

ADVANCED DRAINAGE SYSTEMS, INC.

Form 10-Q/A

March 29, 2016

Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

(Mark One)

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

For the quarterly period ended June 30, 2014

OR

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

Commission file number: 001-36557

Advanced Drainage Systems, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of

51-0105665
(I.R.S. Employer

Incorporation or Organization)

Identification No.)

4640 Trueman Boulevard, Hilliard, Ohio 43026

(Address of Principal Executive Offices, Including Zip Code)

(614) 658-0050

(Registrant's Telephone Number, Including Area Code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, 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 August 31, 2014, 52,895,116 shares of common stock were outstanding. The shares of common stock trade on the New York Stock Exchange under the ticker symbol WMS.

Table of Contents

TABLE OF CONTENTS

	Page
<u>EXPLANATORY NOTE</u>	1
<u>PART I. FINANCIAL INFORMATION</u>	
ITEM 1. Condensed Consolidated Financial Statements (Unaudited):	
<u>Condensed Consolidated Balance Sheets as of June 30, 2014 (Restated), and March 31, 2014 (Restated)</u>	2
<u>Condensed Consolidated Statements of Operations for the three months ended June 30, 2014 (Restated) and 2013 (Restated)</u>	3
<u>Condensed Consolidated Statements of Comprehensive Income for the three months ended June 30, 2014 (Restated) and 2013 (Restated)</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the three months ended June 30, 2014 (Restated) and 2013 (Restated)</u>	5
<u>Condensed Consolidated Statements of Stockholders' Deficit and Mezzanine Equity for the three months ended June 30, 2014 (Restated) and 2013 (Restated)</u>	6
<u>Notes to Condensed Consolidated Financial Statements (Restated)</u>	7
ITEM 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	30
ITEM 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	42
ITEM 4. <u>Controls and Procedures</u>	43
<u>PART II. OTHER INFORMATION</u>	
ITEM 1. <u>Legal Proceedings</u>	44
ITEM 1A. <u>Risk Factors</u>	44
ITEM 2. <u>Unregistered Sale of Equity Securities</u>	44
ITEM 3. <u>Defaults Upon Senior Securities</u>	44
ITEM 4. <u>Mine Safety Disclosures</u>	44
ITEM 5. <u>Other Information</u>	44
ITEM 6. <u>Exhibits</u>	44
<u>SIGNATURES</u>	45
<u>EXHIBIT INDEX</u>	46

Table of Contents

EXPLANATORY NOTE

During the preparation of its Annual Report on Form 10-K for the fiscal year ended March 31, 2015, Advanced Drainage Systems, Inc. identified errors in its historical financial statements related to the accounting for leases, inventory, long-lived assets, ADS Mexicana, income taxes, and other items. As a result, Advanced Drainage Systems, Inc. is filing this Amendment No. 1 on Form 10-Q/A to amend and restate in their entirety the following items of our Quarterly Report on Form 10-Q for the three months ended June 30, 2014 as originally filed with the Securities and Exchange Commission on September 5, 2014 (the Original Form 10-Q): (i) Item 1 of Part I, Financial Statements, (ii) Item 2 of Part I, Management's Discussion and Analysis of Financial Condition and Results of Operations, (iii) Item 3 of Part I, Quantitative and Qualitative Disclosures About Market Risk, (iv) Item 4 of Part I, Controls and Procedures, (v) Item 1A of Part II, Risk Factors, and (vi) Item 6 of Part II, Exhibits. We have also updated the signature page, the certifications of our Chief Executive Officer and Chief Financial Officer in Exhibits 31.01, 31.02, 32.01 and 32.02, respectively, and our financial statements formatted in Extensible Business Reporting Language (XBRL) in Exhibits 101. No other sections were affected, or have been changed; however, for the convenience of the reader, this report on Form 10-Q/A restates in its entirety, as amended, our Original Form 10-Q. This report on Form 10-Q/A is presented as of the filing date of the Original Form 10-Q and does not reflect events occurring after that date, or modify or update disclosures, other than as required to reflect the restatement.

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

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

(Amounts in thousands, except par value)	As of	
	June 30, 2014	March 31, 2014
ASSETS		
Current assets:		
Cash	\$ 4,720	\$ 3,931
Receivables (less allowance for doubtful accounts of \$4,538 and \$4,490, respectively)	213,892	148,271
Inventories	253,689	259,891
Deferred income taxes and other current assets	17,893	14,465
Total current assets	490,194	426,558
Property, plant and equipment, net	359,944	350,351
Other assets:		
Goodwill	88,019	88,017
Intangible assets, net	56,702	59,194
Other assets	71,068	65,447
Total assets	\$ 1,065,927	\$ 989,567
LIABILITIES, MEZZANINE EQUITY AND STOCKHOLDERS DEFICIT		
Current liabilities:		
Current maturities of debt obligations	\$ 11,667	\$ 11,153
Current maturities of capital lease obligations	14,419	12,364
Accounts payable	124,575	110,972
Other accrued liabilities	42,042	43,085
Accrued income taxes	10,630	7,980
Total current liabilities	203,333	185,554
Long-term debt obligation	481,215	442,895
Long-term capital lease obligations	42,995	34,366
Deferred tax liabilities	64,497	66,333
Other liabilities	31,874	32,170
Total liabilities	823,914	761,318
Commitments and contingencies (see Note 14)		
Mezzanine equity:	659,431	549,119

Redeemable common stock: \$0.01 par value; 38,320 shares issued and outstanding		
Redeemable convertible preferred stock: \$0.01 par value; 47,070 shares authorized; 44,170 shares issued; 26,129 shares outstanding	348,898	291,720
Deferred compensation unearned ESOP shares	(233,106)	(197,888)
Total mezzanine equity	775,223	642,951
Stockholders deficit:		
Common stock: \$0.01 par value; 148,271 shares authorized; 109,951 shares issued; 9,263 and 9,141 shares outstanding, respectively	11,957	11,957
Paid-in capital		12,438
Common stock in treasury, at cost	(447,992)	(448,439)
Accumulated other comprehensive loss	(6,525)	(6,830)
Retained earnings	(109,454)	(2,412)
Total ADS stockholders deficit	(552,014)	(433,286)
Noncontrolling interest in subsidiaries	18,804	18,584
Total stockholders deficit	(533,210)	(414,702)
Total liabilities, mezzanine equity and stockholders deficit	\$ 1,065,927	\$ 989,567

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

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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

(Unaudited, as restated)⁽¹⁾

(Amounts in thousands, except per share data)	Three Months Ended June 30,	
	2014	2013
Net sales	\$ 326,434	\$ 292,579
Cost of goods sold	265,576	236,229
Gross profit	60,858	56,350
Operating expenses:		
Selling	19,552	16,520
General and administrative	15,798	13,087
Loss (gain) on disposal of assets or businesses	64	(4,736)
Intangible amortization	2,613	2,620
Income from operations	22,831	28,859
Other expense:		
Interest expense	5,051	4,729
Other miscellaneous (income) expense, net	(216)	44
Income before income taxes	17,996	24,086
Income tax expense	7,893	9,211
Equity in net loss of unconsolidated affiliates	662	326
Net income	9,441	14,549
Less net income attributable to noncontrolling interest	875	1,575
Net income attributable to ADS	8,566	12,974
Change in fair value of Redeemable convertible preferred stock	(18,373)	(1,578)
Dividends to Redeemable convertible preferred stockholders	(37)	(216)
Dividends paid to unvested restricted stockholders		(8)
Net (loss) income available to common stockholders and participating securities	(9,844)	11,172
Undistributed income allocated to participating securities		(1,186)
Net (loss) income available to common stockholders	\$ (9,844)	\$ 9,986
Weighted average common shares outstanding:		
Basic	47,536	47,190
Diluted	47,536	47,689
Net (loss) income per share:		
Basic	\$ (0.21)	\$ 0.21

Diluted	\$	(0.21)	\$	0.21
Cash dividends declared per share	\$		\$	0.03

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

Table of Contents

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

(Unaudited, as restated)⁽¹⁾

(Amounts in thousands)	Three Months Ended June 30,	
	2014	2013
Net income	\$ 9,441	\$ 14,549
Other comprehensive income (loss):		
Currency translation, before tax	159	(4,481)
Other, before tax		5
Total other comprehensive income (loss), before tax	159	(4,476)
Tax attributes of items in other comprehensive income (loss)		
Other		(2)
Total tax benefit		(2)
Comprehensive income	9,600	10,071
Less other comprehensive loss attributable to noncontrolling interest, net of tax	(146)	(973)
Less net income attributable to noncontrolling interest	875	1,575
Total comprehensive income attributable to ADS	\$ 8,871	\$ 9,469

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

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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

(Unaudited, as restated)⁽¹⁾

(Amounts in thousands)	Three Months Ended June 30,	
	2014	2013
Cash Flows from Operating Activities	\$ (18,542)	\$ (27,638)
Cash Flows from Investing Activities		
Capital expenditures	(7,432)	(13,142)
Proceeds from sale of assets or businesses	60	5,962
Investment in unconsolidated affiliates	(7,566)	(550)
Additions of capitalized software	(408)	(104)
Other investing activities	(310)	(286)
Net cash used in investing activities	(15,656)	(8,120)
Cash Flows from Financing Activities		
Proceeds from Revolving Credit Facility	91,000	136,700
Payments on Revolving Credit Facility	(50,600)	(113,000)
Proceeds from term loan		22,500
Payments on term loan	(1,250)	
Payments of notes, mortgages, and other debt	(317)	(307)
Payments on capital lease obligation	(3,504)	(2,804)
Debt issuance costs		(2,311)
Cash dividends paid	(509)	(2,478)
Other financing activities	253	(870)
Net cash provided by financing activities	35,073	37,430
Effect of exchange rate changes on cash	(86)	3
Net change in cash	789	1,675
Cash at beginning of period	3,931	1,361
Cash at end of period	\$ 4,720	\$ 3,036

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

See accompanying notes to condensed consolidated financial statements.

Table of Contents

ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT AND MEZZANINE EQUITY

(Unaudited)

Paid In Capital	Common Stock in Treasury		Accumulated Other Comprehensive Loss	Retained Earnings (Deficit)	Total ADS Stock- holders' Deficit	Non- controlling Interest in Subsidiaries	Total Stock- holders' Deficit	Redeemable Common Stock		Redeemable Convertible Preferred Stock	
	Shares	Amount						Shares	Amount	Shares	Amount
1,152	101,191	\$ (448,571)	\$ (856)	\$ 87,331	\$ (308,987)	\$ 23,265	\$ (285,722)	38,292	\$ 522,276	26,547	\$ 28
			(225)	(8,129)	(9,480)	(4,721)	(14,201)				
0,026	101,191	\$ (448,571)	\$ (1,081)	\$ 79,202	\$ (318,467)	\$ 18,544	\$ (299,923)	38,292	\$ 522,276	26,547	\$ 28
				12,974	12,974	1,575	14,549				
			(3,505)		(3,505)	(973)	(4,478)				
				(178)	(178)		(178)				
				(1,360)	(1,360)		(1,360)				
						(940)	(940)				
(407)					(407)		(407)				
158	(66)	292			450		450				

64	5	(64)									
75				75		75					
776	(89)	203		979		979					(99)
(385)				(385)		(385)	28	385			
				(1,578)	(1,578)	(1,578)					
				(10,175)	(10,175)	(10,175)		10,175			
0,307	101,041	\$ (448,140)	\$ (4,586)	\$ 78,885	\$ (321,577)	\$ 18,206	\$ (303,371)	38,320	\$ 532,836	26,448	\$ 28
2,547	100,810	\$ (448,439)	\$ (5,977)	\$	\$ (419,912)	\$ 22,576	\$ (397,336)	38,320	\$ 549,119	26,129	\$ 29
0,109)			(853)	(2,412)	(13,374)	(3,992)	(17,366)				
2,438	100,810	\$ (448,439)	\$ (6,830)	\$ (2,412)	\$ (433,286)	\$ 18,584	\$ (414,702)	38,320	\$ 549,119	26,129	\$ 29
				8,566	8,566	875	9,441				
			305		305	(146)	159				

					(509)	(509)				
(900)					(900)	(900)				
127	(56)	251			378	378				
93	7	(93)								
701					701	701				
618	(73)	289			907	907				
3,077)				(5,296)	(18,373)	(18,373)				5
				(110,312)	(110,312)	(110,312)		110,312		
100,688	\$ (447,992)	\$ (6,525)	\$ (109,454)	\$ (552,014)	\$ 18,804	\$ (533,210)	38,320	\$ 659,431	26,129	\$ 34

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

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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

(UNAUDITED)

(Amounts in thousands, except per share data)

1. BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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

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

2014 Initial Public Offering (IPO)

See Note 20. Subsequent Events for further information on the 2014 Initial Public Offering.

Basis of Presentation

The Company prepares its condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (*U.S. GAAP*). The Condensed Consolidated Balance Sheet as of March 31, 2014 (as restated) was derived from audited financial statements. In our opinion, the accompanying unaudited condensed consolidated financial statements contain all adjustments, of a normal recurring nature, in addition to the restatement adjustments described in Note 2, necessary to present fairly its financial position as of June 30, 2014 and the results of operations for the three months ended June 30, 2014 and 2013 and cash flows for the three months ended June 30, 2014 and 2013. The interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements, including the notes thereto filed in our Annual Report on Form 10-K for the year ended March 31, 2015, filed concurrently with this Form 10-Q/A.

Principles of Consolidation

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

Estimates

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

Table of Contents***Property, Plant and Equipment and Depreciation Method***

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

	Years
Buildings	40
Machinery and equipment	3 15
Leasehold improvements	Shorter of useful life or life of lease

Costs of additions and major improvements are capitalized, whereas maintenance and repairs that do not improve or extend the life of the asset are charged to expense as incurred. When assets are retired or disposed, the cost and related accumulated depreciation are removed from the asset accounts and any resulting gain or loss is reflected in Loss (gain) on disposal of assets or businesses in our Condensed Consolidated Statements of Operations. Construction in progress is also recorded at cost and includes capitalized interest, capitalized payroll costs and related costs such as taxes and other fringe benefits. Interest capitalized was \$138 and \$164 during the three months ended June 30, 2014 and 2013, respectively.

Leases

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

Recent Accounting Pronouncements Not Yet Adopted

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

In May 2014, the Financial Accounting Standards Board issued an accounting standards update which amends the guidance for revenue recognition. This amendment contains principles that will require an entity to recognize revenue

to depict the transfer of goods and services to customers at an amount that an entity expects to be entitled to in exchange for goods or services. The amendment sets forth a new revenue recognition model that requires identifying the contract, identifying the performance obligations and recognizing the revenue upon satisfaction of performance obligations. This amendment is effective for annual periods beginning on or after December 15, 2016, and interim periods within those years, with earlier adoption not permitted. We will adopt this standard effective April 1, 2017. We are currently evaluating the impact of this amendment on our consolidated financial statements.

2. RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS

Background

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

Table of Contents

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

Accounting Adjustments

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

Lease Accounting Adjustments

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

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

Inventory Accounting Adjustments

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

Long-Lived Assets Accounting Adjustments

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

ADS Mexicana Accounting Adjustments

In October 2015, the Company became aware of questions related to the proper characterization of certain ADS Mexicana transactions including an aircraft leasing arrangement, a real estate leasing arrangement and several service arrangements that involved ADS Mexicana related parties. Based on the results of a management review and an independent investigation authorized by the Audit Committee, it was determined that the various lease and services

arrangements described above, as well as certain additional services arrangements with former related parties identified during the course of the investigation, lacked commercial and economic substance or proper supporting documentation as to the service performed, and therefore were not appropriately reflected in the Company's consolidated financial statements. These errors have been corrected in the restated condensed consolidated financial statements, with these adjustments primarily impacting Other miscellaneous expense (income), net, Net income attributable to noncontrolling interest and Noncontrolling interest in subsidiaries.

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

Table of Contents

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

Income Taxes and Other Accounting Adjustments

The Company recorded adjustments to income taxes to reflect the impact of the restatement adjustments, as well as discrete tax adjustments related to transfer pricing. See Note 17. Income Taxes for discussion of the related impact to our effective tax rate. The Company also identified and corrected certain other errors, all of which are insignificant individually and in the aggregate. The nature of the primary items besides income taxes in this category of adjustments is described as follows:

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

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

Impact on Condensed Consolidated Statements of Operations

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

**Three Months Ended June 30, 2014
Adjustments**

(Amounts in thousands, except per share data)	As Previously Reported	Leases	Inventory	Long-Lived Assets	ADS Mexicana	Income Taxes and Other	As Restated
Net sales	\$ 328,297	\$	\$	\$	\$ (6)	\$ (1,857)	\$ 326,434
Cost of goods sold	256,264	(360)	9,455	51	534	(368)	265,576
Gross profit	72,033	360	(9,455)	(51)	(540)	(1,489)	60,858
Operating expenses:							
Selling	19,246	(110)	153	227	(113)	149	19,552
General and administrative	20,532	(80)	(3,914)	123	(538)	(325)	15,798
Loss on disposal of assets or businesses		51		13			64
Intangible amortization	2,641			(28)			2,613
Income from operations	29,614	499	(5,694)	(386)	111	(1,313)	22,831

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Other expense:							
Interest expense	4,615	436					5,051
Other miscellaneous expense (income), net	14		(17)	(215)	2		(216)
Income before income taxes							
	24,985	63	(5,694)	(369)	326	(1,315)	17,996
Income tax expense	9,695					(1,802)	7,893
Equity in net loss of unconsolidated affiliates							
	621					41	662
Net income							
	14,669	63	(5,694)	(369)	326	446	9,441
Less net income attributable to noncontrolling interest							
	428				227	220	875
Net income attributable to ADS							
	14,241	63	(5,694)	(369)	99	226	8,566
Change in fair value of Redeemable convertible preferred stock							
	(18,373)						(18,373)
Dividends to Redeemable convertible preferred stockholders							
	(37)						(37)
Net loss available to common stockholders and participating securities							
	(4,169)	63	(5,694)	(369)	99	226	(9,844)
Net loss available to common stockholders							
	\$ (4,169)	\$ 63	\$ (5,694)	\$ (369)	\$ 99	\$ 226	\$ (9,844)
Weighted average common shares outstanding:							
Basic	47,536						47,536
Diluted	47,536						47,536
Net loss per share:							
Basic	\$ (0.09)						\$ (0.21)
Diluted	\$ (0.09)						\$ (0.21)

Table of Contents

(Amounts in thousands, except per share data)	Three Months Ended June 30, 2013						As Restated
	As Previously Reported	Leases	Inventory	Long-Lived Assets	ADS	Income Taxes and Other	
Net sales	\$ 293,102	\$	\$	\$	\$ 539	\$ (1,062)	\$ 292,579
Cost of goods sold	227,099	(161)	8,348	(457)	1,131	269	236,229
Gross profit	66,003	161	(8,348)	457	(592)	(1,331)	56,350
Operating expenses:							
Selling	17,677	(145)	238	14	(1,456)	192	16,520
General and administrative	17,659	(82)	(3,985)	5	(455)	(55)	13,087
Gain on disposal of assets or businesses	(4,848)	136		(24)			(4,736)
Intangible amortization	2,861			(241)			2,620
Income from operations	32,654	252	(4,601)	703	1,319	(1,468)	28,859
Other expense:							
Interest expense	4,101	628					4,729
Other miscellaneous expense, net	529			(23)	(462)		44
Income before income taxes	28,024	(376)	(4,601)	726	1,781	(1,468)	24,086
Income tax expense	11,066					(1,855)	9,211
Equity in net loss of unconsolidated affiliates	248					78	326
Net income	16,710	(376)	(4,601)	726	1,781	309	14,549
Less net income attributable to noncontrolling interest	414				969	192	1,575
Net income attributable to ADS	16,296	(376)	(4,601)	726	812	117	12,974
Change in fair value of Redeemable convertible preferred stock	(1,578)						(1,578)
Dividends to Redeemable convertible preferred stockholders	(216)						(216)
Dividends paid to unvested restricted stockholders	(8)						(8)
Net income available to common stockholders and participating securities	14,494	(376)	(4,601)	726	812	117	11,172
Undistributed income allocated to participating securities	(1,588)	45	556	(88)	(98)	(13)	(1,186)
Net income available to common stockholders	\$ 12,906	\$ (331)	\$ (4,045)	\$ 638	\$ 714	\$ 104	\$ 9,986
Weighted average common shares outstanding:							
Basic	47,190						47,190
Diluted	47,689						47,689
Net income per share:							
Basic	\$ 0.27						\$ 0.21

Diluted	\$	0.27		\$	0.21
Cash dividends declared per share	\$	0.03		\$	0.03

Impact on Condensed Consolidated Statements of Comprehensive Income

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

Three Months Ended June 30, 2014

(Amounts in thousands, except per share data)	Adjustments						As Restated
	As Previously Reported	Leases	Inventory	Long-Lived ADS	Mexicana	Income Taxes and Other	
Net income	\$ 14,669	\$ 63	\$ (5,694)	\$ (369)	\$ 326	\$ 446	\$ 9,441
Comprehensive income	14,821	63	(5,694)	(376)	340	446	9,600
Less other comprehensive loss attributable to noncontrolling interest, net of tax	(153)				7		(146)
Less net income attributable to noncontrolling interest	428				227	220	875
Total comprehensive income attributable to ADS	\$ 14,546	\$ 63	\$ (5,694)	\$ (376)	\$ 106	\$ 226	\$ 8,871

Three Months Ended June 30, 2013

(Amounts in thousands, except per share data)	Adjustments						As Restated
	As Previously Reported	Leases	Inventory	Long-Lived ADS	Mexicana	Income Taxes and Other	
Net income	\$ 16,710	\$ (376)	\$ (4,601)	\$ 726	\$ 1,781	\$ 309	\$ 14,549
Comprehensive income	12,247	(376)	(4,601)	724	1,767	310	10,071
Less other comprehensive loss attributable to noncontrolling interest, net of tax	(973)				(1)	1	(973)
Less net income attributable to noncontrolling interest	414				969	192	1,575
Total comprehensive income attributable to ADS	\$ 12,806	\$ (376)	\$ (4,601)	\$ 724	\$ 799	\$ 117	\$ 9,469

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

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

(Amounts in thousands)	June 30, 2014						
	As Previously Reported	Leases	Inventory	Long-Lived Assets	ADS Mexicana	Income Taxes and Other	As Restated
ASSETS							
Cash	\$ 4,720	\$	\$	\$		\$	\$ 4,720
Receivables, net	218,037				(3,256)	(889)	213,892
Inventories	260,971	(122)	(10,650)	(100)	2,451	1,139	253,689
Deferred income taxes and other current assets	17,000			325		568	17,893
Property, plant and equipment, net	290,761	73,770		(4,644)		57	359,944
Goodwill	86,299			1,805		(85)	88,019
Intangible assets, net	63,264			(6,562)			56,702
Other assets	71,277	(12)		(6,682)		6,485	71,068
Total assets	\$ 1,012,329	\$ 73,636	\$ (10,650)	\$ (15,858)	\$ (805)	\$ 7,275	\$ 1,065,927
LIABILITIES, MEZZANINE EQUITY AND STOCKHOLDERS DEFICIT							
Current maturities of debt obligations	\$ 11,667	\$	\$	\$	\$	\$	\$ 11,667
Current maturities of capital lease obligations		14,419					14,419
Accounts payable	123,189		18			1,368	124,575
Other accrued liabilities	36,134	623				5,285	42,042
Accrued income taxes	11,244					(614)	10,630
Long-term debt obligation	481,215						481,215
Long-term capital lease obligation		42,995					42,995
Deferred tax liabilities	67,913					(3,416)	64,497
Other liabilities	16,112	73				15,689	31,874
Total liabilities	747,474	58,110	18			18,312	823,914
Mezzanine equity	775,223						775,223
Common stock	11,957						11,957
Paid-in capital	(447,992)						(447,992)

Common stock in treasury, at cost							
Accumulated other comprehensive loss	(5,672)		(17)	(533)	(303)	(6,525)	
Retained earnings	(91,219)	15,526	(10,668)	(15,841)	(11)	(7,241)	(109,454)
Noncontrolling interest in subsidiaries	22,558				(261)	(3,493)	18,804
Total liabilities, mezzanine equity and stockholders deficit	\$ 1,012,329	\$ 73,636	\$ (10,650)	\$ (15,858)	\$ (805)	\$ 7,275	\$ 1,065,927

**March 31, 2014
Adjustments**

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

**LIABILITIES,
MEZZANINE EQUITY
AND STOCKHOLDERS
DEFICIT**

Current maturities of debt obligations	\$ 11,153	\$	\$	\$	\$	\$	\$ 11,153
Current maturities of capital lease obligations		12,364					12,364
Accounts payable	108,111		704	88		2,069	110,972
Other accrued liabilities	37,956	530				4,599	43,085
Accrued income taxes	7,372					608	7,980
Long-term debt obligation	442,895						442,895
Long-term capital lease obligation		34,366					34,366
Deferred tax liabilities	69,169					(2,836)	66,333
Other liabilities	15,324	82				16,764	32,170
Total liabilities	691,980	47,342	704	88		21,204	761,318

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Mezzanine equity	642,951						642,951
Common stock	11,957						11,957
Paid-in capital	22,547				(10,109)		12,438
Common stock in treasury, at cost	(448,439)						(448,439)
Accumulated other comprehensive loss	(5,977)			(9)	(541)	(303)	(6,830)
Retained earnings (deficit)	15,460	(4,974)	(15,474)	(108)	2,684		(2,412)
Noncontrolling interest in subsidiaries	22,576				(280)	(3,712)	18,584
Total liabilities, mezzanine equity and stockholders deficit	\$ 937,595	\$ 62,802	\$ (4,270)	\$ (15,395)	\$ (929)	\$ 9,764	\$ 989,567

- 12 -

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

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

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

Impact on Condensed Consolidated Statements of Cash Flows

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

(Amounts in thousands)	For the Three Months Ended June 30, 2014		
	As Previously Reported	Adjustments	As Restated
Net cash used in operating activities	\$ (21,258)	\$ 2,716	\$ (18,542)
Net cash used in investing activities	(16,646)	990	(15,656)
Net cash provided by financing activities	38,793	(3,720)	35,073

For the Three Months Ended June 30, 2013

(Amounts in thousands)	As Previously Reported	Adjustments	As Restated
Net cash used in operating activities	\$ (29,990)	\$ 2,352	\$ (27,638)
Net cash used in investing activities	(9,019)	899	(8,120)
Net cash provided by financing activities	40,684	(3,254)	37,430

3. DISPOSAL OF ASSETS OR BUSINESSES

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

4. PROPERTY, PLANT AND EQUIPMENT

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

(Amounts in thousands)	June 30, 2014	March 31, 2014
Land, buildings and improvements	\$ 161,292	\$ 158,588
Machinery and equipment	655,216	640,529
Construction in progress	15,158	11,003
Total cost	831,666	810,120
Less accumulated depreciation	(471,722)	(459,769)
Property, plant and equipment, net	\$ 359,944	\$ 350,351

Table of Contents

The following table sets forth depreciation expense for the three months ending June 30, 2014 and 2013:

(Amounts in thousands)	June 30, 2014	June 30, 2013
Depreciation expense	\$ 12,257	\$ 12,081

5. INVENTORIES

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

(Amounts in thousands)	June 30, 2014	March 31, 2014
Raw materials	\$ 57,497	\$ 51,785
Finished goods	196,192	208,106
Total inventory	\$ 253,689	\$ 259,891

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

6. LEASES**Capital Leases**

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

Leased assets accounted for as capital leases and included in Property, Plant and Equipment consisted of the following:

(Amounts in thousands)	June 30, 2014	March 31, 2014
Buildings and improvements	\$ 7,341	\$ 7,716
Machinery and equipment	160,126	145,980
Total cost	167,467	153,696
Less accumulated amortization	(92,645)	(89,599)
Leased assets in Property, plant and equipment, net	\$ 74,822	\$ 64,097

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

(Amounts in thousands)

June 30, 2015	\$ 17,176
June 30, 2016	16,836
June 30, 2017	12,091
June 30, 2018	7,631
June 30, 2019	4,283
Thereafter	7,430
Total minimum lease payments^(a)	65,447
Less: amount representing interest ^(b)	8,033
Present value of net minimum lease payments	\$ 57,414
Lease obligation - Current	\$ 14,419
Lease obligation - Long-term	42,995
Total lease obligation	\$ 57,414

- 14 -

Table of Contents

- (a) Excludes contingent rentals which may be paid. Contingent rentals amounted to \$316 and \$80 for the three months ended June 30, 2014 and 2013, respectively.
- (b) Amount necessary to reduce minimum lease payments to present value calculated at the Company's lower of the rate implicit in the lease or the incremental borrowing rate at lease inception.

During the three months ended June 30, 2014 and 2013, the Company acquired equipment under capital lease and incurred lease obligations of \$14,662 and \$11,320, respectively.

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

Operating leases

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

Total rent expense was \$980 and \$1,303 for the three months ended June 30, 2014 and 2013, respectively.

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

	Twelve Months Ended June 30,					
	2015	2016	2017	2018	2019	Thereafter
Future operating lease payments	\$ 2,632	\$ 2,369	\$ 1,344	\$ 769	\$ 458	\$ 2,323

7. GOODWILL AND INTANGIBLE ASSETS**Goodwill**

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

(Amounts in thousands)	Domestic	International	Total
Balance at March 31, 2014	\$ 87,507	\$ 510	\$ 88,017
Currency translation		2	2
Balance at June 30, 2014	\$ 87,507	\$ 512	\$ 88,019

Intangible Assets

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

(Amounts in thousands)	June 30, 2014			March 31, 2014		
	Gross Intangible	Accumulated Amortization	Net Intangible	Gross Intangible	Accumulated Amortization	Net Intangible
Definite-lived intangible assets						
Developed technology	\$ 40,579	\$ (23,543)	\$ 17,036	\$ 40,579	\$ (22,588)	\$ 17,991
Customer relationships	38,252	(23,019)	15,233	38,252	(21,793)	16,459
Patents	6,290	(3,078)	3,212	6,175	(2,921)	3,254
Non-compete and other contractual agreements	1,088	(581)	507	1,088	(491)	597
Trademarks and tradenames	11,157	(2,441)	8,716	11,157	(2,254)	8,903
Total definite-lived intangible assets	97,366	(52,662)	44,704	97,251	(50,047)	47,204
Indefinite-lived intangible assets						
Trademarks	11,998		11,998	11,990		11,990
Total intangible assets	\$ 109,364	\$ (52,662)	\$ 56,702	\$ 109,241	\$ (50,047)	\$ 59,194

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

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

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

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

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

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

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

Recurring Fair Value Measurements

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

(Amounts in thousands)	Total	June 30, 2014		
		Level 1	Level 2	Level 3
Assets:				
Derivative assets - diesel fuel contracts	\$ 33	\$	\$ 33	\$
Total assets at fair value on a recurring basis	\$ 33	\$	\$ 33	\$
Liabilities & Mezzanine Equity:				
Derivative liability - interest rate swaps	\$ 1,103	\$	\$ 1,103	\$
Contingent consideration for acquisitions	2,697			2,697
Redeemable common stock	659,431			659,431
Redeemable convertible preferred stock	348,898			348,898
Deferred compensation - unearned ESOP shares	(233,106)			(233,106)

Total liabilities and mezzanine equity at fair value on a recurring basis	\$ 779,023	\$	\$ 1,103	\$ 777,920
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- 16 -

Table of Contents

(Amounts in thousands)	March 31, 2014			
	Total	Level 1	Level 2	Level 3
Assets:				
Derivative assets - propylene swaps	\$ 27	\$	\$ 27	\$
Total assets at fair value on a recurring basis	\$ 27	\$	\$ 27	\$
Liabilities & Mezzanine Equity:				
Derivative liability - interest rate swaps	\$ 1,001	\$	\$ 1,001	\$
Contingent consideration for acquisitions	2,898			2,898
Redeemable common stock	549,119			549,119
Redeemable convertible preferred stock	291,720			291,720
Deferred compensation - unearned ESOP shares	(197,888)			(197,888)
Total liabilities and mezzanine equity at fair value on a recurring basis	\$ 646,850	\$	\$ 1,001	\$ 645,849

Changes in the fair value of recurring fair value measurements using significant unobservable inputs (Level 3) for the three months ended June 30, 2014 were as follows (amounts in thousands):

(amounts in thousands)	Three Months Ended June 30, 2014				
	Contingent consideration	Redeemable common stock	Redeemable convertible preferred stock	Deferred compensation - unearned ESOP shares	Total
Balance at March 31, 2014	\$ 2,898	\$ 549,119	\$ 291,720	\$ (197,888)	\$ 645,849
Allocation of ESOP shares to participants				3,587	3,587
Change in fair value	(18)	110,312	57,178	(38,805)	128,667
Payments of contingent consideration liability	(183)				(183)
Balance at June 30, 2014	\$ 2,697	\$ 659,431	\$ 348,898	\$ (233,106)	\$ 777,920

For the three months ended June 30, 2014 and June 30, 2013, respectively, there were no transfers in or out of Levels 1, 2, and 3.

Valuation of our Contingent Consideration for Acquisitions

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

Valuation of our Redeemable Common Stock

The Company has certain shares of common stock outstanding whereby the holder put its shares to us for cash. This Redeemable common stock is recorded at its fair value in the mezzanine equity section of our Condensed Consolidated Balance Sheets and changes in fair value are recorded in Retained earnings. Historically, the fair value of a share of common stock was determined by Management by applying industry-appropriate multiples to EBITDA and performing a discounted cash flow analysis. Under the industry-appropriate multiples approach, to arrive at concluded multiples, we considered differences between the risk and return characteristics of ADS and the guideline companies. Under the discounted cash flow analysis, the cash flows expected to be generated by the Company are discounted to their present value equivalent using a rate of return that reflects the relative risk of an investment in ADS, as well as the time value of money. This return is an overall rate based upon the individual rates of return for invested capital (equity and interest-bearing debt). The return, known as the weighted average cost of capital (WACC), is calculated by weighting the required returns on interest-bearing debt and common stock in proportion to their estimated percentages in an expected capital structure. The WACC used was 12% and 11% as of June 30, 2014, and March 31, 2014, respectively. An increase in the WACC would decrease the fair value of the Redeemable common stock. The categorization of the framework used to price this temporary equity is considered a Level 3, due to the subjective nature of the unobservable inputs used to determine the fair value.

Table of Contents*Valuation of our Redeemable Convertible Preferred Stock*

The Trustee of the Company's ESOP has the ability to put the shares of our Redeemable convertible preferred stock to the Company. Our Redeemable convertible preferred stock is recorded at its fair value in the mezzanine equity section of our Condensed Consolidated Balance Sheets and changes in fair value are recorded in Retained earnings.

Accordingly, we estimated the fair value of the Redeemable convertible preferred stock through estimating the fair value of the Company's common stock and applying certain adjustments including for the fair value of the total dividends to be received and assuming conversion of the preferred stock to common stock at the stated conversion ratio per our Articles of Incorporation. The categorization of the framework used to price this temporary equity is considered a Level 3, due to the subjective nature of the unobservable inputs used to determine the fair value.

*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.

9. ADS MEXICANA

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

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

(Amounts in thousands)	June 30, 2014	March 31, 2014
Assets		
Current assets	\$ 34,326	\$ 32,877
Property, plant and equipment, net	21,451	21,633
Other noncurrent assets	3,232	3,378
Total assets	\$ 59,009	\$ 57,888

Liabilities

Current liabilities	\$	11,998	\$	11,595
Noncurrent liabilities		8,976		7,020
Total liabilities	\$	20,974	\$	18,615

10. INVESTMENT IN UNCONSOLIDATED AFFILIATES

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

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

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

(Amounts in thousands)	June 30, 2014	March 31, 2014
Investment in South American Joint Venture	\$ 21,668	\$ 18,422
Receivable from South American Joint Venture	4,022	8,313

BaySaver

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

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

(Amounts in thousands)	June 30, 2014	March 31, 2014
Investment in Baysaver	\$ 5,013	\$ 5,202
Receivable from Baysaver	174	6

Our share of the income of this joint venture is decreased by amortization expense relating to the basis difference between our cost basis in the investment and the basis reflected at the joint venture level. This basis difference is recorded over the lives of the underlying assets that gave rise to the basis difference, which is 10 years. The unamortized basis difference as of June 30, 2014 is \$1,788.

Tigre-ADS USA

On April 7, 2014, ADS Ventures, Inc., a wholly-owned subsidiary of the Company, and Tigre S.A. Tubos e Conexoes entered into a stock purchase agreement to form a new joint venture, Tigre-ADS USA Inc. The new joint venture was established to manufacture and sell PVC fittings for waterworks, plumbing, and HVAC applications primarily in the United States and Canadian markets. The Company acquired 49% of the outstanding shares of capital stock of Tigre USA, Inc. for \$3,566. The new joint venture represents a continuation of the existing activities of Tigre USA through its Janesville, Wisconsin manufacturing facility. We are not required to consolidate Tigre-ADS USA under ASC 810-10 as we are not the primary beneficiary, although we do hold

Table of Contents

a significant variable interest in Tigre-ADS USA through our equity investment. The Company accounts for its investment in Tigre-ADS USA under the equity method of accounting. Our share of the loss of this joint venture is reported in the Condensed Consolidated Statements of Operations under Equity in net loss of unconsolidated affiliates. Our investment in this joint venture is included in Other assets in the Condensed Consolidated Balance Sheets.

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

(Amounts in thousands)	As reported on Balance Sheet
Investment in Tigre-ADS USA	\$ 3,524
Receivable from Tigre-ADS USA	1

11. RELATED PARTY TRANSACTIONS*ADS Mexicana*

ADS conducts business in Mexico and Central America through its joint venture ADS Mexicana. ADS owns 51% of the outstanding stock of ADS Mexicana and consolidates its interest in ADS Mexicana for financial reporting purposes. During the three months ended June 30, 2014 and 2013, ADS Mexicana compensated certain owners and former owners of Grupo Altima, the JV partner of ADS Mexicana, for consulting services related to the operations of the business and a noncompete arrangement, respectively. These cash payments totaled \$75 and \$31 for the three months ended June 30, 2014 and 2013, respectively.

Occasionally, ADS and ADS Mexicana jointly enter into agreements for pipe sales with their related parties which totaled \$1,312 and \$1,867 for the three months ended June 30, 2014 and 2013, respectively. Outstanding receivables related to these sales were \$2,597 and \$2,480 as of June 30, 2014 and March 31, 2014, respectively.

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

South American Joint Venture

Our South American Joint Venture manufactures and sells HDPE corrugated pipe in the South American market. We are the guarantor for 50% of the South American Joint Venture's credit facility, and the debt guarantee is shared equally with the joint venture partner. Our maximum potential obligation under this guarantee totals \$7,000 as of June 30, 2014. The maximum borrowings permitted under the South American Joint Venture's credit facility are \$19,000. This credit facility allows borrowings in either Chilean pesos or US dollars at a fixed interest rate determined at inception of each draw on the facility. The guarantee of South American Joint Venture's debt is for the life of the credit facility which matures on February 5, 2017. ADS does not anticipate any required contributions related to the balance of this credit facility. As of June 30, 2014 and March 31, 2014, the outstanding principal balances of the credit facility including letters of credit were \$13.2 million and \$11.1 million, respectively. The weighted average interest rate as of June 30, 2014 was 3.53% on U.S. dollar denominated loans and 7.15% on Chilean peso denominated loans.

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

BaySaver

Additionally, ADS holds an equity method investment in BaySaver of approximately 55% which is a joint venture that was established to produce and distribute water quality filters and separators used in the removal of sediment and pollution from storm water. BaySaver may at times provide short-term financing to ADS to enhance liquidity. However, there were no such borrowings outstanding as of June 30, 2014.

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

Table of Contents**12. DEBT**

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

(Amounts in thousands)	June 30, 2014	March 31, 2014
Bank Term Loans		
Revolving Credit Facility ADS	\$ 286,500	\$ 248,100
Revolving Credit Facility ADS Mexicana	2,000	
Term note	96,250	97,500
Senior Notes payable	100,000	100,000
Mortgage notes payable	3,617	3,733
Industrial revenue bonds	4,515	4,715
Total	492,882	454,048
Current maturities	(11,667)	(11,153)
Long-term debt obligation	\$ 481,215	\$ 442,895

Bank Term Loans

The Bank Term Loans include a Revolving Credit Facility with borrowing capacity of \$325,000 for ADS, Inc., a Revolving Credit Facility for ADS-Mexicana with borrowing capacity of \$12,000 (the Revolving Credit Facilities) and a \$100,000 term note (Term note). The Revolving Credit Facilities expire and the Term note is due in June 2018. The Revolving Credit Facilities and the Term note have a variable interest rate that depends upon the Company s pricing ratio as defined in the agreements for the Revolving Credit Facilities. The interest rate is derived from the London InterBank Offered Rate (LIBOR) or alternate base rate (Prime Rate) at the Company s option. The average rate at June 30, 2014 was 2.727%. Any letters of credit outstanding reduce the availability on the revolver. The Company had outstanding letters of credit at June 30, 2014 in the amount of \$8,005. The amount available for borrowing for ADS was \$30,495, plus \$10,000 available under a separate revolving credit facility with our subsidiary, ADS Mexicana, at June 30, 2014.

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

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

Senior Notes Payable

In December 2009, we signed an agreement with Prudential Investment Management, Inc. for the issuance of senior promissory notes (Senior Notes), for an aggregate amount of up to \$100,000. During fiscal 2010, we issued \$75,000

of Senior Notes with interest fixed at 5.6% and payable quarterly. The rate is subject to an additional 200 basis point excess leverage fee if our calculated leverage ratio exceeds 3 to 1 at the end of a fiscal quarter. A principal payment of \$25,000 is due in each of fiscal years 2017, 2018, and 2019.

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

Table of Contents

The carrying and fair values of the Company's Senior Notes were \$100,000 and \$104,213, respectively, as of June 30, 2014 and \$100,000 and \$104,511, respectively, at March 31, 2014. The fair value of the Senior Notes was determined based on the interest rate and terms of such borrowings to the rates and terms of similar debt available for the period. The categorization of the framework used to evaluate this debt is considered Level 2. See Note 8. Fair Value Measurement to these financial statements.

Mortgage Notes Payable

Two mortgage notes payable require monthly installments through fiscal year 2015. One note has a variable interest rate of 3.40% at June 30, 2014 (New Miami, OH), and one note has a fixed rate of 5.1% (Hilliard, Ohio). Land and building with a net book value of approximately \$8,553 at June 30, 2014 collateralize the mortgage note.

Industrial Revenue Bonds

Between 1996 and 2007, ADS issued industrial revenue bonds for the construction of four production facilities. Two of the bonds were retired during fiscal 2011 year and one of the bonds was retired in July of fiscal year 2015. The remaining bond has a variable interest rate based on Securities Industry and Financial Markets Association (SIFMA) municipal swap index rate which is computed weekly. The rate on this bond at June 30, 2014 was 2.845%, including a letter of credit fee of 2.75%. Land and buildings with a net book value of approximately \$14,649 at June 30, 2014 collateralize the bonds. These bonds are not considered auction rate securities.

Debt Covenants and Dividend Restrictions

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

13. DERIVATIVE TRANSACTIONS

The Company uses interest rate swaps, commodity options in the form of collars and swaps, and foreign currency forward contracts to manage its various exposures to interest rate, commodity price, and exchange rate fluctuations. For interest rate swaps, the difference between the spot rate and applicable base rate is recorded in interest expense. For collars, commodity swaps and forward contracts, contract settlement gains and losses are recorded in the Condensed Consolidated Statements of Operations in Cost of goods sold. Gains and (losses) related to the mark-to-market adjustments for changes in fair value of the derivative contracts are recorded in the Condensed Consolidated Statements of Operations as Other miscellaneous (income) expense, net. The Company recognized (losses) and gains on mark-to-market adjustments for changes in fair value on derivative contracts of (\$96) and \$81 for the three months ended June 30, 2014 and 2013, respectively.

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

June 30, 2014 **March 31, 2014**

(Amounts in thousands)	Asset	Liability	Asset	Liability
Interest rate swaps	\$	\$ (1,103)	\$	\$ (1,001)
Diesel fuel option collars	33			
Propylene swaps			27	

14. COMMITMENTS AND CONTINGENCIES

Purchase Commitments

We will, from time to time, secure supplies of resin raw material by agreeing to purchase quantities during a future given period at a fixed price. These purchase contracts are short term in nature and occur in the ordinary course of business. Under such purchase contracts, we have agreed to purchase 66,000 pounds of resin over the period July 2014 through December 2014 at a committed purchase cost of \$44,265

Table of Contents***Litigation***

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

15. ACCUMULATED OTHER COMPREHENSIVE LOSS

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

(Amounts in thousands)	Currency Translation	Other	Accumulated Other Comprehensive Loss
Balance at April 1, 2013	\$ (1,085)	\$ 4	\$ (1,081)
Other comprehensive loss	(3,508)	5	(3,503)
Income tax benefit		(2)	(2)
Balance at June 30, 2013	\$ (4,593)	\$ 7	\$ (4,586)
Balance at April 1, 2014	(6,838)	8	(6,830)
Other comprehensive loss	305		305
Balance at June 30, 2014	\$ (6,533)	\$ 8	\$ (6,525)

16. STOCK-BASED COMPENSATION***Deferred Compensation – Unearned ESOP Shares***

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

Compensation expense and related dividends paid with ESOP shares are recognized based upon the average annual fair value of the shares allocated. The shares allocated are for services rendered throughout the period and, therefore, a simple average is used to calculate average annual fair value. Deferred compensation – unearned ESOP shares are relieved at the fair value, with any difference between the average fair value and the fair value shares when allocated being added to Additional paid in capital. The fair value of the shares allocated was \$13.35 and \$10.85 per share of Redeemable convertible preferred stock at June 30, 2014 and 2013, respectively, resulting in an average fair value per

share of \$12.26 and \$10.75 for the three months ended June 30, 2014 and 2013, respectively. During the three months ended June 30, 2014 and 2013, we recognized compensation expense of \$2,687 and \$2,520, respectively, related to allocation of ESOP shares to participants for compensation.

Stock Options

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

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

Table of Contents

For both stock option plans, management determines the fair value of the options based on the Black-Scholes option pricing model. This methodology requires significant inputs including the fair value of our common stock, which is determined with the assistance of an independent appraisal performed by a reputable valuation firm. During the three months ended June 30, 2014 and 2013, we recognized total stock-based compensation expense under both plans of \$1,337 and \$75, respectively, which was included with General and administrative expenses in our Condensed Consolidated Statements of Operations. As of June 30, 2014 and 2013, there was a total of \$5,995 and \$579, respectively, of unrecognized compensation expense related to unvested stock option awards that will be recognized as an expense as the awards vest over the remaining service period. Of this amount, \$2,064 and \$0 relates to liability classified awards and \$3,931 and \$579 relates to equity classified awards as of June 30, 2014 and 2013, respectively. We had approximately 1,175 and 1,412 shares available for granting under the 2000 and 2013 plans, respectively, as of June 30, 2014.

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

	2014	2013
Expected stock price volatility	44%	48%
Risk-free interest rate	2.3%	1.2%
Weighted-average expected option life (years)	8	8
Dividend yield	0.84%	0.81%

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

2000 Plan

The stock option transactions as of the three months ended June 30 are summarized as follows:

	2014			2013		
	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Outstanding at beginning of period	913	\$ 9.48	4.1	1,333	\$ 8.10	4.0
Issued						
Exercised	56	7.65		66	7.81	
Forfeited				8	10.77	
Outstanding at end of period	857	9.60	4.0	1,259	8.10	3.7
Exercisable and vested at end of period	510	8.49	2.1	832	6.61	2.1
Unvested at end of period	347	11.22	6.8	427	11.03	6.8

Vested and expected to vest at end of period 746 \$ 9.50 5.3 913 \$ 8.94 5.9

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

	Number of Shares	Weighted Average Grant Date Fair Value
Unvested at beginning of period	428	\$ 5.82
Granted		
Vested	81	6.43
Forfeited		
Unvested at end of period	347	\$ 5.68

Table of Contents*2013 Plan*

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

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Outstanding at beginning of period	1,911	\$ 13.64	9.42
Issued equity classified			
Issued liability classified			
Exercised			
Forfeited equity classified			
Outstanding at end of period	1,911	13.64	9.42
Exercisable and vested at end of period			
Unvested at end of period	1,911	13.64	9.42
Vested and expected to vest at end of period	1,704	\$ 13.64	9.42

Fair value of options granted during the period

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

	Number of Shares	Weighted Average Grant Date Fair Value
Unvested at beginning of period	1,911	\$ 6.22
Granted		
Forfeited		
Unvested at end of period	1,911	\$ 6.22

Restricted Stock

On September 16, 2008, the Board of Directors adopted the restricted stock plan, which provides for the issuance of restricted stock awards to certain key employees. The restricted stock generally vest ratably over a five-year period from the original restricted stock grant date, contingent on the employee's continuous employment by ADS. In certain instances, however, a portion of the grants vested immediately or for accounting purposes were deemed to have vested immediately, including the grants to the Chief Executive Officer, which do not have a substantial risk of forfeiture as a

result of different vesting provisions. Under the restricted stock plan, vested shares are considered issued and outstanding. Employees with restricted stock have the right to dividends on the shares awarded (vested and unvested) in addition to voting rights on non-forfeited shares. The Company recognized compensation expense of \$909 and \$585 in the three months ended June 30, 2014 and 2013, respectively, relating to the issuance of these shares; of this amount, \$0 and \$385 relates to the restricted shares that vested immediately during the three months ended June 30, 2014 and 2013, respectively. We had approximately 333 shares available for granting under this plan as of June 30, 2014.

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

	Number of Shares	Weighted Average Grant Date Fair Value
Unvested at beginning of period	311	\$ 12.40
Vested	74	12.25
Forfeited	1	9.56
Unvested at end of period	236	\$ 11.35

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

As of June 30, 2014, there was approximately \$2,559 of unrecognized compensation expense related to the restricted stock that will be recognized over the remaining service period.

17. 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. For the three months ended June 30, 2014 and 2013, the Company utilized an effective tax rate of 43.9% and 38.2%, respectively, to calculate its provision for income taxes. These rates are higher than the federal statutory rate of 35% due principally to state and local taxes, partially offset by foreign income taxed at lower rates.

Table of Contents**18. NET INCOME (LOSS) PER SHARE**

Basic net income (loss) per share is calculated by dividing the Net income (loss) 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 (loss) attributable to common stockholders by the weighted-average number of common share equivalents outstanding for the period.

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

The dilutive effect of stock options and unvested restricted stock is based on the more dilutive of the treasury stock method or the diluted two-class method. Diluted net income (loss) per share assumes the Redeemable convertible preferred stock would be cash settled 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. For purposes of the calculation of diluted net income (loss) per share, stock options and unvested restricted stock are considered to be potential common stock and are only included in the calculations when their effect is dilutive.

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

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

(Amounts in thousands, except per share data)	Three Months Ended June 30,	
	2014	2013
NET (LOSS) INCOME PER SHARE BASIC:		
Net income attributable to ADS	\$ 8,566	\$ 12,974
Adjustment for:		
Change in fair value of Redeemable convertible preferred stock	(18,373)	(1,578)
Dividends to Redeemable convertible preferred stockholders	(37)	(216)
Dividends paid to unvested restricted stockholders		(8)
Net (loss) income available to common stockholders and participating securities	(9,844)	11,172
Undistributed income allocated to participating securities		(1,186)
Net (loss) income available to common stockholders Basic	(9,844)	9,986
Weighted average number of common shares outstanding Basic	47,536	47,190
Net (loss) income per common share Basic	\$ (0.21)	\$ 0.21

NET INCOME (LOSS) PER SHARE DILUTED:

Net (loss) income available to common stockholders	Basic	\$	(9,844)	\$	9,986
Weighted average number of common shares outstanding	Basic		47,536		47,190
Assumed exercise of stock options					499
Weighted average number of common shares outstanding	Diluted		47,536		47,689
Net (loss) income per common share	Diluted	\$	(0.21)	\$	0.21
Potentially dilutive securities excluded as anti-dilutive			93		88

19. 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 best-in-class local partners in Mexico, Central America and South America. Our joint venture strategy provides us with local and regional access to new markets such as Brazil, Chile, Argentina, Peru and Colombia. We serve the Canadian market through Hancor of Canada. Our Mexican joint venture through ADS Mexicana primarily serves the Mexican markets, while our joint venture through the South American 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 ended June 30, 2014 and 2013, respectively:

(Amounts in thousands)	Three Months Ended June 30,	
	2014	2013
Domestic		
Pipe	\$ 216,036	\$ 188,080
Allied Products	73,589	66,447
Total domestic	289,625	254,527
International		
Pipe	29,931	30,105
Allied Products	6,878	7,947
Total international	36,809	38,052
Total net sales	\$ 326,434	\$ 292,579

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

(Amounts in thousands)	Three months ended June 30,	
	2014	2013
Net sales		
Domestic	\$ 289,625	\$ 254,527
International	36,809	38,052
Total	\$ 326,434	\$ 292,579
Gross profit		
Domestic	\$ 54,067	\$ 49,731
International	6,791	6,619
Total	\$ 60,858	\$ 56,350
Segment Adjusted EBITDA		
Domestic	\$ 40,992	\$ 38,137
International	4,137	5,340
Total	\$ 45,129	\$ 43,477
Interest expense		

Table of Contents

(Amounts in thousands)	Three months ended June 30,	
	2014	2013
Domestic	\$ 5,042	\$ 4,693
International	9	36
Total	\$ 5,051	\$ 4,729
Depreciation and amortization		
Domestic	\$ 14,658	\$ 14,444
International	1,368	1,382
Total	\$ 16,026	\$ 15,826
Equity in net income (loss) of unconsolidated affiliates		
Domestic	\$ 153	\$
International	(815)	(326)
Total	\$ (662)	\$ (326)
Capital expenditures		
Domestic	\$ 6,919	\$ 10,938
International	513	2,204
Total	\$ 7,432	\$ 13,142

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

	June 30, 2014	March 31, 2014
Investment in unconsolidated affiliates		
Domestic	\$ 8,537	\$ 5,202
International	21,668	18,422
Total	\$ 30,205	\$ 23,624
Total identifiable assets		
Domestic	\$ 955,072	\$ 889,263
International	129,351	113,612
Eliminations	(18,496)	(13,308)
Total	\$ 1,065,927	\$ 989,567

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

(Amounts in thousands)	Three Months Ended June 30,			
	2014		2013	
	Domestic	International	Domestic	International
Reconciliation of Segment EBITDA and Segment Adjusted EBITDA:				
Net income	\$ 7,843	\$ 1,598	\$ 11,834	\$ 2,715
Depreciation and amortization	14,658	1,368	14,444	1,382
Interest expense, net	5,042	9	4,693	36
Income tax expense	7,414	479	8,591	620
Segment EBITDA	34,957	3,454	39,562	4,753
Derivative fair value adjustments	96		(81)	
Foreign currency transaction losses		130		94
Loss (gain) on sale of assets/businesses	60	4	(4,732)	(4)
Unconsolidated affiliates interest, tax, depreciation and amortization(a)	249	549	1	497
Contingent consideration remeasurement	(18)		89	
Stock-based compensation	2,246		660	
ESOP deferred compensation	2,687		2,520	
Transaction costs (b)	715		118	
Segment Adjusted EBITDA	\$ 40,992	\$ 4,137	\$ 38,137	\$ 5,340

Table of Contents

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

20. SUBSEQUENT EVENTS

We evaluated subsequent events through September 5, 2014, the date these condensed consolidated financial statements were originally available to be issued.

On July 11, 2014, in anticipation of the IPO, we executed a 4.707-for-one stock split of our common stock which was originally a total of 31,500 authorized shares of common stock. The effect of the stock split on outstanding shares and earnings per share has been retroactively applied to all periods presented. Following the split we had 47,582 stock-split adjusted shares of common stock issued and outstanding as of June 30, 2014.

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

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

Table of Contents

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

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

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

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

Overview

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

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

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

Recent Developments

On July 11, 2014, in anticipation of the IPO, we executed a 4.707-for-one stock split of our common stock which was originally a total of 31,500,000 authorized shares of common stock. The effect of the stock split on outstanding shares and earnings per share has been retroactively applied to all periods presented. Following the split we had 47,582,000 stock-split adjusted shares of common stock issued and outstanding as of June 30, 2014.

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

Table of Contents

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

Restatement of Previously Issued Financial Statements

The accompanying Management's Discussion and Analysis of Financial Condition and Results of Operations gives effect to the restatement of the previously reported Condensed Consolidated Statements of Operations for the three months ended June 30, 2014 and 2013 and the Condensed Consolidated Balance Sheets as of June 30, 2014 and March 31, 2014. For additional information and a detailed discussion of the restatement, see Note 2. Restatement of Previously Issued Financial Statements included in Part I. Financial Information of this Amendment No. 1 to this Form 10-Q.

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

The following table summarizes certain financial information relating to our operating results that have been derived from our condensed consolidated financial statements for the three months ended June 30, 2014 and 2013. Also included is certain information relating to the operating results as a percentage of net sales. We believe this presentation is useful to investors in comparing historical results.

(Amounts in thousands)	Three Months Ended June 30, 2014 (As Restated) ^(a)	% of Net Sales	Three Months Ended June 30, 2013 (As Restated) ^(a)	% of Net Sales	% Variances
Consolidated Statements of Operations data:					
Net sales	\$ 326,434	100.0%	\$ 292,579	100.0%	11.6%
Cost of goods sold	265,576	81.4%	236,229	80.7%	12.4%
Gross profit	60,858	18.6%	56,350	19.3%	8.0%
Selling expenses	19,552	6.0%	16,520	5.6%	18.4%
General and administrative expenses	15,798	4.8%	13,087	4.5%	20.7%
Loss (gain) on sale of assets or businesses	64		(4,736)	(1.6%)	(101.4%)
Intangible amortization	2,613	0.8%	2,620	0.9%	(0.3%)
Income from operations	22,831	7.0%	28,859	9.8%	(20.9%)
Interest expense	5,051	1.6%	4,729	1.6%	6.8%
Other miscellaneous (income) expense, net	(216)	(0.1%)	44	%	(590.9%)
Income before income taxes	17,996	5.5%	24,086	8.2%	(25.3%)

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Income tax expense	7,893	2.4%	9,211	3.1%	(14.3%)
Equity in net loss of unconsolidated affiliates	662	0.2%	326	0.1%	103.1%
Net income	9,441	2.9%	14,549	5.0%	(35.1%)
Less net income attributable to the non-controlling interest	875	0.3%	1,575	0.5%	(44.4%)
Net income attributable to ADS	\$ 8,566	2.6%	\$ 12,974	4.4%	(34.0%)

Other financial data:

Adjusted EBITDA ^(b)	\$ 45,129	13.8%	\$ 43,477	14.9%	3.8%
System-Wide Net Sales ^(b)	\$ 346,224	106.1%	\$ 308,721	105.5%	12.1%
Adjusted Earnings Per Fully Converted Share ^(b)	\$ 0.17		\$ 0.23		(27.3%)

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

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

Table of Contents*Net sales*

(Amounts in thousands)	Three Months Ended June 30,		
	2014 (As Restated) ^(a)	2013 (As Restated) ^(a)	% Change
Domestic			
Pipe	\$ 216,036	\$ 188,080	14.9%
Allied Products	73,589	66,447	10.7%
Total domestic	289,625	254,527	13.8%
International			
Pipe	29,931	30,105	(0.6%)
Allied Products	6,878	7,947	(13.5%)
Total international	36,809	38,052	(3.3%)
Total net sales	\$ 326,434	\$ 292,579	11.6%

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

Net sales totaled \$326.4 million in the three months ended June 30, 2014, increasing \$33.9 million, or 11.6%, over the comparable period in fiscal year 2014.

Domestic net sales increased \$35.1 million, or 13.8%, in the three months ended June 30, 2014, as compared to prior year period. The growth was due to strong sales volume in our pipe and Allied Products, which increased \$28.0 million and \$7.1 million, respectively, in the three months ended June 30, 2014. Domestic pipe sales increased \$28.0 million, or 14.9%, due to strong sales volume in the non-residential, residential, and infrastructure markets, slightly offset by reduced sales volume in the Agricultural markets due to unfavorable weather conditions that impacted the start of spring season. Pipe selling prices increased 4.1% as compared to the prior year. Allied Product sales increased \$7.1 million, or 10.7%, due to strong sales volume sold primarily into the non-residential, residential and infrastructure markets. Excluding \$2.9 million of Allied Product lines sold in fiscal 2014 (a Precast structures business and the Draintech product line), Allied Product sales increased \$10.0 million, or 15.8%, in the three months ended June 30, 2014 as compared to prior year sales of continuing products.

International net sales decreased \$1.2 million, or 3.3%, in the three months ended June 30, 2014 over the comparable fiscal year 2014 period. The drop was primarily due to a late start to the spring construction season in Canada and slower public spending in Mexico.

System-Wide Net Sales were \$346.2 million in the first three months of fiscal year 2015, an increase of \$37.5 million, or 12.1%, over System-Wide Net Sales of \$308.7 million in the first three months of fiscal year 2014. Net sales at our South American Joint Venture operation were negatively impacted by continued softness in the mining markets and a construction slowdown in Brazil primarily tied to the World Cup. Our Baysaver Joint Venture and Tigre-ADS USA Joint Venture provided incremental sales during the first quarter resulting in a combined increase of \$5.9 million in net sales for unconsolidated joint ventures in the three months ended June 30, 2014 as compared to the prior year.

Cost of goods sold and Gross profit

Gross profit for the three months ended June 30, 2014 increased \$4.5 million, or 8.0%, over the comparable period in fiscal year 2014.

Domestic gross profit increased \$4.4 million, or 8.7%, to \$54.1 million in the three months ended June 30, 2014 as compared to \$49.7 million during the prior year. Raw material prices increased 8.3% due to higher virgin and non-virgin resin prices in the first quarter of fiscal 2015 as compared to the prior period. Freight costs totaled 9.7% of net sales in the three months ended June 30, 2014 versus 9.8% for the prior year.

International gross profit increased \$0.2 million, or 2.6% in the first quarter of fiscal year 2015 over the comparable fiscal year 2014 period.

Table of Contents

Gross profit as a percentage of net sales was 18.6% for the three months ended June 30, 2014 as compared to 19.3% for the prior year.

Selling expenses

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

Selling expenses for the three months ended June 30, 2014 increased \$3.0 million, or 18.4%, over the comparable fiscal year 2014 period. The increase was primarily the result of increases in variable selling expenses due to higher sales volume and investments in additional sales coverage and growth initiatives. As a percentage of Net sales, selling expenses increased to 6.0% in the first quarter of fiscal 2015 as compared to 5.6% in the prior year.

General and administrative expenses

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

General and administrative expenses for the three months ended June 30, 2014 increased \$2.7 million, or 20.7%, over the comparable fiscal year 2014 period. The increase was primarily the result of increases in non-cash stock-based compensation of \$1.6 million, higher professional fees of \$1.0 million, and increased corporate overhead expenses of \$0.1 million.

The \$1.6 million increase in non-cash stock-based compensation was due to an increase in non-cash compensation related to stock option plans of \$1.3 million and \$0.3 million in non-cash stock-based compensation related to restricted shares.

The \$1.0 millio