ADVANCED DRAINAGE SYSTEMS, INC.
Form 10-Q/A
March 29, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

(Mark One)

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

For the quarterly period ended September 30, 2014

OR

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

Commission file number: 001-36557

Advanced Drainage Systems, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**51-0105665**
(State or Other Jurisdiction of	**(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 x

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 x No ¨

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

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer x (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 x

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

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EXPLANATORY NOTE

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

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

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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 September 30, 2014	As of March 31, 2014
ASSETS		
Current assets:		
Cash	$ 6,581	$ 3,931
Receivables (less allowance for doubtful accounts of $4,381 and $4,490, respectively)	246,046	148,271
Inventories	232,262	259,891
Deferred income taxes and other current assets	13,737	14,465
Total current assets	498,626	426,558
Property, plant and equipment, net	359,742	350,351
Other assets:		
Goodwill	88,000	88,017
Intangible assets, net	54,132	59,194
Other assets	67,660	65,447
Total assets	**$ 1,068,160**	**$ 989,567**
LIABILITIES, MEZZANINE EQUITY AND STOCKHOLDERS EQUITY (DEFICIT)		
Current liabilities:		
Current maturities of debt obligations	$ 11,148	$ 11,153
Current maturities of capital lease obligations	12,225	12,364
Accounts payable	115,716	110,972
Other accrued liabilities	50,240	43,085
Accrued income taxes	19,698	7,980
Total current liabilities	209,027	185,554
Long-term debt obligation	386,435	442,895
Long-term capital lease obligations	49,237	34,366
Deferred tax liabilities	60,401	66,333
Other liabilities	27,319	32,170
Total liabilities	732,419	761,318
Commitments and contingencies (see Note 14)		
Mezzanine equity:		

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

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

See accompanying notes to condensed consolidated financial statements.

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ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited, as restated)[(1)]

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

Net income per share:								
Basic	$	0.41	$	0.21	$	0.25	$	0.43
Diluted	$	0.41	$	0.21	$	0.25	$	0.42
Cash dividends declared per share	$		$	0.03	$		$	0.06

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

See accompanying notes to condensed consolidated financial statements.

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ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited, as restated)[(1)]

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

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

See accompanying notes to condensed consolidated financial statements.

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ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, as restated)[(1)]

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

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

See accompanying notes to condensed consolidated financial statements.

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ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES

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

(Unaudited)

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

204	14	(204)									
462					462		462				
850	(104)	328			1,178		1,178				
										(297)	(3
	14	(171)			(171)		(171)				
(385)					(385)		(385)	28	385		
				(4,764)	(4,764)		(4,764)				16
				(30,528)	(30,528)		(30,528)		30,528		
0,243	**101,021**	**$ (448,201)**	**$ (2,888)**	**$ 68,545**	**$ (330,344)**	**$ 19,556**	**$ (310,788)**	**38,320**	**$ 553,189**	**26,250**	**$ 295**
2,547	**100,810**	**$ (448,439)**	**$ (5,977)**	**$**	**$ (419,912)**	**$ 22,576**	**$ (397,336)**	**38,320**	**$ 549,119**	**26,129**	**$ 291**
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

				25,410	25,410	3,028	28,438				
			(2,525)		(2,525)	(907)	(3,432)				
						(1,007)	(1,007)				
,339)					(1,339)		(1,339)				
174	(78)	349			523		523				
93	7	(93)									
,778					1,778		1,778				
,489	(114)	509			1,998		1,998				
2,245					72,298		72,298				
,522					1,522		1,522				
3,077)				2,023	(11,054)		(11,054)				34
				(65,921)	(65,921)		(65,921)		65,921		
4,657					615,040		615,040	(38,320)	(615,040)		
9,980	**100,625**	**$ (447,674)**	**$ (9,355)**	**$ (40,900)**	**$ 204,444**	**$ 19,698**	**$ 224,142**		**$**	**26,129**	**$ 32**

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

See accompanying notes to condensed consolidated financial statements.

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ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(Amounts in thousands, except per share data)

1. BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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

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

2014 Initial Public Offering (IPO)

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

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

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

Basis of Presentation

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

Principles of Consolidation

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

Estimates

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

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

Property, Plant and Equipment and Depreciation Method

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

	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 $177 and $316 during the three and six months ended September 30, 2014, respectively, and $246, and $410 during the three and six months ended September 30, 2013, respectively.

Leases

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

Recent Accounting Pronouncements Not Yet Adopted

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

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

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

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

2. RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS

Background

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

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

Accounting Adjustments

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

Lease Accounting Adjustments

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

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

Inventory Accounting Adjustments

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

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Long-Lived Assets Accounting Adjustments

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

ADS Mexicana Accounting Adjustments

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

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

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

Income Taxes and Other Accounting Adjustments

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

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

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

Impact on Condensed Consolidated Statements of Operations

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

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(Amounts in thousands, except per share data)	Three Months Ended September 30, 2014 As Previously Reported	Adjustments Leases	Inventory	Long-Lived Assets	ADS Mexciana	Income Taxes and Other	As Restated
Net sales	$ 364,724	$	$	$	$ 1,856	$ 134	$ 366,714
Cost of goods sold	282,282	531	11,665	16	1,815	642	296,951
Gross profit	82,442	(531)	(11,665)	(16)	41	(508)	69,763
Operating expenses:							
Selling	19,762	281	(24)	143	162	(84)	20,240
General and administrative	18,879	(18)	(4,574)	75	(477)	(42)	13,843
Loss on disposal of assets or businesses		23		258			281
Intangible amortization	2,638			(28)			2,610
Income from operations	41,163	(817)	(7,067)	(464)	356	(382)	32,789
Other expense:							
Interest expense	4,338	706					5,044
Other miscellaneous income, net	(7)			(16)	(217)		(240)
Income before income taxes	36,832	(1,523)	(7,067)	(448)	573	(382)	27,985
Income tax expense	14,062					(5,136)	8,926
Equity in net loss of unconsolidated affiliates	2					60	62
Net income	22,768	(1,523)	(7,067)	(448)	573	4,694	18,997
Less net income attributable to noncontrolling interest	378				437	1,338	2,153
Net income attributable to ADS	22,390	(1,523)	(7,067)	(448)	136	3,356	16,844
Change in fair value of Redeemable convertible preferred stock	7,319						7,319
Dividends to Redeemable convertible preferred stockholders	(37)						(37)
Dividends paid to unvested restricted stockholders							
	29,672	(1,523)	(7,067)	(448)	136	3,356	24,126

Net income available to common stockholders and participating securities							
Undistributed income allocated to participating securities	(3,404)	175	811	51	(16)	(385)	(2,768)
Net income available to common stockholders	$ 26,268	$ (1,348)	$ (6,256)	$ (397)	$ 120	$ 2,971	$ 21,358
Weighted average common shares outstanding:							
Basic	51,518						51,518
Diluted	56,463						56,463
Net income per share:							
Basic	$ 0.51						$ 0.41
Diluted	$ 0.51						$ 0.41

	Three Months Ended September 30, 2013						
		Adjustments					
(Amounts in thousands, except per share data)	**As Previously Reported**	**Leases**	**Inventory**	**Long-Lived Assets**	**ADS Mexicana**	**Income Taxes and Other**	**As Restated**
Net sales	$ 333,240	$	$	$	$ 452	$ (965)	$ 332,727
Cost of goods sold	260,021	(623)	6,690	(40)	377	714	267,139
Gross profit	73,219	623	(6,690)	40	75	(1,679)	65,588
Operating expenses:							
Selling	18,166	(127)	(87)	179		504	18,635
General and administrative	17,917	(104)	(3,948)	101	(455)	144	13,655
Loss on disposal of assets or businesses		4		200			204
Intangible amortization	2,861			(241)			2,620
Income from operations	34,275	850	(2,655)	(199)	530	(2,327)	30,474
Other expense:							
Interest expense	3,866	855					4,721
Other miscellaneous expense (income), net	287			(27)	(284)		(24)
Income before income taxes	30,122	(5)	(2,655)	(172)	814	(2,327)	25,777
Income tax expense	12,242					(3,314)	8,928
Equity in net loss of unconsolidated affiliates	97					95	192
Net income	17,783	(5)	(2,655)	(172)	814	892	16,657
	461				513	943	1,917

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

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

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(Amounts in thousands, except per share data)	Six Months Ended September 30, 2014						
		Adjustments					
	As Previously Reported	Leases	Inventory	Long-Lived Assets	ADS Mexicana	Income Taxes and Other	As Restated
Net sales	$ 693,021	$	$	$	$ 1,850	$ (1,723)	$ 693,148
Cost of goods sold	538,546	171	21,120	67	2,349	274	562,527
Gross profit	154,475	(171)	(21,120)	(67)	(499)	(1,997)	130,621
Operating expenses:							
Selling	39,008	171	129	370	49	65	39,792
General and administrative	39,411	(98)	(8,488)	198	(1,015)	(367)	29,641
Loss on disposal of assets or businesses		74		271			345
Intangible amortization	5,279			(56)			5,223
Income from operations	70,777	(318)	(12,761)	(850)	467	(1,695)	55,620
Other expense:							
Interest expense	8,953	1,142					10,095
Other miscellaneous expense (income), net	7			(33)	(432)	2	(456)
Income before income taxes	61,817	(1,460)	(12,761)	(817)	899	(1,697)	45,981
Income tax expense	23,757					(6,938)	16,819
Equity in net loss of unconsolidated affiliates	623					101	724
Net income	37,437	(1,460)	(12,761)	(817)	899	5,140	28,438
Less net income attributable to noncontrolling interest	806				664	1,558	3,028
Net income attributable to ADS	36,631	(1,460)	(12,761)	(817)	235	3,582	25,410
Change in fair value of Redeemable convertible preferred stock	(11,054)						(11,054)
Dividends to Redeemable convertible preferred stockholders	(75)						(75)
Dividends paid to unvested restricted stockholders							
	25,502	(1,460)	(12,761)	(817)	235	3,582	14,281

Net income available to common stockholders and participating securities							
Undistributed income allocated to participating securities	(3,040)	174	1,521	97	(28)	(426)	(1,702)
Net income available to common stockholders	$ 22,462	$ (1,286)	$ (11,240)	$ (720)	$ 207	$ 3,156	$ 12,579
Weighted average common shares outstanding:							
Basic	49,538						49,538
Diluted	52,198						52,198
Net income per share:							
Basic	$ 0.45						$ 0.25
Diluted	$ 0.45						$ 0.25

	Six Months Ended September 30, 2013						
		Adjustments					
(Amounts in thousands, except per share data)	**As Previously Reported**	**Leases**	**Inventory**	**Long-Lived Assets**	**ADS Mexicana**	**Income Taxes and Other**	**As Restated**
Net sales	$ 626,342	$	$	$	$ 991	$ (2,027)	$ 625,306
Cost of goods sold	487,120	(784)	15,038	(497)	1,508	983	503,368
Gross profit	139,222	784	(15,038)	497	(517)	(3,010)	121,938
Operating expenses:							
Selling	35,843	(272)	151	193	(1,456)	696	35,155
General and administrative	35,576	(186)	(7,933)	106	(910)	89	26,742
Gain on disposal of assets or businesses	(4,848)	140		176			(4,532)
Intangible amortization	5,722			(482)			5,240
Income from operations	66,929	1,102	(7,256)	504	1,849	(3,795)	59,333
Other expense:							
Interest expense	7,967	1,483					9,450
Other miscellaneous expense, net	816			(50)	(746)		20
Income before income taxes	58,146	(381)	(7,256)	554	2,595	(3,795)	49,863
Income tax expense	23,308					(5,169)	18,139
Equity in net loss of unconsolidated affiliates	345					173	518
Net income	34,493	(381)	(7,256)	554	2,595	1,201	31,206
	875				1,482	1,135	3,492

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

Impact on Condensed Consolidated Statements of Comprehensive Income

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

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(Amounts in thousands)	Three Months Ended September 30, 2014 As Previously Reported	Adjustments Leases	Inventory	Long-Lived Assets	ADS Mexicana	Income Taxes and Other	As Restated
Net income	$ 22,768	$ (1,523)	$ (7,067)	$ (448)	$ 573	$ 4,694	$ 18,997
Comprehensive income	19,198	(1,523)	(7,067)	(456)	560	4,694	15,406
Less other comprehensive loss attributable to noncontrolling interest, net of tax	(759)				(2)		(761)
Less net income attributable to noncontrolling interest	378				437	1,338	2,153
Total comprehensive income attributable to ADS	$ 19,579	$ (1,523)	$ (7,067)	$ (456)	$ 125	$ 3,356	$ 14,014

(Amounts in thousands)	Three Months Ended September 30, 2013 As Previously Reported	Adjustments Leases	Inventory	Long-Lived Assets	ADS Mexicana	Income Taxes and Other	As Restated
Net income	$ 17,783	$ (5)	$ (2,655)	$ (172)	$ 814	$ 892	$ 16,657
Comprehensive income	19,193	(5)	(2,655)	(174)	810	893	18,062
Less other comprehensive loss attributable to noncontrolling interest, net of tax	(297)				3	1	(293)
Less net income attributable to noncontrolling interest	461				513	943	1,917
Total comprehensive income attributable to ADS	$ 19,029	$ (5)	$ (2,655)	$ (174)	$ 294	$ (51)	$ 16,438

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

(Amounts in thousands)	Six Months Ended September 30, 2014 As Previously Reported	Adjustments Leases	Inventory	Long-Lived Assets	As Restated

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

	Six Months Ended September 30, 2013						
		Adjustments					
(Amounts in thousands)	As Previously Reported	Leases	Inventory	Long-Lived Assets	ADS Mexicana	Income Taxes and Other	As Restated
Net income	$ 34,493	$ (381)	$ (7,256)	$ 554	$ 2,595	$ 1,201	$ 31,206
Comprehensive income	31,440	(381)	(7,256)	550	2,577	1,203	28,133
Less other comprehensive loss attributable to noncontrolling interest, net of tax	(1,270)				2	2	(1,266)
Less net income attributable to noncontrolling interest	875				1,482	1,135	3,492
Total comprehensive income attributable to ADS	$ 31,835	$ (381)	$ (7,256)	$ 550	$ 1,093	$ 66	$ 25,907

Impact on Condensed Consolidated Balance Sheets

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

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	September 30, 2014						
		Adjustments					
(Amounts in thousands)	**As Previously Reported**	**Leases**	**Inventory**	**Long-Lived Assets**	**ADS Mexicana**	**Income Taxes and Other**	**As Restated**
ASSETS							
Cash	$ 6,581	$	$	$	$	$	$ 6,581
Receivables, net	248,120				(1,545)	(529)	246,046
Inventories	247,368	(275)	(17,158)	(65)	1,093	1,299	232,262
Deferred income taxes and other current assets	12,848			325		564	13,737
Property, plant and equipment, net	288,170	76,327		(4,833)		78	359,742
Goodwill	86,280			1,805		(85)	88,000
Intangible assets, net	60,266			(6,134)			54,132
Other assets	68,591	(9)		(7,413)		6,491	67,660
Total assets	$ 1,018,224	$ 76,043	$ (17,158)	$ (16,315)	$ (452)	$ 7,818	$ 1,068,160
LIABILITIES, MEZZANINE EQUITY AND STOCKHOLDERS EQUITY (DEFICIT)							
Current maturities of debt obligations	$ 11,148	$	$	$	$	$	$ 11,148
Current maturities of capital lease obligations		12,225					12,225
Accounts payable	113,530		577			1,609	115,716
Other accrued liabilities	43,508	516				6,216	50,240
Accrued income taxes	22,360					(2,662)	19,698
Long-term debt obligation	386,435						386,435
Long-term capital lease obligation		49,237					49,237
Deferred tax liabilities	64,398					(3,997)	60,401
Other liabilities	14,263	65				12,991	27,319
Total liabilities	655,642	62,043	577			14,157	732,419
Mezzanine equity	109,277					2,322	111,599
Common stock	12,393						12,393
Paid-in capital	675,183					14,797	689,980
Common stock in treasury, at cost	(447,674)						(447,674)
Accumulated other comprehensive loss	(8,483)			(25)	(545)	(302)	(9,355)
Retained earnings (deficit)		14,000	(17,735)	(16,290)	126	(21,001)	(40,900)
Noncontrolling interest in subsidiaries	21,886				(33)	(2,155)	19,698

Total liabilities, mezzanine equity and stockholders equity (deficit)	$ 1,018,224	$ 76,043	$ (17,158)	$ (16,315)	$ (452)	$ 7,818	$ 1,068,160

	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
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

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Cumulative Effect of Prior Period Adjustments

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

(Amounts in thousands)	Common Stock	Paid in Capital	Common stock in treasury	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total ADS Stockholders Equity (Deficit)	Non-controlling interest in subsidiaries	Total Stockholders Equity (Deficit)
Stockholders equity (deficit), April 1, 2013 (as previously reported)	$ 11,957	$ 41,152	$ (448,571)	$ (856)	$ 87,331	$ (308,987)	$ 23,265	$ (285,722)
Adjustments from:								
Lease Accounting, before income tax effect					17,883	17,883		17,883
Inventory, before income tax effect					(3,490)	(3,490)		(3,490)
Long-Lived Assets, before income tax effect				1	(15,780)	(15,779)		(15,779)
ADS Mexicana, before income tax effect				(496)	(586)	(1,082)	(649)	(1,731)
All other non-income tax adjustments		(1,126)		270	(14)	(870)	(4,072)	(4,942)
Income tax adjustments					(6,142)	(6,142)		(6,142)
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 six months ended September 30, 2014 and 2013 is as follows:

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

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

3. DISPOSAL OF ASSETS OR BUSINESSES

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

4. PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

5. INVENTORIES

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

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

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

6. LEASES

Capital Leases

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

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

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

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

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(a) Excludes contingent rentals which may be paid. Contingent rentals amounted to $375 and $10 for the six months ended September 30, 2014 and 2013, respectively.

(b) Amount necessary to reduce minimum lease payments to present value calculated at the lower of the rate implicit in the lease or the Company s incremental borrowing rate at lease inception.

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

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

Operating leases

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

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

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

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

7. GOODWILL AND INTANGIBLE ASSETS

Goodwill

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

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

Intangible Assets

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

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

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8. FAIR VALUE MEASUREMENT

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

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

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

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

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

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

Recurring Fair Value Measurements

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

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

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

		Level 1	Level 2	
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 & mezzanine equity at fair value on a recurring basis	**$ 646,850**	**$**	**$ 1,001**	**$ 645,849**

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

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

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

	Six Months Ended September 30, 2014				
(amounts in thousands)	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				$ 4,391	$ 4,391

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

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

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

Valuation of our Contingent Consideration for Acquisitions

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

Valuation of our Redeemable Common Stock

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

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

Nonrecurring Fair Value Measurements

Valuation of our Redeemable Convertible Preferred Stock

The Trustee of the Company s ESOP has the ability to put the shares of our Redeemable convertible preferred stock to the Company. Our Redeemable convertible preferred stock is recorded at its fair value in the mezzanine equity section of our Condensed Consolidated Balance Sheets and changes in fair value are recorded in Retained earnings. Accordingly, we estimated the fair value of the Redeemable convertible preferred stock through estimating the fair value of the Company s common stock and applying certain adjustments including for the fair value of the total dividends to be received and assuming conversion of the Redeemable convertible preferred stock to common stock at the stated conversion ratio per our Certificate of Incorporation. The categorization of the framework used to price this temporary equity is considered a Level 3, due to the subjective nature of the unobservable inputs used to determine the fair value.

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

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

Valuation of our Goodwill and Indefinite Lived Intangible Assets

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

9. ADS MEXICANA

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

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

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

Current liabilities	$	11,019	$	11,595
Noncurrent liabilities		6,539		7,020
Total liabilities	**$**	**17,558**	**$**	**18,615**

10. INVESTMENT IN UNCONSOLIDATED AFFILIATES

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

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South American Joint Venture

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

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

BaySaver

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

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

(Amounts in thousands)	**September 30, 2014**	**March 31, 2014**
Investment in BaySaver	$ 5,217	$ 5,202
Receivable from BaySaver	216	6

Our share of the income of this joint venture is decreased by amortization expense relating to the basis difference between our cost basis in the investment and the basis reflected at the joint venture level. This basis difference is being recorded over the lives of the underlying assets which gave rise to the basis difference, which is 10 years. The unamortized basis difference as of September 30, 2014 is $1,739.

Tigre-ADS USA

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

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

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

11. RELATED PARTY TRANSACTIONS

ADS Mexicana

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

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

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

South American Joint Venture

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

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

BaySaver

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

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

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12. DEBT

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

(Amounts in thousands)	September 30, 2014	March 31, 2014
Bank Term Loans		
Revolving Credit Facility ADS	$ 193,800	$ 248,100
Revolving Credit Facility ADS Mexicana	2,000	
Term note	95,000	97,500
Senior Notes payable	100,000	100,000
Mortgage notes payable	2,833	3,733
Industrial revenue bonds	3,950	4,715
Total	397,583	454,048
Current maturities	(11,148)	(11,153)
Long-term debt obligation	**$ 386,435**	**$ 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 September 30, 2014 was 2.603%. Any letters of credit outstanding reduce the availability on the revolver. The Company had outstanding letters of credit at September 30, 2014 in the amount of $8,005. The amount available for borrowing for ADS was $123,195, plus $10,000 available under a separate revolving credit facility with our subsidiary, ADS Mexicana, at September 30, 2014.

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

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

Senior Notes Payable

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

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

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

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Mortgage Notes Payable

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

Industrial Revenue Bonds

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

Debt Covenants and Dividend Restrictions

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

13. DERIVATIVE TRANSACTIONS

The Company uses interest rate swaps, commodity op