Ended September 30, 2014 Compared With Six Months Ended September 30, 2013***

The following tables summarize certain financial information relating to our operating results that have been derived from our condensed consolidated financial statements for the six months ended September 30, 2014 and 2013. 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)	Six Months Ended September 30, 2014		Six Months Ended September 30, 2013		% Variance
	(As Restated) (a)	% of Net Sales	(As Restated) (a)	% of Net Sales	
Net Sales	\$ 693,148	100.0%	\$ 625,306	100.0%	10.8%
Cost of goods sold	562,527	81.2%	503,368	80.5%	11.8%
Gross Profit	130,621	18.8%	121,938	19.5%	7.1%

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Selling expenses	39,792	5.7%	35,155	5.6%	13.2%
General and administrative expenses	29,641	4.3%	26,742	4.3%	10.8%
Loss (gain) on sale of business	345	%	(4,532)	(0.7%)	(107.6%)
Intangible amortization	5,223	0.8%	5,240	0.8%	(0.3%)
Income from operations	55,620	8.0%	59,333	9.5%	(6.3%)
Interest expense	10,095	1.5%	9,450	1.5%	6.8%
Other miscellaneous (expense) income, net	(456)	(0.1%)	20	0.0%	(2,380.0%)
Income before income taxes	45,981	6.6%	49,863	8.0%	(7.8%)
Income tax expense	16,819	2.4%	18,139	2.9%	(7.3%)
Equity in net loss of unconsolidated affiliates	724	0.1%	518	0.1%	39.8%
Net income	28,438	4.1%	31,206	5.0%	(8.9%)
Less net income attributable to the non-controlling interests	3,028	0.4%	3,492	0.6%	(13.3%)
Net income attributable to ADS	\$ 25,410	3.7%	\$ 27,714	4.4%	(8.3%)
Other financial data:					
Adjusted EBITDA <sup>(b)</sup>	\$ 100,328	14.5%	\$ 93,994	15.0%	6.7%
System-Wide Net Sales <sup>(b)</sup>	736,834	106.3%	660,607	105.6%	11.5%
Adjusted Earnings per Fully Converted Share <sup>(b)</sup>	\$ 0.44		\$ 0.48		(8.6%)

(a) See Note 2. Restatement of Previously Issued Financial Statements to our consolidated financial statements.

(b) See section entitled Non-GAAP Financial Measures for further information.

**Table of Contents***Net sales*

(Amounts in thousands)	Six Months Ended September 30,	
	2014	2013
	(As Restated) <sup>(a)</sup>	(As Restated) <sup>(a)</sup>
<b>Domestic</b>		
Pipe	\$ 457,749	\$ 411,179
Allied Products	151,652	138,455
Total domestic	<b>609,401</b>	<b>549,634</b>
<b>International</b>		
Pipe	68,149	60,600
Allied Products	15,598	15,072
Total international	<b>83,747</b>	<b>75,672</b>
<b>Total net sales</b>	<b>\$ 693,148</b>	<b>\$ 625,306</b>

(a) See Note 2. Restatement of Previously Issued Financial Statements to our consolidated financial statements. Net sales totaled \$693.1 million for the six months ended September 30, 2014, increasing \$67.8 million, or 10.8%, over the comparable period for fiscal year 2014.

Domestic net sales increased \$59.8 million, or 10.9%, for the six months ended September 30, 2014, as compared to prior year period. The increase in domestic sales was due to continued strong sales growth in the non-residential, infrastructure, and residential markets, offsetting a decline in Agricultural sales due to less summer drainage work. The sales growth was broken down between our domestic pipe and Allied Products, which increased \$46.6 million and \$13.2 million, respectively, for the six months ended September 30, 2014. Domestic pipe sales increased \$46.6 million, or 11.3%, due to continued growth in our N-12 HDPE pipe and High Performance PP pipe product lines offsetting lower Agricultural single wall sales. Domestic Allied Product sales increased \$13.2 million, or 9.5%, due to strong sales volume sold primarily into the non-residential, residential and infrastructure markets. Excluding \$5.1 million in sales of Allied Product lines sold in fiscal 2014, Allied Product sales increased \$18.3 million, or 13.7%, for the six months ended September 30, 2014 as compared to prior year sales of continuing products. Pipe selling prices increased 5.1% as compared to the prior year.

International net sales increased \$8.1 million, or 10.7%, for the six months ended September 30, 2014 over the comparable fiscal year 2014 period. The growth was primarily due to increased sales in Canada and Mexico. Favorable weather conditions in Canada for the second quarter resulted in strong sales in the agricultural markets as well as fiscal year to date sales growth of Allied Products across all end markets. Improved public spending and continued positive sales momentum in the electrical conduit market were the main factors in the increased six month net sales in Mexico versus the comparable prior year period.

System-Wide Net Sales were \$736.8 million for the first six months of fiscal year 2015, an increase of \$76.2 million, or 11.5%, over System-Wide Net Sales of \$660.6 million for the first six months of fiscal year 2014. Net sales at our South American Joint Venture operation were negatively impacted by continued softness in the mining markets and an overall construction slowdown due to a declining economic environment and reduced public spending. Net sales from our domestic joint ventures (Tigre-ADS USA and Baysaver) provided a combined increase of \$11.4 million in net sales for unconsolidated joint ventures for the six months ended September 30, 2014 as compared to the prior year. Our Tigre-ADS USA Joint Venture was formed in the first quarter of fiscal year 2015 and our Baysaver Joint Venture was formed in the second quarter of fiscal year 2014.

*Cost of goods sold and Gross profit*

Gross profit for the six months ended September 30, 2014 increased \$8.7 million, or 7.1%, over the comparable prior year period.

Domestic gross profit increased \$11.8 million, or 11.0%, to \$119.6 million for the six months ended September 30, 2014 as compared to \$107.8 million during the prior year. The increase was primarily due to sales growth in our N-12 HDPE pipe and High Performance PP pipe product lines and Allied Product lines. Raw material prices increased 10% due to higher virgin and non-virgin resin prices for the first six months of fiscal 2015 as compared to the prior period. Freight costs totaled 9.3% of net sales for the six months ended September 30, 2014, compared to 9.5% for the prior year period.

International gross profit decreased \$3.2 million, or 22.3%, for the first six months of fiscal year 2015 over the comparable fiscal year 2014 period primarily due to the impact of continued devaluation of the Canadian dollar versus the U.S. dollar and its

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impact on overall Canadian market selling prices, especially in the second quarter. Raw material prices moved higher (which are primarily purchased in U.S. dollars) and higher freight costs compared to the prior year period also contributed to the declining pipe gross profit for the six months ended September 30, 2014.

Gross profit as a percentage of net sales totaled 18.8% for the six months ended September 30, 2014 as compared to 19.5% for the prior year.

### *Selling expenses*

Selling expenses consist of field selling, customer service and commission expenditures for personnel engaged in sales and sales support functions. Field selling and customer service expenditures primarily consists of personnel costs (salaries, benefits, and variable sales commissions), travel and entertainment expenses, marketing, promotion, and advertising expenses, as well as bad debt provisions.

Selling expenses for the six months ended September 30, 2014 increased \$4.6 million, or 13.2%, over the comparable fiscal year 2014 period. The increase was primarily the result of increases in variable selling expenses due to higher sales volume and investments in additional sales coverage and growth initiatives. As a percentage of net sales, selling expenses increased to 5.7% for the first six months of fiscal 2015 as compared to 5.6% in the prior year.

### *General and administrative expenses*

General and administrative expenses consists 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.

General and administrative expenses for the six months ended September 30, 2014 increased \$2.9 million, or 10.8%, over the comparable fiscal year 2014 period. The increase was primarily the result of increases in non-cash stock-based compensation of \$2.7 million, higher professional fees of \$1.2 million, and reduced corporate overhead expenses of \$1.0 million.

The \$2.7 million increase in non-cash stock-based compensation was due to a \$1.9 million increase in non-cash compensation related to our stock option plans, primarily the 2013 stock option plan that was implemented late in the second quarter of fiscal 2014, \$0.3 million of accelerated non-cash compensation related to immediate vesting restricted stock shares as the result of the IPO, and \$0.5 million of non-cash compensation expense related to the non-employee director compensation stock plan created in the second quarter of fiscal 2015.

The \$1.2 million increase in professional fees was due to audit services of \$0.8 million in connection with the IPO and additional professional and consulting fees of \$0.4 million associated with being a public company.

### *(Gain) loss on disposal of assets or businesses*

(Gain) loss on the sale of assets or business for the six months ended September 30, 2014 was a loss of \$0.3 million compared to a gain of \$4.5 million over the comparable prior year period. The Company sold its Draintech product line during the first quarter of fiscal year 2014.

### *Intangibles amortization*

Intangibles amortization for the six months ended September 30, 2014 was essentially flat when compared with the same period in the prior year.

*Interest expense*

Interest expense for the six months ended September 30, 2014 increased \$0.6 million, or 6.8%, over the comparable prior year period. The increase was due to a higher average interest rate on our outstanding indebtedness and a higher average outstanding balance in addition to a 2% surcharge on our Term notes paid during the first quarter of fiscal 2015 due to our leverage ratio of Adjusted EBITDA to Funded Debt exceeding 3 times at September 30, 2014. The surcharge increased interest expense by \$0.5 million. We repaid a portion of our outstanding indebtedness with the net proceeds from our initial public offering which closed on July 25, 2014. This repayment reduced our leverage ratio below 3 times at September 30, 2014 and eliminated the surcharge on the Term notes for the second quarter of fiscal 2015.

**Table of Contents***Other miscellaneous (income) expenses, net*

Other miscellaneous (income) expense amounted to \$0.5 million income during the nine months ended September 30, 2014. Favorable mark-to-market adjustments for changes in fair value on derivative contracts contributed to the income during the current period.

*Income tax expense*

For the six months ended September 30, 2014 and 2013, the Company recorded income tax provisions of \$16.8 million and \$18.1 million, respectively, which represents an effective tax rate of 36.6% and 36.4%, respectively. These rates are higher than the federal statutory rate of 35% due principally to state and local income taxes, partially offset by foreign income taxed at lower rates. The effective tax rate for the first six months of the fiscal year 2015 is higher than the prior year period primarily due to the shift in the projections of the proportion of income earned and lower income before income taxes increasing the impact of non-deductible items in our tax calculations.

*Equity in net loss of unconsolidated affiliates*

Equity in net loss of unconsolidated affiliates represent our proportionate share of net loss attributed to the three unconsolidated joint ventures in which we have significant influence, but not control, over operations. Equity net loss of unconsolidated affiliates for the six months ended September 30, 2014 increased \$0.2 million over the comparable prior year period.

*Income attributable to non-controlling interests*

Income attributable to non-controlling interests decreased \$0.5 million for the six months ended September 30, 2014 compared to the comparable prior year period.

*Net income attributable to ADS and Net income (loss) per share*

Year to date net income attributable to ADS of approximately \$25.4 million decreased from the preceding fiscal year's net income attributable to ADS of \$27.7 million, as influenced by the factors noted above. Net income per share for the first six months of fiscal year 2015 totaled \$0.25 per basic and diluted share, as compared to \$0.43 and \$0.42 per basic and diluted share, respectively, recorded in the comparable prior year period. The income per share for the six months ended September 30, 2014 is impacted by changes in fair value appreciation on convertible preferred stock classified in mezzanine equity which reduced income available to common shareholders by \$11.1 million, or \$0.22 and \$.021 per basic and diluted share, respectively, for common shareholders.

*Adjusted EBITDA*

(Amounts in thousands)	Six Months Ended September 30,		
	2014	2013	% Change
	(As Restated) <sup>(a)</sup>	(As Restated) <sup>(a)</sup>	
Domestic	\$ 94,896	\$ 83,426	13.7%
International	5,432	10,568	(48.6%)
<b>Total adjusted EBITDA</b>	<b>\$ 100,328</b>	<b>\$ 93,994</b>	<b>6.7%</b>

As a percentage of net sales

14.5%

15.0%

(a) See Note 2. Restatement of Previously Issued Financial Statements to our consolidated financial statements. Adjusted EBITDA for the first six months of fiscal year 2015 increased by \$6.3 million or 6.7% over the comparable fiscal year 2014 period. Excluding the impact of the one-time \$4.8 million gain from the sale of the Drintech business during the first quarter of fiscal 2014, adjusted EBITDA increased \$11.1 million or 12.5% for the six months ended September 30, 2014 as compared to the prior year (\$100.3 million compared to an adjusted \$89.2 million for the prior year).

Domestic adjusted EBITDA totaled \$94.9 million for the six months ended September 30, 2014 compared to \$83.4 million in the prior year (which included the impact of the one-time \$4.8 million gain on the sale). International adjusted EBITDA totaled \$5.4 million for the first six months of fiscal 2015 compared to \$10.6 million in the prior period.



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Adjusted EBITDA as a percentage of net sales totaled 14.5% for the six months ended September 30, 2014 compared to 15.0% for the prior year. Excluding the impact of the one-time gain on adjusted EBITDA in the first quarter of fiscal 2014, adjusted EBITDA as a percentage of net sales would have been 14.3%.

**Non-GAAP Financial Measures**

In addition to financial results reported in accordance with GAAP, we have provided the following non-GAAP financial measures: Adjusted EBITDA, System-Wide Net Sales, and Adjusted Earnings per Fully Converted Share. These non-GAAP financial measures are used in addition to and in conjunction with results presented in accordance with GAAP. However, these measures are not intended to be a substitute for those reported in accordance with GAAP. These measures may be different from non-GAAP financial measures used by other companies, even when similar terms are used to identify such measures.

*Adjusted EBITDA.* Adjusted EBITDA is a non-GAAP financial measure that comprises net income before interest, income taxes, depreciation and amortization, stock-based compensation, non-cash charges and certain other expenses. Our definition of Adjusted EBITDA may differ from similar measures used by other companies, even when similar terms are used to identify such measures. Adjusted EBITDA is a key metric used by management and our board of directors to assess our financial performance and evaluate the effectiveness of our business strategies. Accordingly, we believe that Adjusted EBITDA provides useful information to investors and others in understanding and evaluating our operating results in the same manner as our management and Board of Directors.

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

(Amounts in thousands)	Three Months Ended September 30,		Six Months Ended September 30,	
	2014	2013	2014	2013
	(As Restated) <sup>(a)</sup>	(As Restated) <sup>(a)</sup>	(As Restated) <sup>(a)</sup>	(As Restated) <sup>(a)</sup>
Net income	\$ 18,997	\$ 16,657	\$ 28,438	\$ 31,206
Depreciation and amortization	16,374	15,885	32,400	31,710
Interest expense	5,044	4,721	10,095	9,450
Income tax expense	8,926	8,928	16,819	18,139
<b>EBITDA</b>	<b>49,341</b>	<b>46,191</b>	<b>87,752</b>	<b>90,505</b>
Derivative fair value adjustments	67	319	163	238
Foreign currency transaction gains	(205)	(181)	(75)	(87)
Loss (gain) on sale of assets or businesses	281	204	345	(4,532)
Unconsolidated affiliates interest, tax, depreciation and amortization <sup>(b)</sup>	878	459	1,675	957
Contingent consideration remeasurement	20	40	2	129
Stock-based compensation	2,131	980	4,377	1,640
ESOP deferred stock-based compensation	2,687	2,506	5,374	5,026
Transaction costs <sup>(c)</sup>			715	118
<b>Adjusted EBITDA</b>	<b>\$ 55,200</b>	<b>\$ 50,518</b>	<b>\$ 100,328</b>	<b>\$ 93,994</b>

- (a) See Note 2. Restatement of Previously Issued Financial Statements to our consolidated financial statements.
- (b) Includes our proportional share of interest, income taxes, depreciation and amortization related to our South American Joint Venture, our BaySaver Joint Venture and our Tigre-ADS USA Joint Venture, which are accounted for under the equity method of accounting.
- (c) Represents expenses recorded related to legal, accounting and other professional fees incurred in connection with our debt refinancing and completion of the IPO.

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

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**Table of Contents****Reconciliation of Segment EBITDA and Adjusted Segment EBITDA to Net Income**

(Amounts in thousands)	Three Months Ended September 30,			
	2014		2013	
	Domestic (As Restated) <sup>(a)</sup>	International (As Restated) <sup>(a)</sup>	Domestic (As Restated) <sup>(a)</sup>	International (As Restated) <sup>(a)</sup>
Net income	\$ 17,603	\$ 1,394	\$ 12,263	\$ 4,394
Depreciation and amortization	14,937	1,437	14,550	1,335
Interest expense	5,020	24	4,667	54
Income tax expense	10,897	(1,971)	9,778	(850)
Segment EBITDA	48,457	884	41,258	4,933
Derivative fair value adjustments	67		319	
Foreign currency transaction gains		(205)		(181)
Loss on sale of assets or businesses	251	30	186	18
Unconsolidated affiliates interest, tax, depreciation and amortization <sup>(b)</sup>	291	587	1	458
Contingent consideration remeasurement	20		40	
Stock-based compensation	2,131		980	
ESOP deferred stock-based compensation	2,687		2,506	
<b>Segment Adjusted EBITDA</b>	<b>\$ 53,904</b>	<b>\$ 1,296</b>	<b>\$ 45,290</b>	<b>\$ 5,228</b>

(a) See Note 2. Restatement of Previously Issued Financial Statements to our consolidated financial statements.

(b) Includes our proportional share of interest, income taxes, depreciation and amortization related to our South American Joint Venture, our BaySaver Joint Venture and our Tigre-ADS USA Joint Venture, which are accounted for under the equity method of accounting.

**Reconciliation of Segment EBITDA and Adjusted Segment EBITDA to Net Income**

(Amounts in thousands)	Six Months Ended September 30,			
	2014		2013	
	Domestic (As Restated) <sup>(a)</sup>	International (As Restated) <sup>(a)</sup>	Domestic (As Restated) <sup>(a)</sup>	International (As Restated) <sup>(a)</sup>
Net income	\$ 25,446	\$ 2,992	\$ 24,097	\$ 7,109
Depreciation and amortization	29,595	2,805	28,993	2,717
Interest expense	10,062	33	9,360	90
Income tax expense	18,311	(1,492)	18,369	(230)
Segment EBITDA	83,414	4,338	80,819	9,686
Derivative fair value adjustments	163		238	
Foreign currency transaction gains		(75)		(87)
Loss (gain) on sale of assets or businesses	311	34	(4,546)	14

Unconsolidated affiliates interest, tax, depreciation and amortization <sup>(b)</sup>	540	1,135	2	955
Contingent consideration remeasurement	2		129	
Stock-based compensation	4,377		1,640	
ESOP deferred stock-based compensation	5,374		5,026	
Transaction costs <sup>(c)</sup>	715		118	
<b>Segment Adjusted EBITDA</b>	<b>\$ 94,896</b>	<b>\$ 5,432</b>	<b>\$ 83,426</b>	<b>\$ 10,568</b>

(a) See Note 2. Restatement of Previously Issued Financial Statements to our consolidated financial statements.

(b) Includes our proportional share of interest, income taxes, depreciation and amortization related to our South American Joint Venture, our BaySaver Joint Venture and our Tigre-ADS USA Joint Venture, which are accounted for under the equity method of accounting.

(c) Represents expenses recorded related to legal, accounting and other professional fees incurred in connection with our debt refinancing and completion of the IPO.

*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, our BaySaver Joint Venture and our Tigre-ADS USA 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 and Tigre-ADS USA Joint Ventures are 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, our BaySaver Joint Venture, and our Tigre-ADS USA 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)	Three Months Ended		Six Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
	(As Restated) <sup>(a)</sup>	(As Restated) <sup>(a)</sup>	(As Restated) <sup>(a)</sup>	(As Restated) <sup>(a)</sup>
Net sales	\$ 366,714	\$ 332,727	\$ 693,148	\$ 625,306
Net sales associated with our unconsolidated affiliates				
South American Joint Venture <sup>(b)</sup>	16,776	17,544	30,696	33,686
BaySaver Joint Venture <sup>(c)</sup>	3,423	1,615	5,760	1,615
Tigre-ADS USA Joint Venture <sup>(d)</sup>	3,697		7,230	
System-Wide Net Sales	\$ 390,610	\$ 351,886	\$ 736,834	\$ 660,607

(a) See Note 2. Restatement of Previously Issued Financial Statements to our consolidated financial statements.

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

(c) On July 15, 2013, we entered into an arrangement to form our BaySaver Joint Venture.

(d) On April 7, 2014, we entered into an arrangement to form our Tigre-ADS USA Joint Venture.

*Adjusted Earnings per Fully Converted Share.* Adjusted Earnings per Fully Converted Share, which is a non-GAAP measure, is a supplemental measure of financial performance that is not required by, or presented in accordance with GAAP. We calculate Adjusted earnings per fully converted share (Non-GAAP), and Weighted average fully converted common shares outstanding (Non-GAAP), by adjusting our Net income per share - Basic and Weighted average common shares outstanding Basic, the most comparable GAAP measures.

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 Net income per share - Basic computation, (2) added back the dividends to Redeemable convertible preferred stockholders and dividends paid to unvested restricted stockholders, (3) made corresponding adjustments to the amount allocated to participating securities under the two-class earnings per share computation method, and (4) added back ESOP deferred compensation attributable to the shares of redeemable convertible preferred stock allocated to employee ESOP accounts during the applicable period, which is a non-cash charge to our earnings and not deductible for income tax purposes.

We have also made adjustments to the Weighted average common shares outstanding Basic to assume, (1) share conversion of the Redeemable convertible preferred stock to outstanding shares of common stock and (2) add shares of outstanding unvested restricted stock.

Adjusted Earnings Per Fully Converted Share (Non-GAAP) is included in this report because it is a key metric used by management and our board of directors to assess our financial performance. Adjusted Earnings Per Fully Converted Share (Non-GAAP) is not necessarily comparable to other similarly titled captions of other companies due to different methods of calculation.

The following table presents a reconciliation of Adjusted Earnings Per Fully Converted Share (Non-GAAP), and the corresponding Weighted Average Fully Converted Common Shares Outstanding (Non-GAAP) to our Net income per

share and corresponding Weighted average common shares outstanding amounts, the most comparable GAAP measure, for each of the periods indicated.

	Three Months Ended September 30,		Six Months Ended September 30,	
	2014 (As Restated) <sup>(a)</sup>	2013 (As Restated) <sup>(a)</sup>	2014 (As Restated) <sup>(a)</sup>	2013 (As Restated) <sup>(a)</sup>
Net income available to common shareholders	\$ 21,358	\$ 10,129	\$ 12,579	\$ 20,098
Adjustments to net income available to common shareholders:				
Change in fair value of Redeemable convertible preferred stock	7,319	(3,186)	(11,054)	(4,764)
Dividends to Redeemable convertible preferred stockholders	(37)	(214)	(75)	(430)
Dividends paid to unvested restricted stockholders		(8)		(16)
Undistributed income allocated to participating securities	(2,768)	(1,203)	(1,702)	(2,406)
Total adjustments to net income (loss) available to common shareholders	4,514	(4,611)	(12,831)	(7,616)
Net income attributable to ADS	16,844	14,740	25,410	27,714
Fair Value of ESOP Compensation related to Convertible preferred stock	2,687	2,506	5,374	5,026
<b>Adjusted net income - (Non-GAAP)</b>	<b>\$ 19,531</b>	<b>\$ 17,246</b>	<b>\$ 30,784</b>	<b>\$ 32,740</b>
Weighted Average Common Shares				
Outstanding Basic	51,518	47,250	49,538	47,220
Unvested restricted shares	237	335	235	328
Redeemable convertible preferred shares	20,099	20,341	20,099	20,379
Total Weighted Average Common Shares Outstanding - Fully Converted (Non-GAAP)	71,854	67,926	69,872	67,927
<b>Adjusted Earnings Per Fully Converted Share (Non-GAAP)</b>	<b>\$ 0.27</b>	<b>\$ 0.25</b>	<b>\$ 0.44</b>	<b>\$ 0.48</b>

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(a) See Note 2. Restatement of Previously Issued Financial Statements to our consolidated financial statements.

**Liquidity and Capital Resources**

Our primary liquidity requirements are working capital, capital expenditures, debt service, and dividend payments for our convertible preferred stock and common stock. We have historically funded, and expect to continue to fund, our operation primarily through equity issuance, internally generated cash flow and debt financings. From time to time we may explore additional financing methods and other means to raise capital. There can be no assurance that any additional financing will be available to us on acceptable terms or at all.

As of September 30, 2014, we had \$6.5 million in cash that was held by our foreign subsidiaries. Our intent is to reinvest our earnings in foreign subsidiaries. In the event that foreign earnings are repatriated, these amounts will be subject to income tax liabilities in the appropriate tax jurisdiction. No restrictions exist on our liquidity that is impacted by the significance of cash held by foreign subsidiaries.

**Working Capital and Cash Flows**

During the six months ended September 30, 2014, our net increase in cash was \$2.7 million compared to a net increase of \$0.7 million for the six months ended September 30, 2013. During the six months ended September 30, 2014, our source of funds was primarily driven by higher operating earnings, proceeds of \$79.1 million from primary shares sold during our IPO, decreased inventories (\$27.6 million) and non-cash charges (depreciation, amortization, compensation expense and shared based compensation expense). For the same period ending September 30, 2014, our use of cash was primarily driven by increased accounts receivable balances (up \$97.8 million), spending for capital expenditures (15.6 million), repayment of \$95.3 million of Long Term Debt in second quarter fiscal 2015 and investments in joint ventures (\$7.6 million). During the six months ended September 30, 2013, our primary source of cash was also provided by operating earnings, decreased inventories (\$37.1 million) borrowings on the Revolving Credit Facility and a new Term Note. For the six months ended September 30, 2013, our use of cash was primarily due to increases in accounts receivable (\$92.3 million) and for capital expenditures (\$21.6 million).

As of September 30, 2014, we had \$139.8 million in liquidity, including \$6.6 million of cash and cash equivalents and \$133.2 million in borrowings available under our Revolving Credit Facilities, described below. We believe that our cash on hand, together with the availability of borrowings under our Revolving Credit Facility and other financing arrangements and cash generated from operations, will be sufficient to meet our working capital requirements, anticipated capital expenditures, scheduled interest payments on our indebtedness and dividend payment requirement for our convertible preferred stock for at least the next twelve months.

As of September 30, 2014, we had total consolidated indebtedness of approximately \$397.6 million down \$56.5 million compared to March 31, 2014. We repaid a portion of our outstanding indebtedness with the net proceeds from our initial public offering which closed on July 25, 2014.

The following table sets forth the major sources and uses of cash for each of the periods presented:

(Amounts in thousands)	Six Months Ended	
	2014	2013
	(As Restated) <sup>(a)</sup>	(As Restated) <sup>(a)</sup>
<b>Statement of Cash Flows data:</b>		

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Net cash from operating activities	\$ 14,906	\$ 8,385
Net cash from investing activities	(23,972)	(21,524)
Net cash from financing activities	11,946	13,805

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(a) See Note 2. Restatement of Previously Issued Financial Statements to the Condensed Consolidated Financial Statements.

### *Operating Cash Flows*

During the six months ended September 30, 2014, cash provided by operating activities was \$14.9 million as compared with cash provided by operating activities of \$8.4 million for the six months ended September 30, 2013. Cash flow from operating activities during the six months ended September 30, 2014 was impacted lower net income and by moderately higher stock-based compensation compared to the prior period and lower inventory, offsetting an increase in the use of cash related to changes in accounts receivable, and accounts payable. Cash flow from operating activities for the six months ended September 30, 2013 also included a reduction of \$4.8 million gain realized from the sale of assets for the Draintech product line.

### *Investing Cash Flows*

During the six months ended September 30, 2014, cash used for investing activities was \$24.0 million, primarily due to \$15.6 million for capital expenditures in support of operations, a \$3.6 million investment for a 49% interest in a newly created domestic joint venture operation, and a \$4.0 million investment in our international joint venture operation to support growth initiatives. During the six months ended September 30, 2013, cash used for investing activities was \$21.5 million, primarily due to capital expenditures in support of operations, net of \$5.9 million in proceeds received from the sale of the Draintech product line.

### *Financing Cash Flows*

During the six months ended September 30, 2014, cash provided by financing activities was a net \$11.9 million, utilizing primarily borrowings on our Revolving Credit facility to support our typical seasonal demand increase following the winter months and early spring. Revolving Credit borrowings amounted to a net outflow of \$52.2 million, offset by net proceeds from the IPO. During the six months ended September 30, 2013, cash provided by financing activities was \$13.8 million primarily due to borrowings from Term and Revolving debt (\$30.6 million), offset by modest payments for dividends and redemption of convertible preferred stock in connection with the ESOP.

### *Capital Expenditures*

Capital expenditures totaled \$15.6 million and \$21.6 million for the six months ended September 30, 2014 and September 30, 2013, respectively. Our capital expenditures for the six months ended September 30, 2014 were used primarily to support facility expansions, equipment replacements, and our recycled resin initiatives.

We currently anticipate that we will make capital expenditures of approximately \$35 million in fiscal year 2015. Such capital expenditures are expected to be financed using funds generated by operations. As of September 30, 2014, there were no material contractual obligations or commitments related to these planned capital expenditures.

### *Financing Transactions*

#### *Bank Term Loans*

On September 24, 2010, we entered into a credit agreement with PNC Bank, National Association, or PNC, as administrative agent, and lender parties thereto. The credit agreement, as amended and restated on June 12, 2013 and subsequently further amended, provides for our Bank Term Loans consisting of (i) the Revolving Credit Facility providing for revolving loans and letters of credit of up to a maximum aggregate principal amount of \$325.0 million

and (ii) the Term Loan Facility providing for the Term Loans in an aggregate original principal amount of \$100 million. The Bank Term Loans also permit us to add additional commitments to the Revolving Credit Facility or the Term Loan Facility not to exceed \$50 million in the aggregate. The proceeds of the Revolving Credit Facility are primarily used to provide for our ongoing working capital and capital expenditure needs, to finance acquisitions and distributions, and for our other general corporate purposes. The proceeds of the Term Loan Facility were primarily used for our general corporate purposes. The interest rates on the Bank Term Loans are determined by certain base rates or LIBOR rates, plus an applicable margin. The obligations under the Bank Term Loans are guaranteed by certain of our subsidiaries and secured by substantially all of our personal property assets. On December 20, 2013, we amended the Revolving Credit Facility to, among other terms, make certain amendments in order to permit the payment of a cash dividend. For further information about the Bank Term Loans, see Note 12. Debt to the financial statements included in Item 8. Financial and Supplementary Data of our Form 10-K for the year ended March 31, 2015 filed concurrently with this Form 10-Q/A as of September 30, 2014. As of September 30, 2014, the outstanding principal drawn on the Revolving Credit Facility was \$193.8 million, with \$123.2 million available to be drawn. As of September 30, 2014, the outstanding principal balance of the Term Loan was \$95.0 million.

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We used the net proceeds from the initial public offering, which closed on July 25, 2014, to repay a portion of our outstanding indebtedness under the Revolving Credit Facility.

*ADS Mexicana Revolving Credit Facility*

On September 24, 2010, our joint venture ADS Mexicana entered into a credit agreement with PNC, as administrative agent, and lender parties thereto. The credit agreement, as amended and restated on June 12, 2013 and subsequently further amended, provides for revolving loans and letters of credit of up to a maximum aggregate principal amount of \$12 million. The proceeds of the revolving credit facility are primarily used to cover working capital needs. The interest rates of the revolving credit facilities are determined by certain base rates or LIBOR rates, plus an applicable margin. The obligations under the revolving credit facility are guaranteed by us and certain of our subsidiaries and secured by substantially all of our assets. For further information about the Mexicana Revolving Credit Facilities, see

Note 12. Debt to the financial statements included in Item 8. Financial and Supplementary Data of our Form 10-K for the year ended March 31, 2015 filed concurrently with this Form 10-Q/A as of September 30, 2014. As of September 30, 2014, the outstanding principal drawn on the revolving credit facility was \$2.0 million, with \$10.0 million available to be drawn.

*Senior Notes*

On December 11, 2009, we entered into a private shelf agreement with Prudential Investment Management Inc., or Prudential, which agreement, as amended and restated on September 24, 2010 and subsequently further amended, provides for the issuance by us of senior secured promissory notes to Prudential or its affiliates from time to time in the aggregate principal amount up to \$100 million. Pursuant to the private shelf agreement, on September 27, 2010, we issued \$75 million in aggregate principal amount of the 5.60% Senior Series A Notes due September 24, 2018 to repurchase outstanding shares of common stock from certain of our stockholders and to repurchase outstanding shares of convertible preferred stock from the ESOP. On July 24, 2013, we issued \$25 million in aggregate principal amount of the 4.05% Senior Series B Notes due September 24, 2019 for our general corporate purposes. The Senior Notes are guaranteed by certain of our subsidiaries and secured by substantially all of our assets. On December 20, 2013, we amended the private shelf agreement to, among other terms, make certain amendments in order to permit the payment of a cash dividend. For further information about the Senior Notes, see Note 12. Debt to the financial statements included in Item 8. Financial and Supplementary Data of our Form 10-K for the year ended March 31, 2015 filed concurrently with this Amendment No. 1 on Form 10-Q as of September 30, 2014. We have no further amount available for issuance of senior notes under the private shelf agreement. At September 30, 2014 the outstanding principal balance on these notes was \$100 million.

*Covenant Compliance*

Our outstanding debt agreements and instruments contain various restrictive covenants including, but not limited to, limitations on additional indebtedness and capital distributions, including dividend payments. The two primary debt covenants include a Leverage Ratio and a Fixed Charge Ratio. For any relevant period of determination, The Leverage Ratio is calculated by dividing Total Consolidated Indebtedness (funded debt plus guarantees) by Consolidated EBITDA. The current upper limit is 4.0 times. The Fixed Charge Ratio is calculated by dividing the sum of Consolidated EBITDA minus Capital Expenditures minus cash Income Taxes paid, by the sum of Fixed Charges. Fixed Charges include cash Interest expense, scheduled principal payments on Indebtedness, and ESOP Capital Distributions in excess of \$10 million in a given fiscal year. The current minimum ratio is 1.25 times. For further information, see Note 12. Debt to the financial statements included in Item 8. Financial and Supplementary Data of our Form 10-K for the year ended March 31, 2015 filed concurrently with this Form 10-Q/A as of, and for the three and six months ended September 30, 2014. We were in compliance with our debt covenants as of September 30, 2014.

**Contractual Obligation as of September 30, 2014**

(Amounts in thousands)	Payments Due by Period				
	Total (Restated)	Less than 1 Year (Restated)	1-3 Years (Restated)	3-5 Years (Restated)	More than 5 Years (Restated)
<b><u>Contractual obligations:</u></b>					
Long-term debt <sup>(1)</sup>	\$ 397,583	\$ 11,148	\$ 71,740	\$ 314,695	\$
Interest payments <sup>(2)</sup>	48,012	14,205	25,246	8,561	
Operating leases	9,610	2,842	3,469	1,054	2,245
Capital leases	70,290	15,157	28,296	17,430	9,407
Contractual purchase obligations <sup>(3)</sup>	20,153	20,153			
<b>Total</b>	<b>\$ 545,648</b>	<b>\$ 63,505</b>	<b>\$ 128,751</b>	<b>\$ 341,740</b>	<b>\$ 11,652</b>

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- (1) The current Revolving Credit Facility and Term Loan mature in June, 2018.
- (2) Based on applicable rates and pricing margins as of September 30, 2014, including interest rate swaps.
- (3) Purchase obligations include various commitments with vendors to purchase inventory.

### **Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements, with the exception of the guarantee of 50% of certain debt of our unconsolidated South American Joint Venture, as further discussed in Note 11. Related Party Transactions of our Notes to Condensed Consolidated Financial Statements. As of September 30, 2014, our South American Joint Venture had approximately \$12.3 million of outstanding debt. We do not believe that this guarantee will have a current or future effect on our financial condition, results of operations, liquidity, or capital resources.

### **Critical Accounting Policies and Estimates**

There have been no changes in critical accounting policies from those disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended March 31, 2015 (filed concurrently with this Form 10-Q/A) which includes our restated consolidated financial statements for the year ended March 31, 2014.

### **Forward-Looking Statements**

This Quarterly Report on Form 10-Q/A 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, estimates, anticipates or other 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 report 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 report. 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 report, 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 report under the headings Risk Factors, and Management's Discussion and Analysis of Financial Condition and Results of Operations. 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;

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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;

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 report 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.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

We are subject to various market risks, primarily related to changes in interest rates, raw material supply prices, and, to a lesser extent, foreign currency exchange rates. Our financial position, results of operations or cash flows may be negatively impacted in the event of adverse movements in the respective market rates or prices in each of these risk categories. Our exposure in each category is limited to those risks that arise in the normal course of business, as we do not engage in speculative, non-operating transactions

#### ***Interest Rate Risk***

We are subject to interest rate risk associated with our debt. Changes in interest rates impact the fair value of our fixed-rate debt, but there is no impact to earnings and cash flow. Alternatively, changes in interest rates do not affect the fair value of our variable-rate debt, but they do affect future earnings and cash flow. The Revolving Credit Facility, the Term Loan Facility, and our industrial development revenue bond, or IDRB, notes bear variable interest rates. The Revolving Credit Facility and Term Loan Facility bear interest either at LIBOR or the Prime Rate, at our option, plus applicable pricing margins. The IDRB notes bear interest at weekly commercial paper rates, plus applicable pricing margins. A 1.0% increase in interest rates on our variable-rate debt would increase our annual forecasted interest expense by approximately \$1.9 million based on our borrowings as of September 30, 2014. Assuming the Revolving Credit Facility is fully drawn, each 1.0% increase or decrease in the applicable interest rate would change our interest expense by approximately \$3.2 million per year. To mitigate the impact of interest rate volatility, we had two interest rate swaps in effect as of September 30, 2014. The first swap is at \$70 million notional value, amortizing \$2.5 million per quarter at a fixed LIBOR rate of 1.105%, and expired in September 2014. The other swap is a \$50 million notional value, non-amortizing swap at a LIBOR rate of 0.86%, which expires in September 2016. A third \$50 million notional value swap took effect on September 1, 2014 and expires on September 1, 2016. The rate is at a fixed LIBOR of 1.08%.

#### ***Credit Risk***

Financial instruments that potentially subject us to a concentration of credit risk consist principally of accounts receivable. We provide our products to customers based on an evaluation of the customers' financial condition, generally without requiring collateral. Exposure to losses on receivables is principally dependent on each customer's financial condition. We monitor the exposure for credit losses and maintain allowances for anticipated losses. Concentrations of credit risk with respect to our accounts receivable are limited due to the large number of customers comprising our customer base and their dispersion among many different geographies.



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### ***Raw Material and Commodity Price Risk***

Our primary raw materials used in the production of our products are polyethylene and polypropylene resins. As these resins are hydrocarbon-based materials, changes in the price of feedstocks, such as crude oil and natural gas, as well as changes in the market supply and demand may cause the cost of these resins to fluctuate significantly. Raw materials account for the majority of our cost of goods sold. Given the significance of these costs and the inherent volatility in supplier pricing, our ability to reflect these changes in the cost of resins in our product selling prices in an efficient manner, passing the increase on to our customers, contributes to the management of our overall supply price risk and the potential impact on our results of operations.

We manage supply risk with financial and physical hedge contracts for the HDPE and PP resins used in the manufacture of our Pipe and Allied Products, as well as for the diesel fuel used by our in-house fleet of delivery trucks. Our physical hedge contracts for HDPE resins are typically at a fixed price and volume over time. We use to a limited extent financial derivatives for PP resin in the form of fixed price swaps based on propylene monomer. For diesel fuel, we have utilized option contracts in the form of collars with put and call options.

We have supply contracts that typically include supply periods of greater than one year. Except for physical-hedged resin contracts, we generally do not enter into long-term purchase orders for the delivery of raw materials. Our orders with suppliers are flexible and do not normally contain minimum purchase volumes or fixed prices. Accordingly, our suppliers may change their selling prices or other relevant terms on a monthly basis, exposing us to pricing risk. Our use of pricing and forecasting tools, centralized procurement, additional sources of supply and incorporation of vertical integration for recycled material have increased our focus on efficiency and resulted in lower overall supply costs. If the price of HDPE and PP virgin resin increased or decreased by 5%, it would result in a change to our annual cost of goods sold of approximately \$25 million.

### ***Inflation***

Our cost of goods sold is subject to inflationary pressures and price fluctuations of the raw materials we use, primarily high density polyethylene and polypropylene resins. Historically, we have generally been able over time to recover the effects of inflation and price fluctuations through sales price increases and production efficiencies related to technological enhancements and improvements. However, we cannot reasonably estimate our ability to successfully recover any price increases.

### ***Financial Instruments***

We have operations in countries outside of the United States, all of which use the respective local foreign currency as their functional currency. Each of these operations may enter into contractual arrangements with customers or vendors that are denominated in currencies other than its respective functional currency. Consequently, our results of operations may be affected by exposure to changes in foreign currency exchange rates and economic conditions in the regions in which we sell or distribute our products. Exposure to variability in foreign currency exchange rates from these transactions is managed, to the extent possible, by natural hedges which result from purchases and sales occurring in the same foreign currency within a similar period of time, thereby offsetting each other to varying degrees.

In addition, to the transaction-related gains and losses that are reflected within the results of operations, we are subject to foreign currency translation risk, as the financial statements for our foreign subsidiaries are measured and recorded in the respective subsidiary's functional currency and translated into U.S. dollars for consolidated financial reporting purposes. The resulting translation adjustments are recorded net of tax impact in the Condensed Consolidated

Statement of Operations.

#### **Item 4. Controls and Procedures**

##### **Evaluation of Disclosure Controls and Procedures**

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's reports under the Securities Exchange Act of 1934, as amended (the Exchange Act), is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including the Company's Chief Executive Officer (CEO) and Chief Financial Officer (CFO), as appropriate to allow timely decisions regarding required disclosure. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

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In connection with the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2014 (the Original Form 10-Q), the Company's CEO and CFO concluded that the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) were effective at a reasonable assurance level as of September 30, 2014 (the Evaluation Date). Subsequent to the filing of the Original Form 10-Q and in connection with the restatement discussed elsewhere in this Quarterly Report on Form 10-Q/A, the Company's management identified material weaknesses in the Company's internal control over financial reporting applicable to the period covered by this periodic report. As a result of its identification of the material weaknesses, management, under the supervision and with the participation of our CEO and CFO, reevaluated the effectiveness of the Company's disclosure controls and procedures as of the Evaluation Date. Based on that reevaluation, the CEO and CFO concluded that the Company's disclosure controls and procedures were not effective as of the Evaluation Date.

A material weakness in internal control over financial reporting is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of a company's annual or interim financial statements will not be prevented or detected on a timely basis. We have identified certain material weaknesses in our internal control over financial reporting in the areas of (i) Company control environment, (ii) accounting for leases, (iii) accounting for inventory, (iv) journal entry and account reconciliation, (v) ADS Mexicana control environment, and (vi) ADS Mexicana revenue recognition cut-off practices. The material weaknesses in our internal control over financial reporting are more fully described in Item 9A in our Annual Report on Form 10-K for the year ended March 31, 2015, which is being filed concurrently with this Form 10-Q/A.

## **Changes in Internal Control over Financial Reporting**

While there have been significant changes in our internal control over financial reporting subsequent to September 30, 2014, as described in Item 9A of our Annual Report on Form 10-K for the year ended March 31, 2015, no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

From time to time we are involved in legal proceedings incidental to our business, as well as other litigation of a non-material nature in the ordinary course of business. In connection with ASC 450, Contingencies, we have not accrued for material loss contingencies relating to any legal proceedings because we believe that, although unfavorable outcomes in proceedings may be possible, they are not considered by our management to be probable and reasonably estimable. We believe that the outcome of any such pending matters, either individually or in the aggregate, will not have a material impact on our business or financial condition.

### **Item 1A. Risk Factors**

Important risk factors that could affect our operations and financial performance, or that could cause results or events to differ from current expectations, are described in Part I, Item 1A Risk Factors of our Annual Report on Form 10-K for the year ended March 31, 2015, which is being filed concurrently with this Form 10-Q/A. These factors are further supplemented by those discussed in Part II, Item 7A Quantitative and Qualitative Disclosures about Market Risk of our Annual Report on Form 10-K for the year ended March 31, 2015 and in Part I, Item 3 Quantitative and Qualitative Disclosures about Market Risk and Part II, Item 1 Legal Proceedings of this Amended Quarterly Report

on Form 10-Q/A.

## **Item 2. Unregistered Sale of Equity Securities**

On July 24, 2014, the Company's Registration Statement (File No. 333-194980) was declared effective by the SEC for the initial public offering of its common stock, par value \$0.01 per share. We registered the offering and sale of 16,675,000 shares of common stock, including 2,175,000 shares of common stock to be sold to the underwriters pursuant to their over-allotment option, at a price of \$16.00 per share, with an aggregate price of the registered offering amount \$266.8 million. On July 25, 2014, the Company closed its initial public offering of 14,500,000 shares of the Company's common stock which were sold by the Company and certain of our stockholders. On August 22, 2014, an additional 600,000 shares of common stock were sold by certain of our stockholders pursuant to the underwriters' partial exercise of their over-allotment option. The shares sold in the initial offering (including shares sold pursuant to the over-allotment option) were sold at a public offering price of \$16.00 per share, for an aggregate offering price of \$241.6 million. Barclays Capital Inc., Deutsche Bank Securities Inc., Citigroup Global Markets Inc. and RBC Capital Markets, LLC acted as joint book-running managers for the offering. Merrill Lynch, Pierce, Fenner & Smith Incorporated, Fifth Third Securities, Inc. and PNC Capital Markets LLC acted as co-managers for the offering.

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As a result of our initial public offering, we received proceeds of \$79.1 million, after deducting underwriting discounts and commissions of approximately \$5.5 million, from the sale by us of 5,289,474 shares of common stock. We did not receive any proceeds from the sale of shares by the selling stockholders. None of the expenses associated with the initial public offering were paid to directors, officers or persons owning ten percent or more of our common stock or to their associates, or to our affiliates, except that the Company paid such portion of the fees and expenses of counsel to the selling stockholders that exceed \$100,000 and any transfer taxes payable in connection with the initial public offering.

There has been no material change in the planned use of proceeds from our initial public offering as described in our final prospectus filed with the SEC pursuant to Rule 424(b) under the Securities Act on July 28, 2014. We used the net proceeds that we received from our initial public offering to repay a portion of our outstanding indebtedness under the revolving portion of the Company's credit facility.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

The exhibits listed in the Exhibit Index are incorporated herein by reference.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: March 29, 2016

ADVANCED DRAINAGE SYSTEMS, INC.

By: /s/ Joseph A. Chlapaty  
Joseph A. Chlapaty  
President and Chief Executive Officer  
(Principal Executive Officer)

By: /s/ Scott A. Cottrill  
Scott A. Cottrill  
Executive Vice President, Chief Financial Officer,  
Secretary and Treasurer  
(Principal Financial Officer)

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**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Exhibit Description</b>
31.1	Certification of President and Chief Executive Officer of Advanced Drainage Systems, Inc. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Executive Vice President and Chief Financial Officer of Advanced Drainage Systems, Inc. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer of Advanced Drainage Systems, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Principal Financial Officer of Advanced Drainage Systems, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Interactive data files pursuant to Rule 405 of Regulation S-T.