

ADVANCED DRAINAGE SYSTEMS, INC.

Form 10-Q/A

March 29, 2016

Table of Contents

**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 December 31, 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, 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 January 31, 2015, 53,259,576 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 January 31, 2015, 232,977 shares of unvested restricted common stock were outstanding and 25,797,512 shares of ESOP preferred stock, convertible into 19,843,446 shares of common stock, were outstanding. As of January 31, 2015, 73,335,999 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.



**Table of Contents**

**TABLE OF CONTENTS**

	<b>Page</b>
<b><u>EXPLANATORY NOTE</u></b>	<b>1</b>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
ITEM 1. Condensed Consolidated Financial Statements (Unaudited)	
<u>Condensed Consolidated Balance Sheets as of December 31, 2014 (Restated) and March 31, 2014 (Restated)</u>	2
<u>Condensed Consolidated Statements of Operations for the three and nine months ended December 31, 2014 (Restated) and 2013 (Restated)</u>	3
<u>Condensed Consolidated Statements of Comprehensive (Loss) Income for the three and nine months ended December 31, 2014 (Restated) and 2013 (Restated)</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the nine months ended December 31, 2014 (Restated) and 2013 (Restated)</u>	5
<u>Condensed Consolidated Statements of Stockholders' Equity (Deficit) and Mezzanine Equity for the nine months ended December 31, 2014 (Restated) and 2013 (Restated)</u>	6
<u>Notes to the Condensed Consolidated Financial Statements</u>	7
ITEM 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	36
ITEM 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	52
ITEM 4. <u>Controls and Procedures</u>	53
<b><u>PART II. OTHER INFORMATION</u></b>	
ITEM 1. <u>Legal Proceedings</u>	54
ITEM 1A. <u>Risk Factors</u>	54
ITEM 2. <u>Unregistered Sale of Equity Securities</u>	54
ITEM 3. <u>Defaults Upon Senior Securities</u>	54
ITEM 4. <u>Mine Safety Disclosures</u>	55
ITEM 5. <u>Other Information</u>	55
ITEM 6. <u>Exhibits</u>	55
<b><u>SIGNATURES</u></b>	<b>56</b>
<b><u>EXHIBIT INDEX</u></b>	<b>57</b>

**Table of Contents**

**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 nine months ended December 31, 2014 as originally filed with the Securities and Exchange Commission on February 9, 2015 (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 September 30, 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>December 31,</b>	<b>March 31,</b>
	<b>2014</b>	<b>2014</b>
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash	\$ 10,753	\$ 3,931
Receivables (less allowance for doubtful accounts of \$4,930 and \$4,490, respectively)	161,119	148,271
Inventories	219,750	259,891
Deferred income taxes and other current assets	14,437	14,465
<b>Total current assets</b>	<b>406,059</b>	<b>426,558</b>
Property, plant and equipment, net	353,093	350,351
<b>Other assets:</b>		
Goodwill	87,951	88,017
Intangible assets, net	51,874	59,194
Other assets	64,392	65,447
<b>Total assets</b>	<b>\$ 963,369</b>	<b>\$ 989,567</b>
<b>LIABILITIES, MEZZANINE EQUITY AND STOCKHOLDERS EQUITY (DEFICIT)</b>		
<b>Current liabilities:</b>		
Current maturities of debt obligations	\$ 11,700	\$ 11,153
Current maturities of capital lease obligations	14,677	12,364
Accounts payable	71,047	110,972
Other accrued liabilities	54,518	43,085
Accrued income taxes	18,656	7,980
<b>Total current liabilities</b>	<b>170,598</b>	<b>185,554</b>
Long-term debt obligation	326,725	442,895
Long-term capital lease obligations	47,831	34,366
Deferred tax liabilities	59,084	66,333
Other liabilities	28,346	32,170
<b>Total liabilities</b>	<b>632,584</b>	<b>761,318</b>
Commitments and contingencies (see Note 14)		
<b>Mezzanine equity:</b>		<b>549,119</b>

Redeemable common stock: \$0.01 par value; 0 and 38,320 shares issued outstanding, respectively		
Redeemable convertible preferred stock: \$0.01 par value; 47,070 shares authorized; 44,170 shares issued; 25,797 and 26,129 shares outstanding, respectively	322,469	291,720
Deferred compensation unearned ESOP shares	(211,674)	(197,888)
Total mezzanine equity	110,795	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; 53,204 and 9,141 shares outstanding, respectively	12,393	11,957
Paid-in capital	693,799	12,438
Common stock in treasury, at cost	(446,479)	(448,439)
Accumulated other comprehensive loss	(11,560)	(6,830)
Retained deficit	(46,608)	(2,412)
Total ADS stockholders equity (deficit)	201,545	(433,286)
Noncontrolling interest in subsidiaries	18,445	18,584
Total stockholders equity (deficit)	219,990	(414,702)
<b>Total liabilities, mezzanine equity and stockholders equity (deficit)</b>	<b>\$ 963,369</b>	<b>\$ 989,567</b>

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

See accompanying notes to condensed consolidated financial statements.

Table of Contents

**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 December 31,		Nine Months Ended December 31,	
	2014	2013	2014	2013
Net sales	\$ 279,871	\$ 260,644	\$ 973,019	\$ 885,950
Cost of goods sold	230,693	201,302	793,220	704,670
Gross profit	49,178	59,342	179,799	181,280
Operating expenses:				
Selling	19,913	16,365	59,705	51,520
General and administrative	14,115	13,647	43,756	40,389
Loss (gain) on disposal of assets or businesses	193	470	538	(4,062)
Intangible amortization	2,328	2,613	7,551	7,853
Income from operations	12,629	26,247	68,249	85,580
Other expense:				
Interest expense	4,631	4,580	14,726	14,030
Other miscellaneous expense (income), net	5,556	(541)	5,100	(521)
Income before income taxes	2,442	22,208	48,423	72,071
Income tax expense	3,407	23,565	20,226	41,704
Equity in net loss of unconsolidated affiliates	988	1,461	1,712	1,979
Net (loss) income	(1,953)	(2,818)	26,485	28,388
Less net income attributable to noncontrolling interest	1,372	2,059	4,400	5,551
Net (loss) income attributable to ADS	(3,325)	(4,877)	22,085	22,837
Change in fair value of redeemable convertible preferred stock		(4,697)	(11,054)	(8,492)
Dividends to redeemable convertible preferred stockholders	(298)	(209)	(377)	(640)
Dividends paid to unvested restricted stockholders	(9)	(8)	(9)	(47)
Net (loss) income available to common stockholders and participating securities	(3,632)	(9,791)	10,645	13,658
Undistributed income allocated to participating securities			(995)	(1,130)
<b>Net (loss) income available to common stockholders</b>	<b>\$ (3,632)</b>	<b>\$ (9,791)</b>	<b>\$ 9,650</b>	<b>\$ 12,528</b>
Weighted average common shares outstanding:				
Basic	52,986	47,251	50,691	46,976



Diluted	52,986	47,251	51,206	47,480
<b>Net (loss) income per share:</b>				
Basic	\$ (0.07)	\$ (0.21)	\$ 0.19	\$ 0.27
Diluted	\$ (0.07)	\$ (0.21)	\$ 0.19	\$ 0.26
<b>Cash dividends declared per share</b>	<b>\$ 0.04</b>	<b>\$ 0.03</b>	<b>\$ 0.04</b>	<b>\$ 0.09</b>

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

See accompanying notes to condensed consolidated financial statements.

Table of Contents

## ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

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

(Amounts in thousands)	Three Months Ended		Nine Months Ended	
	December 31,		December 31,	
	2014	2013	2014	2013
Net (loss) income	\$ (1,953)	\$ (2,818)	\$ 26,485	\$ 28,388
Other comprehensive loss:				
Currency translation, before tax	(3,966)	(3,537)	(7,398)	(6,614)
Other, before tax		1		6
Total other comprehensive loss, before tax	(3,966)	(3,536)	(7,398)	(6,608)
Tax attributes of items in other comprehensive loss:				
Other				(2)
Total tax benefit				(2)
Comprehensive (loss) income	(5,919)	(6,354)	19,087	21,778
Less other comprehensive loss attributable to noncontrolling interest, net of tax	(1,761)	(57)	(2,668)	(1,323)
Less net income attributable to noncontrolling interest	1,372	2,059	4,400	5,551
<b>Total comprehensive (loss) income attributable to ADS</b>	<b>\$ (5,530)</b>	<b>\$ (8,356)</b>	<b>\$ 17,355</b>	<b>\$ 17,550</b>

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

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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

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

(Amounts in thousands)	Nine Months Ended December 31,	
	2014	2013
<b>Cash Flows from Operating Activities</b>	\$ 90,252	\$ 95,838
<b>Cash Flows from Investing Activities</b>		
Capital expenditures	(21,281)	(26,482)
Proceeds from sale of assets or businesses	294	6,150
Investment in unconsolidated affiliate	(7,566)	(6,285)
Additions of capitalized software	(601)	(961)
Other investing activities	(212)	(435)
Net cash used in investing activities	(29,366)	(28,013)
<b>Cash Flows from Financing Activities</b>		
Proceeds from Revolving Credit Facility	250,200	301,300
Payments on Revolving Credit Facility	(359,500)	(390,000)
Proceeds from term loan		100,000
Payments on term loan	(4,375)	(78,750)
Proceeds from Senior Notes		25,000
Payments of notes, mortgages, and other debt	(1,948)	(1,275)
Payments on capital lease obligation	(6,619)	(9,022)
Payments for deferred initial public offering costs	(6,479)	
Proceeds from initial public offering of common stock, net of underwriter discounts and commissions	79,131	
Cash dividends paid	(4,254)	(6,621)
Redemption of Redeemable convertible preferred stock		(3,889)
Other financing activities	205	(606)
Net cash used in financing activities	(53,639)	(63,863)
Effect of exchange rate changes on cash and cash equivalents	(425)	12
Net change in cash	6,822	3,974
Cash at beginning of period	3,931	1,361
<b>Cash at end of period</b>	<b>\$ 10,753</b>	<b>\$ 5,335</b>

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

See accompanying notes to condensed consolidated financial statements.

Table of Contents

## ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES

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

(Unaudited)

Paid-In Capital	Common Stock in Treasury Shares	Common Stock Amount	Accumulated Other Comprehensive Loss	Retained Earnings (Deficit)	Total ADS Equity (Deficit)	Non-controlling Interest in Subsidiaries	Total Stockholders Equity (Deficit)	Redeemable Common Stock		Redeemable Convertible Preferred Stock Shares
								Shares	Amount	
\$ 41,152	101,191	\$ (448,571)	\$ (856)	\$ 87,331	\$ (308,987)	\$ 23,265	\$ (285,722)	38,292	\$ 522,276	26,547
(1,126)			(225)	(8,129)	(9,480)	(4,721)	(14,201)			
\$ 40,026	101,191	\$ (448,571)	\$ (1,081)	\$ 79,202	\$ (318,467)	\$ 18,544	\$ (299,923)	38,292	\$ 522,276	26,547
				22,837	22,837	5,551	28,388			
			(5,287)		(5,287)	(1,323)	(6,610)			
				(526)	(526)		(526)			
				(4,089)	(4,089)		(4,089)			
						(2,006)	(2,006)			
(2,139)					(2,139)		(2,139)			
(203)	(141)	629			426		426			
299	23	(299)								
1,159					1,159		1,159			
1,013	(28)	125			1,138		1,138			

(367)

	80	(847)			(847)		(847)			
(385)					(385)		(385)	28	385	
			(8,492)	(8,492)			(8,492)			
			(55,359)	(55,359)			(55,359)		55,359	
<b>\$ 39,770</b>	<b>101,125</b>	<b>\$ (448,963)</b>	<b>\$ (6,368)</b>	<b>\$ 33,573</b>	<b>\$ (370,031)</b>	<b>\$ 20,766</b>	<b>\$ (349,265)</b>	<b>38,320</b>	<b>\$ 578,020</b>	<b>26,180</b>
<b>\$ 22,547</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>
(10,109)			(853)	(2,412)	(13,374)	(3,992)	(17,366)			
<b>\$ 12,438</b>	<b>100,810</b>	<b>\$ (448,439)</b>	<b>\$ (6,830)</b>	<b>\$ (2,412)</b>	<b>\$ (433,286)</b>	<b>\$ 18,584</b>	<b>\$ (414,702)</b>	<b>38,320</b>	<b>\$ 549,119</b>	<b>26,129</b>
				22,085	22,085	4,400	26,485			
			(4,730)		(4,730)	(2,668)	(7,398)			
				(256)	(256)		(256)			
				(2,127)	(2,127)		(2,127)			
						(1,871)	(1,871)			
(1,999)					(1,999)		(1,999)			
218	(87)	388			606		606			
93	7	(93)								
2,956					2,956		2,956			
1,831	(119)	531			2,362		2,362			

72,143				72,196			72,196		
1,522				1,522			1,522		
		(3)		(3)			(3)		
3,017	(255)	1,137		4,154			4,154		(332)
(13,077)			2,023	(11,054)			(11,054)		
			(65,921)	(65,921)			(65,921)		65,921
614,657				615,040			615,040	(38,320)	(615,040)
<b>\$ 693,799</b>	<b>100,356</b>	<b>\$ (446,479)</b>	<b>\$ (11,560)</b>	<b>\$ (46,608)</b>	<b>\$ 201,545</b>	<b>\$ 18,445</b>	<b>\$ 219,990</b>	<b>\$</b>	<b>25,797</b>

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

**Table of Contents**

**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 of common stock. 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.

***2014 Secondary Public Offering***

On December 9, 2014, we completed a Secondary Public Offering of our common stock, which resulted in the sale of 10,000 shares of common stock by a certain selling stockholder of the Company at a public offering price of \$21.25. We did not receive any proceeds from the sale of shares by the selling stockholder.

On December 15, 2014, an additional 1,500 shares of common stock were sold by a certain selling stockholder of the Company as a result of the full exercise by the underwriters of the over-allotment option granted by the selling stockholder to the underwriters in connection with the Secondary Public Offering. The shares were sold at the public



offering price of \$21.25 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 December 31, 2014 and the results of operations for the three and nine months ended December 31, 2014 and 2013 and cash flows for the nine months ended December 31, 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.

**Table of Contents*****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 is included in Equity in net loss of unconsolidated affiliates in our Condensed Consolidated Statements of Income. All intercompany balances and transactions have been eliminated in consolidation.

***Estimates***

The preparation of our condensed consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingencies and 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 \$0 and \$316 during the three and nine months ended December 31,

2014, respectively, and \$80 and \$490 during the three and nine months ended December 31, 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 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.

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**Table of Contents*****Acquisitions***

In accordance with ASC Topic 805, *Business Combinations* ( ASC 805 ), the Company accounts for acquisitions by applying the acquisition method of accounting. The acquisition method of accounting requires, among other things, that the assets acquired and liabilities assumed in a business combination be measured at their fair values as of the closing date of the acquisition. The fair values assigned to the assets acquired and liabilities assumed are based on valuations using management's best estimates and assumptions and are preliminary pending the completion of the valuation analysis of selected assets and liabilities. During the measurement period (which is not to exceed one year from the acquisition date), the Company is required to retrospectively adjust the provisional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date that, if known, would have resulted in the recognition of those assets or liabilities as of that date. The results of operations of the acquired companies since the respective acquisition dates are included in the Company's unaudited Condensed Consolidated Statements of Operations.

***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 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 December 31, 2014 and March 31, 2014 and for the three and nine months ended December 31 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.

## **Table of Contents**

### *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 expense (income), net.

#### *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 expense (income), 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 US 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:

**Table of Contents**

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 December 31, 2014 and 2013 is as follows:

(Amounts in thousands, except per share data)	Three Months Ended December 31, 2014						
	Reported	Leases	Inventory	Long-Lived ADS Assets	ADS Mexicana	Income Taxes and Other	As Restated
Net sales	\$ 278,176	\$	\$	\$	\$ 991	\$ 704	\$ 279,871
Cost of goods sold	228,059	1,700	(934)	(18)	929	957	230,693
Gross profit	50,117	(1,700)	934	18	62	(253)	49,178
Operating expenses:							
Selling	19,275	307		87	252	(8)	19,913
General and administrative	19,519	(50)	(4,566)	34	(441)	(381)	14,115
Loss on disposal of assets or businesses		65		128			193
Intangible amortization	2,356			(28)			2,328
Income from operations	8,967	(2,022)	5,500	(203)	251	136	12,629
Other expense:							
Interest expense	4,056	575					4,631
Other miscellaneous expense, net	5,212		204	(16)	(71)	227	5,556
(Loss) income before income taxes	(301)	(2,597)	5,296	(187)	322	(91)	2,442
Income tax (benefit) expense	(1,248)					4,655	3,407
Equity in net loss of unconsolidated affiliates	448					540	988
Net income (loss)	499	(2,597)	5,296	(187)	322	(5,286)	(1,953)
Less net income attributable to noncontrolling interest	866				284	222	1,372
Net loss attributable to ADS	(367)	(2,597)	5,296	(187)	38	(5,508)	(3,325)



Change in fair value of Redeemable convertible preferred stock								
Dividends to Redeemable convertible preferred stockholders	(298)							(298)
Dividends paid to unvested restricted stockholders	(9)							(9)
Net loss available to common stockholders and participating securities	(674)	(2,597)	5,296	(187)	38	(5,508)		(3,632)
Undistributed income allocated to participating securities								
<b>Net loss available to common stockholders</b>	\$ (674)	\$ (2,597)	\$ 5,296	\$ (187)	\$ 38	\$ (5,508)		\$ (3,632)
Weighted average common shares outstanding:								
Basic	52,986							52,986
Diluted	52,986							52,986
<b>Net loss per share:</b>								
Basic	\$ (0.01)							\$ (0.07)
Diluted	\$ (0.01)							\$ (0.07)
<b>Cash dividends declared per share</b>	\$ 0.04							\$ 0.04

**Table of Contents**

**Three Months Ended December 31, 2013**  
**Adjustments**

<b>(Amounts in thousands, except perAs Previously share data)</b>	<b>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	\$ 261,435	\$	\$	\$	\$ (883)	\$ 92	\$ 260,644
Cost of goods sold	211,671	(145)	(10,541)	(95)	14	398	201,302
Gross profit	49,764	145	10,541	95	(897)	(306)	59,342
Operating expenses:							
Selling	16,590	(93)		(86)		(46)	16,365
General and administrative	18,778	(99)	(4,097)	(71)	(455)	(409)	13,647
Loss on disposal of assets or businesses		131		339			470
Intangible amortization	2,854			(241)			2,613
Income from operations	11,542	206	14,638	154	(442)	149	26,247
Other expense:							
Interest expense	3,893	687					4,580
Other miscellaneous income, net	(418)			(25)	(98)		(541)
Income before income taxes	8,067	(481)	14,638	179	(344)	149	22,208
Income tax expense	17,537					6,028	23,565
Equity in net loss of unconsolidated affiliates	369					1,092	1,461
Net loss	(9,839)	(481)	14,638	179	(344)	(6,971)	(2,818)
Less net income attributable to noncontrolling interest	485				(91)	1,665	2,059
Net loss attributable to ADS	(10,324)	(481)	14,638	179	(253)	(8,636)	(4,877)
Change in fair value of Redeemable convertible preferred stock	(4,697)						(4,697)
Dividends to Redeemable convertible preferred stockholders	(209)						(209)
Dividends paid to unvested restricted stockholders	(8)						(8)
Net loss available to common stockholders and participating securities	(15,238)	(481)	14,638	179	(253)	(8,636)	(9,791)
Undistributed income allocated to participating securities							
<b>Net loss available to common stockholders</b>	<b>\$ (15,238)</b>	<b>\$ (481)</b>	<b>\$ 14,638</b>	<b>\$ 179</b>	<b>\$ (253)</b>	<b>\$ (8,636)</b>	<b>\$ (9,791)</b>

Weighted average common shares outstanding:		
Basic	47,251	47,251
Diluted	47,251	47,251
<b>Net loss per share:</b>		
Basic	\$ (0.32)	\$ (0.21)
Diluted	\$ (0.32)	\$ (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 nine months ended December 31, 2014 and 2013 is as follows:

**Nine Months Ended December 31, 2014**  
**Adjustments**

(Amounts in thousands, except As Previously per share data)	Reported	Leases	Inventory	Long-Lived Assets	ADS Mexicana	Income Taxes and Other	As Restated
Net sales	\$ 971,197	\$	\$	\$	\$ 2,841	\$ (1,019)	\$ 973,019
Cost of goods sold	766,605	1,871	20,186	49	3,278	1,231	793,220
Gross profit	204,592	(1,871)	(20,186)	(49)	(437)	(2,250)	179,799
Operating expenses:							
Selling	58,283	478	129	457	301	57	59,705
General and administrative	58,930	(148)	(13,054)	232	(1,456)	(748)	43,756
Loss on disposal of assets or businesses		139		399			538
Intangible amortization	7,635			(84)			7,551
Income from operations	79,744	(2,340)	(7,261)	(1,053)	718	(1,559)	68,249
Other expense:							
Interest expense	13,009	1,717					14,726
Other miscellaneous expense, net	5,219		204	(49)	(503)	229	5,100
Income before income taxes	61,516	(4,057)	(7,465)	(1,004)	1,221	(1,788)	48,423
Income tax expense	22,509					(2,283)	20,226
Equity in net loss of unconsolidated affiliates	1,071					641	1,712
Net income	37,936	(4,057)	(7,465)	(1,004)	1,221	(146)	26,485
Less net income attributable to noncontrolling interest	1,672				948	1,780	4,400
Net income attributable to ADS	36,264	(4,057)	(7,465)	(1,004)	273	(1,926)	22,085
Change in fair value of Redeemable convertible preferred stock	(11,054)						(11,054)
Dividends to Redeemable convertible preferred stockholders	(377)						(377)
	(9)						(9)

Dividends paid to unvested restricted stockholders							
Net income available to common stockholders and participating securities							
	24,824	(4,057)	(7,465)	(1,004)	273	(1,926)	10,645
Undistributed income allocated to participating securities							
	(2,650)	473	871	117	(32)	226	(995)
<b>Net income available to common stockholders</b>							
	\$ 22,174	\$ (3,584)	\$ (6,594)	\$ (887)	\$ 241	\$ (1,700)	\$ 9,650
Weighted average common shares outstanding:							
Basic	50,691						50,691
Diluted	51,206						51,206
<b>Net income per share:</b>							
Basic	\$ 0.44						\$ 0.19
Diluted	\$ 0.43						\$ 0.19
<b>Cash dividends declared per share</b>							
	\$ 0.04						\$ 0.04

**Table of Contents****Nine Months Ended December 31, 2013****Adjustments**

<b>(Amounts in thousands, except per share data)</b>	<b>As Previously Reported</b>	<b>Adjustments</b>					<b>As Restated</b>
		<b>Leases</b>	<b>Inventory</b>	<b>Long-Lived Assets</b>	<b>ADS Mexicana</b>	<b>Income Taxes and Other</b>	
Net sales	\$ 887,777	\$	\$	\$	\$ 108	\$ (1,935)	\$ 885,950
Cost of goods sold	698,791	(929)	4,497	(592)	1,522	1,381	704,670
Gross profit	188,986	929	(4,497)	592	(1,414)	(3,316)	181,280
Operating expenses:							
Selling	52,433	(365)	151	107	(1,456)	650	51,520
General and administrative	54,354	(285)	(12,030)	35	(1,365)	(320)	40,389
Gain on disposal of assets or businesses	(4,848)	271		515			(4,062)
Intangible amortization	8,576			(723)			7,853
Income from operations	78,471	1,308	7,382	658	1,407	(3,646)	85,580
Other expense:							
Interest expense	11,860	2,170					14,030
Other miscellaneous expense (income), net	398			(75)	(844)		(521)
Income before income taxes	66,213	(862)	7,382	733	2,251	(3,646)	72,071
Income tax expense	40,845					859	41,704
Equity in net loss of unconsolidated affiliates	714					1,265	1,979
Net income	24,654	(862)	7,382	733	2,251	(5,770)	28,388
Less net income attributable to noncontrolling interest	1,360				1,391	2,800	5,551
Net income attributable to ADS	23,294	(862)	7,382	733	860	(8,570)	22,837
Change in fair value of Redeemable convertible preferred stock	(8,492)						(8,492)
Dividends to Redeemable convertible preferred stockholders	(640)						(640)
Dividends paid to unvested restricted stockholders	(47)						(47)
Net income available to common stockholders and participating securities	14,115	(862)	7,382	733	860	(8,570)	13,658
Undistributed income allocated to participating securities	(1,184)	101	(867)	(86)	(101)	1,007	(1,130)
<b>Net income available to common stockholders</b>	<b>\$ 12,931</b>	<b>\$ (761)</b>	<b>\$ 6,515</b>	<b>\$ 647</b>	<b>\$ 759</b>	<b>\$ (7,563)</b>	<b>\$ 12,528</b>

Weighted average common shares outstanding:			
Basic	46,976		46,976
Diluted	47,480		47,480
<b>Net income per share:</b>			
Basic	\$ 0.28		\$ 0.27
Diluted	\$ 0.27		\$ 0.26
<b>Cash dividends declared per share</b>			
	\$ 0.09		\$ 0.09

***Impact on Condensed Consolidated Statements of Comprehensive (Loss) 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 December 31, 2014 and 2013 is as follows:

**Three Months Ended December 31, 2014**

(Amounts in thousands)	Adjustments						As Restated
	As Previously Reported	Leases	Inventory	Long-Lived Assets	ADS Mexicana	Income Taxes and Other	
Net income (loss)	\$ 499	\$ (2,597)	\$ 5,296	\$ (187)	\$ 322	\$ (5,286)	\$ (1,953)
Comprehensive loss	(3,360)	(2,597)	5,296	(195)	223	(5,286)	(5,919)
Less other comprehensive loss attributable to noncontrolling interest, net of tax	(1,774)				13		(1,761)
Less net income attributable to noncontrolling interest	866				284	222	1,372
Total comprehensive loss attributable to ADS	\$ (2,452)	\$ (2,597)	\$ 5,296	\$ (195)	\$ (74)	\$ (5,508)	\$ (5,530)

**Three Months Ended December 31, 2013**

(Amounts in thousands)	Adjustments						As Restated
	As Previously Reported	Leases	Inventory	Long-Lived Assets	ADS Mexicana	Income Taxes and Other	
Net loss	\$ (9,839)	\$ (481)	\$ 14,638	\$ 179	\$ (344)	\$ (6,971)	\$ (2,818)
Comprehensive loss	(13,379)	(481)	14,638	176	(337)	(6,971)	(6,354)
Less other comprehensive loss attributable to noncontrolling interest, net of tax	(57)						(57)
Less net income attributable to noncontrolling interest	485				(91)	1,665	2,059

Total comprehensive loss attributable to ADS	\$ (13,807)	\$ (481)	\$ 14,638	\$ 176	\$ (246)	\$ (8,636)	\$ (8,356)
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- 13 -

**Table of Contents**

The net effect of the restatement described above on the Company's previously reported condensed consolidated statements of comprehensive income for the nine months ended December 31, 2014 and 2013 is as follows:

(Amounts in thousands)	Nine Months Ended December 31, 2014						
	Adjustments						As Restated
	As Previously Reported	Leases	Inventory	Long-Lived Assets	ADS Mexicana	Income Taxes and Other	
Net income	\$ 37,936	\$ (4,057)	\$ (7,465)	\$ (1,004)	\$ 1,221	\$ (146)	\$ 26,485
Comprehensive income	30,659	(4,057)	(7,465)	(1,028)	1,124	(146)	19,087
Less other comprehensive loss attributable to noncontrolling interest, net of tax	(2,686)				18		(2,668)
Less net income attributable to noncontrolling interest	1,672				948	1,780	4,400
Total comprehensive income attributable to ADS	\$ 31,673	\$ (4,057)	\$ (7,465)	\$ (1,028)	\$ 158	\$ (1,926)	\$ 17,355

(Amounts in thousands)	Nine Months Ended December 31, 2013						
	Adjustments						As Restated
	As Previously Reported	Leases	Inventory	Long-Lived Assets	ADS Mexicana	Income Taxes and Other	
Net income	\$ 24,654	\$ (862)	\$ 7,382	\$ 733	\$ 2,251	\$ (5,770)	\$ 28,388
Comprehensive income	18,061	(862)	7,382	726	2,239	(5,768)	21,778
Less other comprehensive loss attributable to noncontrolling interest, net of tax	(1,327)				2	2	(1,323)
Less net income attributable to noncontrolling interest	1,360				1,391	2,800	5,551
Total comprehensive income attributable to ADS	\$ 18,028	\$ (862)	\$ 7,382	\$ 726	\$ 846	\$ (8,570)	\$ 17,550

**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 December 31, 2014 and March 31, 2014 is as follows:



December 31, 2014

Adjustments

(Amounts in thousands)	As Previously		Inventory	Long-Lived Assets	ADS Mexicana	Income Taxes and Other		As Restated
	Reported	Leases						
<b>ASSETS</b>								
Cash	\$ 10,753	\$	\$	\$	\$	\$	\$	\$ 10,753
Receivables, net	162,478				(860)	(499)		161,119
Inventories	230,949	(317)	(12,489)	(120)	707	1,020		219,750
Deferred income taxes and other current assets	13,984			322	(423)	554		14,437
Property, plant and equipment, net	283,104	74,817		(4,873)		45		353,093
Goodwill	86,231			1,805		(85)		87,951
Intangible assets, net	57,580			(5,706)				51,874
Other assets	66,556	(7)		(7,939)	(58)	5,840		64,392
<b>Total assets</b>	<b>\$ 911,635</b>	<b>\$ 74,493</b>	<b>\$ (12,489)</b>	<b>\$ (16,511)</b>	<b>\$ (634)</b>	<b>\$ 6,875</b>		<b>\$ 963,369</b>
<b>LIABILITIES, MEZZANINE EQUITY AND STOCKHOLDERS EQUITY</b>								
Current maturities of debt obligations	\$ 11,700	\$	\$	\$	\$	\$	\$	\$ 11,700
Current maturities of capital lease obligations		14,677						14,677
Accounts payable	70,197		(50)		(32)	932		71,047
Other accrued liabilities	42,260	529				11,729		54,518
Accrued income taxes	16,083					2,573		18,656
Long-term debt obligation	326,725							326,725
Long-term capital lease obligation		47,831						47,831
Deferred tax liabilities	63,663					(4,579)		59,084
Other liabilities	20,448	56				7,842		28,346
<b>Total liabilities</b>	<b>551,076</b>	<b>63,093</b>	<b>(50)</b>		<b>(32)</b>	<b>18,497</b>		<b>632,584</b>
Mezzanine equity	105,332					5,463		110,795
Common stock	12,393							12,393
Paid-in capital	679,393					14,406		693,799
Common stock in treasury, at cost	(446,479)							(446,479)
Accumulated other comprehensive loss	(10,568)			(33)	(656)	(303)		(11,560)
Retained earnings (deficit)		11,400	(12,439)	(16,478)	165	(29,256)		(46,608)
Noncontrolling interest in subsidiaries	20,488				(111)	(1,932)		18,445
<b>Total liabilities, mezzanine equity and stockholders equity</b>	<b>\$ 911,635</b>	<b>\$ 74,493</b>	<b>\$ (12,489)</b>	<b>\$ (16,511)</b>	<b>\$ (634)</b>	<b>\$ 6,875</b>		<b>\$ 963,369</b>



**Table of Contents**

(Amounts in thousands)	March 31, 2014						
	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>
<b>LIABILITIES, MEZZANINE EQUITY AND STOCKHOLDERS DEFICIT</b>							
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)
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>	\$ 937,595	\$ 62,802	\$ (4,270)	\$ (15,395)	\$ (929)	\$ 9,764	\$ 989,567
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### *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 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>		<b>(1,126)</b>		<b>(225)</b>	<b>(8,129)</b>	<b>(9,480)</b>	<b>(4,721)</b>	<b>(14,201)</b>
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 nine months ended December 31, 2014 and 2013 is as follows:

**For the Nine Months Ended December 31, 2014**

<b>(Amounts in thousands)</b>	<b>As Previously</b>		
	<b>Reported</b>	<b>Adjustments</b>	<b>As Restated</b>
Net cash provided by operating activities	\$ 85,404	\$ 4,848	\$ 90,252
Net cash used in investing activities	(31,872)	2,506	(29,366)
Net cash used in financing activities	(46,243)	(7,396)	(53,639)

- 15 -

**Table of Contents****For the Nine Months Ended December 31, 2013**

<b>(Amounts in thousands)</b>	<b>As Previously</b>		
	<b>Reported</b>	<b>Adjustments</b>	<b>As Restated</b>
Net cash provided by operating activities	\$ 88,104	\$ 7,734	\$ 95,838
Net cash used in investing activities	(30,116)	2,103	(28,013)
Net cash used in financing activities	(54,014)	(9,849)	(63,863)

**3. DISPOSAL OF ASSETS OR BUSINESS**

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 December 31, 2014 and March 31, 2014 consisted of the following:

<b>(Amounts in thousands)</b>	<b>December 31, 2014</b>	<b>March 31, 2014</b>
Land, buildings and improvements	\$ 161,450	\$ 158,588
Machinery and equipment	670,600	640,529
Construction in Progress	9,096	11,003
Total cost	841,146	810,120
Accumulated depreciation	(488,053)	(459,769)
<b>Property, plant and equipment - net</b>	<b>\$ 353,093</b>	<b>\$ 350,351</b>

The following table sets forth depreciation expense for the three and nine months ended December 31, 2014 and 2013, respectively:

<b>(Amounts in thousands)</b>	<b>Three Months Ended December 31,</b>		<b>Nine Months Ended December 31,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Depreciation expense	\$ 12,536	\$ 12,311	\$ 37,326	\$ 36,499

**5. INVENTORIES**

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

<b>(Amounts in thousands)</b>	<b>December 31, 2014</b>	<b>March 31, 2014</b>
Raw materials	\$ 57,283	\$ 51,785
Finished goods	162,467	208,106
<b>Total inventory</b>	<b>\$ 219,750</b>	<b>\$ 259,891</b>

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

**Table of Contents****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 consisted of the following:

	<b>December 31, 2014</b>		<b>March 31, 2014</b>	
<b>(Amounts in thousands)</b>				
Buildings and improvements	\$	7,163	\$	7,716
Machinery and equipment		167,512		145,980
<b>Total cost</b>		<b>174,675</b>		<b>153,696</b>
Accumulated amortization		(99,052)		(89,599)
<b>Leased assets in Property, plant and equipment, net</b>	<b>\$</b>	<b>75,623</b>	<b>\$</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 December 31, 2014:

**Future minimum lease payments - Capital leases****(Amounts in thousands)**

December 31, 2015	\$	17,485
December 31, 2016		15,448
December 31, 2017		12,556
December 31, 2018		9,661
December 31, 2019		7,129
Thereafter		8,467
<b>Total minimum lease payments<sup>(a)</sup></b>	<b>\$</b>	<b>70,746</b>
Less: amount representing interest <sup>(b)</sup>		8,238
<b>Present value of net minimum lease payments</b>	<b>\$</b>	<b>62,508</b>
Lease Obligation Current		14,677
Lease Obligation Long-term		47,831
<b>Total lease obligation</b>	<b>\$</b>	<b>62,508</b>



- (a) Excludes contingent rentals which may be paid. Contingent rentals amounted to \$599 and \$65 for the nine months ended December 31, 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 December 31, 2014 and 2013, the Company acquired equipment under capital lease and incurred lease obligations of \$2,373 and \$1,690, respectively and during the nine months ended December 31, 2014 and 2013, the Company acquired equipment under capital lease and incurred lease obligations of \$22,531 and \$18,063, 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.

**Table of Contents****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 \$899 and \$941 for the three months ended December 31, 2014 and 2013, respectively, and \$2,524 and \$3,172 for the nine months ended December 31, 2014 and 2013, respectively.

Future minimum rental commitments under operating leases as of December 31, 2014, are summarized below (amounts in thousands):

	Twelve Months Ended December 31,					
	2015	2016	2017	2018	2019	Thereafter
Future operating lease payments	\$ 2,915	\$ 2,162	\$ 1,159	\$ 659	\$ 442	\$ 2,281

**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		(66)	(66)
<b>Balance at December 31, 2014</b>	<b>\$ 87,507</b>	<b>\$ 444</b>	<b>\$ 87,951</b>

**Intangible Assets**

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

(Amounts in thousands)	December 31, 2014			March 31, 2014		
	Gross Intangible	Accumulated Amortization	Net Intangible	Gross Intangible	Accumulated Amortization	Net Intangible
Definite-lived intangible assets						
Developed technology	\$ 40,579	\$ (25,451)	\$ 15,128	\$ 40,579	\$ (22,588)	\$ 17,991
Customer relationships	38,252	(25,191)	13,061	38,252	(21,793)	16,459
Patents	6,429	(3,392)	3,037	6,175	(2,921)	3,254
Non-compete and other contractual agreements	1,088	(752)	336	1,088	(491)	597
Trademarks and tradenames	11,157	(2,813)	8,344	11,157	(2,254)	8,903

Total definite-lived intangible assets	97,505	(57,599)	39,906	97,251	(50,047)	47,204
Indefinite-lived intangible assets						
Trademarks	11,968		11,968	11,990		11,990
<b>Total intangible assets</b>	<b>\$ 109,473</b>	<b>\$ (57,599)</b>	<b>\$ 51,874</b>	<b>\$ 109,241</b>	<b>\$ (50,047)</b>	<b>\$ 59,194</b>

## 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.

**Table of Contents**

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 December 31, 2014 and March 31, 2014 were as follows:

(Amounts in thousands)	Total	December 31, 2014		
		Level 1	Level 2	Level 3
<b>Assets:</b>				
Derivative assets - currency forward contracts	\$ 256	\$	\$ 256	\$
<b>Total assets at fair value on a recurring basis</b>	<b>\$ 256</b>	<b>\$</b>	<b>\$ 256</b>	<b>\$</b>
<b>Liabilities:</b>				
Derivative liability - interest rate swaps	\$ 651	\$	\$ 651	\$
Derivative liability - diesel fuel contracts	3,076		3,076	
Derivative liability - propylene swaps	2,060		2,060	
Derivative liability - currency forward contracts	1,660		1,660	
Contingent consideration for acquisitions	2,365			2,365
<b>Total liabilities at fair value on a recurring basis</b>	<b>\$ 9,812</b>	<b>\$</b>	<b>\$ 7,447</b>	<b>\$ 2,365</b>
(Amounts in thousands)	Total	March 31, 2014		
		Level 1	Level 2	Level 3
<b>Assets:</b>				
Derivative assets - propylene swaps	\$ 27	\$	\$ 27	\$
<b>Total assets at fair value on a recurring basis</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>\$ 646,850</b>	<b>\$ 1,001 \$ 645,849</b>

- 19 -

**Table of Contents**

Changes in the fair value of recurring fair value measurements using significant unobservable inputs (Level 3) for the three and nine months ended December 31, 2014 and 2013 were as follows:

	<b>Three Months Ended December 31, 2014</b>	
(amounts in thousands)	<b>Contingent consideration</b>	<b>Total</b>
<b>Balance at September 30, 2014</b>	<b>\$ 2,526</b>	<b>\$ 2,526</b>
Allocation of ESOP shares to participants		
Change in fair value	(7)	(7)
Payments of contingent consideration liability	(154)	(154)
Transfer from Level 3		
<b>Balance at December 31, 2014</b>	<b>\$ 2,365</b>	<b>\$ 2,365</b>

	<b>Three Months Ended December 31, 2013</b>				
(amounts in thousands)	<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 September 30, 2013</b>	<b>\$ 2,467</b>	<b>\$ 553,189</b>	<b>\$ 295,574</b>	<b>\$ (201,837)</b>	<b>\$ 649,393</b>
Allocation of ESOP shares to participants				3,433	3,433
Change in fair value	(37)	24,831	12,750	(9,022)	28,522
Payments of contingent consideration liability	(104)				(104)
Redemption of Redeemable convertible preferred stock			(743)		(743)
<b>Balance at December 31, 2013</b>	<b>\$ 2,326</b>	<b>\$ 578,020</b>	<b>\$ 307,581</b>	<b>\$ (207,426)</b>	<b>\$ 680,501</b>

	<b>Nine Months Ended December 31, 2014</b>				
(amounts in thousands)	<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

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Change in fair value	(5)	65,921	34,903	(23,849)	76,970
Payments of contingent consideration liability	(528)				(528)
Transfer from Level 3		(615,040)	(326,623)	217,346	(724,317)
<b>Balance at December 31, 2014</b>	<b>\$ 2,365</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$ 2,365</b>

**Nine Months Ended December 31, 2013**

(amounts in thousands)	Contingent consideration		Redeemable convertible preferred stock	Deferred compensation - unearned ESOP shares	Total
	common stock	common stock	common stock	common stock	
<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				9,482	9,482
Change in fair value	92	55,359	28,923	(20,431)	63,943
Payments of contingent consideration liability	(445)				(445)
Redemption of Redeemable convertible preferred stock				(3,889)	(3,889)
Transfer to Level 3		385			385
<b>Balance at December 31, 2013</b>	<b>\$ 2,326</b>	<b>\$ 578,020</b>	<b>\$ 307,581</b>	<b>\$ (207,426)</b>	<b>\$ 680,501</b>

- 20 -

## **Table of Contents**

For the nine months ended December 31, 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 shares 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 for further information on the IPO. There were no further transfers in or out of Levels 1, 2 and 3 for the nine months ended December 31, 2014 and 2013, respectively.

### *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 solely within the control of the Company should be classified outside of permanent equity. As of December 31, 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

**Table of Contents**

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. 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 December 31, 2014 and March 31, 2014. The balances exclude intercompany transactions that are eliminated upon consolidation.

(Amounts in thousands)	December 31, 2014		March 31, 2014	
<b>Assets</b>				
Current assets	\$	33,347	\$	32,877
Property, plant and equipment, net		18,991		21,633
Other noncurrent assets		2,654		3,378
<b>Total assets</b>	<b>\$</b>	<b>54,992</b>	<b>\$</b>	<b>57,888</b>
<b>Liabilities</b>				
Current liabilities	\$	12,414	\$	11,595
Noncurrent liabilities		4,431		7,020

<b>Total liabilities</b>	<b>\$</b>	<b>16,845</b>	<b>\$</b>	<b>18,615</b>
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#### **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 and includes capital contributions of \$4,000 and \$2,875 made during the nine months ended December 31, 2014 and the fiscal year ended March 31, 2014, respectively. Summarized financial data as of December 31 and March 31, 2014 for the South American Joint Venture is as follows:

<b>(Amounts in thousands)</b>	<b>December 31, 2014</b>	<b>March 31, 2014</b>
Investment in South American Joint Venture	\$ 18,879	\$ 18,422
Receivable from South American Joint Venture	4,899	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 December 31 and March 31, 2014 for the BaySaver joint venture is as follows:

<b>(Amounts in thousands)</b>	<b>December 31, 2014</b>	<b>March 31, 2014</b>
Investment in BaySaver	\$ 5,384	\$ 5,202
Receivable from BaySaver	43	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 December 31, 2014 is \$1,689.

***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.

**Table of Contents**

Summarized financial data as of December 31, 2014 for the Tigre-ADS USA joint venture is as follows:

<b>(Amounts in thousands)</b>	<b>December 31, 2014</b>
Investment in Tigre-ADS USA	\$ 3,147
Receivable from Tigre-ADS USA	16

**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 nine months ended December 31, 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 \$102 and \$271 for the three and nine months ended December 31, 2014, respectively, and \$139 and \$238 for the three and nine months ended December 31, 2013, respectively.

Occasionally, ADS and ADS Mexicana jointly enter into agreements for pipe sales with their related parties which totaled \$1,125 and \$3,464 for the three and nine months ended December 31, 2014, respectively, and \$1,737 and \$5,512 for the three and nine months ended December 31, 2013, respectively. Outstanding receivables related to these sales were \$938 and \$2,480 as of December 31, 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 December 31, 2014. The maximum borrowings permitted under the South American Joint Venture's credit facility are \$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 December 31, 2014 and March 31, 2014, the outstanding principal balance of the credit facility including letters of credit was \$13.3 million and \$11.1 million, respectively. The weighted average interest rate as of December 31, 2014 was 3.19% on U.S. dollar denominated loans and 6.32% 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 December 31, 2014, BaySaver held an unsecured, interest-free, note receivable from ADS in the amount of \$1,250 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 December 31 and March 31, 2014 consisted of the following:

(Amounts in thousands)	December 31, 2014		March 31, 2014	
<b>Bank Term Loans</b>				
Revolving Credit Facility ADS	\$	138,800	\$	248,100
Revolving Credit Facility ADS Mexicana				
Term note		93,125		97,500
<b>Senior Notes payable</b>		<b>100,000</b>		<b>100,000</b>
<b>Mortgage notes payable</b>		<b>2,750</b>		<b>3,733</b>
<b>Industrial revenue bonds</b>		<b>3,750</b>		<b>4,715</b>
<b>Total</b>		<b>338,425</b>		<b>454,048</b>
Current maturities		(11,700)		(11,153)
<b>Long-term debt obligation</b>	<b>\$</b>	<b>326,725</b>	<b>\$</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 December 31, 2014 was 3.01%. Any letters of credit outstanding reduce the availability on the revolver. The Company had outstanding letters of credit at December 31, 2014 in the amount of \$8,005. The amount available for borrowing for ADS was \$178,195, plus \$12,000 available under a separate revolving credit facility with our subsidiary, ADS Mexicana, at December 31, 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 July 18, 2013, ADS executed two Forward Interest Rate Swaps on the 30-Day LIBOR interest rate. One swap was for \$50,000 and has a fixed rate of 0.86% for a period of three years beginning on September 3, 2013 and expiring on September 1, 2016. The second swap executed on July 18, 2013 was for \$50,000 and has a fixed rate of 1.08% for a period of two years beginning on September 2, 2014 and 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 December 31, 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. Land and building with a net book value of approximately \$4,914 at December 31, 2014 collateralize the mortgage note. In September 2014, a second mortgage with a variable interest rate was paid off (New Miami, Ohio).

***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 December 31, 2014 was 3.84%, including a letter of credit fee of 3.75%. Land and buildings with a net book value of approximately \$10,047 at December 31, 2014 collateralize the bond. The bond is not considered an auction rate security.

***Debt Covenants***

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 (income) expense, net. The Company recognized (losses) and gains on mark-to-market adjustments for changes in fair value on derivative contracts of \$(6,054) and \$184 for the three months ended December 31, 2014 and 2013, respectively, and \$(6,217) and \$(54) for the nine months ended December 31, 2014 and 2013, respectively.

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

	December 31, 2014		March 31, 2014	
	Asset	Liability	Asset	Liability
Interest rate swaps	\$	\$ (651)	\$	\$ (1,001)
Foreign exchange forward contracts	256	(1,660)		
Diesel fuel option collars		(3,076)		

Propylene swaps	(2,060)	27
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#### **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 28,000 pounds of resin over the period January 2015 through December 2015 at a committed purchase cost of \$18,520.

- 26 -

**Table of Contents****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.

**15. ACCUMULATED OTHER COMPREHENSIVE LOSS**

The following table presents the changes in balances of each component of Accumulated other comprehensive loss ( AOCL ) for the nine months ending December 31:

(Amounts in thousands)	Currency Translation	Other	Accumulated Other Comprehensive Loss
Balance at April 1, 2013	\$ (1,085)	\$ 4	\$ (1,081)
Other comprehensive loss	(5,291)	6	(5,285)
Income tax expense (benefit)		(2)	(2)
<b>Balance at December 31, 2013</b>	<b>\$ (6,376)</b>	<b>\$ 8</b>	<b>\$ (6,368)</b>
Balance at April 1, 2014	(6,838)	8	(6,830)
Other comprehensive loss	(4,730)		(4,730)
<b>Balance at December 31, 2014</b>	<b>\$ (11,568)</b>	<b>\$ 8</b>	<b>\$ (11,560)</b>

**16. REDEEMABLE CONVERTIBLE PREFERRED STOCK**

The Trustee of the Company's ESOP has the ability to put shares of our redeemable convertible preferred stock to the Company. The redeemable convertible preferred stock has a required cumulative 2.5% dividend (based on the issue price of \$0.781 per share) 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 \$0.781 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 or its trading has been restricted. 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, our Redeemable convertible preferred stock is

presented in the mezzanine section of our Condensed Consolidated Balance Sheets as of December 31, 2014.

In accordance with ASC 480-10-S99, as of December 31, 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 \$11.75 per share of Redeemable convertible preferred stock at December 31, 2014 and 2013, respectively, resulting in an average fair value per share of \$12.34 and \$11.20 for the nine months ended December 31, 2014 and 2013, respectively. We recognized compensation expense of \$2,690 and \$2,317 for the three months ended December 31, 2014 and 2013, respectively, and \$8,064 and \$7,343 for the nine months ended December 31, 2014 and 2013, respectively, related to allocation of ESOP shares to participants for compensation.

**Table of Contents****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.

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

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 \$1,178 and \$945 for the three months ended December 31, 2014 and 2013, respectively, and \$3,557 and \$1,407 for the nine months ended December 31, 2014 and 2013, respectively, which was included with General and administrative expenses in our Condensed Consolidated Statements of Operations. As of December 31, 2014 and 2013, there was a total of \$4,133 and \$8,103, 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 December 31, 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>December 31,</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%

*2000 Plan*

The stock option transactions as of the nine months ended December 31 are summarized as follows:

	<b>December 31, 2014</b>			<b>December 31, 2013</b>		
	<b>Weighted</b>	<b>Weighted</b>		<b>Weighted</b>	<b>Weighted</b>	
	<b>Average</b>	<b>Average</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>Number</b>	<b>Price</b>	<b>Contractual</b>	<b>Number</b>
	<b>of Shares</b>	<b>Term</b>	<b>of Shares</b>	<b>of Shares</b>	<b>Term</b>	<b>of Shares</b>

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Outstanding at beginning of period	913	\$ 9.48	4.1	1,333	\$ 8.10	4
Issued	78	15.74		14	13.64	
Exercised	87	7.56		141	6.82	
Forfeited	3	15.74		5	10.77	
Outstanding at end of period	901	10.18	4	1,201	8.30	3.5
Exercisable and vested at end of period	826	9.68	3.5	801	6.84	1.9
Unvested at end of period	75	15.74	9.6	400	11.16	6.7
Vested and expected to vest at end of period	779	\$ 10.16	7.8	1,078	\$ 8.08	4.5

- 28 -

**Table of Contents**

As a result of the 2014 Initial Public Offering (See Note 1), all unvested stock options from prior issuances immediately vested. 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 nine months ended December 31, 2014:

	<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	3	6.76
<b>Unvested at end of period</b>	<b>75</b>	<b>\$ 6.76</b>

*2013 Plan*

The stock option transactions as of the nine months ended December 31, 2014 and 2013 for the 2013 Stock Option Plan are summarized as follows:

	<b>December 31, 2014</b>			<b>December 31, 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	8.7	1,911	13.64	9.7
Exercisable and vested at end of period	408	13.64	8.7			
Unvested at end of period	1,503	13.64	8.7	1,911	13.64	9.7
Vested and expected to vest at end of period	1,881	13.64	8.7	1,704	13.64	9.7
Fair value of options granted during the period		\$			\$ 6.22	



The following table summarizes information about the nonvested stock option grants as of December 31, 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>\$ 6.22</b>

- 29 -

**Table of Contents*****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 \$78 and \$(40) for the three months ended December 31, 2014 and 2013, respectively, and \$1,626 and \$1,138 for the nine months ended December 31, 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 nine months ended December 31, 2014 and 2013, respectively. We had approximately 333 shares available for granting under this plan as of December 31, 2014.

The following table summarizes information about the unvested restricted stock grants as of December 31, 2014:

	<b>Number of Shares</b>	<b>Weighted Average Grant Date Fair Value</b>
Unvested at beginning of period	311	\$ 12.40
Granted		
Vested	123	10.99
Forfeited	3	10.66
<b>Unvested at end of period</b>	<b>185</b>	<b>\$ 11.45</b>

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

As of December 31, 2014, there was approximately \$1,723 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 Stockholders' 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 \$286 and \$736 for the three and nine months ended December 31, 2014, respectively relating to the issuance of these shares. We had approximately 234 shares available for granting under this plan as of December 31, 2014.

The following table summarizes information about the unvested Non-Employee Director Compensation stock grants as of December 31, 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>\$ 18.88</b>

We expect all the stock grants to vest.

As of December 31, 2014, there was approximately \$164 of unrecognized compensation expense related to the restricted stock that will be recognized over the remaining service period.

- 30 -

**Table of Contents**

**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 and other onetime charges, as well as discrete events, such as provision to return adjustments. For the nine months ended December 31, 2014 and 2013, the Company utilized an effective tax rate of 41.8% and 57.9%, respectively, to calculate its provision for income taxes. These rates differ from the federal statutory rate of 35% due to state and local taxes, partially offset by foreign income taxed at lower rates. Furthermore, the effective tax rate for the first nine months of fiscal 2014 was primarily driven by the expected special dividend payment to participants in the ESOP Plan, which increased the effective tax rate by 23.0%.

**19. NET INCOME (LOSS) PER SHARE**

Basic net income (loss) 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 (loss) 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.

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 (loss) 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 (loss) per share, income available to common shareholders used in the basic net income (loss) 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 (loss) 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 December 31, 2014, if dilutive. For purposes of the calculation of diluted net income (loss) 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 (loss) per share.

**Table of Contents**

The following table presents information necessary to calculate net income (loss) per share for the three and nine months ended December 31, 2014 and 2013, 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		Nine Months Ended	
	December 31,		December 31,	
	2014	2013	2014	2013
<b>Net income (loss) per share - Basic</b>				
Net (loss) income attributable to ADS	\$ (3,325)	\$ (4,877)	\$ 22,085	\$ 22,837
Adjustment for:				
Change in fair value of redeemable convertible preferred stock		(4,697)	(11,054)	(8,492)
Dividends to redeemable convertible preferred stock	(298)	(209)	(377)	(640)
Dividends paid to unvested restricted stockholders	(9)	(8)	(9)	(47)
Net (loss) income available to common stockholders and participating securities	(3,632)	(9,791)	10,645	13,658
Undistributed income allocated to participating securities			(995)	(1,130)
Net (loss) income available to common stockholders - Basic	(3,632)	(9,791)	9,650	12,528
Weighted average number of common shares outstanding - Basic	52,986	47,251	50,691	46,976
<b>Net (loss) income per common share - Basic</b>	<b>\$ (0.07)</b>	<b>\$ (0.21)</b>	<b>\$ 0.19</b>	<b>\$ 0.27</b>
<b>Net (loss) income per share - Diluted</b>				
Net income (loss) available to common stockholders - Basic	\$ (3,632)	\$ (9,791)	\$ 9,650	\$ 12,528
Undistributed income allocated to participating securities				
Net (loss) income available to common stockholders - Diluted	(3,632)	(9,791)	9,650	12,528
Weighted average number of common shares outstanding - Basic	52,986	47,251	50,691	46,976
Assumed exercise of stock options			515	504
Weighted average number of common shares outstanding - Diluted	52,986	47,251	51,206	47,480
<b>Net (loss) income per common share - Diluted</b>	<b>\$ (0.07)</b>	<b>\$ (0.21)</b>	<b>\$ 0.19</b>	<b>\$ 0.26</b>
Potentially dilutive securities excluded as anti-dilutive	6,560	99	3,808	94

**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 distributors across the U.S. We also sell through a broad variety of buying groups and co-ops in the United States. Products include Singlewall 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 serve the Canadian market through Hancor of Canada. Our Mexican joint venture through ADS Mexicana primarily serves the Mexican markets, while our joint venture through the South American

**Table of Contents**

Joint Venture is our primary channel to serve the South American markets. Our product line includes Singlewall 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 nine months ended December 31, 2014 and 2013, respectively:

(Amounts in thousands)	Three Months Ended December 31,		Nine Months Ended December 31,	
	2014	2013	2014	2013
<b>Domestic</b>				
Pipe	\$ 179,979	\$ 171,452	\$ 637,728	\$ 582,632
Allied Products	59,236	55,308	210,888	193,763
<b>Total domestic</b>	<b>239,215</b>	<b>226,760</b>	<b>848,616</b>	<b>776,395</b>
<b>International</b>				
Pipe	34,171	27,630	102,320	88,230
Allied Products	6,485	6,254	22,083	21,325
<b>Total international</b>	<b>40,656</b>	<b>33,884</b>	<b>124,403</b>	<b>109,555</b>
<b>Total net sales</b>	<b>\$ 279,871</b>	<b>\$ 260,644</b>	<b>\$ 973,019</b>	<b>\$ 885,950</b>

The following sets forth certain additional financial information attributable to our reportable segments for the three and nine months ended December 31, 2014 and 2013, respectively:

(Amounts in thousands)	Three Months Ended		Nine Months Ended	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
<b>Net Sales</b>				
Domestic	\$ 239,215	\$ 226,760	\$ 848,616	\$ 776,395
International	40,656	33,884	124,403	109,555
<b>Total</b>	<b>\$ 279,871</b>	<b>\$ 260,644</b>	<b>\$ 973,019</b>	<b>\$ 885,950</b>
<b>Gross Profit</b>				
Domestic	41,764	49,122	161,405	156,927
International	7,414	10,220	18,394	24,353
<b>Total</b>	<b>\$ 49,178</b>	<b>\$ 59,342</b>	<b>\$ 179,799</b>	<b>\$ 181,280</b>
<b>Segment Adjusted EBITDA</b>				
Domestic	30,298	39,592	125,195	123,018

International	3,500	7,154	8,932	17,721
<b>Total</b>	<b>\$ 33,798</b>	<b>\$ 46,746</b>	<b>\$ 134,127</b>	<b>\$ 140,739</b>
<b>Interest expense, net</b>				
Domestic	4,613	4,543	14,675	13,903
International	18	37	51	127
<b>Total</b>	<b>\$ 4,631</b>	<b>\$ 4,580</b>	<b>\$ 14,726</b>	<b>\$ 14,030</b>
<b>Depreciation and amortization</b>				
Domestic	14,742	14,761	44,338	43,754
International	1,376	1,337	4,181	4,054
<b>Total</b>	<b>\$ 16,118</b>	<b>\$ 16,098</b>	<b>\$ 48,519</b>	<b>\$ 47,808</b>
<b>Equity in net income (loss) of unconsolidated affiliates</b>				
Domestic	(92)	112	312	226
International	(896)	(1,573)	(2,024)	(2,205)
<b>Total</b>	<b>\$ (988)</b>	<b>\$ (1,461)</b>	<b>\$ (1,712)</b>	<b>\$ (1,979)</b>
<b>Capital expenditures</b>				
Domestic	4,673	4,365	19,461	23,472
International	1,012	556	1,820	3,010
<b>Total</b>	<b>\$ 5,685</b>	<b>\$ 4,921</b>	<b>\$ 21,281</b>	<b>\$ 26,482</b>



**Table of Contents**

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

	December 31, 2014	March 31, 2014
<b>Investment in unconsolidated affiliates</b>		
Domestic	\$ 8,531	\$ 5,202
International	18,879	18,422
<b>Total</b>	<b>\$ 27,410</b>	<b>\$ 23,624</b>
<b>Total identifiable assets</b>		
Domestic	\$ 863,039	\$ 889,263
International	113,529	113,612
Eliminations	(13,199)	(13,308)
<b>Total</b>	<b>\$ 963,369</b>	<b>\$ 989,567</b>

**Reconciliation of Segment EBITDA and Segment Adjusted EBITDA to Net (Loss) Income**

(Amounts in thousands)	Three Months Ended December 31,			
	2014		2013	
	Domestic	International	Domestic	International
Net (loss) income	\$ (3,911)	\$ 1,958	\$ (6,279)	\$ 3,461
Depreciation and amortization	14,742	1,376	14,761	1,337
Interest expense	4,613	18	4,543	37
Income tax expense	3,160	247	23,131	434
Segment EBITDA	18,604	3,599	36,156	5,269
Derivative fair value adjustment	6,310	(256)	(184)	
Foreign currency transaction losses		(561)		338
Loss on disposal of assets or businesses	175	18	437	33
Unconsolidated affiliates interest, tax depreciation and amortization <sup>(a)</sup>	648	700	(2)	1,514
Contingent consideration remeasurement	(7)		(37)	
Stock-based compensation	1,542		905	
ESOP deferred stock-based compensation	2,690		2,317	
Transaction costs <sup>(b)</sup>	336			
<b>Segment Adjusted EBITDA</b>	<b>\$ 30,298</b>	<b>\$ 3,500</b>	<b>\$ 39,592</b>	<b>\$ 7,154</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. Fiscal year 2014 includes our proportional share of an asset impairment of \$1,022 recorded by our South American Joint Venture.

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

**Table of Contents**

(Amounts in thousands)	Nine Months Ended December 31,			
	2014		2013	
	Domestic	International	Domestic	International
Net income	\$ 21,535	\$ 4,950	\$ 17,818	\$ 10,570
Depreciation and amortization	44,338	4,181	43,754	4,054
Interest expense	14,675	51	13,903	127
Income tax expense	21,471	(1,245)	41,500	204
Segment EBITDA	102,019	7,937	116,975	14,955
Derivative fair value adjustment	6,473	(256)	54	
Foreign currency transaction losses		(636)		251
Loss (gain) on disposal of assets or businesses	486	52	(4,109)	47
Unconsolidated affiliates interest, tax depreciation and amortization <sup>(a)</sup>	1,188	1,835		2,468
Contingent consideration remeasurement	(5)		92	
Stock-based compensation	5,919		2,545	
ESOP deferred stock-based compensation	8,064		7,343	
Transaction costs <sup>(b)</sup>	1,051		118	
<b>Segment Adjusted EBITDA</b>	<b>\$ 125,195</b>	<b>\$ 8,932</b>	<b>\$ 123,018</b>	<b>\$ 17,721</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. Fiscal year 2014 includes our proportional share of an asset impairment of \$1,022 recorded by our South American Joint Venture.
- b) Represents expenses recorded related to legal, accounting and other professional fees incurred in connection with our debt refinancing and completion of the IPO and Secondary Public Offering.

**21. SUBSEQUENT EVENTS**

ASC 855, Subsequent Events (ASC 855), establishes general standards of accounting and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. ASC 855 requires the Company to evaluate events that occur after the balance sheet date through the date the Company's financial statements are issued, and to determine whether adjustments to or additional disclosures in the financial statements are necessary. The Company has evaluated subsequent events through the date these financial statements were originally issued.

On January 30, 2015, Hancor of Canada, a wholly-owned subsidiary of the Company, acquired all issued and outstanding shares of Ideal Drain Tile Limited and Wave Plastics Inc., the sole partners of Ideal Pipe of Canada. Ideal Pipe designs, manufactures and markets high performance thermoplastic corrugated pipe and related water management products used across a broad range of Canadian end markets and applications, including non-residential, residential, agriculture, and infrastructure applications. The acquisition further strengthens our positions in Canada by increasing our size and scale in the market, as well as enhancing our manufacturing, marketing and distribution capabilities. The purchase price of Ideal Pipe of Canada was \$55,674 Canadian dollars, financed through our existing line of credit facility. We acquired certain assets and liabilities including accounts receivable, inventory, property plant and equipment, intangible and other assets and accrued liabilities. The Company will account for this acquisition

in accordance with ASC 805. Pro forma results and other expanded disclosures prescribed by ASC 805 have not been presented as the Company has not begun the process of completing the preliminary purchase accounting.

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**Table of Contents****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 \$12.0 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.

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.

**Table of Contents**

On August 22, 2014, an additional 600,000 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.

On December 9, 2014, we completed a Secondary Public Offering of our common stock, which resulted in the sale of 10,000,000 shares of common stock by a certain selling stockholder of the Company at a public offering price of \$21.25. We did not receive any proceeds from the sale of shares by the selling stockholder. A registration statement related to these securities was declared effective by the SEC on December 3, 2014.

On December 15, 2014, an additional 1,500,000 shares of common stock were sold by a certain selling stockholder of the Company as a result of the full exercise by the underwriters of the over-allotment option granted by the selling stockholder to the underwriters in connection with the Secondary Public Offering. The shares were sold at the public offering price of \$21.25 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 nine months ended December 31, 2014 and 2013 and the Condensed Consolidated Balance Sheets as of December 31, 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 December 31, 2014 Compared With Three Months Ended December 31, 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 December 31, 2014 and 2013. Also included is certain information relating to the operating results as a percentage of net sales.

(Amounts in thousands)	Three Months Ended December 31, 2014		Three Months Ended December 31, 2013		% Variance
	(As Restated) <sup>(a)</sup>	% of Net Sales	(As Restated) <sup>(a)</sup>	% of Net Sales	
<b>Consolidated Statements of Income data:</b>					
Net sales	\$ 279,871	\$ 100.0%	\$ 260,644	\$ 100.0%	7.4%
Cost of goods sold	230,693	82.4%	201,302	77.2%	14.6%
Gross profit	49,178	17.6%	59,342	22.8%	(17.1%)
Selling expenses	19,913	7.1%	16,365	6.3%	21.7%
General and administrative expenses	14,115	5.0%	13,647	5.2%	3.4%
Loss on disposal of assets or businesses	193	0.1%	470	0.2%	(58.9%)

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Intangible amortization	2,328	0.8%	2,613	1.0%	(10.9%)
Income from operations	12,629	4.5%	26,247	10.1%	(51.9%)
Interest expense	4,631	1.7%	4,580	1.8%	1.1%
Other miscellaneous expense (income), net	5,556	2.0%	(541)	(0.2%)	(1127.0%)
Income before income taxes	2,442	0.9%	22,208	8.5%	(89.0%)
Income tax expense	3,407	1.2%	23,565	9.0%	(85.5%)
Equity in net loss of unconsolidated affiliates	988	0.4%	1,461	0.6%	(32.4%)
Net loss	(1,953)	(0.7%)	(2,818)	(1.1%)	(30.7%)
Less net income attributable to the non-controlling interest	1,372	0.5%	2,059	0.8%	(33.4%)
<b>Net loss attributable to ADS</b>	<b>\$ (3,325)</b>	<b>\$ (1.2%)</b>	<b>\$ (4,877)</b>	<b>(1.9%)</b>	<b>\$ (31.8%)</b>
<b>Other financial data:</b>					
Adjusted EBITDA <sup>(b)</sup>	\$ 33,798	12.1%	\$ 46,746	17.9%	(27.7%)
System-Wide Net Sales <sup>(b)</sup>	\$ 301,435	107.7%	\$ 277,249	106.4%	8.7%
Adjusted Earnings Per Fully Converted Share <sup>(b)</sup>	\$ (0.01)		\$ (0.04)		77.1%

- 37 -



**Table of Contents**

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

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

*Net sales*

(Amounts in thousands)	Three Months Ended December 31,	
	2014 (As Restated) <sup>(a)</sup>	2013 (As Restated) <sup>(a)</sup>
<b>Domestic</b>		
Pipe	\$ 179,979	\$ 171,452
Allied Products	59,236	55,308
<b>Total domestic</b>	<b>239,215</b>	<b>226,760</b>
<b>International</b>		
Pipe	34,171	27,630
Allied Products	6,485	6,254
<b>Total international</b>	<b>40,656</b>	<b>33,884</b>
<b>Total net sales</b>	<b>\$ 279,871</b>	<b>\$ 260,644</b>

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

Net sales for the quarter ended December 31, 2014 totaled \$279.9 million, increasing \$19.2 million, or 7.4%, over the comparable prior year period.

Domestic net sales increased \$12.5 million, or 5.5%, for the third quarter ended December 31, 2014, as compared to the prior year period. The increase in domestic sales was due to continued strong sales growth in the non-residential and residential markets; offsetting a decline in infrastructure and agricultural sales. The sales growth was broken down between our domestic pipe and Allied Products, which increased \$8.5 million and \$3.9 million, respectively, for the three months ended December 31, 2014. Domestic pipe sales increased \$8.5 million, or 5.0%, due to continued growth in our N-12 HDPE and High Performance PP product lines offsetting lower agricultural singlewall sales. Pipe selling prices increased 5.4% as compared to the prior year. Domestic Allied Product sales increased \$3.9 million, or 7.1%, led by our Nyloplast, StormTech, InsertaTee and Flexstorm product lines. Excluding \$1.8 million of Allied Product line sold in third quarter fiscal 2014, Domestic Allied Product sales increased \$5.7 million, or 10.7%, for the three months ended December 31, 2014 as compared to prior year sales of continuing products.

International net sales for the third quarter ended December 31, 2014 increased \$6.8 million, or 20.0%, over the comparable fiscal year 2014 period. The growth was primarily due to increased sales in Canada and Mexico. Strong sales in the Canadian agricultural markets as well as continued acceptance and sales growth of Allied Products across all end markets led to the increase in third quarter net sales, offsetting the negative currency impact of the weakening Canadian dollar. Improved public spending and continued positive sales momentum in the electrical conduit market were the main factors in increased third quarter net sales in Mexico versus the comparable prior year period.

System-Wide Net Sales for the third quarter ended December 31, 2014 were \$301.4 million, an increase of \$24.2 million, or 8.7%, over System-Wide Net Sales of \$277.2 million for the third quarter of fiscal 2014. Net sales at our South American Joint Venture operation were up slightly compared to the prior year period. Net sales growth from our domestic joint ventures (Tigre-ADS USA and BaySaver) provided a combined increase of \$4.5 million in net sales for the unconsolidated joint ventures for the three months ended December 31 2014, as compared to the prior year period. 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*

Cost of Goods Sold increased \$29.4 million or 14.6% and Gross profit decreased \$10.2 million or 17.1% for the third quarter ended December 31, 2014, over the comparable period for fiscal year 2014.

## **Table of Contents**

Domestic gross profit decreased \$7.4 million, or 15.0%, to \$41.8 million for the three months ended December 31, 2014 as compared to \$49.1 million during the prior year. The decrease was primarily due to a sharp rise in the cost of pipe resin used in products sold during the quarter, as raw material costs increased 14.0% as compared to the prior year. Both virgin and non-virgin resin prices spiked higher in the third quarter of fiscal 2015. Freight costs totaled 9.5% of domestic net sales for the three months ended December 31, 2014, compared to 10.4% for the prior year period helped by diesel fuel prices moving lower late in the quarter. Diesel prices declined approximately 12% compared to the prior year period.

International gross profit decreased \$2.8 million, or 27.5%, for the third quarter of fiscal year 2015 over the comparable fiscal year 2014 period despite the strong sales growth in the quarter, due to margin pressures. Gross margins were negatively impacted by the continued devaluation of the Canadian dollar versus the U.S. dollar and its impact on overall Canadian market selling prices in the third quarter. Raw material prices (which are primarily purchased in U.S. dollars for all International operations) also moved sharply higher, further contributing to the declining gross profit for the three months ended December 31, 2014.

Gross profit as a percentage of net sales totaled 17.6% for the third quarter ended December 31, 2014 as compared to 22.8% for the comparable third 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 December 31, 2014 increased \$3.5 million, or 21.7%, 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 7.1% for the third quarter of fiscal 2015 as compared to 6.3% 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 three months ended December 31, 2014 increased \$0.5 million, or 3.4%, over the comparable fiscal year 2014 period. The modest increase was the result of offsetting activity in specific account areas. The increase is attributable to an increase in non-cash stock-based compensation of \$0.6 million, and higher professional fees of \$0.8 million, offset by lower corporate overhead expenses of \$0.9 million.

### *Intangibles amortization*

Intangibles amortization for the three months ended December 31, 2014 decreased \$0.3 million, or 10.9%, over the comparable fiscal year 2014 period.

### *Interest expense*

Interest expense for the three months ended December 31, 2014 increased \$0.1 million, or 1.1%, over the comparable fiscal year 2014 period. The increase in the current year third quarter was due to a higher average interest rate on our outstanding indebtedness, offset by decreased interest expense related to capital leases.

*Other miscellaneous expense (income), net*

Other miscellaneous expense (income) increased \$6.1 million over the comparable prior year period. The increase in the net expense was primarily due to unfavorable mark-to-market adjustments of \$6.1 million for changes in fair value on derivative contracts (diesel fuel hedges and raw material derivatives) and \$0.3 million of other miscellaneous expense, partially offset by \$0.9 million of income related to unrealized currency gains in our International operations.

**Table of Contents***Income tax expense*

For the three months ended December 31, 2014 and 2013, the Company recorded an income tax provision of \$3.4 million and \$23.6 million, respectively. The higher income tax expense for the third quarter of fiscal 2014 was primarily driven by the expected special dividend payment to participants in the Company's ESOP.

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

Third quarter net loss attributable to ADS for fiscal year 2015 of approximately \$3.3 million improved from the preceding fiscal year's net loss attributable to ADS for the quarter of \$4.9 million, as influenced by the factors noted above. Net loss per share for the third quarter fiscal year 2015 totaled \$0.07 per basic and diluted share, as compared to \$0.21 per basic and diluted share recorded in the comparable prior year period.

*Adjusted EBITDA*

(Amounts in thousands)	Three Months Ended December 31,		
	2014	2013	% Change
	(As Restated) <sup>(a)</sup>	(As Restated) <sup>(a)</sup>	
Domestic	\$ 30,298	\$ 39,592	(23.2%)
International	3,500	7,154	(51.1%)
<b>Total adjusted EBITDA</b>	<b>\$ 33,798</b>	<b>\$ 46,746</b>	<b>(27.7%)</b>
As a percentage of net sales	12.1%	17.9%	

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

Adjusted EBITDA for the third quarter of fiscal year 2015 decreased by \$12.9 million, or 27.7%, over the comparable fiscal year 2014 period.

Domestic adjusted EBITDA totaled \$30.3 million for the three months ended December 31, 2014, compared to \$39.6 million for the prior year third quarter. International adjusted EBITDA totaled \$3.5 million for the third quarter of fiscal 2015, compared to \$7.2 million for the prior year period.

Adjusted EBITDA as a percentage of net sales totaled 12.1% for the three months ended December 31, 2014, compared to 17.9% for the prior year third quarter.

*Nine Months Ended December 31, 2014 Compared With Nine Months Ended December 31, 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 nine months ended December 31, 2014 and 2013. Also included is certain information relating to the operating results as a percentage of net sales.

(Amounts in thousands)	Nine Months Ended December 31, 2014 (As Restated) <sup>(a)</sup>	% of Net Sales	Nine Months Ended December 31, 2013 (As Restated) <sup>(a)</sup>	% of Net Sales	% Variance
<b>Consolidated Statements of Income data:</b>					
Net sales	\$ 973,019	100.0%	\$ 885,950	100.0%	9.8%
Cost of goods sold	793,220	81.5%	704,670	79.5%	12.6%
Gross profit	179,799	18.5%	181,280	20.5%	(0.8%)
Selling expenses	59,705	6.1%	51,520	5.8%	15.9%
General and administrative expenses	43,756	4.5%	40,389	4.6%	8.3%
Loss (gain) on disposal of assets or businesses	538	0.1%	(4,062)	(0.5%)	(113.2%)
Intangible amortization	7,551	0.8%	7,853	0.9%	(3.8%)
Income from operations	68,249	7.0%	85,580	9.7%	(20.3%)
Interest expense	14,726	1.5%	14,030	1.6%	5.0%
Other miscellaneous expense (income), net	5,100	0.5%	(521)	(0.1%)	(1,078.9%)
Income before income taxes	48,423	5.0%	72,071	8.1%	(32.8%)
Income tax expense	20,226	2.1%	41,704	4.7%	(51.5%)
Equity in net loss of unconsolidated affiliates	1,712	0.2%	1,979	0.2%	(13.5%)
Net income	26,485	2.7%	28,388	3.2%	(6.7%)
Less net income attributable to the non-controlling interest	4,400	0.5%	5,551	0.6%	(20.7%)
<b>Net income attributable to ADS</b>	<b>\$ 22,085</b>	<b>2.3%</b>	<b>\$ 22,837</b>	<b>2.6%</b>	<b>(3.3%)</b>
<b>Other financial data:</b>					
Adjusted EBITDA <sup>(b)</sup>	\$ 134,127	13.8%	\$ 140,739	15.9%	(4.7%)
System-Wide Net Sales <sup>(b)</sup>	\$ 1,038,269	106.7%	\$ 937,856	105.9%	10.7%
Adjusted Earnings Per Fully Converted Share <sup>(b)</sup>	\$ 0.42		\$ 0.45		(4.8%)

**Table of Contents**

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

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

*Net sales*

(Amounts in thousands)	Nine Months Ended December 31,	
	2014 (As Restated) <sup>(a)</sup>	2013 (As Restated) <sup>(a)</sup>
<b>Domestic</b>		
Pipe	\$ 637,728	\$ 582,632
Allied Products	210,888	193,763
<b>Total Domestic</b>	<b>848,616</b>	<b>776,395</b>
<b>International</b>		
Pipe	102,320	88,230
Allied Products	22,083	21,325
<b>Total International</b>	<b>124,403</b>	<b>109,555</b>
<b>Total Consolidated Net Sales</b>	<b>\$ 973,019</b>	<b>\$ 885,950</b>

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

Net sales totaled \$973.0 million for the nine months ended December 31, 2014, increasing \$87.1 million, or 9.8%, over the comparable period for fiscal year 2014. The total sales growth was broken down between our pipe and Allied Products, which increased \$69.2 million and \$17.9 million, respectively, for the nine months ended December 31, 2014.

Domestic net sales increased \$72.2 million, or 9.3%, for the nine months ended December 31, 2014, as compared to prior year period. Domestic pipe sales increased \$55.1 million, or 9.5%, due to continued growth in our N-12 HDPE and High Performance PP product lines offsetting lower Agricultural single wall sales. Domestic Allied Product sales increased \$17.1 million, or 8.8%, due to strong sales volume sold primarily into the non-residential, residential and infrastructure markets. Excluding \$6.9 million in sales of domestic Allied Product lines sold in fiscal 2014, domestic Allied Product sales increased \$24.0 million, or 12.9%, for the nine months ended December 31, 2014 as compared to prior year sales of continuing products. Pipe selling prices increased 5.9% as compared to the prior year.

International net sales increased \$14.8 million, or 13.6%, for the nine months ended December 31, 2014 over the comparable fiscal year 2014 period. The growth was primarily due to increased sales in Canada and Mexico. Strong sales in the Canadian agricultural markets as well as continued acceptance and sales growth of Allied Products across all end markets led to the increase in net sales for the nine months ended December 31, 2014. Improved public spending and continued positive sales momentum in the electrical conduit market were the main factors in the increased nine month net sales in Mexico versus the comparable prior year period.

System-Wide Net Sales were \$1,038.3 million for the first nine months of fiscal year 2015, an increase of \$100.4 million, or 10.7%, over System-Wide Net Sales of \$937.9 million for the first nine 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 reduced public spending. Net sales from our domestic joint ventures (Tigre-ADS USA and BaySaver) provided a combined increase of \$15.9 million in net sales for unconsolidated joint ventures for the nine months ended December 31, 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.



## **Table of Contents**

### *Cost of goods sold and Gross profit*

Cost of Goods Sold increased \$88.6 million or 12.6% for the nine months ended December 31, 2014 compared with the same period during fiscal year 2014. Gross profit decreased \$1.5 million from \$181.3 for the nine months ended December 31, 2013 compared with the same period in the prior year.

Domestic gross profit increased \$4.5 million, or 2.9%, to \$161.4 million for the nine months ended December 31, 2014 as compared to \$156.9 million during the prior year. The overall increase was due to the sales growth in our N-12 HDPE and High Performance PP pipe product lines and Allied Product lines offset by higher raw material costs, particularly pipe resin costs. Raw material prices increased 11.1% due to higher virgin and non-virgin resin prices for the first nine months of fiscal 2015 as compared to the prior year period. Freight costs totaled 9.4% of domestic net sales for the nine months ended December 31, 2014, compared to 9.8% for the prior year period. Diesel prices began to moderate after the first quarter and were approximately 6% below the prior fiscal year for the nine-month period.

International gross profit decreased \$6.0 million, or 24.5%, for the first nine months of fiscal year 2015 over the comparable fiscal year 2014 period. 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, especially in the second and third quarters. Raw material prices (which are primarily purchased in U.S. dollars for all International operations) moved higher, and higher freight costs compared to the prior year period also contributed to the declining pipe gross profit for the nine months ended December 31, 2014.

Gross profit as a percentage of net sales totaled 18.5% for the nine months ended December 31, 2014 as compared to 20.5% 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 nine months ended December 31, 2014 increased \$8.2 million, or 15.9%, 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 6.1% for the first nine months of fiscal 2015 as compared to 5.8% 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 nine months ended December 31, 2014 increased \$3.4 million, or 8.3%, over the comparable fiscal year 2014 period. The increase was primarily the result of increases in non-cash stock-based compensation of \$3.4 million and higher professional fees of \$1.7 million, partially offset by lower corporate overhead expenses of \$1.7 million.

The \$3.4 million increase in non-cash stock-based compensation was due to a \$2.2 million increase in compensation expense related to our stock option plans, primarily the 2013 stock option plan that was implemented late in the second quarter of fiscal 2014, \$0.5 million related to accelerated vesting of certain restricted stock as a result of the initial public offering, and \$0.7 million related to the non-employee director compensation stock plan created in the second quarter of fiscal 2015.

The \$1.7 million increase in professional fees was due to audit services of \$0.8 million in connection with the IPO, \$0.3 million in professional fees due to the Secondary Public Offering, and additional professional and consulting fees of \$0.6 million associated with being a public company.

## **Table of Contents**

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

Gain on sale of businesses for the nine months ended December 31, 2014 was zero compared to \$4.8 million for the comparable prior year period. The Company sold its Draintech product line during the first quarter of fiscal year 2014. Dispositions of machinery and equipment resulted in a loss of \$0.5 and \$0.8 million for the nine months ended December 31, 2014 and 2013, respectively, and related to the replacement of assets in the normal course of business.

### *Intangibles amortization*

Intangibles amortization for the nine months ended December 31, 2014 decreased \$0.3 million, or 3.8%, over the comparable prior year period.

### *Interest expense*

Interest expense for the nine months ended December 31, 2014 increased \$0.7 million, or 5.0%, over the comparable prior year period. The increase was due to a higher average interest rate on our outstanding indebtedness, a higher average outstanding balance, and a 2% surcharge on our shelf notes paid during the first quarter of fiscal 2015 due to our leverage ratio of Adjusted EBITDA to Funded Debt exceeding 3 times at June 30, 2014. The surcharge increased interest expense by \$0.5 million.

### *Other miscellaneous expense (income), net*

Miscellaneous expense increased \$5.6 million over the comparable prior year period. The increase in the net expense was primarily due to unfavorable mark-to-market adjustments of \$6.2 million for changes in fair value on derivative contracts (diesel fuel hedges and raw material derivatives), partially offset by \$0.9 million of income related to unrealized currency gains in our International operations and \$0.5 million of other miscellaneous income.

### *Income tax expense*

For the nine months ended December 31, 2014 and 2013, the Company recorded income tax provisions of \$20.2 million and \$41.7 million, respectively, which represents an effective tax rate of 41.8% and 57.9%, respectively. The effective tax rate for the first nine months of fiscal 2014 was primarily driven by the expected special dividend payment to participants in the Company's ESOP, which increased the effective tax rate by 23.0%. Excluding the impact of the expected special dividend payment, the effective tax rate for the first nine months of the fiscal 2015 is higher than the prior year period primarily due to the shift in the projections of the proportion of income earned and higher income before income taxes reducing 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 in net loss of unconsolidated affiliates for the nine months ended December 31, 2014 decreased \$0.3 million to a net loss of \$1.7 million over the comparable prior year period. The decrease was primarily due to an increase in equity income from our domestic joint ventures of \$0.3 million.

### *Income attributable to non-controlling interests*

Non-controlling interests represent income attributed to the non-controlling interest holders in joint venture operations that are consolidated in our financial statements. Income attributed to non-controlling interests decreased \$1.2 million for the nine months ended December 31, 2014 to income of \$4.4 million compared to \$5.6 million for the comparable prior year period.

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

Year- to-date net income attributable to ADS of \$22.1 million decreased from the preceding fiscal year's net income attributable to ADS of \$22.8 million, as influenced by the factors noted above. Net income per share for the first nine months of fiscal year 2015 totaled \$0.19 basic and \$0.19 diluted per share, respectively, as compared to net income per share of \$0.27 and \$0.26 per basic and diluted share, respectively, recorded in the comparable prior year period. The income per share for the nine months ended December 31, 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 per share for common shareholders.

**Table of Contents***Adjusted EBITDA*

(Amounts in thousands)	Nine Months Ended December 31,		
	2014	2013	% Change
	(As Restated) <sup>(a)</sup>	(As Restated) <sup>(a)</sup>	
Domestic adjusted EBITDA	\$ 125,195	\$ 123,018	1.8%
International adjusted EBITDA	8,932	17,721	(49.6%)
<b>Total adjusted EBITDA</b>	<b>\$ 134,127</b>	<b>\$ 140,739</b>	<b>(4.7%)</b>
As a percentage of net sales	13.8%	15.9%	

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

Adjusted EBITDA for the first nine months of fiscal year 2015 decreased by \$6.6 million, or 4.7%, from the comparable fiscal year 2014 period. Excluding the impact of the one-time \$4.8 million gain from the sale of the Draintech business during the first quarter of fiscal 2014, adjusted EBITDA decreased \$11.4 million, or 7.9%, for the nine months ended December 31, 2014 as compared to the prior year (\$134.1 million compared to an adjusted \$145.5 million for the prior year).

Domestic adjusted EBITDA totaled \$125.2 million for the nine months ended December 31, 2014, compared to \$123.0 million in the prior year (which included the impact of the one-time \$4.8 million gain on the sale of the Draintech business). International adjusted EBITDA totaled \$8.9 million for the first nine months of fiscal 2015 compared to \$17.7 million in the prior period.

Adjusted EBITDA as a percentage of net sales totaled 13.8% for the nine months ended December 31, 2014, compared to 15.9% 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 was 16.4% for the nine months ended December 31, 2013.

**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, Adjusted Earnings Per Fully Converted Share, Adjusted Net Income and Weighted Average Fully Converted Common Shares Outstanding. 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 (Loss) Income, the most comparable GAAP measure, for each of the periods indicated:

(Amounts in thousands)	Three Months Ended December 31, 2014		Three Months Ended December 31, 2013	
	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 (loss) income	\$ (1,953)	\$ (2,818)	\$ 26,485	\$ 28,388
Depreciation and amortization	16,118	16,098	48,519	47,808
Interest expense	4,631	4,580	14,726	14,030
Income tax expense	3,407	23,565	20,226	41,704
<b>EBITDA</b>	<b>22,203</b>	<b>41,425</b>	<b>109,956</b>	<b>131,930</b>
Derivative fair value adjustments	6,054	(184)	6,217	54
Foreign currency transaction (gains) losses	(561)	338	(636)	251
Loss (gain) on disposal of assets or businesses	193	470	538	(4,062)
Unconsolidated affiliates interest, tax, depreciation and amortization <sup>(b)</sup>	1,348	1,512	3,023	2,468
Contingent consideration remeasurement	(7)	(37)	(5)	92
Stock-based compensation	1,542	905	5,919	2,545
ESOP deferred stock-based compensation	2,690	2,317	8,064	7,343
Transaction costs <sup>(c)</sup>	336		1,051	118
<b>Adjusted EBITDA</b>	<b>\$ 33,798</b>	<b>\$ 46,746</b>	<b>\$ 134,127</b>	<b>\$ 140,739</b>

**Table of Contents**

- (a) See Note 2. Restatement of Previously Issued 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. Fiscal year 2014 includes our proportional share of an asset impairment of \$1,022 recorded by our South American Joint Venture.
- (c) Represents expenses recorded related to legal, accounting and other professional fees incurred in connection with our debt refinancing and completion of the IPO and Secondary Public Offering.

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

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

(Amounts in thousands)	Three Months Ended December 31,			
	2014		2013	
	Domestic (As Restated)	International (As Restated)	Domestic (As Restated)	International (As Restated)
Net (loss) income	\$ (3,911)	\$ 1,958	\$ (6,279)	\$ 3,461
Depreciation and amortization	14,742	1,376	14,761	1,337
Interest expense	4,613	18	4,543	37
Income tax expense	3,160	247	23,131	434
Segment EBITDA	18,604	3,599	36,156	5,269
Derivative fair value adjustments	6,310	(256)	(184)	
Foreign currency transaction (gains) losses		(561)		338
Loss on disposal of assets or businesses	175	18	437	33
Unconsolidated affiliates interest, tax, depreciation and amortization <sup>(b)</sup>	648	700	(2)	1,514
Contingent consideration remeasurement	(7)		(37)	
Stock-based compensation	1,542		905	
ESOP deferred stock-based compensation	2,690		2,317	
Transaction costs <sup>(c)</sup>	336			
<b>Segment Adjusted EBITDA</b>	<b>\$ 30,298</b>	<b>\$ 3,500</b>	<b>\$ 39,592</b>	<b>\$ 7,154</b>

- (a) See Note 2. Restatement of Previously Issued 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. Fiscal year 2014 includes our proportional share of an asset impairment of \$1,022 recorded by our South American Joint Venture.
- (c) Represents expenses recorded related to legal, accounting and other professional fees incurred in connection with our debt refinancing and completion of the IPO and Secondary Public Offering.

**Table of Contents**

(Amounts in thousands)	Nine Months Ended December 31,			
	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	\$ 21,535	\$ 4,950	\$ 17,818	\$ 10,570
Depreciation and amortization	44,338	4,181	43,754	4,054
Interest expense	14,675	51	13,903	127
Income tax expense	21,471	(1,245)	41,500	204
Segment EBITDA	102,019	7,937	116,975	14,955
Derivative fair value adjustments	6,473	(256)	54	
Foreign currency transaction (gains) losses		(636)		251
Loss (gain) on disposal of assets or businesses	486	52	(4,109)	47
Unconsolidated affiliates interest, tax, depreciation and amortization <sup>(b)</sup>	1,188	1,835		2,468
Contingent consideration remeasurement	(5)		92	
Stock-based compensation	5,919		2,545	
ESOP deferred stock-based compensation	8,064		7,343	
Transaction costs <sup>(c)</sup>	1,051		118	
<b>Segment Adjusted EBITDA</b>	<b>\$ 125,195</b>	<b>\$ 8,932</b>	<b>\$ 123,018</b>	<b>\$ 17,721</b>

(a) See Note 2. Restatement of Previously Issued 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. Fiscal year 2014 includes our proportional share of an asset impairment of \$1,022 recorded by our South American Joint Venture.

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

*System-Wide Net Sales.* System-Wide Net Sales is a non-GAAP measure which equals the sum of the net sales of our Domestic and International segments plus all net sales from our unconsolidated joint ventures (our South American Joint Venture, 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.

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

(Amounts in thousands)	Three Months Ended December 31,		Nine Months Ended December 31,	
	2014	2013	2014	2013



(As Restated)<sup>(a)</sup>(As Restated)<sup>(a)</sup>(As Restated)<sup>(a)</sup>(As Restated)<sup>(a)</sup>

Reconciliation of System-Wide Net sales to Net Sales:				
Net sales	\$ 279,871	\$ 260,644	\$ 973,019	\$ 885,950
Net sales associated with our unconsolidated affiliates				
South American Joint Venture <sup>(b)</sup>	15,046	14,628	45,742	48,314
BaySaver Joint Venture <sup>(c)</sup>	2,913	1,977	8,673	3,592
Tigre-ADS USA Joint Venture <sup>(d)</sup>	3,605		10,835	
<b>System-Wide Net Sales</b>	<b>\$ 301,435</b>	<b>\$ 277,249</b>	<b>\$ 1,038,269</b>	<b>\$ 937,856</b>

(a) See Note 2. Restatement of Previously Issued 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 Net Income, and Weighted Average Fully Converted Common Shares Outstanding.* Adjusted Earnings per Fully Converted Share, Adjusted Net Income and Weighted Average Fully Converted Common Shares Outstanding, which are non-GAAP measures, are supplemental measures of financial performance that are not required by, or presented in accordance with GAAP. We calculate Adjusted earnings per fully converted share (Non-GAAP), Adjusted Net Income (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.

**Table of Contents**

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), Adjusted Net Income (Non-GAAP), and the Weighted Average Fully Converted Common Shares Outstanding (Non-GAAP) to our Net Income attributable to ADS, Net income per share and corresponding Weighted average common shares outstanding amounts, the most comparable GAAP measures, for each of the periods indicated.

(Amounts in thousands, except per share data)	Three Months Ended December 31, 2014		Nine Months Ended December 31, 2013	
	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 (loss) income available to common shareholders	\$ (3,632)	\$ (9,791)	\$ 9,650	\$ 12,528
Weighted Average Common Shares Outstanding - Basic	52,986	47,251	50,691	46,976
Net (loss) income per share - Basic	(0.07)	(0.21)	0.19	0.27
Adjustments to net income available to common shareholders:				
Change in fair value of Redeemable convertible preferred stock		(4,697)	(11,054)	(8,492)
Dividends to Redeemable convertible preferred stockholders	(298)	(209)	(377)	(640)
Dividends paid to unvested restricted stockholders	(9)	(8)	(9)	(47)
Undistributed income allocated to participating securities			(995)	(1,130)
Total adjustments to net income (loss) available to common shareholders	(307)	(4,914)	(12,435)	(10,309)
Net (loss) income attributable to ADS	(3,325)	(4,877)	22,085	22,837
Adjustments to net (loss) income attributable to ADS:				
Fair Value of ESOP Compensation related to Convertible preferred stock	2,690	2,317	8,064	7,343

Adjusted net (loss) income - (Non-GAAP)	\$	(635)	\$	(2,560)	\$	30,149	\$	30,180
Adjustments to Weighted Average Common Shares Outstanding - Basic:								
Unvested restricted shares		227		321		234		343
Redeemable convertible preferred shares		20,096		20,191		20,084		20,316
Total Weighted Average Common Shares Outstanding - Fully Converted (Non-GAAP)		73,309		67,763		71,009		67,635
<b>Adjusted Earnings Per Fully Converted Share (Non-GAAP)</b>	<b>\$</b>	<b>(0.01)</b>	<b>\$</b>	<b>(0.04)</b>	<b>\$</b>	<b>0.42</b>	<b>\$</b>	<b>0.45</b>

### 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 internally generated cash flow, debt financings and equity issuances. 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.

**Table of Contents**

As of December 31, 2014, we had \$10.6 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 nine months ended December 31, 2014, our net increase in cash amounted to \$6.8 million, compared to a net increase of \$4.0 million for the nine months ended December 31, 2013. During the nine months ended December 31, 2014, our source of funds was primarily driven by higher operating earnings, proceeds of \$79.1 million from our IPO of common stock and increased non-cash charges (ESOP and stock-based compensation expense and mark-to-market adjustments for changes in fair value of derivative contracts) and a decrease in inventory of \$40.1 million. For the same period ending December 31, 2014, our increased use of cash was primarily driven by increased accounts receivable balances (up \$12.8 million), decrease in accounts payable and accrued liabilities including accrued income taxes (\$17.8 million), spending for capital expenditures (\$21.3 million), payments on capital lease obligations (\$6.6 million), investments in joint ventures (\$7.6 million) and repayment of \$115.6 million of Long Term Debt.

During the nine months ended December 31, 2013, our primary source of cash was also provided by operating earnings, borrowings on the Revolving Credit Facility and a new term note. For the nine months ended December 31, 2013, our use of cash was primarily due to decreases in inventory (\$24.8 million), a decrease in accounts payable of \$26.0 million, capital expenditures (\$26.5 million) and repayment of \$43.7 million of Long Term Debt.

As of December 31, 2014, we had \$201.0 million in liquidity, including \$10.8 million of cash and \$190.2 million in borrowings available under our Revolving Credit Facility, 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 December 31, 2014, we had consolidated indebtedness (excluding lease obligations) of approximately \$338.4 million, down \$115.6 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)	Nine Months Ended December 31,	
	2014 (As Restated) <sup>(a)</sup>	2013 (As Restated) <sup>(a)</sup>
<b>Statement of Cash Flows data:</b>		
Net cash from operating activities	\$ 90,252	\$ 95,838
Net cash from investing activities	(29,366)	(28,013)
Net cash from financing activities	(53,639)	(63,863)

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

*Working Capital*

Net working capital decreased from \$241.0 million as of March 31, 2014, to \$235.5 million as of December 31, 2014, primarily due to the decline in inventory of \$40.1 million resulting from a decrease in the pounds of raw material resins on hand at December 31, 2014, offset by an increase in accounts receivable of \$12.8 million due to sales increases and a \$17.8 million decrease in accounts payable, accrued liabilities and accrued income taxes.

*Operating Cash Flows*

During the nine months ended December 31, 2014, cash provided from operating activities was \$90.3 million as compared with cash provided by operating activities of \$95.8 million for the nine months ended December 31, 2013.  
Cash

## **Table of Contents**

flow from operating activities during the nine months ended December 31, 2014 was impacted by moderately higher net income, share-based compensation, inventory and accounts payable compared to the prior period, offsetting an increase in the use of cash related to changes in accounts receivable and other accrued liabilities, including accrued income taxes.

Cash flow from operating activities for the nine months ended December 31, 2013 was driven by higher revenues and as well as a reduction of \$4.8 million realized from the sale of assets for the Draintech product line.

### *Investing Cash Flows*

During the nine months ended December 31, 2014, cash used for investing activities was \$29.4 million, primarily due to \$21.3 million for capital expenditures in support of operations, a \$3.6 million investment in a domestic joint venture operation created in the first quarter fiscal 2015, and a \$4.0 million investment in our international joint venture operation to support growth initiatives.

During the nine months ended December 31, 2013, cash used for investing activities was \$28.0 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 nine months ended December 31, 2014, cash used for financing activities was \$53.6 million, primarily due to utilizing our operating cash flow and \$79.1 million of proceeds from the IPO to pay down debt of \$115.6 million as well as payments for \$6.6 million for lease obligations, \$4.3 million in dividends, and \$6.5 million for fees related to the IPO.

During the nine months ended December 31, 2013, cash used for financing activities was \$63.9 million, primarily due to utilizing our operating cash flow to pay down debt of \$43.7 million as well as \$9.0 million of payments for lease obligations, \$6.6 million in dividends and \$3.9 million for redemption of redeemable convertible preferred stock.

### *Capital Expenditures*

Capital expenditures totaled \$21.3 million and \$26.5 million for the nine months ended December 31, 2014 and 2013, respectively. Our capital expenditures for the nine months ended December 31, 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 \$35.0 million in fiscal year 2015. Such capital expenditures are expected to be financed using funds generated by operations. As of December 31, 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 \$100.0 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 [Description of Certain Indebtedness Senior Loan Facilities](#) disclosed in our Registration Statement on Form S-1 (File No. 333-200312), as amended, declared effective by the SEC on December 3, 2014. As of December 31, 2014, the outstanding principal drawn on the Revolving Credit Facility was \$138.8 million, with \$178.2 million available to be drawn. As of December 31, 2014, the outstanding principal balance of the Term Loan was \$93.1 million.

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.

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**Table of Contents***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 \$12.0 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 Bank Term Loans, see Description of Certain Indebtedness Senior Loan Facilities disclosed in our Registration Statement on Form S-1 (File No. 333-200312), as amended, declared effective by the SEC on December 3, 2014. As of December 31, 2014, there was no outstanding principal drawn on the revolving credit facility and the entire \$12.0 million was 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 \$100.0 million. Pursuant to the private shelf agreement, on September 27, 2010, we issued \$75.0 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 \$25.0 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 things, make certain amendments in order to permit the payment of a cash dividend. For further information about the Senior Notes, see Description of Certain Indebtedness Senior Notes disclosed in our Registration Statement on Form S-1 (File No. 333-200312), as amended, declared effective by the SEC on December 3, 2014. We have no further amount available for issuance of senior notes under the private shelf agreement. At December 31, 2014 the outstanding principal balance on these notes was \$100.0 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 \$10.0 million in a given fiscal year. The current minimum ratio is 1.25 times. For further information, see Description of Certain Indebtedness disclosed in our Registration Statement on Form S-1 (File No. 333-200312), as amended, declared effective by the SEC on December 3, 2014. We were in compliance with our debt covenants as of December 31, 2014.

**Contractual Obligation as of December 31, 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>	\$ 338,425	\$ 11,700	\$ 71,755	\$ 254,970	\$
Interest payments <sup>(2)</sup>	40,547	12,974	21,967	5,606	
Operating leases	9,618	2,915	3,321	1,101	2,281
Capital leases	70,746	17,485	28,004	16,790	8,467
Contractual purchase obligations <sup>(3)</sup>	18,520	18,520			
<b>Total</b>	<b>\$ 477,856</b>	<b>\$ 63,594</b>	<b>\$ 125,047</b>	<b>\$ 278,467</b>	<b>\$ 10,748</b>

(1) The current Revolving Credit Facility and Term Loan mature in June, 2018.

(2) Based on applicable rates and pricing margins as of December 31, 2014, including interest rate swaps.

## **Table of Contents**

(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 to the Condensed Consolidated Financial Statements. As of December 31, 2014, our South American Joint Venture had approximately \$13.3 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;

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;

**Table of Contents**

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 \$1.3 million based on our borrowings as of December 31, 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 December 31, 2014. The first swap is a \$50.0 million notional value, non-amortizing swap at a LIBOR rate of 0.86% which expires in September, 2016. A second \$50.0 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.

## **Table of Contents**

### ***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 Comprehensive Income.

**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.

- 53 -

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**Table of Contents**

In connection with the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 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 December 31, 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 December 31, 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 three months ended December 31, 2014 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**

Not applicable.

**Item 3. Defaults Upon Senior Securities**

None.

**Table of Contents**

**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.

- 55 -

Table of Contents

**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)

- 56 -

**Table of Contents**

**EXHIBIT INDEX**

<b>Exhibit</b>	
<b>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.