

ADVANCED DRAINAGE SYSTEMS, INC.

Form 10-Q/A

January 10, 2017

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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q/A**

**(Amendment No.1 to Form 10-Q)**

**(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, 2015**

**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)**

<b>Delaware</b> <b>(State or Other Jurisdiction of</b>	<b>51-0105665</b> <b>(I.R.S. Employer</b>
<b>Incorporation or Organization)</b>	<b>Identification No.)</b>
<b>4640 Trueman Boulevard, Hilliard, Ohio 43026</b>	

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

**(614) 658-0050**

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

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

As of April 29, 2016, the registrant had 54,446,402 shares of common stock outstanding. The shares of common stock trade on the New York Stock Exchange under the ticker symbol WMS . In addition, as of April 29, 2016, 102,223 shares of unvested restricted common stock were outstanding and 24,819,105 shares of ESOP, preferred stock, convertible into 19,090,856 shares of common stock, were outstanding. As of April 29, 2016, 73,639,481 shares of common stock were outstanding, inclusive of outstanding shares of unvested restricted common stock and on an as-converted basis with respect to the outstanding shares of ESOP preferred stock.

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**EXPLANATORY NOTE**

Subsequent to the issuance of the Company's consolidated financial statements for the fiscal year ended March 31, 2016, Advanced Drainage Systems, Inc. identified errors in its historical consolidated financial statements related primarily to the accounting for stock-based compensation, as well as the compensation expense associated with certain executive employment agreements. 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 its Quarterly Report on Form 10-Q for the three and nine months ended December 31, 2015 as originally filed with the Securities and Exchange Commission on May 31, 2016 (the "Original Form 10-Q"): (i) Item 1 of Part I, "Condensed Consolidated Financial Statements," (ii) Item 2 of Part I, "Management's Discussion and Analysis of Financial Condition and Results of Operations," (iii) Item 4 of Part I, "Controls and Procedures," and (iv) Item 1A of Part II, "Risk Factors." The Company has also updated the signature page, the certifications of the Chief Executive Officer and Chief Financial Officer in Exhibits 31.1, 31.2, 32.1 and 32.2, respectively, and the consolidated financial statements formatted in Extensible Business Reporting Language (XBRL) in Exhibit 101. While no other sections were affected, for the convenience of the reader, all sections included in the Original Form 10-Q are presented herein. 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 and to provide updated information regarding debt covenant waivers.

For further information about the restatement (the "Stock-Based Compensation Restatement"), see Note 16. Restatement of Previously Issued Financial Statements to our unaudited condensed consolidated financial statements included in Part I. Financial Information of this Form 10-Q/A. This Form 10-Q/A is being filed concurrently with the Company's Form 10-K/A for the year ended March 31, 2016 and Forms 10-Q/A for the periods ended June 30, 2015 and September 30, 2015.

**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>2015</b>	<b>2015</b>
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash	\$ 6,412	\$ 3,623
Receivables (less allowance for doubtful accounts of \$4,516 and \$5,423, respectively)	171,768	154,294
Inventories	199,589	260,550
Deferred income taxes and other current assets	26,936	25,943
<b>Total current assets</b>	<b>404,705</b>	<b>444,410</b>
Property, plant and equipment, net	387,654	375,813
<b>Other assets:</b>		
Goodwill	100,205	98,679
Intangible assets, net	61,492	58,055
Other assets	49,220	61,167
<b>Total assets</b>	<b>\$ 1,003,276</b>	<b>\$ 1,038,124</b>
<b>LIABILITIES, MEZZANINE EQUITY AND STOCKHOLDERS EQUITY</b>		
<b>Current liabilities:</b>		
Current maturities of debt obligations	\$ 35,860	\$ 9,580
Current maturities of capital lease obligations	18,374	15,731
Accounts payable	74,000	111,893
Current portion of liability-classified stock-based awards	14,647	17,611
Other accrued liabilities	75,070	54,349
Accrued income taxes	14,318	6,299
<b>Total current liabilities</b>	<b>232,269</b>	<b>215,463</b>
Long-term debt obligation	301,565	390,315
Long-term capital lease obligations	56,265	45,503
Deferred tax liabilities	55,739	62,832
Other liabilities	37,464	38,865
<b>Total liabilities</b>	<b>683,302</b>	<b>752,978</b>
Commitments and contingencies (see Note 9)		
<b>Mezzanine equity:</b>		
Redeemable convertible preferred stock: \$0.01 par value; 47,070 shares authorized; 44,170 shares issued; 24,899 and 25,639 shares outstanding, respectively	311,240	320,490

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Deferred compensation    unearned ESOP shares	(207,154)	(212,469)
Redeemable noncontrolling interest in subsidiaries	7,166	
<b>Total mezzanine equity</b>	<b>111,252</b>	<b>108,021</b>
<b>Stockholders' equity:</b>		
Common stock; \$0.01 par value: 1,000,000 shares authorized; 153,560 shares issued; 54,237 and 53,522 shares outstanding, respectively	12,393	12,393
Paid-in capital	736,376	723,495
Common stock in treasury, at cost	(441,822)	(445,065)
Accumulated other comprehensive loss	(26,122)	(15,521)
Retained deficit	(86,484)	(114,590)
<b>Total ADS stockholders' equity</b>	<b>194,341</b>	<b>160,712</b>
<b>Noncontrolling interest in subsidiaries</b>	<b>14,381</b>	<b>16,413</b>
<b>Total stockholders' equity</b>	<b>208,722</b>	<b>177,125</b>
<b>Total liabilities, mezzanine equity and stockholders' equity</b>	<b>\$ 1,003,276</b>	<b>\$ 1,038,124</b>

(1) See Note 16. Restatement of Previously Issued Financial Statements.

See accompanying notes to condensed consolidated financial statements.

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

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

(Amounts in thousands, except per share data)	Three Months Ended December 31,		Nine Months Ended December 31,	
	2015	2014	2015	2014
Net sales	\$ 312,827	\$ 279,871	\$ 1,045,280	\$ 973,019
Cost of goods sold	237,985	230,584	809,432	792,290
Gross profit	74,842	49,287	235,848	180,729
Operating expenses:				
Selling	21,580	20,113	65,401	60,605
General and administrative	20,450	16,249	64,808	51,417
(Gain) loss on disposal of assets or businesses	(603)	193	558	538
Intangible amortization	2,182	2,328	7,049	7,551
Income from operations	31,233	10,404	98,032	60,618
Other expense:				
Interest expense	4,723	4,631	13,956	14,726
Derivative losses and other expense, net	2,561	5,556	18,333	5,100
Income before income taxes	23,949	217	65,743	40,792
Income tax expense	10,090	2,498	23,156	17,867
Equity in net loss of unconsolidated affiliates	917	988	935	1,712
Net income (loss)	12,942	(3,269)	41,652	21,213
Less net (loss) income attributable to noncontrolling interest	(189)	1,372	4,481	4,400
Net income (loss) attributable to ADS	13,131	(4,641)	37,171	16,813
Accretion of Redeemable noncontrolling interest	(329)		(586)	
Change in fair value of redeemable convertible preferred stock				(11,054)
Dividends to redeemable convertible preferred stockholders	(349)	(298)	(1,082)	(377)
Dividends paid to unvested restricted stockholders	(6)	(9)	(18)	(9)
Net income (loss) available to common stockholders and participating securities	12,447	(4,948)	35,485	5,373
Undistributed income allocated to participating securities	(1,016)		(2,965)	(378)
<b>Net income (loss) available to common stockholders</b>	<b>\$ 11,431</b>	<b>\$ (4,948)</b>	<b>\$ 32,520</b>	<b>\$ 4,995</b>
Weighted average common shares outstanding:				
Basic	54,133	52,986	53,880	50,691



Diluted	55,402	52,986	55,191	51,616
<b>Net income (loss) per share:</b>				
Basic	\$ 0.21	\$ (0.09)	\$ 0.60	\$ 0.10
Diluted	\$ 0.21	\$ (0.09)	\$ 0.59	\$ 0.10
<b>Cash dividends declared per share</b>	\$ 0.05	\$ 0.04	\$ 0.15	\$ 0.04

(1) See Note 16. Restatement of Previously Issued Financial Statements

See accompanying notes to condensed consolidated financial statements.

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

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

(Amounts in thousands)	Three Months Ended		Nine Months Ended	
	December 31,		December 31,	
	2015	2014	2015	2014
Net income (loss)	\$ 12,942	\$ (3,269)	\$ 41,652	\$ 21,213
Other comprehensive loss:				
Currency translation	(2,788)	(3,966)	(13,258)	(7,398)
Total other comprehensive loss	(2,788)	(3,966)	(13,258)	(7,398)
Comprehensive income (loss)	10,154	(7,235)	28,394	13,815
Less other comprehensive income (loss) attributable to noncontrolling interest, net of tax	(349)	(1,761)	(2,657)	(2,668)
Less net (loss) income attributable to noncontrolling interest	(189)	1,372	4,481	4,400
<b>Total comprehensive income (loss) attributable to ADS</b>	<b>\$ 10,692</b>	<b>\$ (6,846)</b>	<b>\$ 26,570</b>	<b>\$ 12,083</b>

(1) See Note 16. Restatement of Previously Issued Financial Statements  
See accompanying notes to condensed consolidated financial statements.

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

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

(Amounts in thousands)	Nine Months Ended December 31,	
	2015	2014
<b>Cash Flows from Operating Activities</b>	\$ 129,441	\$ 90,252
<b>Cash Flows from Investing Activities</b>		
Capital expenditures	(29,970)	(21,281)
Proceeds from disposition of assets or businesses		294
Cash paid for acquisitions, net of cash acquired	(3,188)	
Investment in unconsolidated affiliates		(7,566)
Additions of capitalized software	(1,504)	(601)
Proceeds from note receivable to related party	3,854	
Issuance of note receivable to related party	(3,854)	
Other investing activities	(741)	(212)
<b>Net cash used in investing activities</b>	<b>(35,403)</b>	<b>(29,366)</b>
<b>Cash Flows from Financing Activities</b>		
Proceeds from Revolving Credit Facility	322,700	250,200
Payments on Revolving Credit Facility	(378,300)	(359,500)
Payments on term loan	(6,250)	(4,375)
Proceeds from notes, mortgages, and other debt	6,563	
Payments of notes, mortgages, and other debt	(7,183)	(1,948)
Payments on capital lease obligations	(14,906)	(6,619)
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	(12,671)	(4,254)
Other financing activities	231	205
<b>Net cash used in financing activities</b>	<b>(89,816)</b>	<b>(53,639)</b>
Effect of exchange rate changes on cash	(1,433)	(425)
<b>Net change in cash</b>	<b>2,789</b>	<b>6,822</b>
Cash at beginning of period	3,623	3,931
<b>Cash at end of period</b>	<b>\$ 6,412</b>	<b>\$ 10,753</b>

(1) See Note 16. Restatement of Previously Issued Financial Statements

See accompanying notes to condensed consolidated financial statements.

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## ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY AND MEZZANINE EQUITY

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

End-In Capital	Common Stock		Accumulated	Retained Deficit	Total	Non-controlling	Total	Redeemable		Redeemable	Convertible
	Shares	Amount	Other Comprehensive Loss		Stockholders (Deficit) Equity	Interest in Subsidiaries	Stockholders (Deficit) Equity	Shares	Amount	Shares	Amount
2,438	100,810	\$ (448,439)	\$ (6,830)	\$ (2,412)	\$ (433,286)	\$ 18,584	\$ (414,702)	38,320	\$ 549,119	26,129	\$ 29
4,069)				(34,268)	(38,337)		(38,337)	17	240		
8,369	100,810	(448,439)	(6,830)	(36,680)	(471,623)	18,584	(453,039)	38,337	549,359	26,129	29
				16,813	16,813	4,400	21,213				
			(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)				
5,352	(87)	388			5,740		5,740				
93	7	(93)									
5,082	(119)	531			5,613		5,613				
2,143					72,196		72,196				
		(3)			(3)		(3)				

3,017	(255)	1,137			4,154		4,154		(332)	(
3,077)			2,023	(11,054)		(11,054)				3
			(65,921)	(65,921)		(65,921)		65,921		
4,657				615,040		615,040	(38,320)	(615,040)		
9,510			(1,254)	18,256		18,256	(17)	(240)		
<b>3,147</b>	<b>100,356</b>	<b>\$ (446,479)</b>	<b>\$ (11,560)</b>	<b>\$ (87,402)</b>	<b>\$ 180,099</b>	<b>\$ 18,445</b>	<b>\$ 198,544</b>	<b>\$</b>	<b>25,797</b>	<b>\$ 32</b>
0,977	100,038	\$ (445,065)	\$ (15,521)	\$ (62,621)	\$ 190,163	\$ 16,413	\$ 206,576	\$	25,639	\$ 32
2,518			(51,969)	(29,451)		(29,451)				
3,495	100,038	\$ (445,065)	\$ (15,521)	\$ (114,590)	\$ 160,712	\$ 16,413	\$ 177,125	\$	25,639	\$ 32
				37,171	37,171	4,231	41,402			
			(10,601)		(10,601)	(2,657)	(13,258)			
			(967)	(967)		(967)				
			(8,098)	(8,098)		(8,098)				
						(3,606)	(3,606)			
4,060				4,060		4,060				
2,045	(77)	404		2,449		2,449				

416	(69)	309		725		725				
6,720	(569)	2,530		9,250		9,250		(740)	(	
(360)				(360)		(360)				
<b>6,376</b>	<b>99,323</b>	<b>\$ (441,822)</b>	<b>\$ (26,122)</b>	<b>\$ (86,484)</b>	<b>\$ 194,341</b>	<b>\$ 14,381</b>	<b>\$ 208,722</b>	<b>\$</b>	<b>24,899</b>	<b>\$ 31</b>

(1) See Note 16. Restatement of Previously Issued Financial Statements

See accompanying notes to condensed consolidated financial statements.

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

**(UNAUDITED, AS RESTATED)**

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

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

***Description of Business***

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.

Historically, sales of the Company's products have been higher in the first and second quarters of each fiscal year due to favorable weather and longer daylight conditions accelerating construction activity during these periods. Seasonal variations in operating results may also be impacted by inclement weather conditions, such as cold or wet weather, which can delay projects.

***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 ( **NYSE** ) 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 ( GAAP ). The Condensed Consolidated Balance Sheet as of March 31, 2015 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 16. Restatement of Previously Issued Financial Statements, necessary to present fairly its financial position as of December 31, 2015 and the results of operations for the three and nine months ended December 31, 2015 and 2014 and cash flows for the nine months ended December 31, 2015 and 2014. 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/A for the year ended March 31, 2016 ( Fiscal 2016 Form 10-K/A ), filed concurrently with this form 10-Q/A.

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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 BaySaver Technologies, LLC ( BaySaver ), 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 Operations. All intercompany balances and transactions have been eliminated in consolidation.

***Recent Accounting Pronouncements***

*Stock-Based Compensation* In March 2016, the Financial Accounting Standards Board issued an accounting standards update which is intended to simplify certain aspects of the accounting for stock-based compensation. This amendment contains changes to the accounting for excess tax benefits, whereby excess tax benefits will be recognized in the income statement rather than in additional paid-in capital on the balance sheet. The amendment also contains potential changes to the accounting for forfeitures, whereby entities can elect to either continue to apply the current GAAP requirement to estimate forfeitures when determining compensation expense, or to alternatively reverse the compensation expense of forfeited awards when they occur. In addition, the amendment also modifies the net-share settlement liability classification exception for statutory income tax withholdings, whereby the new guidance allows an employer with a statutory income tax withholding obligation to withhold shares with a fair value up to the maximum statutory tax rate in the employee's applicable jurisdiction. This update is effective for fiscal years beginning after December 15, 2016, including interim periods within those years, and early adoption is permitted. We expect to adopt this standard effective April 1, 2017. We are currently evaluating the impact of this standard on our consolidated financial statements.

With the exception of the pronouncement described above, there have been no new accounting pronouncements issued since the filing of our Annual Report on Form 10-K for the year ended March 31, 2015 ( Fiscal 2015 Form 10-K ) that have significance, or potential significance, to our consolidated financial statements.

**2. ACQUISITIONS**

On July 17, 2015, ADS Ventures, Inc. ( ADS/V ), a wholly-owned subsidiary of the Company, acquired an additional 10% of the issued and outstanding membership interests in BaySaver, increasing the Company's total ownership interest in BaySaver to 65%, for a purchase price of \$3,200, plus contingent consideration with an initial estimated fair value of \$750. Concurrent with our purchase of the additional membership investment, the BaySaver joint venture agreement was amended to modify the voting rights from an equal vote for each member to a vote based upon the ownership interest. As a result, we have accounted for this transaction as a business combination with BaySaver being consolidated into our financial statements after July 17, 2015.

As we had accounted for our investment in BaySaver prior to the purchase of the 10% additional membership interest under the equity method of accounting, we accounted for this business combination as a step acquisition and recognized a loss of \$490 on remeasurement to fair value of our previously held investment. The loss is included in Derivative losses and other expense, net in our Condensed Consolidated Statements of Operations. The fair value of our BaySaver investment immediately before the July 17, 2015 acquisition was measured based on a combination of the discounted cash flow and guideline public company valuation methods and involves significant unobservable

inputs (Level 3). These inputs include projected sales, margin, required rate of return and tax rate for the discounted cash flow method, as well as implied pricing multiples, and guideline public company group for the guideline public company method.

The purchase price was determined as follows:

<b>(Amounts in thousands)</b>	
Acquisition-date fair value of our prior equity interest	\$ 4,220
Acquisition-date fair value of noncontrolling interest	6,330
Cash paid at acquisition date	3,200
Fair value of contingent consideration	750
<b>Total purchase price</b>	<b>\$ 14,500</b>

The preliminary purchase price has been allocated to the estimated fair values of acquired tangible and intangible assets, assumed liabilities and goodwill. The preliminary fair value of identifiable intangible assets has been determined primarily

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using the income approach, which involves significant unobservable inputs (Level 3 inputs). These inputs include projected sales, margin, required rate of return and tax rate, as well as an estimated royalty rate in the cases of the developed technology and trade name and trademark intangibles. The developed technology and trade name and trademark intangibles are valued using a relief-from-royalty method.

Redeemable noncontrolling interest in subsidiaries is classified as mezzanine equity in our Condensed Consolidated Balance Sheets due to a put option held by the joint venture partner, which may be exercised on or after April 1, 2017. The redeemable noncontrolling interest balance will be accreted to the redemption value using the effective interest method until April 1, 2017.

The excess of the preliminary purchase price over the fair value of the net assets acquired of \$2,495 was allocated to goodwill, assigned to the Domestic segment, and consists primarily of the acquired workforce and sales and cost synergies the two companies anticipate realizing as a combined company. None of the goodwill is deductible for tax purposes.

Certain estimated values for the acquisition, including intangible assets, goodwill and deferred taxes are not yet finalized. The preliminary purchase price allocation is as follows:

<b>(Amounts in thousands)</b>	
Cash	\$ 12
Other current assets	2,262
Property, plant and equipment	164
Goodwill	2,495
Intangible assets	10,800
Other assets	152
Current liabilities	(1,385)
<b>Total purchase price</b>	<b>\$ 14,500</b>

The acquired identifiable intangible assets represent customer relationships of \$5,400, developed technology of \$4,000 and trade name and trademark of \$1,400, each of which have an estimated 10-year useful life. Transaction costs were immaterial.

The net sales and income before income taxes of BaySaver since the acquisition date included in our Condensed Consolidated Statements of Operations were \$6,780, and \$715, respectively.

The following table contains unaudited pro forma Consolidated Statements of Operations information assuming the acquisition occurred on April 1, 2014 and includes adjustments for amortization of intangibles, interest expense and our prior equity method accounting for BaySaver. This pro forma information is presented for illustrative purposes only and is not indicative of what actual results would have been if the acquisitions had taken place on April 1, 2014 or of future results. The unaudited pro forma consolidated results are not projections of future results of operations of the combined company nor do they reflect the expected realization of any cost savings or synergies associated with the acquisition.

<b>(Amounts in thousands)</b>	<b>Nine months ended</b>	
	<b>December 31,</b>	
	<b>2015</b>	<b>2014</b>
Net sales	\$ 1,048,879	\$ 981,736
Net income attributable to ADS	\$ 37,209	\$ 16,859

Unaudited pro forma net income attributable to ADS has been calculated after adjusting the combined results of the Company to reflect additional intangible asset amortization expense, net of related income taxes and amounts related to the noncontrolling interest, of \$94 and \$230, additional interest expense, net of related income taxes and amounts related to the noncontrolling interest, of \$10 and \$27, and the impact of our prior equity method accounting of \$109 and \$302, net of related income taxes, for the nine months ended December 31, 2015 and 2014, respectively.

**Table of Contents****3. INVENTORIES**

Inventories as of December 31, 2015 and March 31, 2015 consisted of the following:

(Amounts in thousands)	December 31, 2015	March 31, 2015
Raw materials	\$ 44,403	\$ 50,198
Finished goods	155,186	210,352
<b>Total inventories</b>	<b>\$ 199,589</b>	<b>\$ 260,550</b>

We had no work-in-process inventories as of December 31, 2015 and March 31, 2015.

**4. GOODWILL AND INTANGIBLE ASSETS****Goodwill**

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

(Amounts in thousands)	Domestic	International	Total
Balance at March 31, 2015	\$ 87,507	\$ 11,172	\$ 98,679
Acquisition	2,495		2,495
Currency translation		(969)	(969)
<b>Balance at December 31, 2015</b>	<b>\$ 90,002</b>	<b>\$ 10,203</b>	<b>\$ 100,205</b>

**Intangible Assets**

Intangible assets as of December 31, 2015 and March 31, 2015 consisted of the following:

(Amounts in thousands)	December 31, 2015			March 31, 2015		
	Gross Intangible	Accumulated Amortization	Net Intangible	Gross Intangible	Accumulated Amortization	Net Intangible
Definite-lived intangible assets						
Developed technology	\$ 44,579	\$ (28,740)	\$ 15,839	\$ 40,579	\$ (26,405)	\$ 14,174
Customer relationships	40,470	(21,614)	18,856	43,167	(26,113)	17,054
Patents	6,938	(4,012)	2,926	6,547	(3,550)	2,997
Non-compete and other contractual agreements	1,231	(777)	454	1,365	(691)	674
Trademarks and tradenames	15,390	(3,903)	11,487	14,248	(3,051)	11,197
<b>Total definite-lived intangible assets</b>	<b>108,608</b>	<b>(59,046)</b>	<b>49,562</b>	<b>105,906</b>	<b>(59,810)</b>	<b>46,096</b>

Indefinite-lived intangible assets						
Trademarks	11,930		11,930	11,959		11,959
<b>Total intangible assets</b>	<b>\$ 120,538</b>	<b>\$ (59,046)</b>	<b>\$ 61,492</b>	<b>\$ 117,865</b>	<b>\$ (59,810)</b>	<b>\$ 58,055</b>

## 5. FAIR VALUE MEASUREMENT

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

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

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

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

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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, 2015 and March 31, 2015 were as follows:

(Amounts in thousands)	Total	December 31, 2015		
		Level 1	Level 2	Level 3
<b>Assets:</b>				
Derivative assets - currency forward contracts	\$ 47	\$	\$ 47	\$
<b>Total assets at fair value on a recurring basis</b>	<b>\$ 47</b>	<b>\$</b>	<b>\$ 47</b>	<b>\$</b>
<b>Liabilities:</b>				
Derivative liability - interest rate swaps	\$ 326	\$	\$ 326	\$
Derivative liability - diesel fuel contracts	3,639		3,639	
Derivative liability - propylene swaps	12,552		12,552	
Contingent consideration for acquisitions	2,726			2,726
<b>Total liabilities at fair value on a recurring basis</b>	<b>\$ 19,243</b>	<b>\$</b>	<b>\$ 16,517</b>	<b>\$ 2,726</b>

(Amounts in thousands)	Total	March 31, 2015		
		Level 1	Level 2	Level 3
<b>Assets:</b>				
Derivative assets - currency forward contracts	\$ 28	\$	\$ 28	\$
<b>Total assets at fair value on a recurring basis</b>	<b>\$ 28</b>	<b>\$</b>	<b>\$ 28</b>	<b>\$</b>
<b>Liabilities:</b>				
Derivative liability - interest rate swaps	\$ 765	\$	\$ 765	\$
Derivative liability - diesel fuel contracts	2,841		2,841	
Derivative liability - propylene swaps	5,142		5,142	
Contingent consideration for acquisitions	2,444			2,444
<b>Total liabilities at fair value on a recurring basis</b>	<b>\$ 11,192</b>	<b>\$</b>	<b>\$ 8,748</b>	<b>\$ 2,444</b>



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, 2015 and 2014 were as follows:

*Three months ended December 31, 2015 and 2014*

<b>(Amounts in thousands)</b>	<b>Contingent consideration</b>
<b>Balance at September 30, 2015</b>	<b>\$ 2,869</b>
Change in fair value	14
Payments of contingent consideration liability	(157)
<b>Balance at December 31, 2015</b>	<b>\$ 2,726</b>
<b>(Amounts in thousands)</b>	<b>Contingent consideration</b>
<b>Balance at September 30, 2014</b>	<b>\$ 2,526</b>
Change in fair value	(7)
Payments of contingent consideration liability	(154)
<b>Balance at December 31, 2014</b>	<b>\$ 2,365</b>

**Table of Contents***Nine months ended December 31, 2015 and 2014*

(amounts in thousands)	Contingent consideration
<b>Balance at March 31, 2015</b>	<b>\$ 2,444</b>
Acquisition	750
Change in fair value	114
Payments of contingent consideration liability	(582)
<b>Balance at December 31, 2015</b>	<b>\$ 2,726</b>

(amounts in thousands)	Nine Months Ended December 31, 2014					Total
	Contingent consideration	Executive stock repurchase agreements	Redeemable common stock	Redeemable convertible preferred stock	Deferred compensation - unearned ESOP shares	
<b>Balance at March 31, 2014</b>	<b>\$ 2,898</b>	<b>\$ 16,934</b>	<b>\$ 549,359</b>	<b>\$ 291,720</b>	<b>\$ (197,888)</b>	<b>\$ 663,023</b>
Allocation of ESOP shares to participants					4,391	4,391
Change in fair value	(5)	1,302	65,921	34,903	(23,849)	78,272
Payments of contingent consideration liability	(528)					(528)
Transfer from Level 3		(18,236)	(615,280)	(326,623)	217,346	(742,793)
<b>Balance at December 31, 2014</b>	<b>\$ 2,365</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$ 2,365</b>

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. The liability associated with the executive stock repurchase agreements also transferred out of Level 3, as the underlying 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. Background and Summary of Significant Accounting Policies for further information on the IPO. There were no further transfers in or out of Levels 1, 2 and 3 for the nine months ended December 31, 2015 and 2014, respectively.

*Valuation of our Contingent Consideration for Acquisitions*

The fair values of the contingent consideration payables for prior period acquisitions 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 to the present value using a market discount rate. The fair value of the contingent consideration liability related to the BaySaver acquisition was calculated based on a discounted cash flow model, whereby the probability-weighted estimated future payment value is discounted to the present value using a market discount rate. The categorization of the framework used to price these liabilities 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 and Executive Stock Repurchase Agreements Obligations*

Prior to July 2014, the Company had 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 were 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 was 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 ), was calculated by weighting the required returns on interest-bearing debt

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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 was 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.

The liability associated with the executive stock repurchase agreements was valued on the same basis as the Redeemable common stock, and as such is also considered a Level 3 measurement. The executive stock repurchase agreements were terminated upon the IPO. As a result, this liability was recorded at fair value through the effective date of the IPO and was subsequently reclassified at that fair value to stockholders' equity.

### *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. Prior to July 2014, our Redeemable convertible preferred stock was 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. 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 was 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, 2015, the Company has determined that it is not probable that the redemption feature will become applicable. Since the Redeemable convertible preferred stock is not currently redeemable and it is not probable that the instrument will become redeemable, subsequent adjustment to fair value is not required. As such, the Redeemable convertible preferred stock was recorded to fair value at the effective date of the IPO on July 25, 2014 and will remain in mezzanine equity without further adjustment to carrying value unless it becomes probable that the redemption feature will become applicable. See Note 1. Background and Summary of Significant Accounting Policies, for more information on the IPO.

### *Nonrecurring Fair Value Measurements*

#### *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.

## **6. 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 ADS Mexicana for financial reporting purposes. During the three and nine months ended December 31, 2015 and 2014, ADS Mexicana compensated certain owners and former owners of Grupo Altima, the joint venture partner of ADS Mexicana, for consulting services related to the operations of the business. These cash payments totaled \$104 and \$203 for the three and nine months ended December 31, 2015, respectively, and \$102 and \$271 for the three and nine months ended December 31, 2014, respectively.

Occasionally, ADS and ADS Mexicana jointly enter into agreements for pipe sales with their related parties. There were no such transactions during the three and nine months ended December 31, 2015 and \$1,125 and \$3,464 for the three and nine months ended December 31, 2014, respectively. Outstanding receivables related to these sales were \$361 and \$1,005 as of December 31, 2015 and March 31, 2015, respectively.

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In April 2015, ADS Mexicana borrowed \$3,000 under a revolving credit facility arrangement with Scotia Bank and loaned that amount to ADS, and such loan was repaid in May 2015. In June 2015, ADS Mexicana borrowed \$3,854 under the Scotia Bank credit facility and loaned it to an entity owned by a Grupo Altima owner, and such loan was repaid in July 2015. ADS does not guarantee the borrowings from this facility and therefore, does not anticipate any required contributions related to the balance of this credit facility.

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***

The Tuberias Tigre ADS Limitada joint venture ( 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 \$6,844 as of December 31, 2015. 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, 2015 and March 31, 2015, the outstanding principal balance of the credit facility including letters of credit was \$13,700 and \$13,600, respectively. The weighted average interest rate as of December 31, 2015 was 3.39% on U.S. dollar denominated loans and 7.30% 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 which were \$236 and \$1,117 for the three and nine months ended December 31, 2015, respectively and \$185 and \$648 for the three and nine months ended December 31, 2014. As of December 31, 2015, ADS had a receivable from the South American Joint Venture of \$254.

### ***BaySaver***

BaySaver 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. ADS owns 65% of the outstanding membership interests of BaySaver and consolidates its interest in BaySaver.

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.

## **7. DEBT**

Long-term debt as of December 31, 2015 and March 31, 2015 consisted of the following:

<b>(Amounts in thousands)</b>		<b>December 31, 2015</b>	<b>March 31, 2015</b>
<b>Bank Term Loans</b>			
Revolving Credit Facility	ADS	\$ 149,500	\$ 205,100
Term Note		85,000	91,250
Senior Notes payable		100,000	100,000
Industrial revenue bonds		2,925	3,545
<b>Total</b>		<b>337,425</b>	<b>399,895</b>
<b>Current maturities</b>		<b>(35,860)</b>	<b>(9,580)</b>
<b>Long-term debt obligation</b>		<b>\$ 301,565</b>	<b>\$ 390,315</b>

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**Table of Contents****ADS Mexicana Scotia Bank Revolving Credit Facility**

On December 11, 2014, our joint venture, ADS Mexicana, entered into a credit agreement with Scotia Bank. The credit agreement provides for revolving loans up to a maximum aggregate principal amount of \$5,000. The proceeds of the revolving credit facility have primarily been used for short-term investment and are available for working capital needs. The interest rates of the revolving credit facilities are determined by LIBOR rates, Tasa de Interes Interbancaria de Equilibrio (TIIE) or the Costos de Captacion rates, plus an applicable margin. The Scotia Bank revolving credit facility matures on December 11, 2017. The obligations under the revolving credit facility are not guaranteed by ADS. As of December 31, 2015, there was no outstanding principal drawn on the Scotia Bank revolving credit facility with \$5,000 available to be drawn.

**8. 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. Contract settlement gains and losses on collars, commodity swaps and foreign exchange forward contracts as well as 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 Derivative losses and other expense, net. The Company recognized (losses) and gains on mark-to-market adjustments for changes in fair value on derivative contracts of \$1,784 and \$(6,054) for the three months ended December 31, 2015 and 2014, respectively, and \$(7,750) and \$(6,217) for the nine months ended December 31, 2015 and 2014, respectively.

The fair value of the derivatives is included in the Condensed Consolidated Balance sheet at December 31, 2015 and March 31, 2015 as follows:

(Amounts in thousands)	December 31, 2015			
	Assets		Liabilities	
	Receivables	Other assets	Other accrued liabilities	Other liabilities
Interest rate swaps	\$	\$	\$ (326)	\$
Foreign exchange forward contracts	47			
Diesel fuel option collars and swaps			(3,364)	(275)
Propylene swaps			(11,704)	(848)
	March 31, 2015			
(Amounts in thousands)	Assets		Liabilities	
	Receivables	Other assets	Other accrued liabilities	Other liabilities
	Receivables	Other assets	Other accrued liabilities	Other liabilities
Interest rate swaps	\$	\$	\$ (150)	\$ (615)
Foreign exchange forward contracts	28			
Diesel fuel option collars and swaps			(1,883)	(958)
Propylene swaps			(4,412)	(730)



## **9. 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 resin over the period January 2016 through December 2016 at a committed purchase cost of \$24,240.

### ***Litigation***

On July 29, 2015, a putative stockholder class action, Christopher Wyche, individually and on behalf of all others similarly situated v. Advanced Drainage Systems, Inc., et al. (Case No. 1:15-cv-05955-KPF), was commenced in the U.S. District Court for the Southern District of New York, naming the Company, along with Joseph A. Chlapaty, the Company's Chief Executive Officer, and Mark B. Sturgeon, the Company's former Chief Financial Officer, as defendants and alleging violations of the federal securities laws. An amended complaint was filed on April 28, 2016. The amended complaint alleges that the Company made material misrepresentations and/or omissions of material fact in its public disclosures during the period from July 25, 2014 through March 29, 2016, in violation of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5

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promulgated thereunder. Plaintiffs seek an unspecified amount of monetary damages on behalf of the putative class and an award of costs and expenses, including counsel fees and expert fees. The Company believes that it has valid and meritorious defenses and will vigorously defend against these allegations, but litigation is subject to many uncertainties and the outcome of this matter is not predictable with assurance. While it is reasonably possible that this matter ultimately could be decided unfavorably to the Company, the Company is currently unable to estimate the range of the possible losses, but they could be material.

On August 12, 2015, the SEC Division of Enforcement ( Enforcement Division ) informed the Company that it was conducting an informal inquiry with respect to the Company. As part of this inquiry, the Enforcement Division requested the voluntary production of certain documents generally related to the Company's accounting practices. Subsequent to the initial voluntary production request, the Company received document subpoenas from the Enforcement Division pursuant to a formal order of investigation. The Company has from the outset cooperated with the Enforcement Division's investigation and intends to continue to do so. While it is reasonably possible that this investigation ultimately could be resolved unfavorably to the Company, the Company is currently unable to estimate the range of possible losses, but they could be material.

We are involved from time to time in various legal proceedings that arise in the ordinary course of our business, including but not limited to commercial disputes, environmental matters, employee related claims, intellectual property disputes and litigation in connection with transactions including acquisitions and divestitures. We believe that such litigation, claims, and administrative proceedings will not have a material adverse impact on our financial position or our results of operations. We record a liability when a loss is considered probable, and the amount can be reasonably estimated. In management's opinion, none of these proceedings are material in relation to our consolidated operations, cash flows, or financial position, and we have adequate accrued liabilities to cover our estimated probable loss exposure.

**10. ACCUMULATED OTHER COMPREHENSIVE LOSS**

The following table presents the changes in the balance of Accumulated other comprehensive loss ( AOCL ) for the nine months ending December 31, which consists entirely of foreign currency translation gains (losses):

<b>(Amounts in thousands)</b>	<b>Accumulated Other Comprehensive Loss</b>
Balance at April 1, 2014	\$ (6,830)
Other comprehensive loss	(4,730)
<b>Balance at December 31, 2014</b>	<b>\$ (11,560)</b>
Balance at April 1, 2015	(15,521)
Other comprehensive loss	(10,601)
<b>Balance at December 31, 2015</b>	<b>\$ (26,122)</b>

## **11. 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, 2015 and 2014, the Company utilized an effective tax rate of 35.2% and 43.8%, respectively, to calculate its provision for income taxes. The effective tax rate for the first nine months of the fiscal 2016 is lower 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.

## **12. 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.

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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, 2015, 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.

Prior to the effective date of the IPO, the Company's Redeemable common stock was included in the weighted-average number of common shares outstanding for calculating basic and diluted net income (loss) per share.

The following table presents information necessary to calculate net income (loss) per share for the three and nine months ended December 31, 2015 and 2014, as well as potentially dilutive securities excluded from the weighted average number of diluted common shares outstanding because their inclusion would have been anti-dilutive:

<b>(Amounts in thousands, except per share data)</b>	<b>Three Months Ended December 31,</b>		<b>Nine Months Ended December 31,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
<b>Net income (loss) per share - Basic</b>				
Net income (loss) attributable to ADS	\$ 13,131	\$ (4,641)	\$ 37,171	\$ 16,813
Adjustment for:				
Accretion of redeemable noncontrolling interest	(329)		(586)	
Change in fair value of redeemable convertible preferred stock				(11,054)
Dividends to redeemable convertible preferred stock	(349)	(298)	(1,082)	(377)
Dividends paid to unvested restricted stockholders	(6)	(9)	(18)	(9)
Net income (loss) available to common stockholders and participating securities	12,447	(4,948)	35,485	5,373
Undistributed income allocated to participating securities	(1,016)		(2,965)	(378)
Net income (loss) available to common stockholders - Basic	11,431	(4,948)	32,520	4,995
Weighted average number of common shares outstanding - Basic	54,133	52,986	53,880	50,691
<b>Net income (loss) per common share - Basic</b>	<b>\$ 0.21</b>	<b>\$ (0.09)</b>	<b>\$ 0.60</b>	<b>\$ 0.10</b>
<b>Net income (loss) per share - Diluted</b>				
Net income (loss) available to common stockholders - Basic	\$ 11,431	\$ (4,948)	\$ 32,520	\$ 4,995

Amount allocated to participating preferred stockholders				
Preferred stock dividends, net of tax				
Tax benefit on an as if converted common dividend				
Additional compensation for leverage ESOP				
Net income (loss) available to common stockholders - Diluted	11,431	(4,948)	32,520	4,995
Weighted average number of common shares outstanding - Basic	54,133	52,986	53,880	50,691
Assumed conversion of preferred stock				
Assumed exercise of stock options	1,269		1,311	925
Weighted average number of common shares outstanding - Diluted	55,402	52,986	55,191	51,616
<b>Net income (loss) per common share - Diluted</b>	<b>\$ 0.21</b>	<b>\$ (0.09)</b>	<b>\$ 0.59</b>	<b>\$ 0.10</b>
Potentially dilutive securities excluded as anti-dilutive	6,229	7,431	6,467	3,815

### 13. 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.

**Table of Contents****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 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. Our Mexican joint venture through ADS Mexicana primarily serves the Mexican markets, while our South American 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, 2015 and 2014, respectively:

(Amounts in thousands)	Three Months Ended December 31,		Nine Months Ended December 31,	
	2015	2014	2015	2014
<b>Domestic</b>				
Pipe	\$ 196,162	\$ 179,979	\$ 654,987	\$ 637,728
Allied Products	70,588	59,236	237,228	210,888
<b>Total domestic</b>	<b>266,750</b>	<b>239,215</b>	<b>892,215</b>	<b>848,616</b>
<b>International</b>				
Pipe	34,451	34,171	121,368	102,320
Allied Products	11,626	6,485	31,697	22,083
<b>Total international</b>	<b>46,077</b>	<b>40,656</b>	<b>153,065</b>	<b>124,403</b>
<b>Total net sales</b>	<b>\$ 312,827</b>	<b>\$ 279,871</b>	<b>\$ 1,045,280</b>	<b>\$ 973,019</b>

The following sets forth certain additional financial information attributable to our reportable segments for the three and nine months ended December 31, 2015 and 2014, respectively:

(Amounts in thousands)	Three Months Ended December 31,		Nine Months Ended December 31,	
	2015	2014	2015	2014
<b>Net Sales</b>				
Domestic	\$ 266,750	\$ 239,215	\$ 892,215	\$ 848,616
International	46,077	40,656	153,065	124,403
<b>Total</b>	<b>\$ 312,827</b>	<b>\$ 279,871</b>	<b>\$ 1,045,280</b>	<b>\$ 973,019</b>
<b>Gross Profit</b>				
Domestic	66,503	41,901	204,323	162,156
International	8,339	7,386	31,525	18,573
<b>Total</b>	<b>\$ 74,842</b>	<b>\$ 49,287</b>	<b>\$ 235,848</b>	<b>\$ 180,729</b>
<b>Segment Adjusted EBITDA</b>				
Domestic	44,458	30,535	140,865	126,746
International	5,058	3,472	24,836	9,111
<b>Total</b>	<b>\$ 49,516</b>	<b>\$ 34,007</b>	<b>\$ 165,701</b>	<b>\$ 135,857</b>
<b>Interest expense, net</b>				
Domestic	4,606	4,613	13,544	14,675
International	117	18	412	51
<b>Total</b>	<b>\$ 4,723</b>	<b>\$ 4,631</b>	<b>\$ 13,956</b>	<b>\$ 14,726</b>

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(Amounts in thousands)	Three Months Ended December 31,		Nine Months Ended December 31,	
	2015	2014	2015	2014
<b>Depreciation and amortization</b>				
Domestic	15,221	14,742	45,626	44,338
International	2,081	1,376	6,427	4,181
<b>Total</b>	<b>\$ 17,302</b>	<b>\$ 16,118</b>	<b>\$ 52,053</b>	<b>\$ 48,519</b>
<b>Equity in net loss of unconsolidated affiliates</b>				
Domestic	(99)	(92)	224	312
International	(818)	(896)	(1,159)	(2,024)
<b>Total</b>	<b>\$ (917)</b>	<b>\$ (988)</b>	<b>\$ (935)</b>	<b>\$ (1,712)</b>
<b>Capital expenditures</b>				
Domestic	7,446	4,673	23,921	19,461
International	2,327	1,012	6,049	1,820
<b>Total</b>	<b>\$ 9,773</b>	<b>\$ 5,685</b>	<b>\$ 29,970</b>	<b>\$ 21,281</b>

The following sets forth certain additional financial information attributable to our reporting segments as of December 31, 2015 and March 31, 2015, respectively.

	December 31, 2015	March 31, 2015
<b>Investment in unconsolidated affiliates</b>		
Domestic	\$ 2,976	\$ 7,957
International	13,739	17,081
<b>Total</b>	<b>\$ 16,715</b>	<b>\$ 25,038</b>
<b>Total identifiable assets</b>		
Domestic	\$ 909,178	\$ 938,996
International	144,230	168,320
Eliminations	(50,132)	(69,192)
<b>Total</b>	<b>\$ 1,003,276</b>	<b>\$ 1,038,124</b>

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

(Amounts in thousands)	Three Months Ended December 31,			
	2015		2014	
	Domestic	International	Domestic	International



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<b>Net income (loss)</b>	<b>\$ 13,846</b>	<b>\$ (904)</b>	<b>\$ (5,199)</b>	<b>\$ 1,930</b>
Depreciation and amortization	15,221	2,081	14,742	1,376
Interest expense	4,606	117	4,613	18
Income tax expense	7,196	2,894	2,251	247
<b>Segment EBITDA</b>	<b>40,869</b>	<b>4,188</b>	<b>16,407</b>	<b>3,571</b>
Derivative fair value adjustment	(1,733)	(51)	6,310	(256)
Foreign currency transaction losses (gains)		569		(561)
(Gain) loss on disposal of assets or businesses	(546)	(57)	175	18
Unconsolidated affiliates interest, tax depreciation and amortization <sup>(a)</sup>	223	409	648	700
Contingent consideration remeasurement	14		(7)	
Stock-based compensation (benefit) expense	(5,206)		3,894	
ESOP deferred stock-based compensation	3,125		2,690	
Expense related to executive termination payments	94		82	
Restatement costs <sup>(b)</sup>	7,618			
Transaction costs <sup>(c)</sup>			336	
<b>Segment Adjusted EBITDA</b>	<b>\$ 44,458</b>	<b>\$ 5,058</b>	<b>\$ 30,535</b>	<b>\$ 3,472</b>

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- (a) Includes our proportional share of interest, income taxes, depreciation and amortization related to our South American Joint Venture and our Tigre-ADS USA Joint Venture, which are accounted for under the equity method of accounting. In addition, these amounts include our proportional share of interest, income taxes, depreciation and amortization related to our BaySaver Joint Venture prior to our acquisition of BaySaver on July 17, 2015, which was previously accounted for under the equity method of accounting.
- (b) Represents expenses recorded related to legal, accounting and other professional fees incurred in connection with the restatement of our prior period financial statements as reflected in the Fiscal 2015 Form 10-K.
- (c) Represents expenses recorded related to legal, accounting and other professional fees incurred in connection with our secondary public offering in fiscal year 2015.

(Amounts in thousands)	Nine Months Ended December 31,			
	2015		2014	
	Domestic	International	Domestic	International
<b>Net income</b>	<b>\$ 28,067</b>	<b>\$ 13,585</b>	<b>\$ 16,084</b>	<b>\$ 5,129</b>
Depreciation and amortization	45,626	6,427	44,338	4,181
Interest expense	13,544	412	14,675	51
Income tax expense (benefit)	20,725	2,431	19,112	(1,245)
Segment EBITDA	107,962	22,855	94,209	8,116
Derivative fair value adjustment	7,768	(18)	6,473	(256)
Foreign currency transaction losses (gains)		735		(636)
Loss (gain) on disposal of assets or businesses	795	(237)	486	52
Unconsolidated affiliates interest, tax depreciation and amortization <sup>(a)</sup>	769	1,501	1,188	1,835
Contingent consideration remeasurement	114		(5)	
Stock-based compensation (benefit) expense	(2,994)		14,023	
ESOP deferred stock-based compensation	9,375		8,064	
Expense related to executive termination payments	258		246	
Expense related to executive stock repurchase agreements			1,011	
Loss related to BaySaver step acquisition	490			
Restatement costs <sup>(b)</sup>	16,328			
Transaction costs <sup>(c)</sup>			1,051	
<b>Segment Adjusted EBITDA</b>	<b>\$ 140,865</b>	<b>\$ 24,836</b>	<b>\$ 126,746</b>	<b>\$ 9,111</b>

- (a) Includes our proportional share of interest, income taxes, depreciation and amortization related to our South American Joint Venture and our Tigre-ADS USA Joint Venture, which are accounted for under the equity method of accounting. In addition, these amounts include our proportional share of interest, income taxes, depreciation and amortization related to our BaySaver Joint Venture prior to our acquisition of BaySaver on July 17, 2015, which was previously accounted for under the equity method of accounting.
- (b)

- Represents expenses recorded related to legal, accounting and other professional fees incurred in connection with the restatement of our prior period financial statements as reflected in the Fiscal 2015 Form 10-K.
- (c) Represents expenses recorded related to legal, accounting and other professional fees incurred in connection with our IPO and secondary public offering in fiscal year 2015.

#### **14. SUPPLEMENTAL CASH FLOW INFORMATION**

During the nine months ended December 31, 2015 and 2014, the Company acquired Property, plant and equipment under capital lease and incurred lease obligations of \$28,109 and \$22,531, respectively. During the nine months ended December 31, 2014, the Company reclassified \$19,729 related to the executive stock repurchase agreements from liability and mezzanine equity to Paid-in capital after the termination of the agreements upon the IPO in July 2014.

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**15. SUBSEQUENT EVENTS**

***Subsequent Events Related to the Bank Term Loans and Senior Notes***

Our long-term debt primarily consists of amounts outstanding under 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, and a \$100,000 term note (collectively, the *Bank Term Loans* ), and the \$100,000 of outstanding senior promissory notes ( *Senior Notes* ). The amendments and consents described below that occurred between July 2015 and February 2016 related to the delay in the filing of the Fiscal 2015 Form 10-K, and the restatement of the Company's previously issued financial statements (the *Restatement* ) as reflected in the fiscal year 2015 Form 10-K, which was filed in March 2016.

From July 2015 through December 2015, the Company obtained various consents from the lenders and amended the Bank Term Loans and Senior Notes. These consents and the additional amendments had the effect of: (i) extending the time for delivery of our fiscal 2015 audited financial statements and the first and second quarter fiscal 2016 quarterly financial statements to January 31, 2016, whereby an event of default was waived as long as those financial statements were delivered within the thirty day grace period after that date, (ii) modified certain definitions applicable to the Company's affirmative and negative financial covenants, including the negative covenant on indebtedness, to accommodate the Company's treatment of its transportation and equipment leases as capital leases rather than operating leases and to accommodate the treatment of the costs related to the Company's restatement, and (iii) permitted the Company's payment of quarterly dividends on common shares in June, August and December 2015.

In February 2016, the Company entered into additional amended agreements related to the Bank Term Loans and Senior Notes that further extend the time for delivery of its fiscal 2015 audited financial statements and the first and second quarter fiscal 2016 quarterly financial statements, as well as to extend the time for delivery of its third quarter fiscal 2016 quarterly financial statements. The February 2016 amended agreements extended the time for delivery of the fiscal 2015 audited financial statements and the first, second and third quarter fiscal 2016 quarterly financial statements to April 1, 2016, whereby an event of default was waived as long as those financial statements were delivered by that date without regard to any grace period. As part of the February 2016 amended agreements, the lenders also consented to the Company's payment of the previously declared annual dividend of \$0.0195 per share to be paid on shares of preferred stock in March 2016.

***Subsequent Event Related to the ADS Mexicana Scotia Bank Revolving Credit Facility***

On May 27, 2016, ADS Mexicana obtained a waiver on a covenant from Scotia Bank relating to ADS Mexicana failing to notify Scotia Bank of changes in legal organizational structure and payment of dividends.

**16. RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS**

***Revisions Reported in the Fiscal Year 2016 Form 10-K***

Prior to the filing of the our Annual Report on Form 10-K for the year ended March 31, 2016 ( *Fiscal 2016 Form 10-K* ), the Company identified certain out of period adjustments related to immaterial errors in its previously issued condensed consolidated financial statements for the fiscal years ended March 31, 2015 and prior, as well as in the previously issued unaudited condensed consolidated financial statements for the quarters ended June 30, September 30, and December 31, 2015 and 2014. The prior period errors related primarily to the Company's accounting for inventory, specifically relating to the capitalization of production variances into inventory, as well as miscellaneous immaterial errors related to property, plant and equipment and the associated impact on income taxes.

While these prior period errors did not, individually or in the aggregate,

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result in a material misstatement of the Company's previously issued consolidated financial statements, correcting these prior period errors in fiscal year 2016 would have been material to the fiscal year 2016 consolidated financial statements. Accordingly, management revised its previously reported consolidated financial statements in the Fiscal 2016 Form 10-K.

The column in the tables below labeled "Effect of Revision" reflects the impact of these adjustments.

### ***Stock-Based Compensation Restatement***

Subsequent to the issuance of the Fiscal 2016 Form 10-K, the Company identified errors in its historical consolidated financial statements related to the accounting for stock-based compensation for awards made to employees along with its accounting for certain executive stock repurchase agreements and executive termination payments, as described below.

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

The column in the tables below labeled "Stock-Based Compensation Restatement" reflects the impact of these adjustments. The column in the tables below labeled "As Previously Reported" reflects the financial information reported as part of the Original Form 10-Q.

The following sections provide additional information relating to the accounting adjustments that were made to the Company's historical condensed consolidated financial statements. These adjustments had no net impact on cash flows from operating activities, cash flows from investing activities or cash flows from financing activities in our condensed consolidated statements of cash flows for the nine months ended December 31, 2015 and 2014. For the three and nine months ended December 31, 2015 and 2014, the impact of the adjustments on the condensed consolidated statements of comprehensive income (loss) was limited to the change in net income.

### ***Accounting Adjustments – Stock-Based Compensation***

The Company has several programs for stock-based payments to employees, including stock options and restricted stock awards. Historically, the Company has classified stock-based awards as equity awards, and recorded the associated compensation expense based on the award's grant date fair value. Based upon an internal review of our stock-based award agreements and related administrative procedures, the Company concluded that these awards should have been accounted for as liability-classified instead of equity-classified. Specifically, the Company determined that certain tax withholding provisions were added to stock option agreements beginning in fiscal 2009 that permit the employee to satisfy the tax liability associated with the exercise of the stock options through the withholding of shares that exceeds the minimum tax withholding required by law. In addition, prior to the Company's initial public offering in fiscal 2015, the Company had periodically repurchased shares within six months of the exercise date with respect to stock option exercises and within six months of the vesting date with respect to restricted stock. As such, the Company has concluded that for all periods presented that it should account for its stock options as liability-classified awards for purposes of calculating stock-based compensation expense, and restricted stock granted to employees should be accounted for as liability-classified awards prior to the Company's initial public offering in fiscal 2015.

The errors in stock-based compensation award classification have been corrected in the restated condensed consolidated financial statements, whereby the fair value of the liability-classified awards has been remeasured at each relevant reporting date with the corresponding impact of the remeasurement resulting in an increase or a decrease in the amount of stock-based compensation expense included in General and administrative expenses, Selling expenses and Cost of goods sold in the Condensed Consolidated Statements of Operations. In addition, the carrying value of all liability-classified awards has been reclassified from Paid-in capital to Current portion of liability-classified stock-based awards and Other liabilities in the Condensed Consolidated Balance Sheets, and dividends paid on liability-classified awards have been reclassified from Retained earnings (deficit) to stock-based compensation expense.

*Accounting Adjustments Executive Stock Repurchase Agreements*

In fiscal 2007, the Company entered into stock repurchase agreements with certain executives, whereby the Company was required to repurchase shares of the Company's common stock held by the executive at the current fair market value upon the executive's death or certain events of termination, as defined. The amount of shares required to be repurchased by the Company from the executive and which the executive or the executive's heir or estate was obligated to sell to the Company, was limited to the anticipated proceeds from life insurance policies held by the Company (referred to as a mandatorily redeemable obligation).

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In the case where shares were not repurchased due to the fair value of the shares exceeding the life insurance proceeds, the executive or the executive's heir or estate had a put right up to a set dollar amount allowing the common stock to be put to the Company at the current fair market value (referred to as an executive's put right). The stock repurchase agreements included termination clauses such that they would automatically terminate if a change in control event or an IPO occurred prior to the executive's death. While the Company did not historically take into account the impact of these stock repurchase agreements on the accounting for the shares subject to the stock repurchase agreements, the Company has now determined that it is necessary to account for the contingent obligation to repurchase those shares.

As such, the errors in measurement and classification of these amounts have been corrected in the restated condensed consolidated financial statements. Specifically, prior to the termination of the stock repurchase agreements upon the IPO in July 2014, the Company has reclassified all shares subject to the mandatorily redeemable obligation as liabilities and all shares subject to an executive's put rights as Redeemable common stock in mezzanine equity. For those shares classified as liabilities, changes in the fair value of the shares have been recognized as compensation expense included in General and administrative expenses in the Condensed Consolidated Statements of Operations, and dividends paid on those awards have been reclassified from Retained earnings (deficit) to stock-based compensation expense. For the shares classified as Redeemable common stock, changes in the fair value of the shares were recorded as adjustments to Retained earnings (deficit) and Paid-in capital. After the termination of the stock repurchase agreements upon the IPO in July 2014, the Company has reclassified the carrying amount of the shares to Paid-in capital in the Condensed Consolidated Balance Sheets. There were no redemptions under the stock repurchase agreements.

***Accounting Adjustments – Executive Termination Payments***

ADS has employment agreements with certain executives that include potential payments to be made to those executives upon termination. The terms of the termination payments vary by executive, but are generally based on current base salary and bonus levels at the time of termination. The contractual termination payments vest upon either (1) certain contingent occurrences terminating employment such as death, disability, layoff, the executive voluntarily quitting due to a breach of covenants by the Company or for other good reason or (2) the executive reaching a certain age while still working for the Company, as defined in the individual employee agreement. While the Company did not historically accrue a liability in advance for these executive termination payments, the Company has now determined that it is necessary to account for the contingent obligation to make these payments.

As such, the associated errors have been corrected in the restated condensed consolidated financial statements. Specifically, the Company has accrued a liability from the effective date of the executive's employment agreement to the date the executive reaches the required retirement age while working for the Company, which is considered the service period for this obligation. The liability is estimated based on each executive's current base salary and bonus levels. The associated expense has been recognized as compensation expense included in General and administrative expenses in the Condensed Consolidated Statements of Operations.

***Accounting Adjustments – Income Taxes***

The Company recorded adjustments to income taxes to reflect the impact of the restatement adjustments.

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

The effect of the revision and the restatement described above on the Company's previously reported Condensed Consolidated Statements of Operations for the three months ended December 31, 2015 and 2014 is as follows:



<b>Three Months Ended December 31, 2015</b>				
<b>(Amounts in thousands, except per share data)</b>	<b>As Previously Reported</b>	<b>Effect of Revision</b>	<b>Stock-Based Compensation Restatement</b>	<b>As Restated</b>
Net sales	\$ 312,827	\$	\$	\$ 312,827
Cost of goods sold	239,504	(1,319)	(200) <sup>(a)</sup>	237,985
Gross profit	73,323	1,319	200	74,842
Operating expenses:				
Selling	21,880		(300) <sup>(a)</sup>	21,580
General and administrative	25,776		(5,326) <sup>(b)</sup>	20,450
Loss on disposal of assets or businesses	(603)			(603)
Intangible amortization	2,182			2,182
Income from operations	24,088	1,319	5,826	31,233

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(Amounts in thousands, except per share data)	Three Months Ended December 31, 2015			
	As Previously Reported	Effect of Revision	Stock-Based Compensation Restatement	As Restated
Other expense:				
Interest expense	4,723			4,723
Other miscellaneous expense, net	2,561			2,561
Income before income taxes	16,804	1,319	5,826	23,949
Income tax expense	8,100	663	1,327	10,090
Equity in net loss of unconsolidated affiliates	917			917
Net income	7,787	656	4,499	12,942
Less net income attributable to noncontrolling interest	(189)			(189)
Net income attributable to ADS	7,976	656	4,499	13,131
Accretion of Redeemable noncontrolling interest	(329)			(329)
Dividends to Redeemable convertible preferred stockholders	(349)			(349)
Dividends paid to unvested restricted stockholders	(6)			(6)
Net income available to common stockholders and participating securities	7,292	656	4,499	12,447
Undistributed income allocated to participating securities	(479)	(68)	(469)	(1,016)
<b>Net income available to common stockholders</b>	<b>\$ 6,813</b>	<b>\$ 588</b>	<b>\$ 4,030</b>	<b>\$ 11,431</b>
Weighted average common shares outstanding:				
Basic	54,133			54,133
Diluted	54,527	710	165	55,402
<b>Net income per share:</b>				
Basic	\$ 0.13	0.01	0.07	\$ 0.21
Diluted	\$ 0.12	0.01	0.08	\$ 0.21
<b>Cash dividends declared per share</b>	<b>\$ 0.05</b>			<b>\$ 0.05</b>

(a) This entire amount relates to the adjustments for stock-based compensation.

(b) This amount consists of (\$5,420) and \$94 related to the adjustments for stock-based compensation and the executive termination payments, respectively.

## Three Months Ended December 31, 2014

(Amounts in thousands, except per share data)	As Previously Reported	Effect of Revision	Stock-Based Compensation Restatement	As Restated
Net sales	\$ 279,871	\$	\$	\$ 279,871
Cost of goods sold	230,693	(209)	100 <sup>(a)</sup>	230,584
Gross profit	49,178	209	(100)	49,287
Operating expenses:				
Selling	19,913		200 <sup>(a)</sup>	20,113
General and administrative	14,115		2,134 <sup>(b)</sup>	16,249
Loss on disposal of assets or businesses	193			193
Intangible amortization	2,328			2,328
Income from operations	12,629	209	(2,434)	10,404
Other expense:				
Interest expense	4,631			4,631
Other miscellaneous expense, net	5,556			5,556
Income before income taxes	2,442	209	(2,434)	217
Income tax expense	3,407	179	(1,088)	2,498
Equity in net loss of unconsolidated affiliates	988			988
Net loss	(1,953)	30	(1,346)	(3,269)

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(Amounts in thousands, except per share data)	Three Months Ended December 31, 2014			
	As Previously Reported	Effect of Revision	Stock-Based Compensation Restatement	As Restated
Less net income attributable to noncontrolling interest	1,372			1,372
Net loss attributable to ADS	(3,325)	30	(1,346)	(4,641)
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	(3,632)	30	(1,346)	(4,948)
Undistributed income allocated to participating securities				
<b>Net loss available to common stockholders</b>	<b>\$ (3,632)</b>	<b>\$ 30</b>	<b>\$ (1,346)</b>	<b>\$ (4,948)</b>
Weighted average common shares outstanding:				
Basic	52,986			52,986
Diluted	52,986			52,986
<b>Net loss per share:</b>				
Basic	\$ (0.07)		(0.02)	\$ (0.09)
Diluted	\$ (0.07)		(0.02)	\$ (0.09)
<b>Cash dividends declared per share</b>	<b>\$ 0.04</b>			<b>\$ 0.04</b>

(a) This entire amount relates to the adjustments for stock-based compensation

(b) This amount consists of \$2,052 and \$82 related to the adjustments for stock-based compensation and the executive termination payments, respectively.

The effect of the revision and the restatement described above on the Company's previously reported Condensed Consolidated Statements of Operations for the nine months ended December 31, 2015 and 2014 is as follows:

(Amounts in thousands, except per share data)	Nine Months Ended December 31, 2015			
	As Previously Reported	Effect of Revision	Stock-Based Compensation Restatement	As Restated
Net sales	\$ 1,045,280	\$	\$	\$ 1,045,280
Cost of goods sold	815,636	(6,004)	(200) <sup>(a)</sup>	809,432
Gross profit	229,644	6,004	200	235,848
Operating expenses:				
Selling	65,701		(300) <sup>(a)</sup>	65,401

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General and administrative	69,207		(4,399) <sup>(b)</sup>	64,808
Loss on disposal of assets or businesses	558			558
Intangible amortization	7,049			7,049
Income from operations	87,129	6,004	4,899	98,032
Other expense:				
Interest expense	13,956			13,956
Other miscellaneous expense, net	18,333			18,333
Income before income taxes	54,840	6,004	4,899	65,743
Income tax expense	19,839	2,544	773	23,156
Equity in net loss of unconsolidated affiliates	935			935
Net income	34,066	3,460	4,126	41,652
Less net income attributable to noncontrolling interest	4,481			4,481
Net income attributable to ADS	29,585	3,460	4,126	37,171
Accretion of Redeemable noncontrolling interest	(586)			(586)
Dividends to Redeemable convertible preferred stockholders	(1,082)			(1,082)
Dividends paid to unvested restricted stockholders	(18)			(18)
Net income available to common stockholders and participating securities	27,899	3,460	4,126	35,485

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(Amounts in thousands, except per share data)	Nine Months Ended December 31, 2015			
	As Previously Reported	Effect of Revision	Stock-Based Compensation Restatement	As Restated
Undistributed income allocated to participating securities	(2,159)	(375)	(431)	(2,965)
<b>Net income available to common stockholders</b>	<b>\$ 25,740</b>	<b>\$ 3,085</b>	<b>\$ 3,695</b>	<b>\$ 32,520</b>
Weighted average common shares outstanding:				
Basic	53,880			53,880
Diluted	60,694	(5,874)	371	55,191
<b>Net income per share:</b>				
Basic	\$ 0.48	0.05	0.07	\$ 0.60
Diluted	\$ 0.46	0.07	0.06	\$ 0.59
<b>Cash dividends declared per share</b>	<b>\$ 0.15</b>			<b>\$ 0.15</b>

- (a) This entire amount relates to the adjustments for stock-based compensation.
- (b) This amount consists of (\$4,657) and \$258 related to the adjustments for stock-based compensation and the executive termination payments, respectively.

(Amounts in thousands, except per share data)	Nine Months Ended December 31, 2014			
	As Previously Reported	Effect of Revision	Stock-Based Compensation Restatement	As Restated
Net sales	\$ 973,019	\$	\$	\$ 973,019
Cost of goods sold	793,220	(1,730)	800 <sup>(a)</sup>	792,290
Gross profit	179,799	1,730	(800)	180,729
Operating expenses:				
Selling	59,705		900 <sup>(a)</sup>	60,605
General and administrative	43,756		7,661 <sup>(b)</sup>	51,417
Loss on disposal of assets or businesses	538			538
Intangible amortization	7,551			7,551
Income from operations	68,249	1,730	(9,361)	60,618
Other expense:				
Interest expense	14,726			14,726
Other miscellaneous expense, net	5,100			5,100
Income before income taxes	48,423	1,730	(9,361)	40,792
Income tax expense	20,226	819	(3,178)	17,867
Equity in net loss of unconsolidated affiliates	1,712			1,712

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Net income	26,485	911	(6,183)	21,213
Less net income attributable to noncontrolling interest	4,400			4,400
Net income attributable to ADS	22,085	911	(6,183)	16,813
Change in fair value of Redeemable convertible preferred stock	(11,054)			(11,054)
Dividends to Redeemable convertible preferred stockholders	(377)			(377)
Dividends paid to unvested restricted stockholders	(9)			(9)
Net income (loss) available to common stockholders and participating securities	10,645	911	(6,183)	5,373
Undistributed income allocated to participating securities	(995)	(106)	723	(378)
<b>Net income (loss) available to common stockholders</b>	<b>\$ 9,650</b>	<b>\$ 805</b>	<b>\$ (5,460)</b>	<b>\$ 4,995</b>
Weighted average common shares outstanding:				
Basic	50,691			50,691
Diluted	51,206		410	51,616
<b>Net income (loss) per share:</b>				
Basic	\$ 0.19	0.02	(0.11)	\$ 0.10
Diluted	\$ 0.19	0.02	(0.11)	\$ 0.10
<b>Cash dividends declared per share</b>	<b>\$ 0.04</b>			<b>\$ 0.04</b>

- (a) This entire amount relates to the adjustments for stock-based compensation.
- (b) This amount consists of \$6,404, \$1,011, and \$246 related to the adjustments for stock-based compensation, the executive stock repurchase agreements and the executive termination payments, respectively.

**Table of Contents****Impact on Condensed Consolidated Balance Sheets**

The effect of the revision and restatement described above on the Company's previously reported Condensed Consolidated Balance Sheets as of December 31, 2015 and March 31, 2015 is as follows:

(Amounts in thousands)	December 31, 2015			As Restated
	As Previously Reported	Effect of Revision	Stock-Based Compensation Restatement	
<b>ASSETS</b>				
Cash	\$ 6,412	\$	\$	\$ 6,412
Receivables, net	171,768			171,768
Inventories	204,131	(4,542)		199,589
Deferred income taxes and other current assets	19,965	3,532	3,439	26,936
Property, plant and equipment, net	387,654			387,654
Goodwill	100,205			100,205
Intangible assets, net	61,492			61,492
Other assets	49,220			49,220
<b>Total assets</b>	<b>\$ 1,000,847</b>	<b>\$ (1,010)</b>	<b>\$ 3,439</b>	<b>\$ 1,003,276</b>
<b>LIABILITIES, MEZZANINE EQUITY AND STOCKHOLDERS' EQUITY</b>				
Current maturities of debt obligations	\$ 35,860	\$	\$	\$ 35,860
Current maturities of capital lease obligations	18,374			18,374
Accounts payable	74,000			74,000
Current portion of liability-classified stock-based awards			14,647	14,647
Other accrued liabilities	75,070			75,070
Accrued income taxes	8,171	2,555	3,592	14,318
Long-term debt obligation	301,565			301,565
Long-term capital lease obligation	56,265			56,265
Deferred tax liabilities	60,567	(492)	(4,336)	55,739
Other liabilities	29,299	(44)	8,209	37,464
<b>Total liabilities</b>	<b>659,171</b>	<b>2,019</b>	<b>22,112</b>	<b>683,302</b>
<b>Mezzanine equity</b>	<b>111,252</b>			<b>111,252</b>
Common stock	12,393			12,393
Paid-in capital	713,695		22,681	736,376
Common stock in treasury, at cost	(441,822)			(441,822)
Accumulated other comprehensive loss	(26,122)			(26,122)
Retained deficit	(42,101)	(3,029)	(41,354)	(86,484)
Noncontrolling interest in subsidiaries	14,381			14,381



<b>Total liabilities, mezzanine equity and stockholders equity</b>	\$ 1,000,847	\$ (1,010)	\$ 3,439	\$ 1,003,276
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(Amounts in thousands)	March 31, 2015			
	As Previously Reported	Effect of Revision	Stock-Based Compensation Restatement	As Restated
<b>ASSETS</b>				
Cash	\$ 3,623	\$	\$	\$ 3,623
Receivables, net	154,294			154,294
Inventories	269,842	(9,292)		260,550
Deferred income taxes and other current assets	18,972	3,532	3,439	25,943
Property, plant and equipment, net	377,067	(1,254)		375,813
Goodwill	98,679			98,679
Intangible assets, net	58,055			58,055
Other assets	61,167			61,167
<b>Total assets</b>	<b>\$ 1,041,699</b>	<b>\$ (7,014)</b>	<b>\$ 3,439</b>	<b>\$ 1,038,124</b>
<b>LIABILITIES, MEZZANINE EQUITY AND STOCKHOLDERS EQUITY</b>				
Current maturities of debt obligations	\$ 9,580	\$	\$	\$ 9,580
Current maturities of capital lease obligations	15,731			15,731
Accounts payable	111,893			111,893
Current portion of liability classified stock-based awards			17,611	17,611
Other accrued liabilities	54,349			54,349
Accrued income taxes	6,041	11	247	6,299
Long-term debt obligation	390,315			390,315
Long-term capital lease obligation	45,503			45,503
Deferred tax liabilities	65,088	(492)	(1,764)	62,832
Other liabilities	28,602	(44)	10,307	38,865
Total liabilities	727,102	(525)	26,401	752,978
Mezzanine equity	108,021			108,021
Common stock	12,393			12,393
Paid-in capital	700,977		22,518	723,495
Common stock in treasury, at cost	(445,065)			(445,065)
Accumulated other comprehensive loss	(15,521)			(15,521)
Retained deficit	(62,621)	(6,489)	(45,480)	(114,590)
Noncontrolling interest in subsidiaries	16,413			16,413
<b>Total liabilities, mezzanine equity and stockholders equity</b>	<b>\$ 1,041,699</b>	<b>\$ (7,014)</b>	<b>\$ 3,439</b>	<b>\$ 1,038,124</b>

**Cumulative Effect of Prior Period Adjustments**

The following table presents the impact of the revision and 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, 2014:

(Amounts in thousands)	Common Stock	Paid-In Capital	Common Stock in Treasury	Accumulated Other Comprehensive Loss	Retained Deficit	Total ADS Stockholders Deficit	Non-controlling Interest in Subsidiaries	Total Stockholders Equity (Deficit)
Stockholders equity (deficit), April 1, 2014 (As Previously Reported)	\$ 11,957	\$ 12,438	\$ (448,439)	\$ (6,830)	\$ (2,412)	\$ (433,286)	\$ 18,584	\$ (414,702)
Effect of Revision					(6,549)	(6,549)		(6,549)
Stock-Based Compensation Restatement		(4,069)			(27,719)	(31,788)		(31,788)
Stockholders equity (deficit), April 1, 2014 (As Restated)	\$ 11,957	\$ 8,369	\$ (448,439)	\$ (6,830)	\$ (36,680)	\$ (471,623)	\$ 18,584	\$ (453,039)

*Additional Subsequent Events*

*Subsequent Events Related to the Bank Term Loans and Senior Notes*

In July 2016, the Company obtained additional consents from the lenders of the Bank Term Loans and Senior Notes. These consents had the effect of extending the time for delivery of our fiscal 2016 audited financial statements to August 31, 2016, and first quarter fiscal 2017 quarterly financial information to October 15, 2016, whereby an event of default was waived as long as those items are delivered within a 15 day grace period after those dates. In addition, the consents also permitted the Company's payment of quarterly dividends of \$0.06 per share on common shares in each of June and September 2016, as well as the annual dividend of \$0.0195 per share to be paid on shares of preferred stock in March 2017.

In October 2016, the Company obtained additional consents from the lenders of the Bank Term Loans and Senior Notes. These consents had the effect of extending the time for delivery of our first quarter fiscal 2017 quarterly financial information to November 30, 2016 and our second quarter fiscal 2017 quarterly financial information to December 31, 2016, whereby an event of default was waived as long as those items are delivered within a 30 day grace period after those dates. In addition, the consents also permitted the Company's payment of a quarterly dividend of \$0.06 per share on common shares in December 2016, as well as the annual dividend of \$0.0195 per share to be paid on shares of preferred stock in March 2017.

In December 2016, the Company obtained additional consents from the lenders of the Bank Term Loans and Senior Notes. These consents had the effect of extending the time for delivery of our first quarter fiscal 2017 quarterly financial information to January 31, 2017.

*Subsequent Event Related to the ADS Mexicana Revolving Credit Facility*

During the period from November 3, 2014 to November 11, 2015, our joint venture, ADS Mexicana, made intercompany revolving loans to ADS, Inc. The maximum aggregate amount of the intercompany loans outstanding at any time was \$6,900. Since November 11, 2015, there have been no other intercompany loans made, and no balance remains outstanding.

According to the terms of the ADS Mexicana Revolving Credit Facility, ADS Mexicana was not permitted to make such loans, triggering an Event of Default. ADS Mexicana had an obligation to report such Event of Default and the Company had not previously disclosed the related restriction on its ability to enter into such loans. These events together were characterized as a Specified Default. On December 13, 2016, ADS Mexicana obtained a covenant waiver on the ADS Mexicana Revolving Credit Facility for the Specified Default from the lenders.

**Table of Contents****17. STOCK-BASED COMPENSATION**

ADS has several programs for stock-based payments to employees and directors, including stock options and restricted stock. Equity-classified stock option and restricted stock awards are measured based on the grant-date estimated fair value of each award. Liability-classified stock option and restricted stock awards are re-measured at fair value at each relevant reporting date, and the pro-rata vested portion of the award is recognized as a liability. Prior to the IPO, liability-classified stock options were re-measured at fair value each period until the earlier of six months after the stock options were exercised or the IPO date, and liability-classified restricted stock was re-measured at fair value each period until six months after the restricted stock fully vested or the IPO date. Subsequent to the IPO, liability-classified stock options are re-measured at fair value each period until they are exercised.

The Company accounts for all stock options granted to employees as liability-classified awards. Prior to the Company's IPO in July 2014, the Company also accounted for all restricted stock granted to employees as liability-classified awards. However, since the IPO, the Company also accounted for all restricted stock granted to employees as equity-classified awards. The Company accounts for all restricted stock granted to directors as equity-classified awards.

The Company recognized stock-based compensation expense (benefit) in the following line items on the condensed consolidated statements of operations for the three and nine months ended December 31, 2015 and 2014:

(Amounts in thousands)	Three Months Ended December 31,		Nine Months Ended December 31,	
	2015	2014	2015	2014
<b>Component of income before income taxes:</b>				
Cost of goods sold	\$ (200)	\$ 100	\$ (200)	\$ 800
Selling expenses	(300)	200	(300)	900
General and administrative expenses	(4,706)	3,594	(2,494)	12,323
<b>Total stock-based compensation expense</b>	<b>\$ (5,206)</b>	<b>\$ 3,894</b>	<b>(2,994)</b>	<b>\$ 14,023</b>

**Stock Options**

Our 2000 stock option plan ( 2000 Plan ) provides for the issuance of statutory and non-statutory 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 approximately 10 years from issuance.

Our 2013 stock option plan ( 2013 Plan ) provides for the issuance of non-statutory 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 generally vest in five equal annual amounts beginning in year one and expire after approximately 10 years from issuance. Options issued to the Chief Executive Officer vest equally over four years and expire after approximately 10 years from issuance.

The Company determines the fair value of the options based on the Black-Scholes option pricing model. This methodology requires significant inputs including the price of our common stock, risk-free interest rate, dividend yield and expiration date. During the three months ended December 31, 2015 and 2014, we recognized total stock-based compensation expense (benefit) under both stock option plans of \$(5,432), and \$3,218, respectively, and during the

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nine months ended December 31, 2015 and 2014, we recognized total stock-based compensation expense (benefit) under both plans of \$(3,724), and \$12,186, respectively.

We estimate the fair value of stock options using a Black-Scholes option-pricing model, with assumptions as summarized in the following table. For the periods prior to our IPO in fiscal 2015, the price of our common stock, as a private company, was based on an estimate of its fair value.

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2015	2014	2015	2014
Common stock price	\$22.39 - \$32.31	\$19.79 - \$23.72	\$22.39 - \$32.37	\$14.33 - \$23.72
Expected stock price volatility	29.6% - 38.8%	27.3% - 51.5%	29.6% - 38.8%	27.3% - 51.5%
Risk-free interest rate	<0.1% - 2.2%	<0.1% - 2.1%	<0.1% - 2.2%	<0.1% - 2.1%
Weighted-average expected option life (years)	0.1 6.4	0.1 7.4	0.1 6.4	0.1 7.4
Dividend yield	0.8%	0.7%	0.8%	0.7%

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

*Our fiscal year begins on April 1 and ends on March 31. Unless otherwise noted, references to "year" pertain to our fiscal year. For example, 2016 refers to fiscal 2016, which is the period from April 1, 2015 to March 31, 2016.*

*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 Fiscal 2016 Form 10-K/A (filed concurrently with this Amendment No. 1 to our Form 10-Q) which includes our restated consolidated financial statements for the years ended March 31, 2016 and 2015. 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 and our Tigre-ADS USA Joint Venture.*

### **Overview**

We are the leading manufacturer of high performance thermoplastic corrugated pipe, providing a comprehensive suite of water management products and superior drainage solutions for use in the construction and infrastructure marketplace. Our innovative products are used across a broad range of end markets and applications, including non-residential, residential, agriculture and infrastructure applications. We have established a leading position in many of these end markets by leveraging our national sales and distribution platform, our overall product breadth and scale and our manufacturing excellence. In North America, our national footprint combined with our strong local presence and broad product offering makes us the leader in an otherwise highly fragmented sector comprised of many smaller competitors. We believe the markets we serve in the United States represent approximately \$10.5 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.

***Restatement of Previously Issued Financial Statements***

The accompanying Management's Discussion and Analysis of Financial Condition and Results of Operations gives effect to the revision and restatement adjustments made to the previously reported Condensed Consolidated Statements of Operations for the three and nine months ended December 31, 2015 and 2014 and the Condensed Consolidated Balance Sheets as of December 31, 2015 and March 31, 2015. For additional information and a detailed discussion of the revision and the restatement, see Note 16. Restatement of Previously Issued Financial Statements included in Part I. Financial Information, of this Form 10-Q/A.

**Recent Developments**

***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.



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On July 25, 2014, we completed the IPO of our common stock, which resulted in the sale by the Company of 5,289,474 shares of common stock. 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 of \$6.9 million, we used the net proceeds of \$72.2 million to reduce the outstanding indebtedness under the revolving portion of our credit facility. The common stock is listed on the NYSE under the symbol WMS.

On August 22, 2014, an additional 600,000 shares of common stock were sold by certain selling stockholders of the Company 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 ( Secondary Public Offering )***

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

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.

### ***Acquisition of Ideal Pipe***

On January 30, 2015, Hancor of Canada, Inc., 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 (together Ideal Pipe ) for a contractual purchase price of \$55.7 million Canadian dollars, financed through our existing line of credit facility. 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 nonresidential, 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 results of operations of Ideal Pipe are included in our Condensed Consolidated Statements of Operations after January 30, 2015.

### ***Acquisition of BaySaver***

On July 17, 2015, ADS Ventures, Inc. ( ADS/V ), a wholly-owned subsidiary of the Company, acquired an additional 10% of the issued and outstanding membership interests in BaySaver, for a purchase price of \$3.2 million, subject to certain post-closing purchase price payments, which was financed through our existing line of credit facility. The BaySaver joint venture was established in July 2013 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 originally contributed \$3.5 million in cash, \$1.3 million in inventory, and intangible assets with no carrying value, in exchange for a 55% equity interest and a 50% voting interest in BaySaver. Concurrent with the additional investment in July 2015, we also entered into an amendment to the BaySaver joint venture agreement to modify the voting rights for the joint venture from an equal vote for each member to a vote based upon the ownership interest. As a result, the Company increased its ownership interest in BaySaver to 65% and obtained the majority of the voting rights.

While we had previously accounted for our investment in BaySaver under the equity method of accounting, we have concluded that the additional investment results in a step acquisition of BaySaver that will be treated as a business combination. As a result, our condensed consolidated financial statements include the consolidation of BaySaver's financial statements beginning on July 17, 2015. The accounting for the step acquisition resulted in the Company recognizing a loss of \$0.5 million in the period of acquisition due to the remeasurement to fair value of our prior equity interest, which is included in Derivative losses and other expense, net in our Condensed Consolidated Statements of Operations.

**Table of Contents****Results of Operations****Three Months Ended December 31, 2015 Compared With Three Months Ended December 31, 2014**

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, 2015 and 2014. Also included is certain information relating to the operating results as a percentage of net sales.

(Amounts in thousands, except per share data)	Three Months Ended December 31, 2015 (As Restated) <sup>(a)</sup>	% of Net Sales	Three Months Ended December 31, 2014 (As Restated) <sup>(a)</sup>	% of Net Sales	% Variance
<b>Consolidated Statements of Operations data:</b>					
Net sales	\$ 312,827	100.0%	\$ 279,871	100.0%	11.8%
Cost of goods sold	237,985	76.1%	230,584	82.4%	3.2%
Gross profit	74,842	23.9%	49,287	17.6%	51.8%
Selling expenses	21,580	6.9%	20,113	7.2%	7.3%
General and administrative expenses	20,450	6.5%	16,249	5.8%	25.9%
(Gain) loss on disposal of assets or businesses	(603)	(0.2%)	193	0.1%	(412.4%)
Intangible amortization	2,182	0.7%	2,328	0.8%	(6.3%)
Income from operations	31,233	10.0%	10,404	3.7%	200.2%
Interest expense	4,723	1.5%	4,631	1.7%	2.0%
Derivative losses and other expense, net	2,561	0.8%	5,556	2.0%	(53.9%)
Income before income taxes	23,949	7.7%	217	%	*
Income tax expense	10,090	3.2%	2,498	0.9%	303.9%
Equity in net loss of unconsolidated affiliates	917	0.3%	988	0.4%	(7.2%)
Net income (loss)	12,942	4.2%	(3,269)	(1.2%)	(495.9%)
Less net (loss) income attributable to noncontrolling interest	(189)	(0.1%)	1,372	0.5%	(113.8%)
<b>Net income (loss) attributable to ADS</b>	<b>\$ 13,131</b>	<b>4.3%</b>	<b>\$ (4,641)</b>	<b>(1.7%)</b>	<b>(382.9%)</b>
<b>Other financial data:</b>					
Adjusted EBITDA <sup>(b)</sup>	\$ 49,516	15.8%	\$ 34,007	12.2%	45.6%
System-Wide Net Sales <sup>(b)</sup>	\$ 330,866	105.8%	\$ 301,435	107.7%	9.8%

Adjusted Earnings Per Fully Converted Share <sup>(b)</sup>	\$	0.22	\$	(0.03)	*
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(a) See Note 16. Restatement of Previously Issued Financial Statements to the Condensed Consolidated Financial Statements.

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

\* not meaningful

*Net sales*

(Amounts in thousands)	Three Months Ended December 31,		% Variance
	2015 (As Restated) <sup>(a)</sup>	2014 (As Restated) <sup>(a)</sup>	
<b>Domestic</b>			
Pipe	\$ 196,162	\$ 179,979	9.0%
Allied Products	70,588	59,236	19.2%
<b>Total domestic</b>	<b>266,750</b>	<b>239,215</b>	<b>11.5%</b>
<b>International</b>			
Pipe	34,451	34,171	0.8%
Allied Products	11,626	6,485	79.3%
<b>Total international</b>	<b>46,077</b>	<b>40,656</b>	<b>13.3%</b>
<b>Total net sales</b>	<b>\$ 312,827</b>	<b>\$ 279,871</b>	<b>11.8%</b>

(a) See Note 16. Restatement of Previously Issued Financial Statements to the Condensed Consolidated Financial Statements.

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Net sales for the quarter ended December 31, 2015 totaled \$312.8 million, increasing \$32.9 million, or 11.8%, over the comparable prior year period.

Domestic net sales increased \$27.6 million, or 11.5%, for the third quarter ended December 31, 2015, as compared to the comparable prior year period. The increase in domestic sales was due to continued growth in the non-residential, residential and infrastructure markets and a modest increase in agricultural sales. All domestic end markets also benefitted from mild winter weather at the end of the quarter. Of the \$27.6 million in sales growth, the breakdown between our Pipe and Allied Products reflected increases of \$16.2 million and \$11.4 million, respectively. Pipe sales were helped by a volume increase of 12.2% compared to the comparable period in the prior year, offset by a decrease in Pipe selling prices of 2.9% compared to the comparable prior year period. Allied Product sales increased 19.2% which included the addition of \$3.3 million in sales from the acquisition of BaySaver as well as strong gains in our StormTech, Fittings, and Nyloplast product lines.

International net sales for the third quarter ended December 31, 2015 increased \$5.4 million, or 13.3%, over the comparable fiscal year 2015 period. The growth was primarily due to increased sales in Canada of \$11.5 million as a result of the Ideal Pipe acquisition, offsetting soft sales performance in Mexico which declined by \$5.5 million during the three months ended December 31, 2015 as compared to the comparable prior year period. Slower public spending was the main factor for the decline in third quarter net sales in Mexico versus the comparable prior year period. In addition, the Canadian dollar was approximately 15% weaker against the U.S. dollar in the three month period ended December 31, 2015, compared to the three month period ended December 31, 2014, which had a negative impact on Net sales for Canada of \$5.0 million during the three month period ended December 31, 2015.

System-Wide Net Sales for the third quarter ended December 31, 2015 were \$330.9 million, a net increase of \$29.5 million, or 9.8%, over System-Wide Net Sales of \$301.4 million for the third quarter of fiscal 2015. Net sales at our South American Joint Venture operation were down \$1.4 million or 9.3% over the comparable prior year period. This decrease was offset by an increase in net sales at our domestic joint venture, Tigre-ADS USA, of \$0.9 million for the three months ended December 31 2015, as compared to the prior fiscal year period. The company acquired a controlling interest in BaySaver during the second fiscal quarter of fiscal year 2016 and those sales are now included in the Company's consolidated net sales. During the comparable fiscal year 2015 period BaySaver contributed \$2.9 million in sales.

*Cost of goods sold and Gross profit*

Cost of Goods Sold increased \$7.4 million or 3.2% to \$238.0 million for the three months ended December 31, 2015 compared to \$230.6 million over the comparable fiscal year 2015 period.

Gross profit for the three months ended December 31, 2015 increased \$25.5 million or 51.8% over the comparable fiscal year 2015 period. Gross profit as a percentage of net sales totaled 23.9% for the three months ended December 31, 2015 as compared to 17.6% for the comparable fiscal year 2015 period.

Domestic gross profit increased \$24.6 million, or 58.7%, to \$66.5 million for the three months ended December 31, 2015 as compared to \$41.9 million during the comparable prior year period. In addition to the impact of the 11.5% increase in domestic net sales over the comparable fiscal year 2015 period, the increase was driven by a reduction of 14.0% in the cost of pipe resin used in products sold during the quarter versus the comparable prior year period. Both virgin and non-virgin resin prices continued to decline during the third quarter of fiscal 2016. Freight costs totaled 9.7% of domestic net sales for the three months ended December 31, 2015, compared to 9.5% for the prior year period. The higher costs relate to increased depreciation charges associated with new tractors and trailers added to the delivery fleet which offset the benefit of diesel fuel prices moving lower throughout the quarter. Diesel prices declined

approximately 30.0% compared to the prior year period.

International gross profit increased \$0.9 million, or 12.9%, for the third quarter of fiscal year 2016 over the comparable fiscal year 2015 period. This was the result of the impact of the 13.3% increase in international net sales. Gross profit margins were negatively impacted by the continued devaluation of the Canadian dollar versus the U.S. dollar as revenue from our Canadian subsidiaries is transacted in the Canadian dollar whereas the cost of raw material is substantially transacted in U.S. dollars.

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### *Selling expenses*

Selling expenses consist of field selling and customer service 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, 2015 increased \$1.5 million, or 7.3%, over the comparable fiscal year 2015 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 decreased to 6.9% for the third quarter of fiscal 2015 as compared to 7.2% for the comparable prior year period.

### *General and administrative expenses*

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

General and administrative expenses for the three months ended December 31, 2015 increased \$4.3 million, or 25.9%, over the comparable fiscal year 2015 period. This increase was primarily related to incremental expenses for audit, tax, legal and other professional fees which amounted to \$7.6 million related to the restatement of our previously filed financial statements as part of the preparation of our Fiscal 2015 Form 10-K. There were no comparable amounts in the fiscal year 2015 period. In addition, salaries and compensation expense increased by \$1.8 million during the third quarter of fiscal year 2016. There was also an additional \$0.6 million in general and administrative expense from the acquisition of the Ideal and BaySaver businesses, as well as higher corporate overhead including higher depreciation expense as well as increased legal and administrative costs associated with being a public company. These amounts were partially offset by a decrease in stock-based compensation of \$8.3 million. Overall, general and administrative expenses amounted to 6.5% of net sales for the three months ended December 31, 2015 compared to 5.8% for the comparable prior year period.

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

Gain (loss) on disposal of assets for the three months ended December 31, 2014 changed from a loss of \$0.2 million to a gain of \$0.6 million for the three months ended December 31, 2015. We did not dispose of any businesses during the three months ended December 31, 2015 or 2014.

### *Intangible amortization*

Intangible amortization for the three months ended December 31, 2015 decreased \$0.1 million, or 6.3%, over the comparable fiscal year 2015 period as a result of intangible assets of \$7.8 million becoming fully amortized during fiscal 2015 offset by the additional amortization for the Ideal Pipe intangible assets acquired in the fourth quarter of fiscal year 2015 and the BaySaver intangible assets acquired in the second quarter of fiscal year 2016.

### *Interest expense*

Interest expense for the three months ended December 31, 2015 increased slightly, \$0.1 million, or 2.0%, over the comparable fiscal year 2015 period. The modest increase in the current year third quarter was due to higher average debt outstanding, which was largely offset by lower average interest rates on our outstanding indebtedness.



**Table of Contents***Derivative losses and other expense, net*

Derivative losses and other expense, net decreased \$3.0 million over the comparable prior year period as a result of changes in both realized and unrealized gains and losses on hedging activities. The net derivative expense activity for the three months ended December 31, 2015 was \$2.3 million (realized loss of \$4.1 million less unrealized gain of \$1.8 million). This compares to a net derivative expense of \$6.5 million incurred during the comparable prior year period (realized loss of \$0.4 million and an unrealized loss of \$6.1 million). The balance of the change relates primarily to foreign currency transaction gains and other insignificant gains or losses.

*Income tax expense*

For the three months ended December 31, 2015 and 2014, the Company recorded an income tax provision of \$10.1 million and \$2.5 million, respectively. These provisions represent an effective tax rate of 42.1% and 1,151.2%, respectively. The fiscal year 2015 effective tax rate significantly exceeded the federal statutory rate due in part to the significant permanent differences associated with non-deductible ESOP stock appreciation and stock-based compensation expense, the effect of which was increased by the near break-even amount of pre-tax income, whereas the fiscal year 2016 effective tax rate more closely approximates a normal effective tax rate for the Company.

*Equity in net loss of unconsolidated affiliates*

Equity in net loss of unconsolidated affiliates decreased \$0.1 million from \$1.0 million for the three months ended December 31, 2014 to \$0.9 million for the three months ended December 31, 2015.

*Net (loss) income attributable to noncontrolling interest*

Net (loss) income attributable to noncontrolling interest represents the share of ADS Mexicana and BaySaver net income attributable to the minority interest holders. Net (loss) income attributable to noncontrolling interest changed from income of \$1.4 million for the three months ended December 31, 2014 to a loss of \$0.2 million for the three months ended December 31, 2015. The change is largely due to losses incurred by ADS Mexicana of \$0.3 million for the three months ended December 31, 2015 compared to income of \$1.4 million for the prior fiscal year 2015 period. The balance of the change relates to activity for BaySaver.

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

Third quarter net income attributable to ADS for fiscal year 2016 was \$13.1 million, improving from fiscal year 2015 third quarter's net loss attributable to ADS of \$4.6 million, as influenced by the factors noted above. Net income per share for the third quarter fiscal year 2016 totaled \$0.21 per basic and diluted share, as compared to a loss of \$0.09 per basic and diluted share recorded in the comparable prior year period.

*Adjusted EBITDA<sup>(a)</sup>*

(Amounts in thousands)	Three Months Ended December 31,		
	2015	2014	% Variance
	(As Restated) <sup>(a)</sup>	(As Restated) <sup>(a)</sup>	
Domestic	\$ 44,458	\$ 30,535	45.6%
International	5,058	3,472	45.7%

<b>Total adjusted EBITDA</b>	<b>\$ 49,516</b>	<b>\$ 34,007</b>	<b>45.6%</b>
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As a percentage of net sales	15.8%	12.2%
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- (a) See Note 16. Restatement of Previously Issued Financial Statements to the Condensed Consolidated Financial Statements.
- (b) See section entitled Non-GAAP Financial Measures for further information.

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**Table of Contents*****Nine Months Ended December 31, 2015 Compared With Nine Months Ended December 31, 2014***

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, 2015 and 2014. Also included is certain information relating to the operating results as a percentage of net sales.

(Amounts in thousands, except per share data)	Nine Months Ended December 31, 2015 (As Restated) <sup>(a)</sup>	% of Net Sales	Nine Months Ended December 31, 2014 (As Restated) <sup>(a)</sup>	% of Net Sales	% Variance
<b>Consolidated Statements of Operations data:</b>					
Net sales	\$ 1,045,280	100.0%	\$ 973,019	100.0%	7.4%
Cost of goods sold	809,432	77.4%	792,290	81.4%	2.2%
Gross profit	235,848	22.6%	180,729	18.6%	30.5%
Selling expenses	65,401	6.3%	60,605	6.2%	7.9%
General and administrative expenses	64,808	6.2%	51,417	5.3%	26.0%
Loss on disposal of assets or businesses	558	0.1%	538	0.1%	3.7%
Intangible amortization	7,049	0.7%	7,551	0.8%	(6.6%)
Income from operations	98,032	9.4%	60,618	6.2%	61.7%
Interest expense	13,956	1.3%	14,726	1.5%	(5.2%)
Derivative losses and other expense, net	18,333	1.8%	5,100	0.5%	259.5%
Income before income taxes	65,743	6.3%	40,792	4.2%	61.2%
Income tax expense	23,156	2.2%	17,867	1.8%	29.6%
Equity in net loss of unconsolidated affiliates	935	0.1%	1,712	0.2%	(45.4%)
Net income	41,652	4.0%	21,213	2.2%	96.4%
Less net income attributable to noncontrolling interest	4,481	0.4%	4,400	0.5%	1.8%
<b>Net income attributable to ADS</b>	<b>\$ 37,171</b>	<b>3.6%</b>	<b>\$ 16,813</b>	<b>1.7%</b>	<b>121.1%</b>
<b>Other financial data:</b>					
Adjusted EBITDA <sup>(b)</sup>	\$ 165,701	15.9%	\$ 135,857	14.0%	22.0%
System-Wide Net Sales <sup>(b)</sup>	\$ 1,103,336	105.6%	\$ 1,038,269	106.7%	6.3%
Adjusted Earnings Per Fully Converted Share <sup>(b)</sup>	\$ 0.63		\$ 0.35		80.0%

(a) See Note 16. 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)	Nine Months Ended December 31,		% Variance
	2015 (As Restated) <sup>(a)</sup>	2014 (As Restated) <sup>(a)</sup>	
<b>Domestic</b>			
Pipe	\$ 654,987	\$ 637,728	2.7%
Allied Products	237,228	210,888	12.5%
<b>Total domestic</b>	<b>892,215</b>	<b>848,616</b>	<b>5.1%</b>
<b>International</b>			
Pipe	121,368	102,320	18.6%
Allied Products	31,697	22,083	43.5%
<b>Total international</b>	<b>153,065</b>	<b>124,403</b>	<b>23.0%</b>
<b>Total net sales</b>	<b>\$ 1,045,280</b>	<b>\$ 973,019</b>	<b>7.4%</b>

(a) See Note 16. Restatement of Previously Issued Financial Statements to the Condensed Consolidated Financial Statements.

Net sales totaled \$1,045.3 million for the nine months ended December 31, 2015, increasing \$72.3 million, or 7.4%, over the comparable period for fiscal year 2015. The total sales growth when broken down between our Pipe and Allied Products, reflected increases of \$36.4 million or 4.9% and \$35.9 million or 15.4%, respectively, for the nine months ended December 31, 2015 as compared to the prior year period.

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Domestic net sales increased \$43.6 million, or 5.1%, for the nine months ended December 31, 2015, as compared to the prior year period. Domestic pipe sales increased \$17.3 million, or 2.7%, due to continued growth in our N-12 HDPE and High Performance PP product lines offsetting lower agricultural sales. Allied Product sales increased \$26.3 million, or 12.5%, due to strong sales volume sold primarily into the non-residential, residential and infrastructure markets. In addition, approximately \$6.8 million of the total Allied Product sales increase relates to the acquisition of BaySaver during the second fiscal quarter of fiscal 2016.

International net sales increased \$28.7 million, or 23.0%, for the nine months ended December 31, 2015 over the comparable fiscal year 2015 period. The growth was primarily due to increased sales in Canada, including in particular the contribution from the acquisition of Ideal Pipe, which increased sales by approximately \$36.8 million, helping to offset decreased sales in Mexico of \$3.5 million. In addition, the Canadian dollar was approximately 14% weaker against the U.S. dollar in the nine month period ended December 31, 2015, compared to the nine month period ended December 31, 2014, which had a negative impact on Net sales for Canada of \$15.6 million during the nine month period ended December 31, 2015.

System-Wide Net Sales were \$1,103.3 million for the first nine months of fiscal year 2016, an increase of \$65.0 million, or 6.3%, over System-Wide Net Sales of \$1,038.3 million for the first nine months of fiscal year 2015. 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 resulting in a sales decline of \$4.4 million or 9.6% to \$41.3 million. Net sales at our domestic joint ventures, Tigre-ADS USA and BaySaver, provided combined net sales for unconsolidated joint ventures of \$16.7 million for the nine months ended December 31, 2015, down \$2.8 million when compared to the prior fiscal year period. However, when taking into consideration the \$6.8 million in net sales recognized for BaySaver subsequent to the July 2015 acquisition of the controlling interest, comparable sales are up \$4.0 million or 20.5%.

*Cost of goods sold and Gross profit*

Cost of Goods Sold increased \$17.1 million or 2.2% for the nine months ended December 31, 2015 compared with the same period during fiscal year 2015.

Gross profit increased \$55.1 million or 30.5% from \$180.7 million to \$235.8 million for the nine months ended December 31, 2015 compared with the same period in the prior year. Gross profit as a percentage of net sales totaled 22.6% for the nine months ended December 31, 2015 as compared to 18.6% for the prior year.

Domestic gross profit increased \$42.1 million, or 26.0%, to \$204.3 million for the nine months ended December 31, 2015 as compared to \$162.2 million during the prior year period. In addition to the impact of the 5.1% increase in domestic net sales over the comparable fiscal year 2015 period, the increase was also driven by a reduction in raw material costs of approximately 8.4%, particularly pipe resin costs. Raw material prices were flat in the first quarter and then declined in the second and third quarters of fiscal 2016 as compared to the prior year periods. Freight costs totaled 9.6% of domestic net sales for the nine months ended December 31, 2015, compared to 9.3% for the prior year period. Diesel prices began to moderate after the third quarter of fiscal year 2015 and continued to decline throughout fiscal 2016. The higher costs relate to increased depreciation charges associated with new tractors and trailers added to the delivery fleet, which offset the benefit of diesel fuel prices moving lower throughout the quarter. Diesel prices were approximately 31.0% below the prior fiscal year for the nine-month period.

International gross profit increased \$12.9 million, or 69.7%, for the first nine months of fiscal year 2016 over the comparable fiscal year 2015 period. This was the result of the impact of a 23.0% increase in international net sales. Gross profit was also helped by improved gross profit performance in Mexico for the nine months ended

December 31, 2015, as Mexico benefitted from lower resin costs.

*Selling expenses*

Selling expenses consist of field selling and customer service 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, 2015 increased \$4.8 million, or 7.9%, over the comparable fiscal year 2015 period, growing at a higher rate than the change in net sales. The increase was primarily the result of selling expenses related to Ideal Pipe and BaySaver, 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 slightly to 6.3% for the first nine months of fiscal 2016 as compared to 6.2% for the comparable prior year period.

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**Table of Contents***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, 2015 increased \$13.4 million, or 26.0%, over the comparable 2015 fiscal year period. The increase was primarily the result of significant increases in professional fees for accounting, audit, tax, legal and other professional fees incurred in connection with the restatement of our previously filed financial statements as part of the preparation of our Fiscal 2015 Form 10-K. There were no such amounts in the comparable fiscal 2015 period. These fees amounted to approximately \$16.3 million for the nine months ended December 31, 2015. There was also an increase in salary and compensation expenses of \$2.2 million, as well as incremental general and administrative expenses related to the Ideal Pipe and BaySaver acquisitions of \$1.4 million. The remaining increase related to higher corporate overhead including higher depreciation expense as well as increased legal and administrative costs associated with being a public company. These amounts were partially offset by a decrease in stock-based compensation of \$14.8 million. Overall, general and administrative expenses amounted to 6.2% of net sales compared to 5.3% in the prior year.

*Loss on disposal of assets or businesses*

Loss on the disposal of assets or businesses for the nine months ended December 31, 2015 and December 31, 2014 was not significant for either period, amounting to losses of \$0.6 million and \$0.5 million, respectively.

*Intangible amortization*

Intangible amortization for the nine months ended December 31, 2015 decreased \$0.6 million, or 6.6%, over the comparable prior year period as a result of intangible assets of \$7.8 million becoming fully amortized during fiscal 2015, offset by the additional amortization for the Ideal Pipe intangible assets acquired in the fourth quarter of fiscal year 2015 and the BaySaver intangible assets acquired in the second quarter of fiscal year 2016.

*Interest expense*

Interest expense for the nine months ended December 31, 2015 decreased \$0.7 million, or 5.2%, over the comparable prior year period. The decrease was due to both slightly lower average interest rates on our outstanding Revolving Credit Facility, most of which is based on LIBOR, in addition to a modestly lower average outstanding debt balance over the nine-month period. For the prior period ended December 31, 2014, the Company carried a higher Revolving Credit Facility balance through July 2014 until the IPO proceeds were used to reduce the Revolving Credit Facility balance. Additionally, during the nine-month period ending December 31, 2014, a 2% surcharge on our Senior Notes was incurred during the first quarter of fiscal 2015 due to our leverage ratio of Adjusted EBITDA to Funded Debt exceeding three times at June 30, 2014. The surcharge increased interest expense by \$0.5 million for the first quarter of fiscal year 2015, and there was no such amount incurred in fiscal year 2016.

*Derivative losses and other expense, net*

Derivative losses and other expense, net for the nine months ended December 31, 2015 increased \$13.2 million over the comparable prior year period. The increase in expense is predominantly a result of both realized and unrealized losses on hedging activities. The hedging losses for the nine months ended December 31, 2015 were \$18.5 million

comprised of realized losses on cash settlements of \$10.7 million and unrealized losses on mark-to-market adjustments of \$7.8 million. This compares to a net hedging loss of \$6.6 million incurred during the prior nine month period, consisting of realized losses on cash settlements of \$0.4 million and unrealized losses of \$6.2 million on the unfavorable mark-to-market adjustments. In addition to the hedging losses, the Company realized a loss of \$0.5 million upon completing the acquisition of BaySaver as a result of remeasuring our investment as of the July 17, 2015 step acquisition. See Note 2. Acquisitions. The balance of the change relates primarily to foreign currency transaction activity and other insignificant gains or losses.



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

For the nine months ended December 31, 2015 and 2014, the Company recorded income tax provisions of \$23.2 million and \$17.9 million, respectively, which represent an effective tax rate of 35.2% and 43.8%, respectively. The effective tax rate for the first nine months of the fiscal 2016 is lower 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 two unconsolidated joint ventures in which we have significant influence, but not control, over operations as well as our proportional share of BaySaver earnings up until the July 17, 2015 step acquisition. Equity in net loss of unconsolidated affiliates for the nine months ended December 31, 2015 decreased \$0.8 million over the comparable prior fiscal year period to a net loss of \$0.9 million compared to a net loss of \$1.7 million. The decrease was primarily due to lower net losses generated by the South American Joint Venture which reduced our share of the losses during the nine-months ended December 31, 2015 to \$1.2 million compared to \$2.0 million for the comparable prior year period.

*Net income attributable to noncontrolling interest*

Net income attributable to noncontrolling interest represents income attributable to the noncontrolling interest holders in joint venture operations that are consolidated in our condensed consolidated financial statements. Net income attributable to noncontrolling interest increased \$0.1 million for the nine months ended December 31, 2015 to \$4.5 million compared to \$4.4 million for the comparable prior year period. As noted above, the 35.0% noncontrolling interest for BaySaver is now included in the fiscal 2016 results beginning after July 17, 2015.

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

Net income attributable to ADS of \$37.2 million increased from the preceding fiscal year's net income attributable to ADS of \$16.8 million, as influenced by the factors noted above. Net income per share for the first nine months of fiscal year 2016 totaled \$0.60 and \$0.59 per basic and diluted per share, respectively, as compared to \$0.10 per basic and diluted share recorded in the comparable prior year period. The net income per share for the nine months ended December 31, 2014 was impacted by changes in fair value appreciation of Redeemable convertible preferred stock classified in mezzanine equity which reduced income available to common stockholders by \$11.1 million, or \$0.22 per share for common stockholders.

*Adjusted EBITDA<sup>(a)</sup>*

(Amounts in thousands)	Nine Months Ended December 31,		
	2015 (As Restated) <sup>(a)</sup>	2014 (As Restated) <sup>(a)</sup>	% Variance
Domestic adjusted EBITDA	\$ 140,865	\$ 126,746	11.1%
International adjusted EBITDA	24,836	9,111	172.6%
<b>Total adjusted EBITDA</b>	<b>\$ 165,701</b>	<b>\$ 135,857</b>	<b>22.0%</b>

As a percentage of net sales	15.9%	14.0%
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- (a) See Note 16. Restatement of Previously Issued Financial Statements to the Condensed Consolidated Financial Statements.
- (b) See section entitled Non-GAAP Financial Measures for further information.

**Non-GAAP Financial Measures**

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

*Adjusted EBITDA.* Adjusted EBITDA is a non-GAAP financial measure that is comprised of 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.

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The following table presents a reconciliation of Adjusted EBITDA to Net Income (Loss) for each of the periods indicated:

(Amounts in thousands)	Three Months Ended December 31,		Nine Months Ended December 31,	
	2015	2014	2015	2014
	(As Restated) <sup>(a)</sup>	(As Restated) <sup>(a)</sup>	(As Restated) <sup>(a)</sup>	(As Restated) <sup>(a)</sup>
<b>Net income (loss)</b>	<b>\$ 12,942</b>	<b>\$ (3,269)</b>	<b>\$ 41,652</b>	<b>\$ 21,213</b>
Depreciation and amortization	17,302	16,118	52,053	48,519
Interest expense	4,723	4,631	13,956	14,726
Income tax expense	10,090	2,498	23,156	17,867
<b>EBITDA</b>	<b>45,057</b>	<b>19,978</b>	<b>130,817</b>	<b>102,325</b>
Derivative fair value adjustments	(1,784)	6,054	7,750	6,217
Foreign currency transaction losses (gains)	569	(561)	735	(636)
(Gain) loss on disposal of assets or businesses	(603)	193	558	538
Unconsolidated affiliates interest, tax, depreciation and amortization <sup>(b)</sup>	632	1,348	2,270	3,023
Contingent consideration remeasurement	14	(7)	114	(5)
Stock-based compensation (benefit) expense	(5,206)	3,894	(2,994)	14,023
ESOP deferred stock-based compensation	3,125	2,690	9,375	8,064
Expense related to executive termination payments	94	82	258	246
Expense related to executive stock repurchase agreements				1,011
Loss related to BaySaver step acquisition			490	
Restatement costs <sup>(c)</sup>	7,618		16,328	
Transaction costs <sup>(d)</sup>		336		1,051
<b>Adjusted EBITDA</b>	<b>\$ 49,516</b>	<b>\$ 34,007</b>	<b>\$ 165,701</b>	<b>\$ 135,857</b>

(a) See Note 16. Restatement of Previously Issued Financial Statements to the Condensed Consolidated Financial Statements.

(b) Includes our proportional share of interest, income taxes, depreciation and amortization related to our South American Joint Venture and our Tigre-ADS USA joint venture, which are accounted for under the equity method of accounting. In addition, these amounts include our proportional share of interest, income taxes, depreciation and amortization related to our BaySaver joint venture prior to our acquisition of BaySaver on July 17, 2015, which was previously accounted for under the equity method of accounting.

- (c) Represents expenses recorded related to legal, accounting and other professional fees incurred in connection with the restatement of our prior period financial statements as reflected in the Fiscal 2015 Form 10-K.
- (d) Represents expenses recorded related to legal, accounting and other professional fees incurred in connection with our secondary public offering in fiscal year 2015.

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

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

(Amounts in thousands)	Three Months Ended December 31,			
	2015		2014	
	Domestic (As Restated) <sup>(a)</sup>	International (As Restated) <sup>(a)</sup>	Domestic (As Restated) <sup>(a)</sup>	International (As Restated) <sup>(a)</sup>
<b>Net income (loss)</b>	<b>\$ 13,846</b>	<b>\$ (904)</b>	<b>\$ (5,199)</b>	<b>\$ 1,930</b>
Depreciation and amortization	15,221	2,081	14,742	1,376
Interest expense	4,606	117	4,613	18
Income tax expense	7,196	2,894	2,251	247
Segment EBITDA	40,869	4,188	16,407	3,571
Derivative fair value adjustments	(1,733)	(51)	6,310	(256)
Foreign currency transaction losses (gains)		569		(561)
(Gain) loss on disposal of assets or businesses	(546)	(57)	175	18
Unconsolidated affiliates interest, tax, depreciation and amortization <sup>(b)</sup>	223	409	648	700
Contingent consideration remeasurement	14		(7)	
Stock-based compensation (benefit) expense	(5,206)		3,894	
ESOP deferred stock-based compensation	3,125		2,690	
Expense related to executive termination payments	94		82	
Restatement costs <sup>(c)</sup>	7,618			
Transaction costs <sup>(d)</sup>			336	
<b>Segment Adjusted EBITDA</b>	<b>\$ 44,458</b>	<b>\$ 5,058</b>	<b>\$ 30,535</b>	<b>\$ 3,472</b>

- (a) See Note 16. Restatement of Previously Issued Financial Statements to the Condensed Consolidated Financial Statements.
- (b) Includes our proportional share of interest, income taxes, depreciation and amortization related to our South American Joint Venture and our Tigre-ADS USA joint venture, which are accounted for under the equity method of accounting. In addition, these amounts include our proportional share of interest, income taxes, depreciation and amortization related to our BaySaver joint venture prior to our acquisition of BaySaver on July 17, 2015, which was previously accounted for under the equity method of accounting.
- (c) Represents expenses recorded related to legal, accounting and other professional fees incurred in connection with the restatement of our prior period financial statements as reflected in the Fiscal 2015 Form 10-K.
- (d) Represents expenses recorded related to legal, accounting and other professional fees incurred in connection with our IPO and secondary public offering in fiscal year 2015.

(Amounts in thousands)	Nine Months Ended December 31,			
	2015		2014	
	Domestic (As Restated) <sup>(a)</sup>	International (As Restated) <sup>(a)</sup>	Domestic (As Restated) <sup>(a)</sup>	International (As Restated) <sup>(a)</sup>
<b>Net income</b>	<b>\$ 28,067</b>	<b>\$ 13,585</b>	<b>\$ 16,084</b>	<b>\$ 5,129</b>
Depreciation and amortization	45,626	6,427	44,338	4,181
Interest expense	13,544	412	14,675	51
Income tax expense (benefit)	20,725	2,431	19,112	(1,245)
<b>Segment EBITDA</b>	<b>107,962</b>	<b>22,855</b>	<b>94,209</b>	<b>8,116</b>
Derivative fair value adjustments	7,768	(18)	6,473	(256)
Foreign currency transaction losses (gains)		735		(636)
Loss (gain) on disposal of assets or businesses	795	(237)	486	52
Unconsolidated affiliates interest, tax, depreciation and amortization <sup>(b)</sup>	769	1,501	1,188	1,835
Contingent consideration remeasurement	114		(5)	
Stock-based compensation (benefit) expense	(2,994)		14,023	
ESOP deferred stock-based compensation	9,375		8,064	
Expense related to executive termination payments	258		246	
Expense related to executive stock repurchase agreements			1,011	
Loss related to BaySaver step acquisition	490			
Restatement costs <sup>(c)</sup>	16,328			
Transaction costs <sup>(d)</sup>			1,051	
<b>Segment Adjusted EBITDA</b>	<b>\$ 140,865</b>	<b>\$ 24,836</b>	<b>\$ 126,746</b>	<b>\$ 9,111</b>

- (a) See Note 16. Restatement of Previously Issued Financial Statements to the Condensed Consolidated Financial Statements.
- (b) Includes our proportional share of interest, income taxes, depreciation and amortization related to our South American Joint Venture and our Tigre-ADS USA joint venture, which are accounted for under the equity method of accounting. In addition, these amounts include our proportional share of interest, income taxes, depreciation and amortization related to our BaySaver joint venture prior to our acquisition of BaySaver on July 17, 2015, which was previously accounted for under the equity method of accounting.
- (c) Represents expenses recorded related to legal, accounting and other professional fees incurred in connection with the restatement of our prior period financial statements as reflected in the Fiscal 2015 Form 10-K.
- (d) Represents expenses recorded related to legal, accounting and other professional fees incurred in connection with our IPO and secondary public offering in fiscal year 2015.

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*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. We participated in three unconsolidated joint ventures during the nine months ended December 31, 2015 and 2014; the South American Joint Venture, Tigre-ADS USA, Inc. ( Tigre-ADS USA , which is 49% owned by our wholly-owned subsidiary ADS/V), and BaySaver prior to July 17, 2015. 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 Tigre-ADS USA and BaySaver joint ventures are managed as an integral part of our domestic segment. However, they are not consolidated under GAAP, with the exception of our BaySaver joint venture which we have consolidated since we acquired a controlling interest on July 17, 2015. System-Wide Net Sales is prepared as if our South American Joint Venture, our Tigre-ADS USA joint venture, and our BaySaver joint venture were accounted for as consolidated subsidiaries for all periods.

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,	
	2015	2014	2015	2014
	(As Restated) <sup>(a)</sup>	(As Restated) <sup>(a)</sup>	(As Restated) <sup>(a)</sup>	(As Restated) <sup>(a)</sup>
<b>Reconciliation of System-Wide Net sales to Net Sales:</b>				
<b>Net sales</b>	<b>\$ 312,827</b>	<b>\$ 279,871</b>	<b>\$ 1,045,280</b>	<b>\$ 973,019</b>
Net sales associated with our unconsolidated affiliates				
South American Joint Venture <sup>(b)</sup>	13,551	15,046	41,320	45,742
BaySaver joint venture <sup>(c)</sup>		2,913	3,611	8,673
Tigre-ADS USA joint venture <sup>(d)</sup>	4,488	3,605	13,125	10,835
<b>System-Wide Net Sales</b>	<b>\$ 330,866</b>	<b>\$ 301,435</b>	<b>\$ 1,103,336</b>	<b>\$ 1,038,269</b>

(a) See Note 16. Restatement of Previously Issued Financial Statements to the Condensed Consolidated Financial Statements.

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

(c) On July 15, 2013, we entered into an arrangement to form our BaySaver joint venture. As of July 17, 2015, we increased our ownership to 65%, and have consolidated BaySaver since that date. As such, Net Sales from our BaySaver joint venture prior to July 17, 2015 are included in this line item.

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

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

To effect this adjustment with respect to Net income available to common stockholders - Basic, we have (1) removed the accretion of redeemable noncontrolling interest, (2) removed the adjustment for the change in fair value of

Redeemable convertible preferred stock classified as mezzanine equity, (3) added back the dividends to Redeemable convertible preferred stockholders and dividends paid to unvested restricted stockholders, (4) made corresponding adjustments to the amount allocated to participating securities under the two-class earnings per share computation method, and (5) 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.



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The following table presents a reconciliation of Adjusted Net Income (Non-GAAP), Weighted Average Common Shares Outstanding Fully Converted (Non-GAAP) and Adjusted Earnings Per Fully Converted Shares (Non-GAAP) to Net income (loss) available to common stockholders Basic, Weighted average common shares outstanding Basic, and Net income (loss) per share Basic, the most comparable GAAP measures, respectively, for each of the periods indicated.

(Amounts in thousands, except per share data)	Three Months Ended December 31, 2015		Three Months Ended December 31, 2014	
	2015 (As Restated) <sup>(a)</sup>	2014 (As Restated) <sup>(a)</sup>	2015 (As Restated) <sup>(a)</sup>	2014 (As Restated) <sup>(a)</sup>
<b>Net income (loss) available to common stockholders - Basic</b>	<b>\$ 11,431</b>	<b>\$ (4,948)</b>	<b>\$ 32,520</b>	<b>\$ 4,995</b>
Adjustments to Net income (loss) available to common stockholders - Basic:				
Accretion of redeemable noncontrolling interest	329		586	
Change in fair value of Redeemable convertible preferred stock				11,054
Dividends to Redeemable convertible preferred stockholders	349	298	1,082	377
Dividends paid to unvested restricted stockholders	6	9	18	9
Undistributed income allocated to participating securities	1,016		2,965	378
Total adjustments to Net income (loss) available to common stockholders - Basic	1,700	307	4,651	11,818
Net income (loss) attributable to ADS	13,131	(4,641)	37,171	16,813
Adjustments to net income (loss) attributable to ADS:				
Fair Value of ESOP compensation related to Redeemable convertible preferred stock	3,125	2,690	9,375	8,064
<b>Adjusted net income (loss) (Non-GAAP)</b>	<b>\$ 16,256</b>	<b>\$ (1,951)</b>	<b>\$ 46,546</b>	<b>\$ 24,877</b>
<b>Weighted Average Common Shares Outstanding - Basic</b>	<b>54,133</b>	<b>52,986</b>	<b>53,880</b>	<b>50,691</b>
Adjustments to Weighted Average Common Shares Outstanding - Basic:				
Unvested restricted shares	114	186	126	215
Redeemable convertible preferred shares	19,257	20,096	19,484	20,084
<b>Weighted Average Common Shares Outstanding - Fully Converted (Non-GAAP)</b>	<b>73,504</b>	<b>73,268</b>	<b>73,490</b>	<b>70,990</b>

<b>Net income (loss) per share - Basic</b>	<b>\$</b>	<b>0.21</b>	<b>\$</b>	<b>(0.09)</b>	<b>\$</b>	<b>0.60</b>	<b>\$</b>	<b>0.10</b>
<b>Adjusted Earnings (Loss) Per Fully Converted Share (Non-GAAP)</b>	<b>\$</b>	<b>0.22</b>	<b>\$</b>	<b>(0.03)</b>	<b>\$</b>	<b>0.63</b>	<b>\$</b>	<b>0.35</b>

- (a) See Note 16. Restatement of Previously Issued Financial Statements to the Condensed Consolidated Financial Statements.

### **Liquidity and Capital Resources**

Our primary liquidity requirements are working capital, capital expenditures, debt service, and dividend payments for our convertible preferred stock and common stock. We have historically funded, and expect to continue to fund, our operation primarily through 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.

As of December 31, 2015, we had \$5.2 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, 2015, our net increase in cash amounted to \$2.8 million, compared to a net increase of \$6.8 million for the nine months ended December 31, 2014. During the nine months ended December 31, 2015, our source of funds was primarily driven by higher operating earnings and a decrease in inventory of \$61.0 million. For the same period ending December 31, 2015, our use of cash was primarily driven by increased accounts receivable balances (up \$17.5 million), decrease in accounts payable and accrued liabilities including accrued income taxes (\$9.1 million), capital expenditures (\$30.0 million), payments on capital lease obligations (\$14.9 million), the acquisition of an additional 10% interest in BaySaver and repayment of \$62.5 million of Long Term Debt.

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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 \$38.4 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 (\$19.8 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.

As of December 31, 2015, we had \$170.9 million in liquidity, including \$6.4 million of cash and \$164.5 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, 2015, we had consolidated indebtedness (excluding lease obligations) of approximately \$337.4 million, down \$62.5 million compared to March 31, 2015. We repaid a portion of our outstanding indebtedness with operating cash flow.

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,	
	2015	2014
	(As Restated) <sup>(a)</sup>	(As Restated) <sup>(a)</sup>
<b>Statement of Cash Flows data:</b>		
Net cash from operating activities	\$ 129,441	\$ 90,252
Net cash used in investing activities	(35,403)	(29,366)
Net cash used in financing activities	(89,816)	(53,639)

(a) See Note 16. Restatement of Previously Issued Financial Statements to the Condensed Consolidated Financial Statements.

*Working Capital*

Net working capital decreased from \$228.9 million as of March 31, 2015, to \$172.4 million as of December 31, 2015, primarily due to the decline in inventory of \$61.0 million resulting primarily from a seasonal decrease in the cost of raw material resins on hand at December 31, 2015, and an increase in the current maturities of debt and capital lease obligations of \$29.0 million, offset by an increase in accounts receivable of \$17.5 million due to sales increases and a \$9.1 million decrease in accounts payable, accrued liabilities, and accrued income taxes.

*Operating Cash Flows*

During the nine months ended December 31, 2015, cash provided from operating activities was \$129.4 million as compared with \$90.3 million for the nine months ended December 31, 2014. Cash flow from operating activities during the nine months ended December 31, 2015 was impacted by higher net income, increased depreciation and

amortization, and decreased inventory balances, offsetting the use of cash related to changes in receivables, accounts payable and accrued liabilities. Cash flow from operating activities for the nine months ended December 31, 2014 was impacted by moderately higher net income, stock-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.

*Investing Cash Flows*

During the nine months ended December 31, 2015, cash used for investing activities was \$35.4 million, primarily due to \$30.0 million for capital expenditures, \$1.5 million for software in support of operations, and a \$3.2 million investment in an additional 10% of the membership interests in BaySaver.

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.

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### *Financing Cash Flows*

During the nine months ended December 31, 2015, cash used for financing activities was \$89.8 million, primarily due to utilizing our operating cash flow to pay down debt of \$62.5 million as well as payments of \$14.9 million for lease obligations and \$12.7 million for dividends.

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.

### *Capital Expenditures*

Capital expenditures totaled \$30.0 million and \$21.3 million for the nine months ended December 31, 2015 and 2014, respectively. Our capital expenditures for the nine months ended December 31, 2015 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 \$45 million in fiscal year 2016. Such capital expenditures are expected to be financed using funds generated by operations. As of December 31, 2015, 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, (ii) the Term Loan Facility providing for the Term Loans in an aggregate original principal amount of \$100.0 million, and (iii) the ADS Mexicana Revolving Credit Facility, described below. 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. As a result of the restatements and delays in the filing of the various fiscal 2016 and 2015 Form 10-K and 10-Q filings, the Revolving Credit Facility was amended several times to extend the reporting deadlines for financial statements and debt covenant calculations. For further information about the Bank Term Loans, see Note 12. Debt to the Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data of our Fiscal 2016 Form 10-K/A (filed concurrently with this Form 10-Q/A) and Note 15. Subsequent Events to this Form 10-Q/A. As of December 31, 2015, the outstanding principal drawn on the Revolving Credit Facility was \$149.5 million, with \$164.5 million available to be drawn. As of December 31, 2015, the outstanding principal balance of the Term Loan was \$85.0 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.

*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. According to the terms of the ADS Mexicana Revolving Credit Facility, ADS Mexicana is not permitted to make loans to ADS, Inc. As a result of the restatements and delays in the filing of the various fiscal 2016 and 2015 Form 10-K and 10-Q filings, the ADS Mexicana Revolving Credit Facility was amended several times to extend the reporting deadlines for financial statements and debt covenant calculations. For further information about the ADS Mexicana Revolving Credit Facility, see Note 12. Debt to the Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data of our Fiscal 2016 Form 10-K/A (filed concurrently with this Form 10-Q/A) and Note 15. Subsequent Events to this Form 10-Q/A. As of December 31, 2015, there was no outstanding principal drawn on the ADS Mexicana Revolving Credit Facility and the entire \$12.0 million was available to be drawn.

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**Table of Contents***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. As a result of the restatements and delays in the filing of the various fiscal 2016 and 2015 Form 10-K and 10-Q filings, the private shelf agreement was amended several times to extend the reporting deadlines for financial statements and debt covenant calculations. For further information about the Senior Notes, see Note 12. Debt to the Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data of our Fiscal 2016 Form 10-K/A (filed concurrently with this Form 10-Q/A) and Note 15. Subsequent Events to this Form 10-Q/A. We have no further amount available for issuance of senior notes under the private shelf agreement. At December 31, 2015 the outstanding principal balance on these notes was \$100.0 million.

*Covenant Compliance*

Our outstanding debt agreements and instruments contain various restrictive financial 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 Note 12. Debt to the Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data of our Fiscal 2016 Form 10-K/A (filed concurrently with this Form 10-Q/A). We were in compliance with our debt covenants as of December 31, 2015, with the exception of the determination in December 2016 that certain intercompany loans between ADS Mexicana and ADS, Inc. had occurred between November 2014 and November 2015 that triggered an event of default according to the terms of the ADS Mexicana Revolving Credit Facility. On December 13, 2016, ADS Mexicana obtained a covenant waiver from the lenders.

**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 6. Related Party Transactions of our Notes to Condensed Consolidated Financial Statements. As of December 31, 2015, our South American Joint Venture had approximately \$13.7 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 Fiscal 2016 Form 10-K/A (filed concurrently with this Form 10-Q/A) which includes our restated consolidated financial statements for the fiscal years ended March 31, 2016 and prior.

### **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, would, should, could, seeks, potential, continue, intends, plans, projects, 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



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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;

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;

the risk that additional information may arise that would require the Company to make additional adjustments or revisions or to restate further the financial statements and other financial data for certain prior periods and any future periods;

any further delay in the filing of any filings with the SEC;

the review of potential weaknesses or deficiencies in the Company's disclosure controls and procedures, and discovering further weaknesses of which we are not currently aware or which have not been detected; and

additional uncertainties related to accounting issues generally.

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.

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**Table of Contents****Item 3. Quantitative and Qualitative Disclosures About Market Risk**

We are subject to various market risks, primarily related to changes in interest rates, credit risk, 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 bank 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 \$1.6 million based on our borrowings as of December 31, 2015. 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 \$3.4 million per year. To mitigate the impact of interest rate volatility, we had two interest rate swaps in effect as of December 31, 2015. The first swap is a \$50.0 million notional value, non-amortizing swap at a LIBOR rate of 0.86% which expires September 1, 2016. A second \$50.0 million notional value swap took effect on September 2, 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.

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

Our primary raw materials used in the production of our products are polyethylene resin for HDPE pipe and polypropylene resin for PP pipe. 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.

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### ***Inflation Risk***

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.

### ***Foreign Currency Exchange Rate Risk***

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 foreign currency 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. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As previously disclosed in our Fiscal 2015 Form 10-K, we concluded that our internal control over financial reporting was not effective based upon certain material weaknesses identified as of March 31, 2015. Although we are not required to comply with the internal control reporting requirements mandated by Section 404 of the Sarbanes-Oxley Act of 2002 for the fiscal quarter ended December 31, 2015 (the "Evaluation Date") due to the transition period established by rules of the SEC for newly-public companies, our internal control over financial reporting is an integral part of our disclosure controls and procedures. Our CEO and CFO have concluded that those material weaknesses previously identified in the Fiscal 2015 Form 10-K were still present as of the Evaluation Date. In addition, after the filing of the Fiscal 2016 Form 10-K, an additional material weakness was identified as part of the Stock-Based Compensation Restatement. See Item 9A "Controls and Procedures" in our Fiscal 2016 Form 10-K/A for further

discussion of the material weaknesses. Based on those material weaknesses, and the evaluation of our disclosure controls and procedures, our CEO and CFO concluded that the Company's disclosure controls and procedures were not effective as of the Evaluation Date.

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

Our remediation efforts were ongoing during the three months ended December 31, 2015, and, other than those remediation efforts described in "Remediation Process" in Item 9A of our Fiscal 2016 Form 10-K/A, there were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that occurred during the three months ended December 31, 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

On July 29, 2015, a putative stockholder class action, Christopher Wyche, individually and on behalf of all others similarly situated v. Advanced Drainage Systems, Inc., et al. (Case No. 1:15-cv-05955-KPF), was commenced in the U.S. District Court for the Southern District of New York, naming the Company, along with Joseph A. Chlapaty, the Company's Chief Executive Officer, and Mark B. Sturgeon, the Company's former Chief Financial Officer, as defendants and alleging violations of the federal securities laws. An amended complaint was filed on April 28, 2016. The amended complaint alleges that the Company made material misrepresentations and/or omissions of material fact in its public disclosures during the period from July 25, 2014 through March 29, 2016, in violation of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder. Plaintiffs seek an unspecified amount of monetary damages on behalf of the putative class and an award of costs and expenses, including counsel fees and expert fees. The Company believes that it has valid and meritorious defenses and will vigorously defend against these allegations, but litigation is subject to many uncertainties and the outcome of this matter is not predictable with assurance. While it is reasonably possible that this matter ultimately could be decided unfavorably to the Company, the Company is currently unable to estimate the range of the possible losses, but they could be material.

On August 12, 2015, the SEC Division of Enforcement ( Enforcement Division ) informed the Company that it was conducting an informal inquiry with respect to the Company. As part of this inquiry, the Enforcement Division requested the voluntary production of certain documents generally related to the Company's accounting practices. Subsequent to the initial voluntary production request, the Company received document subpoenas from the Enforcement Division pursuant to a formal order of investigation. The Company has from the outset cooperated with the Enforcement Division's investigation and intends to continue to do so. While it is reasonably possible that this investigation ultimately could be resolved unfavorably to the Company, the Company is currently unable to estimate the range of possible losses, but they could be material.

We are involved from time to time in various legal proceedings that arise in the ordinary course of our business, including but not limited to commercial disputes, environmental matters, employee related claims, intellectual property disputes and litigation in connection with transactions including acquisitions and divestitures. We believe that such litigation, claims, and administrative proceedings will not have a material adverse impact on our financial position or our results of operations. We record a liability when a loss is considered probable, and the amount can be reasonably estimated. In management's opinion, none of these proceedings are material in relation to our consolidated operations, cash flows, or financial position, and we have adequate accrued liabilities to cover our estimated probable loss exposure.

**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 Fiscal 2016 Form 10-K/A, 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 Fiscal 2016 Form 10-K/A and Part I, Item 3 Quantitative and Qualitative Disclosures about Market Risk and Part II, Item 1 Legal Proceedings of this Quarterly Report on Form 10-Q/A.



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

Not applicable.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.

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**Item 6. Exhibits**

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

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**SIGNATURES**

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

Date: January 10, 2017

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)

By: /s/ Tim A. Makowski  
Tim A. Makowski  
Vice President, Controller and Chief  
Accounting Officer

**Table of Contents****EXHIBIT INDEX**

<b>Exhibit</b>	
<b>Number</b>	<b>Exhibit Description</b>
10.1	Sale and Assignment of Ownership Interests dated as of July 17, 2015 by and among ADS Ventures, Inc., BaySaver Technologies, Inc. and Mid-Atlantic Storm Water Research Center, Inc. (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 001-36557) filed with the Securities and Exchange Commission on July 20, 2015).
10.2	Amendment No. 1 to BaySaver Technologies, LLC Limited Liability Company Agreement dated as of July 17, 2015 by and among ADS Ventures, Inc., BaySaver Technologies, Inc. and Mid-Atlantic Storm Water Research Center, Inc. (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K (File No. 001-36557) filed with the Securities and Exchange Commission on July 20, 2015).
10.3	Second Amendment to Amended and Restated Credit Agreement, dated as of August 21, 2015, by and among Advanced Drainage Systems, Inc., the Guarantors (as defined therein), the Lenders (as defined therein) party thereto, and PNC Bank, National Association (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 001-36557) filed with the Securities and Exchange Commission on August 26, 2015).
10.4	Second Amendment to Second Amended and Restated Credit Agreement, dated as of August 21, 2015, by and among ADS Mexicana, S.A. de C.V., the Guarantors (as defined therein), the Lenders (as defined therein) party thereto, and PNC Bank, National Association (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K (File No. 001-36557) filed with the Securities and Exchange Commission on August 26, 2015).
10.5	Amendment No. 8 and Limited Waiver to Amended and Restated Private Shelf Agreement, dated as of August 21, 2015, by and among Advanced Drainage Systems, Inc., Prudential Investment Management, Inc. and each other Prudential Affiliate (as therein defined) and the Guarantors (as defined therein) (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K (File No. 001-36557) filed with the Securities and Exchange Commission on August 26, 2015).
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.