

ADVANCED DRAINAGE SYSTEMS, INC.

Form 10-K

September 15, 2016

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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form 10-K**

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

**For the fiscal year ended March 31, 2016**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**COMMISSION FILE NO.: 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 Number)**  
**4640 Trueman Boulevard, Hilliard, Ohio 43026**

**(Address of principal executive offices and zip code)**

**(614) 658-0050**

**(Registrant's telephone number, including area code)**

**Securities registered pursuant to Section 12(b) of the Act: Common Stock, \$0.01 par value per share**

<b>Title of Each Class</b>	<b>Name of Each Exchange On Which Registered</b>
<b>Common Stock, \$0.01 par value per share</b>	<b>New York Stock Exchange</b>
<b>Securities registered pursuant to Section 12(g) of the Act: None</b>	

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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  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

The aggregate market value of the shares of common stock held by non-affiliates of the registrant (treating all executive officers and directors of the registrant, for this purpose, as affiliates of the registrant) was \$997 million as of September 30, 2015, the last business day of the registrant's most recently completed second fiscal quarter, based on the reported closing price of the shares of common stock as reported on the New York Stock Exchange on September 30, 2015.

As of August 31, 2016, the registrant had 54,887,305 shares of common stock outstanding. The shares of common stock trade on the New York Stock Exchange under the ticker symbol WMS. In addition, as of August 31, 2016, 55,348 shares of unvested restricted common stock were outstanding and 24,600,953 shares of ESOP preferred stock, convertible into 18,923,053 shares of common stock, were outstanding. As of August 31, 2016, 73,865,706 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.

**DOCUMENTS INCORPORATED BY REFERENCE**

None.

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**CAUTIONARY STATEMENT ABOUT FORWARD-LOOKING STATEMENTS**

This Annual Report on Form 10-K includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Some of the forward-looking statements can be identified by the use of terms such as believes, expects, may, will, should, could, seeks, intends, plans, estimates, anticipates or other. These forward-looking statements include all matters that are not related to present facts or current conditions or that are not historical facts. They appear in a number of places throughout this Annual Report on Form 10-K and include statements regarding our intentions, beliefs or current expectations concerning, among other things, our consolidated results of operations, financial condition, liquidity, prospects, growth strategies, and the industries in which we operate and include, without limitation, statements relating to our future performance.

Forward-looking statements are subject to known and unknown risks and uncertainties, many of which are beyond our control. We caution you that forward-looking statements are not guarantees of future performance and that our actual consolidated results of operations, financial condition, liquidity, and industry development may differ materially from those made in or suggested by the forward-looking statements contained in this Annual Report on Form 10-K. In addition, even if our actual consolidated results of operations, financial condition, liquidity, and industry development are consistent with the forward-looking statements contained in this Annual Report on Form 10-K, those results or developments may not be indicative of results or developments in subsequent periods. A number of important factors could cause actual results to differ materially from those contained in or implied by the forward-looking statements, including those reflected in forward-looking statements relating to our operations and business, the risks and uncertainties discussed in this Annual Report on Form 10-K (including under the heading Item 1A. Risk Factors ) and those described from time to time in our other filings with the SEC. Factors that could cause actual results to differ from those reflected in forward-looking statements relating to our operations and business include, among other things:

our ability to remediate the material weaknesses in our internal controls over financial reporting described in Item 9A. Controls and Procedures of this Annual Report, and discovering further weaknesses of which we are not currently aware or which have not been detected;

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

the effect of any claims, litigation, investigations or proceedings resulting from the restatement of our previously issued financial statements, or the matters related to such restatement, including those described below under Item 3. Legal Proceedings of this Annual Report;

our ability to regain and/or maintain compliance with the New York Stock Exchange's ( NYSE ) continued listing requirements under the timely filing criteria outlined in Section 802.01E of the NYSE Listed Company Manual;

any further delay in the filing of any periodic reports with the SEC;

fluctuations in the price and availability of resins and other raw materials and our ability to pass any increased costs of raw materials on to our customers in a timely manner;

volatility in general business and economic conditions in the markets in which we operate, including without limitation factors relating to availability of credit, interest rates, fluctuations in capital and business and consumer confidence;

cyclicality and seasonality of the non-residential and residential construction markets and infrastructure spending;

the risks of increasing competition in our existing and future markets, including competition from both manufacturers of high performance thermoplastic corrugated pipe and manufacturers of products using alternative materials;

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our ability to continue to convert current demand for concrete, steel and polyvinyl chloride ( PVC ) pipe products into demand for our high performance thermoplastic corrugated pipe and Allied Products;

the effect of weather or seasonality;

the loss of any of our significant customers;

the risks of doing business internationally;

the risks of conducting a portion of our operations through joint ventures;

our ability to expand into new geographic or product markets;

our ability to achieve the acquisition component of our growth strategy;

the risk associated with manufacturing processes;

our ability to manage our assets;

the risks associated with our product warranties;

our ability to manage our supply purchasing and customer credit policies;

the risks associated with our self-insured programs;

our ability to control labor costs and to attract, train and retain highly-qualified employees and key personnel;

our ability to protect our intellectual property rights;

changes in laws and regulations, including environmental laws and regulations;

our ability to project product mix;

the risks associated with our current levels of indebtedness;

our ability to meet future capital requirements and fund our liquidity needs; and

other risks and uncertainties, including those listed under Item 1A. Risk Factors.

You should read this Annual Report on Form 10-K completely and with the understanding that actual future results may be materially different from expectations. All forward-looking statements made in this Annual Report on Form 10-K are qualified by these cautionary statements. All forward-looking statements are made only as of the date of this Annual Report on Form 10-K, and we do not undertake any obligation, other than as may be required by law, to update or revise any forward-looking statements to reflect future events or developments. Comparisons of results for current and any prior periods are not intended to express any future trends, or indications of future performance, unless expressed as such, and should only be viewed as historical data.



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**PART I**

**ITEM 1. BUSINESS**

**COMPANY OVERVIEW**

Unless the context otherwise indicates or requires, as used in this Annual Report on Form 10-K, the terms we, our, us, ADS and the Company refer to Advanced Drainage Systems, Inc. and its directly- and indirectly-owned subsidiaries as a combined entity, except where it is clear that the terms mean only Advanced Drainage Systems, Inc. exclusive of its subsidiaries.

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 underground 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 the United States, our national footprint combined with our strong local presence and broad product offering make 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 \$10.8 billion of annual revenue opportunity. In addition, we believe the increasing acceptance of thermoplastic pipe products in international markets represents an attractive growth opportunity. For fiscal year 2016, we generated net sales of \$1,290.7 million, net income of \$23.5 million and adjusted earnings before interest, taxes, depreciation and amortization ( Adjusted EBITDA ) of \$187.3 million and, as of March 31, 2016, we had \$351.2 million of total outstanding debt. For a reconciliation of Adjusted EBITDA to the most directly comparable measure calculated in accordance with accounting principles generally accepted in the United States of America ( GAAP ), see Item 6. Selected Financial and Operating Data.

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 materials 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 increase 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 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.

We have an extensive network of 61 manufacturing plants and 31 distribution centers, including the facilities owned or leased by our joint ventures, located across the United States, Puerto Rico, Canada, Mexico, South America and Europe. In the U.S., our network of 47 manufacturing plants and 20 distribution centers allows us to effectively serve all major markets in the United States, which we define as the largest 100 metropolitan statistical areas based on

population. The effective shipping radius for our pipe products is approximately 200 miles, thus competition in our industry tends to be on a regional and local basis with minimal competition from distant markets and imports. We are the only supplier of high performance thermoplastic corrugated pipe in our industry with a national footprint in the United States, thereby allowing us to efficiently service those customers that value having one source of supply throughout their entire distribution network. We

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believe our extensive national footprint in the United States creates a cost and service advantage versus our HDPE pipe producing competitors, the largest of which has only 11 domestic HDPE pipe manufacturing plants and, according to the July 25, 2016 ranking by Plastics News of Pipe, Profile & Tubing Extruders, recently had estimated sales of \$140 million, or approximately nine times less than our net sales in fiscal year 2016. Our International segment consists of 14 manufacturing plants in Canada, Mexico, South America and Puerto Rico and 11 distribution centers located in Canada, South America, and Europe.

The majority of our sales are made through long-standing distribution relationships with many of the largest national and independent waterworks distributors, including Ferguson Enterprises ( Ferguson ), HD Supply Waterworks ( HD Supply ) and WinWholesale, who sell primarily to the storm sewer and sanitary sewer markets. We also utilize a network of hundreds of small to medium-sized independent distributors across the United States. We have strong relationships with major national retailers that carry drainage products, including The Home Depot, Lowe s, Ace Hardware, Carter Lumber and Do it Best, and also sell to buying groups and co-ops in the United States that serve the plumbing, hardware, irrigation and landscaping markets. The combination of our large sales force, long-standing retail and contractor customer relationships and extensive network of manufacturing and distribution facilities complements and strengthens our broad customer and market coverage.

We believe the ADS brand has long been associated with quality products and market-leading performance. Our trademarked green stripe, which is prominently displayed on many of our products, serves as clear identification of our commitment to the customers and markets we serve.

As illustrated in the charts below, we provide a broad range of high performance thermoplastic corrugated pipe and related water management products to a highly diversified set of end markets and geographies.

**Fiscal Year 2016 Revenue**

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**RECENT DEVELOPMENTS**

From July 2015 through February 2016, the Company amended the ADS Revolving Credit Facility, the ADS Mexicana Revolving Credit Facility (the Revolving Credit Facilities ) and the Term Note (collectively, the Bank Term Loans ), and the Senior Notes, and also obtained various consents from those lenders. These amendments and consents had the effect of: i) extending the time for delivery of our fiscal 2015 audited financial statements and first, second, and third quarter fiscal 2016 quarterly financial information to April 1, 2016, whereby an event of default was waived as long as those items were delivered by that date, ii) modified certain definitions applicable to the Company s affirmative and negative financial covenants, including the negative covenant on indebtedness, to accommodate the Company s treatment of its transportation and equipment leases as capital leases rather than operating leases and to accommodate the treatment of the costs related to the Company s restatement, and iii) permitted the Company s payment of quarterly dividends on common shares in June, August and December 2015, as well as an annual dividend for preferred shares in March 2016. The Company satisfied the amended reporting requirements prior to April 1, 2016.

In July 2016, the Company obtained additional consents from the lenders of the Bank Term Loans and Senior Notes. These consents had the effect of extending the time for delivery of our fiscal 2016 audited financial statements to August 31, 2016, and first quarter fiscal 2017 quarterly financial information to October 15, 2016, whereby an event of default was waived as long as those items are delivered within a 15 day grace period after those dates. In addition, the consents also permitted the Company s payment of quarterly dividends of \$0.06 per share on common shares in each of June and September 2016, as well as the annual dividend of \$0.0195 per share to be paid on shares of preferred stock in March 2017. See Note 12. Debt to our consolidated financial statements included in Item 8. Financial Statements and Supplementary Data of this Form 10-K.

On July 17, 2015, we acquired an additional 10% of the issued and outstanding membership interests in BaySaver Technologies, LLC ( BaySaver ) for a purchase price of \$3.2 million, subject to certain additional post-closing purchase price payments specified in the Purchase Agreement. Concurrent with the acquisition, we also entered into an amendment to the BaySaver joint venture agreement to change the voting rights for the joint venture from an equal vote for each member to a vote based upon the respective ownership interest. As a result of the acquisition and the amendment, the Company increased its ownership interest to 65% of the issued and outstanding membership interests in BaySaver and obtained the majority of the voting rights. As a result, our consolidated financial statements include the consolidation of BaySaver s financial statements beginning on July 17, 2015. See Note 3. Acquisitions to our consolidated financial statements included in Item 8. Financial Statements and Supplementary Data of this Form 10-K.

On January 30, 2015, Hancor of Canada, Inc., a wholly-owned subsidiary of the Company, acquired all issued and outstanding shares of Ideal Drain Tile Limited and Wave Plastics Inc., the sole partners of Ideal Pipe, (together Ideal Pipe ). Ideal Pipe designs, manufactures and markets high performance thermoplastic corrugated pipe and related water management products used across a broad range of Canadian end markets and applications, including nonresidential, residential, agriculture, and infrastructure applications. The acquisition further strengthens our positions in Canada by increasing our size and scale in the market, as well as enhancing our manufacturing, marketing and distribution capabilities. The purchase price of Ideal Pipe was \$43.8 million, financed through our existing line of credit facility.

In July 2014, we completed an initial public offering of our common stock. In December 2014, a certain selling stockholder sold 10 million shares of our common stock in a secondary public offering. See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Recent Developments. Our common stock is listed on the NYSE under the symbol WMS.

**SEGMENT INFORMATION**

For a discussion of segment and geographic information, see Note 21. Business Segment Information to our audited consolidated financial statements included in Item 8. Financial Statements and Supplementary Data of this Form 10-K.

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**OUR MANUFACTURING AND DISTRIBUTION PLATFORM**

We have a leading domestic and international manufacturing and distribution infrastructure, serving customers in all 50 U.S. states as well as approximately 80 other countries through 61 manufacturing plants and 31 distribution centers including the facilities owned or leased by our joint ventures. We also operate an in-house fleet of approximately 675 tractor-trailers. Our effective shipping radius is approximately 200 miles from one of our manufacturing plants or distribution centers. Our scale and extensive network of facilities provide a critical cost advantage versus our competitors, as we are able to more efficiently transport products to our customers and end users and to promote faster product shipments due to our proximity to the delivery location.

The combination of a dedicated fleet and team of company drivers allows greater flexibility and responsiveness in meeting dynamic customer jobsite delivery expectations. We strive to achieve less than three-day lead-time on deliveries, and have the added benefit of redeploying fleet and driver assets to respond to short-term regional spikes in sales activity. For deliveries that are outside an economic delivery radius of our truck fleet, common carrier deliveries are tendered using a customized software platform to ensure that lowest delivered freight costs are achieved. In addition, in the United States and Canada, more than 12% of our pipe volume is sold on a pick-up or walk-in basis at our plant and yard locations, further leveraging our footprint and lowering freight cost per pound and per revenue dollar.

Our North American truck fleet incorporates approximately 1,200 trailers that are specially designed to haul our lightweight pipe and fittings products. These designs maximize payload versus conventional over the road trailers and facilitate unassisted unloading of our products at the jobsites by our drivers. The scope of fleet operations also includes backhaul of purchased raw materials providing a lower delivered cost to our plant locations.

We have expanded internationally primarily through joint ventures with local partners. This joint venture strategy has provided us with local and regional access to markets such as Brazil, Chile, Argentina, Mexico, Peru and Colombia. These international facilities produce pipe and related products to be sold in their respective regional markets. Combining a local partner's customer relationships, brand recognition and local management talent, with our world-class manufacturing and process expertise, broad product portfolio and innovation, creates a powerful platform and exciting opportunities for continued international expansion.

**OUR MANUFACTURING PROCESS**

We manufacture our corrugated pipe products in 17 different diameters ranging from 2" to 60" using a continuous extrusion process, where molten polyethylene or polypropylene is pushed through a die into a moving series of corrugated U-shaped molds. Blown air and vacuum are used to form the corrugations of the pipe which is pulled through a corrugator and then cut to length. We utilize customized and proprietary production equipment, which we believe is faster and more cost efficient than other pipe making equipment generally available in the market.

Domestically, we operate approximately 121 pipe production lines that collectively are capable of producing more than one billion pounds of pipe annually on a standard five-day per week schedule. Additional capacity is in place to support seasonal production needs and growth in our N-12 pipe sales volume requiring minimal additional capital for molds. Our normal production capacity utilization as a percentage of total capacity was 70%, 68% and 64% for fiscal years 2016, 2015 and 2014, respectively. To produce our broad range of pipe sizes, we own and utilize approximately 350 mold and die setups, which had an original capital cost of approximately \$132 million, and most of which are moved between manufacturing plants. Our production equipment is built to accept transportable molds and die tooling over a certain range of sizes so each plant is not required to house the full range of tooling at any given time. This transportability provides us with the flexibility to optimize our capacity through centrally-coordinated production

planning, which helps to adapt to shifting sales demand patterns while reducing the capital needed for tooling. With our large manufacturing footprint in place, we can support rapid seasonal growth in demand, focusing on customer service while minimizing transportation costs.

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The standard fittings products (tees, wyes, elbows, etc.) that we produce and sell to connect our pipe on jobsites are blow molded or injection molded at four domestic plants. In addition, customized fabricated fittings (e.g., more complex dual wall pipe reducers, bends or structures) are produced in 20 of our North American plants. In addition to the extrusion of pipe, and blow molding and injection molding of fittings, we also use a variety of other processes in our manufacturing facilities. These processes include thermoforming, compression molding, and custom plastic welding and fabrication. The wide variety of production processes and expertise allow us to provide cost-effective finished goods at competitive prices delivered in a timely fashion to our customers.

Our manufacturing plants have no process-related by-products released into the atmosphere, waterways, or solid waste discharge. During pipe production start-ups and size change-overs, non-compliant scrap and any damaged finished goods pipe are recycled through a grinder for internal re-use.

We have two internal quality control laboratory facilities equipped and staffed to evaluate and confirm incoming raw material and finished goods quality in addition to the quality testing that is done at our manufacturing facilities. We conduct annual safety, product and process quality audits at each of our facilities, using centralized internal resources in combination with external third-party services. In the quality area, various national agencies such as National Transportation Product Evaluation Program ( NTPEP ), International Association of Plumbing and Mechanical Officials ( IAPMO ), Bureau de normalisation du Québec ( BNQ ), Intertek for Canadian Standards Association ( CSA ), Entidad Mexicana de Acreditacion A.C. ( EMA ) and NSF International and numerous state Departments of Transportation ( DOT ) (e.g., Illinois, Michigan) and municipal authorities (e.g., City of Columbus) conduct both scheduled and unscheduled inspections of our plants to verify product quality and compliance to applicable standards.

Core to our commitment and enablement of a safe and productive manufacturing environment are our operational and management training programs. Through our ADS Academy, we deliver targeted role-specific training to our operations team members through a blended curriculum of on-line and hands-on training experiences covering safety, quality, product knowledge and manufacturing process. Our learning management system, which hosts over 475 custom modules, serves as the foundation of our operational training programs and provides us with appropriate scale, efficiency, and governance to support our growth. We have a strong commitment to the training of our manufacturing supervisors and managers in technical, management, and leadership subjects through intense role-based assimilation plans, e-learning and classroom-based development experiences.

## **OUR PRODUCTS**

We design, manufacture and market a complete line of high performance thermoplastic corrugated pipe and related water management products for use in a wide range of end markets. Our product line includes: single, double and triple wall corrugated polypropylene and polyethylene pipe, or Pipe, and a variety of Allied Products including: storm retention/detention and septic chambers, or Chambers; PVC drainage structures, or Structures; fittings, or Fittings; and water quality filters and separators, or Water Quality. We also sell various complementary products distributed through resale agreements, including geotextile products and drainage grates and other, or Other Resale.



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An overview of our product offerings is provided below:

<b>Product Offering</b>	<b>Description</b>	<b>Brands/Offerings</b>	<b>Images</b>
<b>Pipe (74%, 76% &amp; 76% of Net Sales in Fiscal Years 2016, 2015 &amp; 2014)</b>			
	High density polyethylene and polypropylene pipe	Dual Wall Corrugated Pipe, HP Storm Pipe, SaniTite HP Pipe, Single Wall Corrugated Pipe, Triple Wall Corrugated Pipe, Smoothwall HDPE Pipe	
<b>Allied Products (26%, 24% &amp; 24% of Net Sales in Fiscal Years 2016, 2015 &amp; 2014)</b>			
Chambers	Underground chambers made from polypropylene or HDPE that can function as stormwater detention, retention, and/or first flush storage systems	StormTech, ARC (Septic Chambers), BioDiffuser (Septic Chambers)	
Structures	Drainage structures consisting of inline drains, drain basins, curb inlet structures, and drop-in grates in diameters ranging from 8 to 30	Nyloplast, Inserta Tee	
Fittings	Standard and fabricated joining systems	Fittings	
Water Quality	Water quality structures and filters	BaySeparator, BayFilter, Water Quality Units, FleXstorm	
Other Resale	Complementary products providing services adjacent to core expertise	Geotextiles	

**Pipe***Dual Wall Corrugated Pipe*

Our N-12 pipe is a dual wall HDPE pipe with a corrugated exterior for strength and a smooth interior wall for hydraulics and flow capacity. Our N-12 pipe competes in the storm sewer and drainage markets that are also served by concrete pipe.

Our N-12 pipe is available in 17 different diameters ranging from 2 to 60 and in sections ranging from 10 to 30 in length. N-12 provides joint integrity, with integral bell and spigot joints for fast push-together installation, and is sold either with watertight or soil-tight coupling and fitting systems.

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Our corrugated polyethylene pipe offers many benefits including ease of installation, job-site handling and resistance to corrosion and abrasion. Corrugated pipe can easily be cut or coupled together, providing precise laying lengths while minimizing installation waste and difficulty.

### *HP Storm Pipe and SaniTite HP Pipe*

Our HP Storm pipe utilizes polypropylene resin, which provides (i) increased pipe stiffness relative to HDPE; (ii) higher Environmental Stress Crack Resistance ( ESCR ); and (iii) improved thermal properties, which improves joint performance. These improved physical characteristics result in a reduced need for select backfill, which creates installation savings for customers and expands the range of possible product applications.

Our SaniTite HP pipe utilizes the same polypropylene resins as our HP Storm pipe but includes a smooth third exterior wall in 30 to 60 pipe. The highly engineered polypropylene resin along with the triple wall design enables SaniTite HP to surpass the 46 pounds per square inch ( psi ), stiffness requirement for sanitary sewer applications. SaniTite HP offers cost and performance advantages relative to reinforced concrete pipe (such as improved hydraulics and better joint integrity) and PVC pipe (such as impact resistance).

### *Single Wall Corrugated Pipe*

Our single wall corrugated HDPE pipe is ideal for drainage projects where flexibility, light weight and low cost are important. Single wall HDPE pipe products have been used for decades in agricultural drainage, highway edge drains, septic systems and other construction applications. In the agricultural market, improved technology has highlighted the favorable impact of drainage on crop yields. For homeowners, it is an economical and easily-installed solution for downspout run-off, foundation drains, driveway culverts and general lawn drainage. Single wall pipe is also used for golf courses, parks and athletic fields to keep surfaces dry by channeling away excess underground moisture.

Standard single wall products are available in 2 to 24 diameters and sold in varying lengths. Pipe with 2 to 6 diameters is typically sold in coils ranging from 25 to over 3,000 in length, while larger diameter pipe is typically sold in 20 lengths. Pipe can be either perforated or non-perforated depending on the particular drainage application.

### *Triple Wall Corrugated Pipe and Smoothwall HDPE Pipe*

Our ADS-3000 Triple Wall pipe, small diameter triple wall corrugated pipe, consists of a corrugated polyethylene core molded between a smooth white outer wall and a smooth black inner wall. This combination of the three wall design adds strength and stiffness, while reducing weight as compared to PVC 2729. Triple Wall is produced in two sizes, 3 and 4 , and sold through our distribution network.

We also manufacture smoothwall HDPE pipe in 3 , 4 , and 6 diameters that are sold into the residential drainage and on-site septic systems markets.

## **Allied Products**

We produce a range of additional water management products that are complementary to our pipe products ( Allied Products ). Our Allied Products offer adjacent technologies to our core pipe offering, presenting a complete drainage solution for our clients and customers. This combination of pipe and Allied Products is a key strategy in our sales growth, profitability and market share penetration. The practice of selling a drainage system is attractive to both distributors and end users, by providing a broad package of products that can be sold on individual projects, and strengthens our competitive advantage in the marketplace. We aggressively seek and evaluate new products,

technologies and regulatory changes that impact our customers' needs for Allied Products.

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Using the strength of our overall sales and distribution platform, our Allied Product strategy allows us to more deeply penetrate our end markets and anticipate the evolving needs of our customers. The underground construction industry has historically been project (not product) driven, creating the impetus for owners, engineers and contractors to seek manufacturers that deliver solution-based product portfolios. Many of the components of underground construction are related and require linear compatibility of function, regulatory approval and technology.

### *Storm and Septic Chambers*

Our StormTech chambers are used for stormwater retention, detention and first flush underground water storage on non-residential site development and public projects. These highly engineered chambers are injection molded from high density polyethylene and polypropylene resins into a proprietary design which provides strength, durability, and resistance to corrosion. The chambers allow for the efficient storage of stormwater volume, reducing the underground construction footprint and costs to the contractors, developers, and property owners. Our StormTech chambers offer great flexibility in design and layout of underground water storage systems. They are an attractive alternative to open ponds by reducing ongoing maintenance and liability and providing more useable land for development. Stormwater runoff is collected and stored in rows of chambers and gradually reenters the water system base, reducing erosion and protecting waterways. The chambers are open bottom, which allows for high density stacking in both storage and shipment. This freight-efficient feature drives favorable cost-competitiveness in serving long-distance export markets. These chamber systems typically incorporate our other product lines such as corrugated pipe, fabricated fittings, water quality units and geotextiles.

Our ARC and BioDiffuser products are chambers that are used in on-site septic systems for residential and small volume non-residential wastewater treatment and disposal. Rural homes and communities that do not have access to central sewer lines require an on-site septic solution. Our ARC and BioDiffuser chamber products are installed and perform their septic treatment function without gravel, reducing costs to the contractor and homeowner over traditional pipe and stone systems. States and municipalities have different sizing criteria for on-site septic treatment systems based on soil and site conditions. The innovative design of our ARC chamber is generally approved for a footprint reduction, further reducing the cost of the septic system. Injection-molded from high density polyethylene, these products are strong, durable, and chemical-resistant. These interconnecting chambers are favored by septic contractors because they are lightweight, easy to install and offer articulating features which increase site-specific design flexibility.

### *Structures*

Our Nyloplast PVC drainage structures are used in non-residential, residential and municipal site development, road and highway construction, as well as landscaping, recreational, industrial and mechanical applications. The product family includes inline drains, drain basins, curb inlets and water control structures which move surface-collected stormwater vertically down to pipe conveyance systems. These custom structures are fabricated from sections of PVC pipe using a thermo-forming process to achieve exact site-specific hydraulic design requirements. Our Nyloplast products are a preferred alternative to heavier and larger concrete structures, by offering greater design flexibility and improved ease of installation which reduces overall project costs and timelines. The structures incorporate rubber gaskets to ensure watertight connections, preventing soil infiltration which plagues competitive products.

Our Inserta Tee product line consists of a PVC hub, rubber sleeve and stainless steel band. Inserta Tee is compression fit into the cored wall of a mainline pipe and can be used with all pipe material types and profiles. This product offers an easy tap-in to existing sanitary and storm sewers by limiting the excavation needed for installation compared to competitive products.



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### *Fittings*

We produce fittings and couplings utilizing blow molding, injection molding and custom fabrication on our pipe products. Our innovative coupling and fitting products are highly complementary to our broader product suite, and include both soil-tight and water-tight capabilities across the full pipe diameter spectrum. Our fittings are sold in all end markets where we sell our current pipe products.

### *Water Quality*

Our BaySaver product line targets the removal of sediment, debris, oils and suspended solids throughout a stormwater rain event by separating and/or filtering unwanted pollutants. Our BaySeparators can be fabricated into multiple sizing combinations to fit a variety of applications and customer requirements. These products assist owners, developers and design engineers in remaining compliant with discharge requirements set forth by the Environmental Protection Agency ( EPA ) as well as state and local regulatory agencies. Our BaySaver product line coupled with our pipe, StormTech chambers, fabricated fittings, Nyloplast structures, FleXstorm inlet protection systems and geotextiles make up a comprehensive stormwater management solution.

### *Construction Fabrics & Geotextiles*

We purchase and distribute construction fabrics and other geosynthetic products for soil stabilization, reinforcement, filtration, separation, erosion control, and sub-surface drainage. Constructed of woven and non-woven polypropylene, geotextile products provide permanent, cost-efficient site-development solutions. Construction fabrics and geotextiles have applications in all of our end markets.

## **RAW MATERIALS**

Virgin high density polyethylene ( HDPE ) and polypropylene ( PP ) resins are derivatives of ethylene and propylene, respectively. Ethylene and propylene are derived from natural gas liquids or crude oil derivatives in the U.S. We currently purchase in excess of 850 million pounds of virgin and recycled resin annually from over 450 suppliers in North America. As a high-volume buyer of resin, we are able to achieve economies of scale to negotiate favorable terms and pricing. Our purchasing strategies differ based on the material (virgin resin v. recycled material) ordered for delivery to our production locations. The price movements of the different materials also vary, resulting in the need to use a number of strategies to reduce volatility and successfully pass on cost increases to our customer through timely selling price increases when needed.

In 2008 we began to further augment our raw material blending and processing technologies to produce an HDPE pipe that incorporates recycled resin. This product, which meets an ASTM International ( ASTM ) standard, replaces a majority of the virgin resin that is used in the American Association of State Highway and Transportation Officials ( AASHTO ) product with recycled materials. To further develop our recycled material strategies, we established Green Line Polymers, Inc. ( GLP ), as our wholly-owned recycling subsidiary in 2012. GLP procures and processes recycled raw materials that can be used in products we produce and sell. Our first production facilities were established in Ohio and Georgia and are focused on processing post-industrial HDPE recycled materials. Based on the success of this strategy, we expanded our efforts toward post-consumer material processing by acquiring the business of a vendor who was supplying clean, post-consumer recycled HDPE to our upper Midwest plants and established a second post-consumer processing plant, in Pennsylvania, to support our plants in Ohio, Michigan and the eastern and southern United States. In fiscal year 2016, 84% of our non-virgin HDPE raw material needs were internally processed (enhanced) through our GLP operations.

We believe that we are well positioned for future growth as we add additional recycled material processing facilities, add capacity to existing facilities, and expand our supplier base for virgin resin. We anticipate continued growth in the availability of ethylene and propylene which are used to manufacture high density polyethylene and polypropylene, respectively.

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We have managed a formal resin price risk management program since early in 2010 that entails both physical fixed price and volume contracts along with financial hedges which are designed to apply to a portion of our annual virgin resin purchases. In conjunction with our resin price risk management program, we also maintain supply agreements with our major resin suppliers that provide multi-year terms and volumes that are in excess of our projected consumption. For our polypropylene virgin resin price exposure, we utilize financial hedges of propylene as a proxy for polypropylene. Historically, there has been high correlation in month to month change in market-based pricing between propylene and polypropylene.

We also began a diesel hedging program in 2008 which is executed through several financial swaps covering future months demand for diesel fuel and are designed to decrease our exposure to changing fuel costs. These hedges cover a significant portion of the diesel fuel consumed by the truck fleet that we operate to deliver products to our customers. Our objective is to hedge approximately 50% of our fuel consumption over the next 12 months.

## **SUPPLIERS**

We have developed relationships with all of the North American producers of virgin high density polyethylene and impact copolymer polypropylene producers that produce the grades we need to produce our products, including Braskem Americas, Inc., Chevron Phillips Chemical Co. LP, The Dow Chemical Company, Equistar Chemicals, LP, ExxonMobil Chemical Company, Formosa Plastics Corporation, U.S.A., Ineos Olefins & Polyolefins, USA, Sasol USA, and Phillips 66 Company.

We also maintain relationships with several of the largest environmental companies such as Waste Management, Inc., Republic Services, Inc., and Rumpke, Inc., which provide us with post-consumer HDPE recycled materials. We also maintain relationships with several key post-industrial HDPE suppliers, including E.I. du Pont de Nemours and Company, Silgan Plastics, Consolidated Container Company and Alpla, Inc. which provide us with materials that cannot otherwise be utilized in their respective production processes.

The North American capacity for ethylene derivatives is being expanded primarily as a result of the new supplies of natural gas liquids being produced through sustained oil and gas exploration and production. This low-cost stream of feedstocks (ethane and propane) has positioned several companies such as Lyondell Basell, ExxonMobil Chemical Company, Chevron Phillips Chemical Co. LP and The Dow Chemical Company to execute plans to expand ethylene or propylene capacity. We anticipate that the previously announced projects for ethylene derivative capacity associated with HDPE will begin coming on stream during 2016, extending through 2018. The polypropylene capacity expansion projects to utilize the increased supply of propylene are projected to begin coming on-stream in 2018.

## **CUSTOMERS**

We have a large, active customer base of approximately 20,000 customers, with two customers representing 10% or more of fiscal year 2016 net sales. Ferguson accounted for 11.1% and HD Supply accounted for 10.0% of fiscal year 2016 net sales. Our customer base is diversified across the range of end markets that we serve.

A majority of our sales are made through distributors, including many of the largest national and independent waterworks distributors, with whom we have long-standing distribution relationships. These include Ferguson, HD Supply and WinWholesale, who sell primarily to the storm sewer and sanitary sewer markets. We also utilize a network of hundreds of small to medium-sized independent distributors across the United States. We have strong relationships with major national retailers that carry drainage products, including The Home Depot, Lowes, Ace Hardware, Carter Lumber and Do it Best. We offer the most complete line of HDPE products in the industry and are the only national manufacturer that can service the Big-Box retailers from coast-to-coast. We also sell to buying



groups and co-ops in the United States that serve the plumbing, hardware, irrigation and landscaping markets. Selling to buying groups and co-ops provides us a further presence on a

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national, regional and local basis for the distribution of our products. Our preferred vendor status with these groups allows us to reach thousands of locations in an effective manner. Members of these groups and co-ops generally are independent businesses with strong relationships and brand recognition with smaller contractors and homeowners in their local markets. The combination of our large sales force, long-standing retail and contractor customer relationships and extensive network of manufacturing and distribution facilities complements and strengthens our broad customer and market coverage.

An important element of our growth strategy has been our focus on industry education efforts to drive regulatory approvals for our core HDPE products at national, state and local levels. We employ a team of approximately 50 field-based engineers who work closely with government agencies to obtain regulatory approvals for our products, and also with civil engineering firms to specify our products on non-residential construction and road-building projects. We consistently maintain an active dialogue with customers, civil engineers and municipal authorities, continuously educating them on new product innovations and their advantages relative to traditional products. With the introduction of our HP storm and sanitary pipe, we have refocused our efforts calling on state departments of transportation to enhance their approval of our pipe products. Additional state and local regulatory approvals will continue to present new growth opportunities in new and existing geographic markets for us.

Our customer service organization of more than 120 employees is supplemented by the employees of our 61 manufacturing plants, 31 distribution centers and drivers of our approximately 675 tractor-trailers. In conjunction with our field sales and engineering team, this highly-trained and competent staff allows us to maintain more customer touch points and interaction than any of our competitors.

We staff and operate four regional customer service call centers located in three time zones where orders are processed. With some of our larger customers, we process orders electronically via electronic data interchange (EDI). Additionally, we send advance shipment notifications and invoices electronically to these customers. These capabilities strengthen the supply chain integration with large customers such as The Home Depot, Lowe's, Ferguson and HD Supply. New orders are entered into our Oracle system, assigned to our closest manufacturing plant or distribution center in that geography, and then consolidated to optimize freight efficiency, payload and lead-time performance to meet customer requirements.

## **SALES AND MARKETING**

We believe we have the largest and most experienced sales and engineering force in the industry, with approximately 350 sales and engineering professionals. Offering the broadest product line in the industry enables our sales force to source the greatest number of new opportunities and more effectively cross-sell products than any of our competitors. We consistently maintain thousands of touch-points with customers, civil engineers and municipal authorities, continuously educating them on new product innovations and their advantages relative to traditional products. We believe we are the industry leader in these efforts and we view this work as an important part of our marketing strategy, particularly in promoting N-12 and SaniTite HP for storm and sanitary sewer systems, as regulatory approvals are essential to the specification and acceptance of these product lines.

Our sales and marketing strategy is divided into four components – comprehensive market coverage, diverse product offerings, readily-available local inventory and specification efforts. Our goal is to provide the distributor/owner with the most complete, readily-available product line in our industry. We strive to use our manufacturing footprint, product portfolio and market expertise to efficiently service our customers.

Our sales and engineering objective is to influence, track and quote all selling opportunities as early in the project life cycle as possible. Conceptual project visibility allows sales and engineering professionals the ability to influence

design specifications and increase the probability of inclusion of our products in bid documents. We strive to be meaningfully involved in all phases of the project cycle, including design, bidding, award and installation. In addition to direct channel customers, we also maintain and develop relationships with federal

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agencies, municipal agencies, national standard regulators, private consulting engineers and architects. Our consistent interaction with these market participants enables us to continue our market penetration. This ongoing dialogue has positioned us as an industry resource for design guidance and product development and as a respected expert in water management solutions.

## **SEASONALITY**

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

In the non-residential, residential and infrastructure markets in the northern United States and Canada, construction activity typically begins to increase in late March and is slower in December, January and February. In the southern and western United States, Mexico, Central America and South America, the construction markets are less seasonal. The agricultural drainage market is concentrated in the early spring just prior to planting and in the fall just after crops are harvested prior to freezing of the ground in winter.

## **PRACTICES RELATED TO WORKING CAPITAL ITEMS**

Information about the Company's working capital practices is incorporated herein by reference to Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Working Capital and Cash Flows of this Form 10-K.

## **COMPETITION**

We operate in a highly fragmented industry and hold leading positions in multiple market sectors. Competition, including our competitors and specific competitive factors, varies for each market sector.

We believe the principal competitive factors for our market sectors include local selling coverage, product availability, breadth and cost of products, technical knowledge and expertise, customer and supplier relationships, reliability and accuracy of service, effective use of technology, delivery capabilities and timeliness, pricing of products, and the provision of credit. We believe that our competitive strengths and strategy allow us to compete effectively in our market sectors.

The stormwater drainage industry, in particular, is highly fragmented with many smaller specialty and regional competitors providing a variety of product technologies and solutions. We compete against concrete pipe, corrugated steel pipe and PVC pipe producers on a national, regional and local basis. In addition, there are several HDPE pipe producers in the United States.

In the United States, our primary competitors are concrete pipe producers, including Cemex, Hanson and Oldcastle CRH Precast, as well as smaller, regional competitors. In the corrugated steel pipe sector, our primary national competitor is Contech Engineered Solutions, and we compete with Lane Enterprises, Pacific Corrugated and Southeast Culvert on a regional level, as well as other smaller competitors. In the PVC pipe sector, we compete primarily with JM Eagle, Diamond Plastics and North American Pipe. We believe we are the only corrugated HDPE pipe producer with a national footprint, and our competitors operate primarily on a regional and local level. In the corrugated HDPE pipe sector in the United States, our primary competitors on a regional basis are JM Eagle, Lane Enterprises and Prinsco.

The superior attributes of HDPE and PP and ongoing product innovation have allowed thermoplastic pipe manufacturers generally, and us in particular, to capture market share across all end market categories. This substitution trend is expected to continue as more states and municipalities recognize the benefits of our HDPE N-12 pipe and our polypropylene HP pipe by approving it for use in a broader range of applications.

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**INTELLECTUAL PROPERTY**

Intellectual property is an important aspect of our business. We rely upon a combination of patents, trademarks, trade names, licensing arrangements, trade secrets, know-how and proprietary technology in order to secure and protect our intellectual property rights, both in the United States and in foreign countries.

We seek to protect our new technologies with patents and trademarks and defend against patent infringement allegations. We hold a significant amount of intellectual property rights pertaining to product patents, process patents and trademarks. We continually seek to expand and improve our existing product offerings through product development and acquisitions. Although our intellectual property is important to our business operations and in the aggregate constitutes a valuable asset, we do not believe that any single patent, trademark or trade secret is critical to the success of our business as a whole. We cannot be certain that our patent applications will be issued or that any issued patents will provide us with any competitive advantages or will not be challenged by third parties.

In addition to the foregoing protections, we generally control access to and use of our proprietary and other confidential information through the use of internal and external controls, including contractual protections with employees, distributors and others. Despite these protections, we may be unable to prevent third parties from using our intellectual property without our authorization, breaching any nondisclosure agreements with us, or independently developing products that are similar to ours, particularly in those countries where the laws do not protect our proprietary rights as fully as in the United States.

See Item 1A. Risk Factors – Risks Relating to Our Business. If we are unable to protect our intellectual property rights, or we infringe on the intellectual property rights of others, our ability to compete could be negatively impacted.

**EMPLOYEES**

As of March 31, 2016, in our domestic and international operations the Company and its consolidated and unconsolidated joint ventures had approximately 4,300 employees, consisting of approximately 3,000 hourly personnel and approximately 1,300 salaried employees. As of March 31, 2016, approximately 315 hourly personnel in our Mexican and South American operations were covered by collective bargaining agreements.

**REGULATION**

Our operations are affected by various statutes, regulations and laws in the markets in which we operate, which historically have not had a material effect on our business. We are subject to various laws applicable to businesses generally, including laws affecting land usage, zoning, the environment, health and safety, transportation, labor and employment practices, competition, immigration and other matters. Additionally, building codes may affect the products our customers are allowed to use, and, consequently, changes in building codes may affect the salability of our products. The transportation and disposal of many of our products are also subject to federal regulations. The U.S. Department of Transportation ( U.S. DOT ) regulates our operations in domestic interstate commerce. We are subject to safety requirements governing interstate operations prescribed by the U.S. DOT. Vehicle dimensions and driver hours of service also remain subject to both federal and state regulation.

We have been able to consistently capitalize on changes in both local and federal regulatory statutes relating to storm and sanitary sewer construction, repair and replacement. Most noteworthy is the Federal Clean Water Act of 1972 and the subsequent EPA Phase I, II and sustainable infrastructure regulations relating to storm sewer construction, storm water quantity, storm water quality, and combined sewer separation. Our diversity of products offering a solution-based selling approach coupled with detailed market knowledge makes us an integral industry resource in

both regulatory changes and compliance.

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**ENVIRONMENTAL, HEALTH AND SAFETY MATTERS**

We are subject to a broad range of foreign, federal, state and local environmental, health and safety laws and regulations, including those pertaining to air emissions, water discharges, the handling, disposal and transport of solid and hazardous materials and wastes, the investigation and remediation of contamination and otherwise relating to health and safety and the protection of the environment and natural resources. As our operations, and those of many of the companies we have acquired, to a limited extent involve and have involved the handling, transport and distribution of materials that are, or could be classified as, toxic or hazardous, there is some risk of contamination and environmental damage inherent in our operations and the products we handle, transport and distribute. Our environmental, health and safety liabilities and obligations may result in significant capital expenditures and other costs, which could negatively impact our business, financial condition and results of operations. We may be fined or penalized by regulators for failing to comply with environmental, health and safety laws and regulations, or we may be held responsible for such failures by companies we have acquired. In addition, contamination resulting from our current or past operations, and those of many of the companies we have acquired, may trigger investigation or remediation obligations, which may have a material adverse effect on our business, financial condition and results of operations.

**CORPORATE AND AVAILABLE INFORMATION**

We were founded in 1966 and are a Delaware corporation. Our principal executive offices are located at 4640 Trueman Boulevard, Hilliard, Ohio 43026, and our telephone number at that address is (614) 658-0050. Our corporate website is [www.ads-pipe.com](http://www.ads-pipe.com).

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to reports filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, ( Exchange Act ) are filed with the SEC. We are subject to the informational requirements of the Exchange Act and file or furnish reports, proxy statements, and other information with the SEC. Such reports and other information filed by the Company with the SEC are available free of charge on our website at [www.ads-pipe.com](http://www.ads-pipe.com) when such reports are available on the SEC's website. We use our [www.ads-pipe.com](http://www.ads-pipe.com) website as a means of disclosing material non-public information and for complying with our disclosure obligations under Regulation FD. Accordingly, investors should monitor such portions of [www.ads-pipe.com](http://www.ads-pipe.com) in addition to following press releases, SEC filings and public conference calls and webcasts.

The public may read and copy any materials filed by the Company with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Room 1580, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC at [www.sec.gov](http://www.sec.gov).

The contents of the websites referred to above are not incorporated into this filing. Further, our references to the URLs for these websites are intended to be inactive textual references only.



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### **ITEM 1A. RISK FACTORS**

*You should carefully consider the risks described below, together with all other information included or incorporated by reference in this Annual Report on Form 10-K. If any of the following risks actually occur, our business, financial condition, results of operations and cash flows could be materially adversely affected. In these circumstances, the market price of our common stock could decline significantly.*

#### **Risks Relating to the Restatement and Our Financial Reporting Process**

*The restatement of our previously issued financial statements and the related claims, investigations and proceedings arising out of the restatement have been time-consuming and expensive and could expose us to additional risks that would adversely affect our financial position, results of operations and cash flows.*

As described in our Annual Report on Form 10-K for the fiscal year ended March 31, 2015 (the Fiscal 2015 Form 10-K), we have restated our previously issued consolidated financial statements for the fiscal years ended March 31, 2014 and 2013, as well as each of the first three quarters in fiscal year 2015 and for all of the quarterly periods in fiscal year 2014. We also restated our financial results for the fiscal years ended March 31, 2012 and 2011, as summarized in Item 6. Selected Financial and Operating Data to our Fiscal 2015 Form 10-K. The restatement was time-consuming and expensive and could expose us to a number of additional risks that would adversely affect our financial position, results of operations and cash flows.

In particular, we have incurred significant expense, including audit, legal, consulting and other professional fees in connection with the restatement of our previously issued consolidated financial statements. Expenses incurred during fiscal 2016 as a result of the restatement were approximately \$28 million. We have also incurred significant expense in connection with the ongoing remediation of the weaknesses in our internal control over financial reporting as further described below.

We are also subject to claims, investigations and proceedings arising out of the errors in our previously issued financial statements, including securities class action litigation against us. See The restatement of our previously issued financial results has resulted in private litigation as well as an ongoing investigation by the SEC, and could result in additional litigation, government investigations and enforcement actions that could have a material adverse impact on our results of operations, financial condition, liquidity and cash flows. The ongoing costs and expense associated with these matters could also have a material adverse impact on our results of operations, financial condition, liquidity and cash flows, which costs and expenses may be difficult to predict.

*We have identified material weaknesses in our internal control over financial reporting which could, if not remediated, adversely affect our ability to report our financial condition and results of operations in a timely and accurate manner, investor confidence in our company and, as a result, the value of our common stock.*

We are required to evaluate the effectiveness of our disclosure controls on a periodic basis and publicly disclose the results of these evaluations and related matters in accordance with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002. We have identified certain material weaknesses in internal control over financial reporting in the areas of (i) the Company's control environment, (ii) accounting for leases, (iii) accounting for inventory, (iv) journal entry and account reconciliation, (v) ADS Mexicana control environment, and (vi) ADS Mexicana revenue recognition cut-off practices as described in Item 9A. Controls and Procedures of this Form 10-K. As a result of such material weaknesses, our management concluded that our disclosure controls and procedures were not effective as of March 31, 2016.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim consolidated financial statements will not be prevented or detected on a timely basis. We are actively engaged in remediation activities designed to address these material weaknesses, but our remediation efforts are not

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complete and are ongoing. Although we are working to remedy the ineffectiveness of the Company's internal control over financial reporting, there can be no assurance as to when the remediation plan will be fully implemented or the aggregate cost of implementation. Until our remediation plan is fully implemented, our management will continue to devote significant time and attention to these efforts. If we do not complete our remediation in a timely fashion, or at all, or if our remediation plan is inadequate, there will continue to be an increased risk that we will be unable to timely file future periodic reports with the SEC and that our future consolidated financial statements could contain errors that will be undetected. If we are unable to report our results in a timely and accurate manner, we may not be able to comply with the applicable covenants in our financing arrangements, and may be required to seek additional amendments or waivers under these financing arrangements, which could adversely impact our liquidity and financial condition. Further and continued determinations that there are material weaknesses in the effectiveness of the Company's internal control over financial reporting could reduce our ability to obtain financing or could increase the cost of any financing we obtain and require additional expenditures of both money and our management's time to comply with applicable requirements.

Any failure to implement or maintain required new or improved controls, or any difficulties we encounter in their implementation, could result in additional material weaknesses or material misstatement in our consolidated financial statements. Any new misstatement could result in a further restatement of our consolidated financial statements, cause us to fail to meet our reporting obligations, reduce our ability to obtain financing or cause investors to lose confidence in our reported financial information, leading to a decline in our stock price. We cannot assure you that we will not discover additional weaknesses in our internal control over financial reporting.

Further, we may be the subject of negative publicity focusing on the restatement of our previously issued financial results and related matters, and may be adversely impacted by negative reactions from our stockholders, creditors or others with which we do business. This negative publicity may impact our ability to attract and retain customers, employees and vendors. The occurrence of any of the foregoing could harm our business and reputation and cause the price of our securities to decline.

In addition, beginning with this 2016 Annual Report on Form 10-K, we are required to furnish a report by management, and our independent registered public accounting firm is required to provide an attestation report, on the effectiveness of our internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act of 2002. As a result of the material weaknesses, our management concluded that we did not maintain effective internal control over financial reporting as of March 31, 2016. This could cause investors to lose confidence in the reliability of our financial statements and could result in a decrease in the value of our common stock. Failure to comply with the Sarbanes-Oxley Act of 2002 could potentially subject us to sanctions or investigations by the SEC, NYSE, or other regulatory authorities.

Furthermore, as we grow our business, our disclosure controls and internal controls will become more complex, and we may require significantly more resources to ensure the effectiveness of these controls. If we are unable to continue upgrading our financial and management controls, reporting systems, information technology and procedures in a timely and effective fashion, additional management and other resources may need to be devoted to assist in compliance with the disclosure and financial reporting requirements and other rules that apply to reporting companies, which could adversely affect our business, financial position and results of operations.

***The ongoing remediation of the material weaknesses in our internal control over financial reporting will require us to continue to incur significant cost and expense and may require additional management time and attention, which could adversely affect our financial position, results of operations and cash flows.***

We continue to incur significant costs and expenses related to the ongoing remediation of the weaknesses in our internal control over financial reporting. We have taken a number of steps, including both adding internal personnel and hiring outside consultants, and intend to continue to take appropriate and reasonable steps to

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strengthen our accounting function and reduce the risk of any future misstatements in our financial statements. For more details about the status of our remediation plan, see Item 9A. Controls and Procedures of this Form 10-K. To the extent these steps are not successful, we may have to incur additional time and expense, which could adversely affect our financial position and cash flows. Our management's attention has also been, and may further be, diverted from the operation of our business in connection with the ongoing remediation of material weaknesses in our internal controls, which efforts could adversely affect our results of operations.

***The restatement of our previously issued financial results has resulted in private litigation as well as an ongoing investigation by the SEC, and could result in additional litigation, government investigations and enforcement actions that could have a material adverse impact on our results of operations, financial condition, liquidity and cash flows.***

We are subject to a securities class action litigation suit currently pending in the United States District Court for the Southern District of New York as a result of the restatement of our previously issued financial statements. In addition, the Company has received document subpoenas from the SEC's Division of Enforcement pursuant to a formal investigation. Both the securities class action litigation suit and SEC investigation are further described below under Item 3 Legal Proceedings. We could also become subject to additional litigation or government investigations and enforcement actions arising out of our restated financial statements and delinquent Exchange Act filings.

To date our management has devoted significant time and attention related to these matters, and we may be required to devote even more time and attention to such matters in the future, and these and any additional matters that arise could have a material adverse impact on our results of operations, financial condition, liquidity and cash flows. While we cannot estimate our potential exposure in these matters at this time, we have already expended significant amounts investigating the claims underlying the class action litigation and SEC document production and expect to continue to need to expend significant amounts to defend such litigation and respond to the SEC investigation. Although we maintain insurance that may provide coverage for some or all of these expenses, and we have given notice to our insurers of the claims, there is risk that the insurers will rescind or otherwise not renew the policies, that some or all of the claims will not be covered by such policies, or that, even if covered, our ultimate liability will exceed the available insurance. For additional discussion of these matters, see Note 14. Commitments and Contingencies - Litigation to our audited consolidated financial statements included in Item 8. Financial Statements and Supplementary Data of this Form 10-K.

***The New York Stock Exchange could commence procedures to delist our common stock, in the event we do not timely file all required periodic reports with the SEC, in which case the market price of our shares might decline and become more volatile and our shareholders' ability to trade in our stock could be adversely affected.***

As a result of our failure to timely file this Annual Report on Form 10-K with the SEC, as previously disclosed, on June 16, 2016 we received a notice from the NYSE informing us that we were not in compliance with the NYSE's continued listing requirements under the timely filing criteria outlined in Section 802.01E of the NYSE Listed Company Manual and that we were subject to the procedures set forth in the NYSE's listing standards related to late filings. Under the NYSE rules, the Company was provided with six months from June 15, 2016 to file this delinquent Annual Report on Form 10-K, subject to periodic updates with the NYSE staff. In the event that the Company has not filed the Form 10-K and any required Forms 10-Q by the end of that six-month period, the Company may receive up to an additional six-month extension at the discretion of the NYSE. While we have filed this Annual Report on Form 10-K, we were required to file a Quarterly Report on Form 10-Q for the quarter ended June 30, 2016 by August 9, 2016. Such Quarterly Report has not been filed and we remain subject to the procedures set forth in the NYSE's listing standards related to late filings and subject to the risk of delisting.

The listing standards of the NYSE provide the NYSE with broad discretion regarding delisting matters. One of the factors described in the NYSE's listing standards that could lead to a company's delisting is the failure of

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the company to make timely, adequate and accurate disclosures of information to its stockholders and the investing public. We cannot assure you that the NYSE will grant any requested relief or further extensions, if necessary, or otherwise not commence delisting procedures with respect to our common stock as a result of those and other factors related to any future delinquent reports.

If our common stock were delisted, there could be no assurance whether or when it would again be listed for trading on NYSE or any other exchange. Further, the market price of our shares might decline and become more volatile, and our shareholders may find that their ability to trade in our stock would be adversely affected. Furthermore, institutions whose charters do not allow them to hold securities in unlisted companies might sell our shares, perhaps very promptly, which could have a further adverse effect on the price of our stock.

***Our failure to prepare and timely file our periodic reports with the SEC limits our access to the public markets to raise debt or equity capital, and could have negative consequences related to our financing agreements and our ESOP.***

We did not file this Annual Report on Form 10-K within the timeframe required by the SEC. We also did not timely file our Quarterly Report on Form 10-Q for the quarter ended June 30, 2016. As a result of our late filings, we may be limited in our ability to access the public markets to raise debt or equity capital, which could prevent us from pursuing transactions or implementing business strategies that we believe would be beneficial to our business. We are ineligible to use shorter and less costly filings, such as Form S-3, to register our securities for sale for a period of 12 months following the month in which we regain compliance with our SEC reporting obligations. We may be able to use Form S-1 to register a sale of our stock to raise capital or complete acquisitions, but doing so would likely increase transaction costs and adversely impact our ability to raise capital or complete acquisitions of other companies in a timely manner.

In addition, from July 2015 through February 2016, the Company amended the Bank Term Loans and Senior Notes and also obtained various consents from those lenders. These amendments and consents had the effect of: (i) extending the time for delivery of our fiscal year 2015 audited financial statements and fiscal year end 2016 quarterly financial information to April 1, 2016, whereby an event of default was waived as long as those items were delivered by that date, (ii) further modified certain definitions applicable to the Company's affirmative and negative financial covenants, including with respect to the treatment of the costs related to the Company's restatement for purposes of the calculation of the minimum fixed charge coverage ratio and the maximum leverage ratio, and (iii) permitted the Company's payment of quarterly dividends in June, August and December 2015 as well as a dividend for preferred shares held in the ESOP.

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

If the Company is unable to maintain the listing of its stock on the NYSE for failure to comply with the continued listing requirements, including timely filing of Exchange Act reports, or is unable to comply with the covenants in its financing agreements, the Company could face significant difficulties in obtaining additional financing. Difficulties in borrowing money or raising financing could have a material adverse effect on our operations, planned capital expenditures and ability to fund further growth.

In addition, if our common stock is no longer a registration-type class of security (e.g., in the event of a delisting), there would be two ESOP-related effects. First, the option held by the ESOP trustee, which granted it the ability to put to us the shares of our Redeemable convertible preferred stock, would then become applicable.



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Second, the option held by participants or their designated beneficiaries, which granted them the ability to put to us the shares of our common stock received upon distributions from the ESOP resulting from retirement, disability, death or vested terminations, would then become applicable.

### **Risks Relating to Our Business**

***Fluctuations in the price and availability of resins, our principal raw materials, and our inability to obtain adequate supplies of resins from suppliers and pass on resin price increases to customers could adversely affect our business, financial condition, results of operations and cash flows.***

The principal raw materials that we use in our high performance thermoplastic corrugated pipe and Allied Products are virgin and recycled resins. Our ability to operate profitably depends, to a large extent, on the markets for these resins. In particular, as resins are derived either directly or indirectly from crude oil derivatives and natural gas liquids, resin prices fluctuate substantially as a result of changes in crude oil and natural gas prices, changes in existing processing capabilities and the capacity of resin suppliers. The petrochemical industry historically has been cyclical and volatile. The cycles are generally characterized by periods of tight supply, followed by periods of oversupply, primarily resulting from significant capacity additions. For example, resin prices have increased since 2010 due to increased demand in the broader economy. Unanticipated changes in and disruptions to existing petrochemical capacities could also significantly increase resin prices, often within a short period of time, even if crude oil and natural gas prices remain low.

Our ability to offer our core products depends on our ability to obtain adequate resins, which we purchase directly from major petrochemical and chemical suppliers. We have managed a formal resin price risk management program since early in 2010 that entails both physical fixed price and volume contracts along with financial hedges which are designed to apply to a significant portion of our annual virgin resin purchases. In conjunction with our resin price risk management program, we maintain supply agreements with our major resin suppliers that provide multi-year terms and volumes that are in excess of our projected consumption. For our polypropylene virgin resin price exposure, we utilize financial hedges of propylene as a proxy for polypropylene. Historically, the month to month change in market based pricing has been very similar between propylene and polypropylene. The loss of, or substantial decrease in the availability of, raw materials from our suppliers, or the failure by our suppliers to continue to provide us with raw materials on commercially reasonable terms, or at all, could adversely affect our business, financial condition, results of operations and cash flows. In addition, supply interruptions could arise from labor disputes or weather conditions affecting supplies or shipments, transportation disruptions or other factors beyond our control. An extended disruption in the timely availability of raw materials from our key suppliers would result in a decrease in our revenues and profitability.

Our ability to maintain profitability heavily depends on our ability to pass through to our customers the full amount of any increase in raw material costs, which are a large portion of our overall product costs. We may be unable to do so in a timely manner, or at all, due to competition in the markets in which we operate. In addition, certain of our largest customers historically have exerted significant pressure on their outside suppliers to keep prices low because of their market share. If increases in the cost of raw materials cannot be passed on to our customers, or the duration of time associated with a pass through becomes extended, our business, financial condition, results of operations and cash flows will be adversely affected.

***Any disruption or volatility in general business and economic conditions in the markets in which we operate could have a material adverse effect on the demand for our products and services.***

The markets in which we operate are sensitive to general business and economic conditions in the United States and worldwide, including availability of credit, interest rates, fluctuation in capital and business and consumer confidence. The capital and credit markets have in recent years been experiencing significant volatility and disruption. These conditions, combined with price fluctuations in crude oil derivatives and natural gas liquids, declining business and consumer confidence and increased unemployment, precipitated an economic

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slowdown and severe recession in recent years. The difficult conditions in these markets and the overall economy affect our business in a number of ways. For example:

The slowdown and volatility of the United States economy in general is having an adverse effect on our sales that are dependent on the non-residential construction market. Continued uncertainty about current economic conditions will continue to pose a risk to our business units that serve the non-residential construction market, as participants in this industry may postpone spending in response to tighter credit, negative financial news and/or declines in income or asset values, which could have a continued material adverse effect on the demand for our products and services.

The homebuilding industry has undergone a significant decline from its peak in 2005. While new housing starts demonstrated an annual growth rate of 13.6% from 2010 to 2015, current levels remain substantially below the long-term average of 1.5 million starts since the U.S. Census Bureau began reporting the data in 1959. The mortgage markets continue to experience disruption and reduced availability of mortgages for potential homebuyers due to more restrictive standards to qualify for mortgages, including with respect to new home construction loans. The multi-year downturn in the homebuilding industry resulted in a substantial reduction in demand for our products and services in this market, which in turn had a significant adverse effect on our financial condition and results of operations during the period from 2008 to 2014, as compared to peak levels.

Our business depends to a great extent upon general activity levels in the agriculture market. Changes in corn production, soybean production, farm income, farmland value and the level of farm output in the geographic locations in which we operate are all material factors that could adversely affect the agriculture market and result in a decrease in the amount of products that our customers purchase. The nature of the agriculture market is such that a downturn in demand can occur suddenly, resulting in excess inventories, un-utilized production capacity and reduced prices for pipe products. These downturns may be prolonged and our revenue and profitability would be harmed.

Demand for our products and services depend to a significant degree on spending on infrastructure, which is inherently cyclical. Infrastructure spending is affected by a variety of factors beyond our control, including interest rates, availability and commitment of public funds for municipal spending and highway spending and general economic conditions. Our products sales may be adversely impacted by budget cuts by governments, including as a result of lower than anticipated tax revenues.

All of our markets are sensitive to changes in the broader economy. Downturns or lack of substantial improvement in the economy in any region in which we operate have adversely affected and could continue to adversely affect our business, financial condition and results of operations. While we operate in many markets, our business is particularly impacted by changes in the economies of the United States, Canada and Mexico, which represented approximately 86.3%, 7.7% and 4.8%, respectively, of our net sales for fiscal year 2016 and collectively represented approximately 98.8% of our net sales for fiscal year 2016.

We cannot predict the duration of current economic conditions, or the timing or strength of any future recovery of activities in our markets. Continued weakness in the market in which we operate could have a material adverse effect on our business, financial condition, results of operations and cash flows. We may have to close under-performing

facilities from time to time as warranted by general economic conditions and/or weakness in the markets in which we operate. In addition to a reduction in demand for our products, these factors may also reduce the price we are able to charge for our products and restrict our ability to pass raw material cost increases to our customers. This, combined with an increase in excess capacity, will negatively impact our profitability, cash flows and our financial condition, generally.

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***Demand for our products and services could decrease if we are unable to compete effectively, and our success depends largely on our ability to convert current demand for competitive products into demand for our products.***

We compete with both manufacturers of high performance thermoplastic corrugated pipe and manufacturers of alternative products, such as concrete, steel and PVC pipe products, on the basis of a number of considerations, including product characteristics such as durability, design, ease of installation, price on a price-to-value basis and service. In particular, we compete on a global, national and local basis with pipe products made of traditional materials which our high performance thermoplastic corrugated pipe products are designed to replace. For example, our N-12 and SaniTite HP products face competition from concrete, steel and PVC pipe products in the small- and large-diameter size segments of the market.

Our ability to successfully compete and grow depends largely on our ability to continue to convert the current demand for concrete, steel and PVC pipe products into demand for our high performance thermoplastic corrugated pipe and Allied Products. Our thermoplastic pipe typically has an installed cost advantage of approximately 20% over concrete pipe. However, depending upon certain factors such as the size of the pipe, the geography of a particular location and then-existing raw material costs, the initial cost of our thermoplastic pipe may be higher than the initial cost of alternative products such as concrete, steel and PVC pipe products. To increase our market share, we will need to increase material conversion by educating our customers about the value of our products in comparison to existing alternatives, particularly on an installed cost basis, working with government agencies to expand approvals for our products and working with civil engineering firms which may influence the specification of our products on construction projects. No assurance can be given that our efforts to increase or maintain the current rate of material conversion will be successful, and our failure to do so would have a material adverse effect on our business, financial condition, results of operations and cash flows.

We also expect that new competitors may develop over time. No assurance can be given that we will be able to respond effectively to such competitive pressures. Increased competition by existing and future competitors could result in reductions in sales, prices, volumes and gross margins that would materially adversely affect our business, financial condition, results of operations and cash flows. Furthermore, our success will depend, in part, on our ability to maintain our market share and gain market share from competitors.

Certain of our competitors have financial and other resources that are greater than ours and may be better able to withstand price competition, especially with respect to traditional products. In addition, consolidation by industry participants could result in competitors with increased market share, larger customer bases, greater diversified product offerings and greater technological and marketing expertise, which would allow them to compete more effectively against us. Moreover, our competitors may develop products that are superior to our products or may adapt more quickly to new technologies or evolving customer requirements. Technological advances by our competitors may lead to new manufacturing techniques and make it more difficult for us to compete. In many markets in which we operate there are no significant entry barriers that would prevent new competitors from entering the market, especially on the local level, or existing competitors from expanding in the market. In addition, because we do not have long-term arrangements with many of our customers, these competitive factors could cause our customers to cease purchasing our products.

In addition, our contracts with municipalities are often awarded and renewed through periodic competitive bidding. We may not be successful in obtaining or renewing these contracts on financially attractive terms or at all, which could adversely affect our business, financial condition, results of operations and cash flows.

***Our results of operations could be adversely affected by the effects of weather.***

Although weather patterns affect our operating results throughout the year, adverse weather historically has reduced construction activity in our third and fourth fiscal quarters. In contrast, our highest volume of net sales historically has occurred in our first and second fiscal quarters.

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Most of our business units experience seasonal variation as a result of the dependence of our customers on suitable weather to engage in construction projects. Generally, during the winter months, construction activity declines due to inclement weather, frozen ground and shorter daylight hours. For example, during the spring of 2013 and 2014, the extremely cold weather significantly reduced the level of construction activities in the United States, thereby impacting our revenues. In addition, to the extent that hurricanes, severe storms, floods, other natural disasters or similar events occur in the geographic regions in which we operate, our results of operations may be adversely affected. For example, Hurricane Andrew in Florida in 1992 and the extensive flooding of the Mississippi River in 2011 resulted in temporary interruption in business activity in these areas. We anticipate that fluctuations of our operations results from period to period due to seasonality will continue in the future.

***The loss of any of our significant customers could adversely affect our business, financial condition, results of operations and cash flows.***

Our 10 largest customers in the United States generated approximately 41.5% of our domestic net sales in fiscal year 2016. We cannot guarantee that we will maintain or improve our relationships with these customers or that we will continue to supply these customers at historical levels. Because we do not have long-term arrangements with many of our customers, such customers may cease purchasing our products without notice or upon short notice to us. During the economic downturn, some of our customers reduced their operations. For example, some homebuilder customers exited or severely curtailed building activity in certain of our markets. There is no assurance that our customers will increase their activity level or return it to historic levels. A slow economic recovery could continue to have material adverse effect on our business, financial condition, results of operations and cash flows.

In addition, consolidation among customers could also result in a loss of some of our present customers to our competitors. The loss of one or more of our significant customers, a significant customer's decision to purchase our products in significantly lower quantities than they have in the past, or deterioration in our relationship with any of them could have a material adverse effect on our business, financial condition, results of operations and cash flows.

***The majority of our net sales are credit sales which are made primarily to customers whose ability to pay is dependent, in part, upon the economic strength of the industry and geographic areas in which they operate, and the failure to collect monies owed from customers could adversely affect our financial condition.***

The majority of our net sales volume is facilitated through the extension of credit to our customers whose ability to pay is dependent, in part, upon the economic strength of the industry in the areas where they operate. Our business units offer credit to customers, either through unsecured credit that is based solely upon the creditworthiness of the customer, or secured credit for materials sold for a specific job where the security lies in lien rights associated with the material going into the job. The type of credit offered depends both on the financial strength of the customer and the nature of the business in which the customer is involved. End users, resellers and other non-contractor customers generally purchase more on unsecured credit than secured credit. The inability of our customers to pay off their credit lines in a timely manner, or at all, would adversely affect our business, financial condition, results of operations and cash flows. Furthermore, our collections efforts with respect to non-paying or slow-paying customers could negatively impact our customer relations going forward.

Because we depend on the creditworthiness of certain of our customers, if the financial condition of our customers declines, our credit risk could increase. Significant contraction in our markets, coupled with tightened credit availability and financial institution underwriting standards, could adversely affect certain of our customers. Should one or more of our larger customers declare bankruptcy, it could adversely affect the collectability of our accounts receivable, bad debt reserves and net income.





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***Our international operations expose us to political, economic and regulatory risks not normally faced by businesses that operate only in the United States.***

International operations are exposed to different political, economic and regulatory risks that are not faced by businesses that operate solely in the United States. Some of our operations are outside the United States, with manufacturing and distribution facilities in Canada and several Latin American countries. Our international operations are subject to risks similar to those affecting our operations in the United States in addition to a number of other risks, including:

difficulties in enforcing contractual and intellectual property rights;

impositions or increases of withholding and other taxes on remittances and other payments by subsidiaries and affiliates;

exposure to different legal standards;

fluctuations in currency exchange rates;

impositions or increases of investment and other restrictions by foreign governments;

the requirements of a wide variety of foreign laws;

political and economic instability;

war; and

difficulties in staffing and managing operations, particularly in remote locations.

***As a result of our international operations, we could be adversely affected by violations of the U.S. Foreign Corrupt Practices Act and similar foreign anti-corruption laws.***

The U.S. Foreign Corrupt Practices Act ( FCPA ) and similar foreign anti-corruption laws generally prohibit companies and their intermediaries from making improper payments or providing anything of value to wrongfully influence foreign government officials for the purpose of obtaining or retaining business or obtaining an unfair advantage, and generally require companies to maintain accurate books and records and internal controls, including at foreign controlled subsidiaries. Recent years have seen a substantial increase in the global enforcement of anti-corruption laws, with more frequent voluntary self-disclosures by companies, aggressive investigations and enforcement proceedings by both the U.S. Department of Justice and the SEC resulting in record fines and penalties, increased enforcement activity by non-U.S. regulators, and increases in criminal and civil proceedings brought against

companies and individuals.

We have operations in Canada as well as existing joint ventures in Mexico and South America. Our internal policies provide for compliance with all applicable anti-corruption laws for both us and for our joint venture operations. Our continued operation and expansion outside the United States, including in developing countries, could increase the risk of such violations in the future. Despite our training and compliance programs, we cannot assure you that our internal control policies and procedures will always protect us from unauthorized, reckless or criminal acts committed by our employees, agents or joint venture partners.

Furthermore, as part of the restatement of the Company's previously issued financial statements included in the Fiscal 2015 Form 10-K, management identified certain weaknesses in the Company's internal control over financial reporting, which weaknesses included certain control deficiencies related to the ADS Mexicana control environment, as well as the ADS Mexicana revenue recognition cut-off practices. These material weaknesses are further described in Item 9A. Controls and Procedures, below. Certain of the matters related to the ADS Mexicana control environment were already the subject of investigation by third party advisors to the Audit Committee as part of the restatement of our previously issued financial statements as set forth in the Fiscal 2015 Form 10-K. Although such matters have resulted in a determination of material weakness, neither the Audit Committee's advisors in the course of their investigation nor management have concluded whether the

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weaknesses in the ADS Mexicana control environment, the ADS Mexicana revenue recognition cut-off practices, or any other material weaknesses of the Company as described in Item 9A, would result in an ultimate determination by the SEC or any other applicable regulatory agency that the Company has not complied with the books and records and internal control provisions of the FCPA as set forth in sections 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act. In the event that we believe or have reason to believe that our employees, agents or joint venture partners have or may have violated applicable anti-corruption laws, including the FCPA, we may be required to investigate or have outside counsel investigate the relevant facts and circumstances, which can be expensive and require significant time and attention from senior management. A finding that the Company or its affiliates have violated any of these laws may result in severe criminal or civil sanctions, which could disrupt our business and result in a material adverse effect on our reputation, financial condition, results of operations and cash flows.

***Conducting a portion of our operations through joint ventures exposes us to risks and uncertainties, many of which are outside of our control, and such risks could have a material adverse effect on our business, financial condition, results of operations and cash flows.***

With respect to our existing joint ventures in Mexico, North America and South America, any differences in views among the joint venture participants may result in delayed decisions or in failures to agree on major issues. We also cannot control the actions of our joint venture partners, including any nonperformance, default or bankruptcy of our joint venture partners. As a result, we may be unable to control the quality of products produced by the joint ventures or achieve consistency of product quality as compared with our other operations. In addition to net sales and market share, this may have a material negative impact on our brand and how it is perceived thereafter. Moreover, if our partners also fail to invest in the joint venture in the manner that is anticipated or otherwise fail to meet their contractual obligations, the joint ventures may be unable to adequately perform and conduct their respective operations, requiring us to make additional investments or perform additional services to ensure the adequate performance and delivery of products and/or services to the joint ventures' customers, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

***We may not be able to successfully expand into new product markets which could negatively impact our future sales and results of operations.***

We may expand into new product markets based on our existing manufacturing, design and engineering capabilities and services. Our business depends in part on our ability to identify future products and product lines that complement existing products and product lines and that respond to our customers' needs. We may not be able to compete effectively unless our product selection keeps up with trends in the markets in which we compete or trends in new products. In addition, our ability to integrate new products and product lines into our distribution network could impact our ability to compete. Furthermore, the success of new products and new product lines will depend on market demand and there is a risk that new products and new product lines will not deliver expected results, which could negatively impact our future sales and results of operations.

***We may not be able to successfully expand into new geographic markets which could negatively impact our future sales and increase our operating costs.***

Our expansion into new geographic markets may present competitive, distribution and regulatory challenges that differ from current ones. We may be less familiar with the target customers and may face different or additional risks, as well as increased or unexpected costs, compared to existing operations. Expansion into new geographic markets may also bring us into direct competition with companies with whom we have little or no past experience as competitors. To the extent we rely upon expansion into new geographic markets for growth and do not meet the new challenges posed by such expansion, our future sales growth could be negatively impacted, our operating costs could

increase, and our business operations and financial results could be adversely affected.

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***We may not achieve the acquisition component of our growth strategy which could negatively impact our financial condition and results of operations.***

Acquisitions may continue to be an important component of our growth strategy; however, there can be no assurance that we will be able to continue to grow our business through acquisitions as we have done historically or that any businesses acquired will perform in accordance with expectations or that business judgments concerning the value, strengths and weaknesses of businesses acquired will prove to be correct. Future acquisitions may result in the incurrence of debt and contingent liabilities, an increase in interest expense and amortization expense and significant charges relative to integration costs. Our strategy could be impeded if we do not identify suitable acquisition candidates and our financial condition and results of operations will be adversely affected if we are unable to properly evaluate acquisition targets.

Acquisitions involve a number of special risks, including:

problems implementing disclosure controls and procedures for the newly acquired business;

unforeseen difficulties extending internal control over financial reporting and performing the required assessment at the newly acquired business;

potential adverse short-term effects on operating results through increased costs or otherwise;

diversion of management's attention and failure to recruit new, and retain existing, key personnel of the acquired business;

failure to successfully implement infrastructure, logistics and systems integration;

our business growth could outpace the capability of our systems; and

the risks inherent in the systems of the acquired business and risks associated with unanticipated events or liabilities, any of which could have a material adverse effect on our business, financial condition and results of operations.

In addition, we may not be able to obtain financing necessary to complete acquisitions on attractive terms or at all.

***Increased fuel and energy prices, and our inability to obtain sufficient quantities of fuel to operate our in-house delivery fleet, could adversely affect our business, financial condition, results of operations and cash flows.***

Energy and petroleum prices have fluctuated significantly in recent years. Prices and availability of petroleum products are subject to political, economic and market factors that are outside our control. Political events in petroleum-producing regions as well as hurricanes and other weather-related events may cause the price of fuel to increase.

We consume a large amount of energy and petroleum products in our operations, including the manufacturing process and delivering a significant volume of products to our customers by our in-house fleet. While we have implemented a diesel hedging program covering approximately 50% of the projected diesel fuel consumption associated with our in-house fleet to mitigate against higher fuel prices, our operating profit will be adversely affected if we are unable to obtain the energy and fuel we require or to fully offset the anticipated impact of higher energy and fuel prices through increased prices or surcharges to our customers or through other hedging strategies. If shortages occur in the supply of energy or necessary petroleum products and we are not able to pass along the full impact of increased energy or petroleum prices to our customers, our business, financial condition, results of operations and cash flows would be adversely affected.

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***We have substantial fixed costs and, as a result, our income from operations is sensitive to changes in our net sales.***

A significant portion of our expenses are fixed costs (including personnel). For fiscal years 2016, 2015 and 2014, domestic fixed costs were 28.7%, 25.5% and 25.8%, respectively, as a percentage of domestic net sales. Fixed costs do not fluctuate with net sales. Consequently, a percentage decline in our net sales could have a greater percentage effect on our income from operations if we do not act to reduce personnel or take other cost reduction actions. Any decline in our net sales would cause our profitability to be adversely affected. Moreover, a key element of our strategy is managing our assets, including our substantial fixed assets, more effectively, including through sales or other disposals of excess assets. Our failure to rationalize our fixed assets in the time, and within the costs, we expect could have a material adverse effect on our business, financial condition, results of operations and cash flows.

***Internally manufacturing our products at our own facilities subjects our business to risks associated with manufacturing processes.***

We internally manufacture our own products at our facilities. While we maintain insurance covering our manufacturing and production facilities and have significant flexibility to manufacture and ship our own products from various facilities, a catastrophic loss of the use of certain of our facilities due to accident, fire, explosion, labor issues, weather conditions, other natural disaster or otherwise, whether short or long-term, could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Unexpected failures of our equipment and machinery may result in production delays, revenue loss and significant repair costs, injuries to our employees, and customer claims. Any interruption in production capability may limit our ability to supply enough products to customers and may require us to make large capital expenditures to remedy the situation, which could have a negative impact on our profitability and cash flows. Our business interruption insurance may not be sufficient to offset the lost revenues or increased costs that we may experience during a disruption of our operations.

***We provide product warranties that could expose us to claims, which could in turn damage our reputation and adversely affect our business, financial condition, results of operations and cash flows.***

We generally provide limited product warranties on our products against defects in materials and workmanship in normal use and service. Most of our pipe products have a warranty that is not limited in duration. The warranty period for other products such as our StormTech chambers, our Inserta Tee product line, our BaySaver product line and our FleXstorm inlet protection systems is generally one year. Estimating the required warranty reserves requires a high level of judgment. Management estimates warranty reserves, based in part upon historical warranty costs, as a proportion of sales by product line. Management also considers various relevant factors, including its stated warranty policies and procedures, as part of its evaluation of its liability. Because warranty issues may surface later in the product life cycle, management continues to review these estimates on a regular basis and considers adjustments to these estimates based on actual experience compared to historical estimates. Although management believes that our warranty reserves as of March 31, 2016 are adequate, actual results may vary from these estimates.

***The nature of our business exposes us to construction defect and product liability claims as well as other legal proceedings, which could damage our reputation and adversely affect our business, financial condition, results of operations and cash flows.***

We are exposed to construction defect and product liability claims relating to our various products if our products do not meet customer expectations. Such liabilities may arise out of the quality of raw materials we purchase from third-party suppliers, over which we do not have direct control. We also operate a large fleet of trucks and other

vehicles and therefore face the risk of traffic accidents.



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While we currently maintain insurance coverage to address a portion of these types of liabilities, we cannot make assurances that we will be able to obtain such insurance on acceptable terms in the future, if at all, or that any such insurance will provide adequate coverage against potential claims. Further, while we intend to seek indemnification against potential liability for products liability claims from relevant parties, we cannot guarantee that we will be able to recover under any such indemnification agreements. Product liability claims can be expensive to defend and can divert the attention of management and other personnel for significant time periods, regardless of the ultimate outcome. An unsuccessful product liability defense could be highly costly and accordingly result in a decline in revenues and profitability. In addition, even if we are successful in defending any claim relating to the products we distribute, claims of this nature could negatively impact customer confidence in us and our products.

From time to time, we are also involved in government inquiries and investigations, as well as consumer, employment, tort proceedings and other litigation. We cannot predict with certainty the outcomes of these legal proceedings and other contingencies, including potential environmental remediation and other proceedings commenced by government authorities. The outcome of some of these legal proceedings and other contingencies could require us to take actions which would adversely affect our operations or could require us to pay substantial amounts of money. Additionally, defending against these lawsuits and proceedings may involve significant expense and diversion of management's attention and resources from other matters.

***Because our business is working capital intensive, we rely on our ability to manage our supply purchasing and customer credit policies.***

Our operations are working capital intensive, and our inventories, accounts receivable and accounts payable are significant components of our net asset base. We manage our inventories and accounts payable through our purchasing policies and our accounts receivable through our customer credit policies. If we fail to adequately manage our supply purchasing or customer credit policies, our working capital and financial condition may be adversely affected.

***Our operations are affected by various laws and regulations in the markets in which we operate, and our failure to obtain or maintain approvals by municipalities, state departments of transportation, engineers and developers may affect our results of operations.***

Our operations are principally affected by various statutes, regulations and laws in the United States, Canada and Latin America. While we are not engaged in a regulated industry, we are subject to various laws applicable to businesses generally, including laws affecting land usage, zoning, the environment, health and safety, transportation, labor and employment practices (including pensions), competition, immigration and other matters. Additionally, approvals by municipalities, the U.S. and state departments of transportation, engineers and developers may affect the products our customers are allowed to use, and, consequently, failure to obtain or maintain such approvals may affect the saleability of our products. Building codes may also affect the products our customers are allowed to use, and, consequently, changes in building codes may also affect the saleability of our products. Changes in applicable regulations governing the sale of some of our products could increase our costs of doing business. In addition, changes to applicable tax laws and regulations could increase our costs of doing business. We cannot provide assurance that we will not incur material costs or liabilities in connection with regulatory requirements.

We deliver products to many of our customers through our own fleet of vehicles. The U.S. DOT regulates our operations in domestic interstate commerce. We are subject to safety requirements governing interstate operations prescribed by the U.S. DOT. Vehicle dimensions and driver hours of service also remain subject to both federal and state regulation. More restrictive limitations on vehicle weight and size, trailer length and configuration, or driver hours of service could increase our costs, which, if we are unable to pass these cost increases on to our customers,

would reduce our gross margins and net income (loss) and increase our selling, general and administrative expenses.

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We cannot predict whether future developments in law and regulations concerning our business units will affect our business, financial condition and results of operations in a negative manner. Similarly, we cannot assess whether our business units will be successful in meeting future demands of regulatory agencies in a manner which will not materially adversely affect our business, financial condition, results of operations and cash flows.

***Interruptions in the proper functioning of information technology systems could disrupt operations and cause unanticipated increases in costs, decreases in revenues, or both.***

Because we use our information technology ( IT ) systems to, among other things, manage inventories and accounts receivable, make purchasing decisions and monitor our results of operations, the proper functioning of our IT systems is important to the successful operation of our business. Although our IT systems are protected through physical and software safeguards and remote processing capabilities exist, IT systems are still vulnerable to natural disasters, power losses, unauthorized access, telecommunication failures and other problems. If critical IT systems fail, or are otherwise unavailable, our ability to process orders, track credit risk, identify business opportunities, maintain proper levels of inventories, collect accounts receivable and pay expenses and otherwise manage our business units would be adversely affected.

Management uses IT systems to support decision making and to monitor business performance. We may fail to generate accurate financial and operational reports essential for making decisions at various levels of management. Failure to adopt systematic procedures to maintain quality IT general controls could disrupt our business. In addition, if we do not maintain adequate controls such as reconciliations, segregation of duties and verification to prevent errors or incomplete information, our ability to operate our business could be limited.

Third-party service providers are responsible for managing a significant portion of our IT systems. Our business and results of operations may be adversely affected if the third-party service provider does not perform satisfactorily. Additionally, there is no guarantee that we will continue to have access to these third-party IT systems after our current license agreements expire, and, if we do not obtain licenses to use effective replacement IT systems, our financial condition and operating results could be adversely affected.

***The implementation of our technology initiatives could disrupt our operations in the near term, and our technology initiatives might not provide the anticipated benefits or might fail.***

We have made, and will continue to make, significant technology investments in each of our business units and in our administrative functions. Our technology initiatives are designed to streamline our operations to allow our associates to continue to provide high quality service to our customers and to provide our customers a better experience, while improving the quality of our internal control environment. The cost and potential problems and interruptions associated with the implementation of our technology initiatives could disrupt or reduce the efficiency of our operations in the near term. In addition, our new or upgraded technology might not provide the anticipated benefits, it might take longer than expected to realize the anticipated benefits or the technology might fail altogether.

***We may experience a failure in or breach of our operational or information security systems, or those of our third-party service providers, as a result of cyber-attacks or information security breaches.***

Information security risks have generally increased in recent years because of the proliferation of new technologies and the increased sophistication and activities of perpetrators of cyber-attacks. A failure in or breach of our operational or information security systems, or those of our third-party service providers, as a result of cyber-attacks or information security breaches could disrupt our business, result in the disclosure or misuse of confidential or proprietary information, damage our reputation, increase our costs and/or cause losses. As a result, cyber security and

the continued development and enhancement of the controls and processes designed to protect our systems, computers, software, data and networks from attack, damage or unauthorized access remain

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a priority for us. As cyber threats continue to evolve, we may be required to expend additional significant resources to continue to enhance our information security measures and/or to investigate and remediate any information security vulnerabilities.

***If we become subject to material liabilities under our self-insured programs, our financial results may be adversely affected.***

We provide workers' compensation, automobile and product/general liability coverage through a high deductible insurance program. In addition, we provide medical coverage to some of our employees through a self-insured preferred provider organization. Our business, financial condition, results of operations and cash flows may be adversely affected if the number and severity of insurance claims increases.

***We may see increased costs arising from health care reform.***

In March 2010, the United States government enacted comprehensive health care reform legislation which, among other things, includes guaranteed coverage requirements, eliminates pre-existing condition exclusions and annual and lifetime maximum limits, restricts the extent to which policies can be rescinded and imposes new and significant taxes on health insurers and health care benefits. The legislation imposes implementation effective dates which began in 2010 and extend through 2020, and many of the changes require additional guidance from government agencies or federal regulations. Therefore, due to the phased-in nature of the implementation and the lack of interpretive guidance, it is difficult to determine at this time what impact the health care reform legislation will have on our financial results. Possible adverse effects of the health care reform legislation include increased costs, exposure to expanded liability and requirements for us to revise ways in which we provide healthcare and other benefits to our employees. As a result, our business, financial condition, results of operations and cash flows could be materially adversely affected.

***Our success depends upon our ability to control labor costs and to attract, train and retain highly-qualified employees and key personnel.***

To be successful, we must attract, train and retain a large number of highly qualified employees while controlling related labor costs. Our ability to control labor costs is subject to numerous external factors, including prevailing wage rates and health and other insurance costs. We compete with other businesses for these employees and invest significant resources in training and motivating them. There is no assurance that we will be able to attract or retain highly-qualified employees in the future, including, in particular, those employed by companies we acquire. None of our domestic employees are currently covered by collective bargaining or other similar labor agreements. However, if a number of our employees were to unionize, including in the wake of any future legislation that makes it easier for employees to unionize, the effect on us may be negative. Any inability by us to negotiate acceptable new contracts under any collective bargaining arrangements could cause strikes or other work stoppages, and new contracts could result in increased operating costs. If any such strikes or other work stoppages occur, or if employees become represented by a union, we could experience a disruption of our operations and higher labor costs. Labor relations matters affecting our suppliers of products and services could also adversely affect our business from time to time.

In addition, our business results of operations depend largely upon our chief executive officer and senior management team as well as our plant managers and sales personnel, including those of companies recently acquired, and their experience, knowledge of local market dynamics and specifications and long-standing customer relationships. We customarily sign executive responsibility agreements with certain key personnel who are granted restricted stock or stock options under our employee incentive compensation programs, which contain confidentiality and non-competition provisions. However, in certain jurisdictions, non-competition provisions may not be enforceable or may not be enforceable to their full extent. Our inability to retain or hire qualified plant managers or sales personnel at

economically reasonable compensation levels would restrict our ability to grow our business, limit our ability to continue to successfully operate our business and result in lower operating results and profitability.

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*If we are unable to protect our intellectual property rights, or we infringe on the intellectual property rights of others, our ability to compete could be negatively impacted.*

Our ability to compete effectively depends, in part, upon our ability to protect and preserve proprietary aspects of our intellectual property, which we attempt to do, both in the United States and in foreign countries, through a combination of patent, trademark, copyright and trade secret laws, as well as licensing agreements and third-party nondisclosure and assignment agreements. Because of the differences in foreign trademark, patent and other laws concerning proprietary rights, our intellectual property rights may not receive the same degree of protection in foreign countries as they would in the United States. Our failure to obtain or maintain adequate protection of our intellectual property rights for any reason could have a material adverse effect on our business, results of operations and financial condition.

We have applied for patent protection relating to certain existing and proposed products, processes and services. While we generally apply for patents in those countries where we primarily intend to make, have made, use, or sell patented products, we may not accurately predict all of the countries where patent protection will ultimately be desirable. If we fail to timely file a patent application in any such country, we may be precluded from doing so at a later date. Furthermore, we cannot assure you that any of our patent applications will be approved. We also cannot assure you that the patents issuing as a result of our foreign patent applications will have the same scope of coverage as our United States patents. The patents we own could be challenged, invalidated or circumvented by others and may not be of sufficient scope or strength to provide us with any meaningful protection or commercial advantage. Further, we cannot assure you that competitors will not infringe our patents, or that we will have adequate resources to enforce our patents.

We also rely on unpatented proprietary technology. It is possible that others will independently develop the same or similar technology or otherwise obtain access to our unpatented technology. To protect our trade secrets and other proprietary information, we generally require applicable employees, consultants, advisors and collaborators to enter into confidentiality agreements. We cannot assure you that these agreements will provide meaningful protection for our trade secrets, know-how or other proprietary information in the event of any unauthorized use, misappropriation or disclosure of such trade secrets, know-how or other proprietary information. If we are unable to maintain the proprietary nature of our technologies, we could be materially adversely affected.

We rely on our trademarks, trade names and brand names to distinguish our products from the products of our competitors, and have registered or applied to register many of these trademarks. We cannot assure you that our trademark applications will be approved. Third parties may also oppose our trademark applications or otherwise challenge our use of the trademarks. In the event that our trademarks are successfully challenged, we could be forced to rebrand our products, which could result in loss of brand recognition, and could require us to devote resources to advertising and marketing new brands. Further, we cannot assure you that competitors will not infringe our trademarks or that we will have adequate resources to enforce our trademarks. We also license third parties to use certain of our trademarks. In an effort to preserve our trademark rights, we enter into license agreements with these third parties which govern the use of our trademarks and which require our licensees to abide by quality control standards with respect to the goods and services that they provide under our trademarks. Although we make efforts to police the use of our trademarks by our licensees, we cannot assure you that these efforts will be sufficient to ensure that our licensees abide by the terms of their licenses. In the event that our licensees fail to do so, our trademark rights could be diluted.

Although we rely on copyright laws to protect the works of authorship (including software) created by us, we generally do not register the copyrights in any of our copyrightable works. Copyrights of United States origin must be registered before the copyright owner may bring an infringement suit in the United States. Furthermore, if a copyright

of United States origin is not registered within three months of publication of the underlying work, the copyright owner is precluded from seeking statutory damages or attorneys' fees in any United States enforcement action and is limited to seeking actual damages and lost profits. Accordingly, if one of our



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unregistered copyrights of United States origin is infringed by a third party, we will need to register the copyright before we can file an infringement suit in the United States, and our remedies in any such infringement suit may be limited.

The misuse of our intellectual property rights by others could adversely impact our ability to compete, cause our net sales to decrease or otherwise harm our business. If it became necessary for us to resort to litigation to protect our intellectual property rights, any proceedings could be burdensome and costly, and we may not prevail.

Also, we cannot be certain that the products that we sell do not and will not infringe issued patents or other intellectual property rights of others. Further, we are subject to legal proceedings and claims in the ordinary course of our business, including claims of alleged infringement of the patents, trademarks and other intellectual property rights of third parties by us or our customers, whom we generally indemnify in connection with their use of the products that we manufacture. These claims could divert management's attention and resources and may require us to initiate or defend protracted and costly litigation on behalf of ourselves or our customers, regardless of the merits of the claims. Should we be found liable for infringement, we may be required to enter into licensing agreements (if available on acceptable terms or at all) or pay damages and cease making or selling certain products. Moreover, we may need to redesign or sell different products to avoid future infringement liability. Any of the foregoing could cause us to incur significant costs, prevent us from selling our products or negatively impact our ability to compete.

***Income tax payments may ultimately differ from amounts currently recorded by us. Future tax law changes may materially increase our prospective income tax expense.***

We are subject to income taxation in many jurisdictions in the United States as well as foreign jurisdictions. Judgment is required in determining our worldwide income tax provision and, accordingly, there are many transactions and computations for which our final income tax determination is uncertain. We are routinely audited by income tax authorities in many tax jurisdictions. Although we believe the recorded tax estimates are reasonable, the ultimate outcome from any audit (or related litigation) could be materially different from amounts reflected in our income tax provisions and accruals. Future settlements of income tax audits may have a material effect on earnings between the period of initial recognition of tax estimates in the financial statements and the point of ultimate tax audit settlement. Additionally, it is possible that future income tax legislation in any jurisdiction to which we are subject may be enacted that could have a material impact on our worldwide income tax provision beginning with the period that such legislation becomes effective.

***We could incur significant costs in complying with environmental, health and safety laws or permits or as a result of satisfying any liability or obligation imposed under such laws or permits.***

Our operations are subject to various federal, state, local and foreign environmental, health and safety laws and regulations. Among other things, these laws regulate the emission or discharge of materials into the environment, govern the use, storage, treatment, disposal and management of hazardous substances and wastes, protect the health and safety of our employees and the end users of our products, regulate the materials used in and the recycling of products and impose liability for the costs of investigating and remediating, and damages resulting from, present and past releases of hazardous substances. Violations of these laws and regulations, failure to obtain or maintain required environmental permits or non-compliance with any conditions contained in any environmental permit can result in substantial fines or penalties, injunctive relief, requirements to install pollution or other controls or equipment, civil and criminal sanctions, permit revocations and/or facility shutdowns. We could be held liable for the costs to address contamination of any real property we have ever owned, leased, operated or used, including as a disposal site. We could also incur fines, penalties, sanctions or be subject to third-party claims for property damage, personal injury or nuisance or otherwise as a result of violations of or liabilities under environmental laws in connection with releases of

hazardous or other materials.

In addition, changes in, or new interpretations of, existing laws, regulations or enforcement policies, the discovery of previously unknown contamination, or the imposition of other environmental liabilities or

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obligations in the future, including additional investigation or other obligations with respect to any potential health hazards of our products or business activities or the imposition of new permit requirements, may lead to additional compliance or other costs that could have material adverse effect on our business, financial condition, results of operations and cash flows.

### ***A change in our product mix could adversely affect our results of operations.***

Our results may be affected by a change in our product mix on which our gross margin depends. Our Allied Products typically provide higher gross margin than our pipe products. Changes in our product mix may result from marketing activities to existing customers and needs communicated to us from existing and prospective customers. Our outlook, budgeting and strategic planning assume a certain product mix of sales. If actual results vary from this projected product mix of sales, our financial results could be negatively impacted.

### ***We may be affected by global climate change or by legal, regulatory or market responses to such potential change.***

Concern over climate change, including the impact of global warming, has led to significant federal, state, and international legislative and regulatory efforts to limit greenhouse gas ( GHG ) emissions. For example, in the past several years, the U.S. Congress has considered various bills that would regulate GHG emissions. While these bills have not yet received sufficient Congressional support for enactment, some form of federal climate change legislation is possible in the future. Even in the absence of such legislation, the Environmental Protection Agency, spurred by judicial interpretation of the Clean Air Act, may regulate GHG emissions, especially diesel engine emissions, and this could impose substantial costs on us. These costs include an increase in the cost of the fuel and other energy we purchase and capital costs associated with updating or replacing our internal fleet of trucks and other vehicles prematurely. In addition, new laws or future regulation could directly and indirectly affect our customers and suppliers (through an increase in the cost of production or their ability to produce satisfactory products) and our business (through the impact on our inventory availability, cost of sales, operations or demands for the products we sell). Until the timing, scope and extent of any future regulation becomes known, we cannot predict its effect on our cost structure or our operating results. Notwithstanding our dedication to being a responsible corporate citizen, it is reasonably possible that such legislation or regulation could impose material costs on us.

### ***Anti-terrorism measures and other disruptions to the raw material supply network could impact our operations.***

Our ability to provide efficient distribution of products to our customers is an integral component of our overall business strategy. In the aftermath of terrorist attacks in the United States, federal, state and local authorities have implemented and continue to implement various security measures that affect the raw material supply network in the United States and abroad. If security measures disrupt or impede the receipt of sufficient raw materials, we may fail to meet the needs of our customers or may incur increased expenses to do so.

## **Risks Relating to Our Indebtedness**

***We have substantial debt and may incur substantial additional debt, which could adversely affect our financial health, reduce our profitability, limit our ability to obtain financing in the future and pursue certain business opportunities and reduce the value of your investment.***

As of March 31, 2016, we had an aggregate principal amount of \$351.2 million of outstanding debt. In fiscal year 2016, we incurred \$15.1 million of interest expense related to this debt.

The amount of our debt or such other obligations could have important consequences for holders of our common stock, including, but not limited to:

a substantial portion of our cash flow from operations must be dedicated to the payment of principal and interest on our indebtedness, thereby reducing the funds available to us for other purposes;

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our ability to obtain additional financing for working capital, capital expenditures, acquisitions, debt service requirements or general corporate purposes and other purposes may be impaired in the future;

we are exposed to the risk of increased interest rates because a portion of our borrowings is at variable rates of interest;

we may be at a competitive disadvantage compared to our competitors with less debt or with comparable debt at more favorable interest rates and that, as a result, may be better positioned to withstand economic downturns;

our ability to refinance indebtedness may be limited or the associated costs may increase;

our ability to engage in acquisitions without raising additional equity or obtaining additional debt financing may be impaired in the future;

it may be more difficult for us to satisfy our obligations to our creditors, resulting in possible defaults on and acceleration of such indebtedness;

we may be more vulnerable to general adverse economic and industry conditions; and

our flexibility to adjust to changing market conditions and our ability to withstand competitive pressures could be limited, or we may be prevented from making capital investments that are necessary or important to our operations in general, growth strategy and efforts to improve operating margins of our business units.

If our cash flow and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay capital expenditures, sell assets, seek to obtain additional equity capital or refinance our debt. We cannot make assurances that we will be able to refinance our debt on terms acceptable to us, or at all. In the future, our cash flow and capital resources may not be sufficient for payments of interest on and principal of our debt, and such alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations.

We cannot make assurances that we will be able to refinance any of our indebtedness, or obtain additional financing, particularly because of our high levels of debt and the debt incurrence restrictions imposed by the agreements governing our debt, as well as prevailing market conditions. We could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our debt service and other obligations. Subject to certain exceptions, our Bank Term Loans and our Senior Notes, which we have defined in Note 12. Debt to our consolidated financial statements included in Item 8. Financial Statements and Supplementary Data, restrict our ability to dispose of assets and how we use the proceeds from any such dispositions. We cannot make assurances that we will be able to consummate those dispositions, or if we do, what the timing of the dispositions will be or whether the proceeds that we realize will be adequate to meet our debt service obligations, when due.

***Despite our current level of indebtedness, we may still be able to incur substantially more debt. This could further exacerbate the risks to our financial condition described above.***

We may be able to incur significant additional indebtedness in the future. Although the agreements governing our indebtedness contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of qualifications and exceptions, and the additional indebtedness incurred in compliance with these restrictions could be substantial. These restrictions also will not prevent us from incurring obligations that do not constitute indebtedness, including obligations under lease arrangements that are currently recorded as operating leases. In addition, our Revolving Credit Facility provides an aggregate commitment of up to \$325.0 million. As of March 31, 2016, we had an additional \$148.0 million of availability under the Revolving Credit Facility plus \$12.0 million in availability outstanding under a separate revolving credit facility with our subsidiary, ADS Mexicana. If new debt is added to our current debt levels, the related risks that we now face could intensify. See Note 12. Debt to our consolidated financial statements included in Item 8. Financial Statements and Supplementary Data.

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*The agreements and instruments governing our debt contain restrictions and limitations that could significantly impact our ability to operate our business and adversely affect the holders of our common stock.*

The covenants contained in our Bank Term Loans and our Senior Notes, which we refer to collectively as our Credit Facilities, are consistent. These covenants, among other things, restrict or limit our ability to:

dispose of assets;

incur additional indebtedness (including guarantees of additional indebtedness);

prepay or amend our various debt instruments;

pay dividends and make certain payments;

redeem stock or make other distributions;

create liens on assets;

make certain investments;

engage in certain asset sales, mergers, acquisitions, consolidations or sales of all, or substantially all, of our assets; and

engage in certain transactions with affiliates.

Our ability to comply with the covenants and restrictions contained in the Credit Facilities may be affected by economic, financial and industry conditions beyond our control. The breach of any of these covenants or restrictions could result in a default under the Credit Facilities that would permit the applicable lenders or noteholders, as the case may be, to declare all amounts outstanding thereunder to be due and payable, together with accrued and unpaid interest. If we are unable to repay indebtedness, secured parties having secured obligations, such as the lenders under the Credit Facilities, could proceed against the collateral securing the secured obligations. This could have serious consequences to our financial condition and results of operations and could cause us to become bankrupt or insolvent.

*We may have future capital needs and may not be able to obtain additional financing on acceptable terms.*

Although we believe that our current cash position and the additional committed funding available under our Credit Facilities is sufficient for our current operations, any reductions in our available borrowing capacity, or our inability to renew or replace our debt facilities, when required or when business conditions warrant, could have a material adverse effect on our business, financial condition and results of operations. The economic conditions, credit market

conditions, and economic climate affecting our industry, as well as other factors, may constrain our financing abilities. Our ability to secure additional financing, if available, and to satisfy our financial obligations under indebtedness outstanding from time to time will depend upon our future operating performance, the availability of credit generally, economic conditions and financial, business and other factors, many of which are beyond our control. The market conditions and the macroeconomic conditions that affect our industry could have a material adverse effect on our ability to secure financing on favorable terms, if at all.

If financing is not available when needed, or is available on unfavorable terms, we may be unable to take advantage of business opportunities or respond to competitive pressures, any of which could have a material adverse effect on our business, financial condition and results of operations. If we raise additional funds through further issuances of equity, convertible debt securities or other securities convertible into equity, our existing stockholders could suffer significant dilution in their percentage ownership, and any new securities we issue could have rights, preferences and privileges senior to those of holders of our common stock.

*Increases in interest rates would increase the cost of servicing our debt and could reduce our profitability.*

A significant portion of our outstanding debt, including the debt under our Bank Term Loans, bears interest at variable rates. As a result, increases in interest rates would increase the cost of servicing our debt and could



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materially reduce our profitability and cash flows. Each 1.0% increase in interest rates on our variable-rate debt would increase our annual forecasted interest expense by approximately \$2.0 million based on balances as of March 31, 2016. Assuming all revolving loans were fully drawn, each 1.0% increase in interest rates would result in a \$3.6 million increase in annual cash interest expense on our Credit Facilities.

With respect to the indebtedness outstanding under our Credit Facilities that bear interest at variable rates, such variable rates are determined based upon specified pricing terms. As a result, if our leverage ratios increase, then such variable rates could also increase. See Note 12, Debt to our consolidated financial statements included in Item 8, Financial Statements and Supplementary Data.

### ***We may not be able to satisfy our outstanding obligations upon a change of control.***

Under the Bank Term Loans, a change of control (as defined therein) constitutes an event of default that permits the lenders to accelerate the maturity of borrowings under the agreement and terminate their commitments to lend. Additionally, under the Senior Notes, a change of control (as defined therein) constitutes an event of default that permits the noteholders to declare all of their notes to be immediately due and payable. In order to avoid events of default under each of our Credit Facilities, we may therefore have to avoid certain change of control transactions that would otherwise be beneficial to us.

## **Risks Relating to Our Common Stock**

### ***Our ability to make future dividend payments, if any, may be restricted.***

We have a history of paying dividends to our stockholders when sufficient cash is available, and we currently intend to pay dividends in the future. Any determination to pay dividends on our capital stock in the future will be at the discretion of our board of directors, subject to applicable laws and the provisions of our amended and restated certificate of incorporation (including those relating to the payment of dividends on our convertible preferred stock), and will depend on our financial condition, results of operations, capital requirements, general business conditions and other factors that our board of directors considers relevant. In addition, the terms of our Credit Facilities contain restrictions on our ability to pay dividends. Also, Delaware law may impose requirements that may restrict our ability to pay dividends to holders of our common stock.

### ***We cannot assure our stockholders that an active market for shares of our common stock can be sustained and the market price of our common stock may be volatile and could decline in the future.***

We cannot assure you that an active public market for our common stock will be sustained. In the absence of a public trading market, you may not be able to liquidate your investment in our common stock. The market price of our common stock may fluctuate significantly. Among the factors that could affect our stock price are:

industry or general market conditions;

domestic and international economic factors unrelated to our performance;

changes in our customers' preferences;

new regulatory pronouncements and changes in regulatory guidelines;

actual or anticipated fluctuations in our quarterly operating results;

changes in securities analysts' estimates of our financial performance or lack of research and reports by industry analysts;

action by institutional stockholders or other large stockholders, including future sales;

speculation in the press or investment community;

investor perception of us and our industry;

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changes in market valuations or earnings of similar companies;

announcements by us or our competitors of significant products, contracts, acquisitions or strategic partnerships;

developments or disputes concerning patents or proprietary rights, including increases or decreases in litigation expenses associated with intellectual property lawsuits we may initiate, or in which we may be named as defendants;

failure to complete significant sales;

any future sales of our common stock or other securities; and

additions or departures of key personnel.

The stock markets have experienced extreme volatility in recent years that has been unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the trading price of our common stock. In the past, following periods of volatility in the market price of a company's securities, class action litigation has often been instituted against such company. Any litigation of this type brought against us could result in substantial costs and a diversion of our management's attention and resources, which would harm our business, operating results and financial condition.

***Future sales of shares by existing stockholders, including our Employee Stock Ownership Plan, could cause our stock price to decline.***

Sales of substantial amounts of our common stock in the public market, or the perception that these sales could occur, could cause the market price of our common stock to decline. Based on shares outstanding as of March 31, 2016, we have 54.6 million outstanding shares of common stock, including 0.1 million outstanding shares of our restricted stock, a significant portion of which are freely tradeable without restriction under the Securities Act of 1933, as amended, ( Securities Act ) unless held by affiliates, as that term is defined in Rule 144 under the Securities Act. The remaining shares of common stock outstanding are restricted securities within the meaning of Rule 144 under the Securities Act. Restricted securities may be sold in the public market only if their offer and sale is registered under the Securities Act or if the offer and sale of those securities qualify for an exemption from registration, including exemptions provided by Rules 144 and 701 under the Securities Act. In connection with our initial public offering, we filed one or more registration statements on Form S-8 under the Securities Act to register the shares of common stock to be issued under our equity compensation plans and, as a result, all shares of common stock acquired upon exercise of stock options granted under our plans are also freely tradable under the Securities Act, unless purchased by our affiliates. As of March 31, 2016, there were stock options outstanding to purchase a total of approximately 2.4 million shares of our common stock. In addition, approximately 1.4 million shares of common stock are reserved for future issuance under our 2013 Stock Option Plan.

Certain of our significant stockholders may distribute shares that they hold to their investors who themselves may then sell into the public market. Such sales may not be subject to the volume, manner of sale, holding period and other limitations of Rule 144 of the Securities Act ( Rule 144 ). As resale restrictions end, the market price of our common

stock could decline if the holders of those shares sell them or are perceived by the market as intending to sell them.

All of the shares of our convertible preferred stock held by our Employee Stock Ownership Plan ( ESOP ) may be converted into our common stock at any time by action of the ESOP trustee, and will be automatically converted into our common stock upon distributions of such shares allocated to the ESOP accounts of ESOP participants upon a distribution event such as retirement or other termination of employment. Such distributed common stock will not be subject to any lock-up agreement and will be eligible for future sale, subject to the applicable volume, manner of sale, holding period and other limitations of Rule 144. As of March 31, 2016, there

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were approximately 24.8 million shares of convertible preferred stock held by our ESOP, which in aggregate could be converted into approximately 19.1 million shares of our common stock. All of these shares will be eligible for future sale, either by the ESOP trustee or by ESOP participants, subject to the limitations of Rule 144.

In the future, we may issue additional shares of common stock or other equity or debt securities convertible into common stock in connection with a financing, acquisition, litigation settlement or employee arrangement or otherwise. Any of these issuances could result in substantial dilution to our existing stockholders and could cause the trading price of our common stock to decline.

***If securities or industry analysts do not publish research or publish misleading or unfavorable research about our business, our stock price and trading volume could decline.***

The trading market for our common stock depends in part on the research and reports that securities or industry analysts publish about us or our business. If one or more of these analysts downgrades our stock or publishes misleading or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts ceases coverage of us or fails to publish reports on us regularly, demand for our stock could decrease, which could cause our stock price or trading volume to decline.

***Our directors, officers and principal stockholders have significant voting power and may take actions that may not be in the best interests of our other stockholders.***

As of August 31, 2016, our directors, officers and principal stockholders and their affiliates collectively own approximately 65.6% of our outstanding shares of common stock. Additionally, our ESOP holds convertible preferred stock that converts into a substantial number of shares of our common stock and, prior to conversion, is entitled to vote on a one-for-one basis on any matter requiring the vote or consent of our stockholders, voting together with our common stock as a single class unless otherwise required by law. Thus, the collective voting power of our directors, officers and principal stockholders and their affiliates as of August 31, 2016 is approximately 76.3%, inclusive of the outstanding shares of convertible preferred stock held by the ESOP. As a result, these stockholders, if they act together, may be able to control our management and affairs and most matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. This concentration of ownership may have the effect of delaying or preventing a change of control and might adversely affect the market price of our common stock. This concentration of ownership may not be in the best interests of our other stockholders.

***The trustee of our ESOP has certain limited powers to vote a large block of shares on matters presented to stockholders for approval.***

In general, the ESOP trustee votes the shares of convertible preferred stock held by the ESOP as directed by the ESOP's participants. Consequently, the ESOP trustee has the ability to vote a significant block of shares on certain matters presented to stockholders for approval. Each participant in the ESOP may direct the ESOP trustee on how to vote the shares of convertible preferred stock allocated to the participant's ESOP accounts; and the ESOP trustee must vote any unallocated stock and allocated stock for which no participant instructions were received in the same proportion as the allocated stock for which participants' voting instructions have been received is voted.

***Fulfilling the obligations incident to being a public company is expensive and time-consuming, and any delays or difficulties in satisfying these obligations could have a material adverse effect on our future results of operations and our stock price.***

We completed our initial public offering in fiscal year 2015. As such, we are now subject to the reporting and corporate governance requirements, the listing standards of the NYSE, and the Sarbanes-Oxley Act of 2002 that apply to issuers of listed equity, which impose certain compliance costs and obligations upon us. The

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changes necessitated by publicly listing our equity have required a significant commitment of additional resources and management oversight, which increases our operating costs. These requirements also place significant demands on our finance and accounting staff and on our financial accounting and information systems. Other expenses associated with being a public company include increases in auditing, accounting and legal fees and expenses, investor relations expenses, increased directors' fees and director and officer liability insurance costs, registrar and transfer agent fees and listing fees, as well as other expenses. These costs have been further increased by the significant legal, consulting and other professional fees incurred in connection with the completion of the restatement of our previously issued financial statements and the ongoing remediation of certain material weaknesses in our internal control over financial reporting as described in this Form 10-K.

In addition, complying with public disclosure rules makes our business more visible, which we believe may result in threatened or actual litigation, including by competitors and other third parties. If such claims are successful, our business and operating results could be harmed, and even if the claims do not result in litigation or are resolved in our favor, these claims, and the time and resources necessary to resolve them, could divert the resources of our management and harm our business and operating results.

***Anti-takeover provisions in our charter documents and Delaware law could discourage, delay or prevent a change in control of us and may affect the trading price of our common stock.***

Our amended and restated certificate of incorporation and amended and restated bylaws include a number of provisions that may discourage, delay or prevent a change in our management or control over us that stockholders may consider favorable. For example, our amended and restated certificate of incorporation and amended and restated bylaws:

authorize the issuance of blank check preferred stock that could be issued by our board of directors to thwart a takeover attempt;

maintain a classified board of directors, as a result of which our board will continue to be divided into three classes, with each class serving for staggered three-year terms, which prevents stockholders from electing an entirely new board of directors at an annual meeting;

limit the ability of stockholders to remove directors;

provide that vacancies on our board of directors, including newly-created directorships, may be filled only by a majority vote of directors then in office;

prohibit stockholders from calling special meetings of stockholders;

prohibit stockholder action by written consent, thereby requiring all actions to be taken at a meeting of the stockholders;

do not give the holders of our common stock cumulative voting rights with respect to the election of directors, which means that the holders of a majority of our outstanding shares of common stock can elect all directors standing for election;

establish advance notice requirements for nominations for election to our board of directors or for proposing matters that can be acted upon by stockholders at stockholder meetings;

require a super-majority stockholders vote of 75% to approve any reorganization, recapitalization, share exchange, share reclassification, consolidation, merger, conversion or sale of all or substantially all assets to which we are a party that is not approved by the affirmative vote of at least 75% of the members of our board of directors; and

require the approval of holders of at least 75% of the outstanding shares of our voting common stock to amend the bylaws and certain provisions of the certificate of incorporation.

Any provision of our amended and restated certificate of incorporation, amended and restated bylaws or Delaware General Corporation Law that has the effect of delaying or deterring a change in control could limit the



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opportunity for our stockholders to receive a premium for their shares of our common stock, and could also affect the price that some investors are willing to pay for our common stock.

Our amended and restated certificate of incorporation and amended and restated bylaws may also make it difficult for stockholders to replace or remove our management. These provisions may facilitate management entrenchment that may delay, deter, render more difficult or prevent a change in our control, which may not be in the best interests of our stockholders.

*Our amended and restated certificate of incorporation provides that the Court of Chancery of the State of Delaware is the exclusive forum for substantially all disputes between us and our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers, employees or agents.*

Our amended and restated certificate of incorporation provides that the Court of Chancery of the State of Delaware is the exclusive forum for any derivative action or proceeding brought on our behalf; any action asserting a claim of breach of a fiduciary duty owed to us or our stockholders by our directors, officers, employees or agents; any action asserting a claim against us arising under the Delaware General Corporation Law, our amended and restated certificate of incorporation or our amended and restated bylaws; or any action asserting a claim against us that is governed by the internal affairs doctrine. Any person or entity purchasing or otherwise acquiring any interest in shares of our common stock shall be deemed to have notice of and to have consented to the provisions of our amended and restated certificate of incorporation described above. The choice of forum provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers, employees or agents, which may discourage such lawsuits against us or our directors, officers, employees or agents. If a court were to find the choice of forum provision contained in our amended and restated certificate of incorporation to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions, which could adversely affect our business and financial condition.

## **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

## **ITEM 2. PROPERTIES**

### *Real Property*

We have a network of 61 manufacturing plant locations and 31 distribution centers, including the facilities owned or leased by our joint ventures. We operate across all 50 U.S. states and 10 Canadian provinces through 77 locations in the United States and Canada, consisting of 52 manufacturing plants and 25 distribution centers. We have 9 manufacturing plants and 5 distribution centers operated through joint ventures in Mexico and South America, as well as one distribution center in Europe.

We currently own approximately 36,000 square feet of office space in Hilliard, Ohio for our corporate headquarters.

Our network of 61 manufacturing plants consisted of 49 that were owned and 12 that were leased. We generally prefer to own our manufacturing plant locations, with a typical pipe manufacturing facility consisting of approximately 40,000 square feet and 15-20 acres of land for storage of pipe and related products. Our network of 31 distribution centers consisted of 1 owned and 30 leased. We believe that our properties have been adequately maintained and are generally in good condition. The extent to which we use our properties varies by property and from time to time but

we believe the capacity of our facilities is adequate for the level of production and distribution activities necessary in our business as presently conducted. Each distribution center carries single wall and dual wall pipe and fittings and Allied Products per needs of the local market.

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Our manufacturing plants and distribution centers, including those operated through our joint ventures, are shown in the map below.<sup>1</sup>

<sup>1</sup> Additionally, we have a distribution center in Rotterdam, The Netherlands.

*In-house Fleet*

As of March 31, 2016, our in-house fleet consisted of approximately 675 tractor-trailers and approximately 1,200 trailers that are specially designed to haul our lightweight pipe and fittings products.

**ITEM 3. LEGAL PROCEEDINGS**

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

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

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

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

Table of Contents**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Market Information for Common Stock**

Our common stock began trading on the NYSE under the symbol WMS on July 25, 2014. Prior to that date, there was no public trading market for our common stock. The following table sets forth the high and low sales prices per share of our common stock as reported on the NYSE and the dividends paid for each quarter of fiscal years 2016 and 2015:

	<b>Stock Prices</b>		<b>Dividends Paid</b>
	<b>High</b>	<b>Low</b>	<b>Per Share</b>
<b>2016</b>			
First Quarter	\$ 33.28	\$ 26.33	\$ 0.05
Second Quarter	\$ 33.06	\$ 25.74	\$ 0.05
Third Quarter	\$ 32.50	\$ 22.00	\$ 0.05
Fourth Quarter	\$ 23.65	\$ 17.72	\$ 0.05
<b>Year</b>			<b>\$ 0.20</b>
<b>2015</b>			
First Quarter	\$	\$	\$
Second Quarter	\$ 22.21	\$ 14.74	\$
Third Quarter	\$ 24.26	\$ 19.35	\$ 0.04
Fourth Quarter	\$ 30.00	\$ 21.94	\$ 0.04
<b>Year</b>			<b>\$ 0.08</b>

The Board of Directors approved a dividend of \$0.04 per share to all common stockholders of record during the quarters ending December 31, 2014 and March 31, 2015. No dividends were declared in the quarters ended June 30, 2014 and September 30, 2014.

During each of the four quarters of 2016, the Board of Directors approved a quarterly cash dividend of \$0.05 per share to all common stockholders. In addition, during each of the first and second quarters of 2017, the Board of Directors approved a quarterly cash dividend of \$0.06 per share to all common stockholders. Any future determination relating to dividends will be made at the discretion of our board of directors and will depend on a number of factors, including our future earnings, capital requirements, financial condition, future prospects, contractual restrictions, legal requirements and other factors our board of directors may deem relevant.

**Holders of Record**

As of August 31, 2016, we had 230 holders of record of our common stock. The number of holders of record is based upon the actual number of holders registered as of such date and does not include holders of shares in street name or persons, partnerships, associates, corporations or other entities in security position listings maintained by depositories.



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### **Stock Performance Graph**

The following graph presents a comparison from July 25, 2014 (the date our common stock commenced trading on the NYSE) through March 31, 2016 of the cumulative return of our common stock, the Standard and Poor's Index ( S&P 500 ) and the Russell 2000 Index ( Russell 2000 ). The graph assumes investments of \$100 on July 25, 2014 in our common stock and in each of the two indices and the reinvestment of dividends.

### **Recent Sales of Unregistered Securities**

Between April 1, 2014 and the completion of our initial public offering ( IPO ), we sold securities without registration under the Securities Act of 1933, as amended, to certain officers, directors and employees upon the exercise of stock options. Such sales included 56,464 shares of common stock in exchange for an aggregate of \$432,170.

These transactions did not involve any underwriters or any public offerings. These transactions were exempt from registration under the Securities Act, pursuant to Section 4(a)(2) of the Securities Act or Rule 701 promulgated thereunder, as transactions by an issuer not involving a public offering. No general solicitation was made either by us or any person acting on our behalf; the recipients of our common stock agreed that the securities would be subject to the standard restrictions applicable to a private placement of securities under applicable state and federal securities laws; and appropriate legends were affixed to the certificates issued.

Since the completion of our IPO, we have not sold any securities without registration under the Securities Act of 1933, as amended.

### **Issuer Purchases of Equity Securities**

We did not make any repurchases of shares of our common stock during the three months ended March 31, 2016.

### **Equity Compensation Plan Information**

For equity compensation plan information, refer to Part III, Item. 12 Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters, of this Annual Report on Form 10-K.

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The following tables set forth selected historical consolidated financial data, for the periods and as of the dates indicated, that should be read in conjunction with Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, and our consolidated financial statements and notes thereto included in Item 8. Financial Statements and Supplementary Data, of this Form 10-K. We derived the consolidated statements of operations and cash flow data for the years ended March 31, 2016, 2015, and 2014 and our consolidated balance sheet data as of March 31, 2016 and 2015 from our audited financial statements included in Item 8. Financial Statements and Supplementary Data, of this Form 10-K, which have been revised to correct immaterial errors identified in the previously issued financial statements. Refer to Item 8. Financial Statements and Supplementary Data, Note 23. Revision of Prior Period Financial Statements of this Form 10-K. We derived the consolidated statements of operations and cash flow data for the years ended March 31, 2013 and 2012 and our consolidated balance sheet data as of March 31, 2014, 2013 and 2012 from previously audited financial statements that are not included herein, which have also been revised to correct immaterial errors identified in the previously issued financial statements. Our historical results are not necessarily indicative of future results.

<b>(Amounts in thousands)</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Consolidated statement of operations data:</b>					
Net sales	\$ 1,290,678	\$ 1,180,073	\$ 1,067,780	\$ 1,017,102	\$ 1,015,667
Cost of goods sold	1,005,626	973,860	875,232	829,849	839,637
Gross profit	285,052	206,213	192,548	187,253	176,030
Selling expenses	88,978	78,981	74,042	71,805	70,542
General and administrative expenses	101,445	58,749	59,761	49,601	56,018
Loss (gain) on disposal of assets or businesses <sup>(1)</sup>	812	362	(2,863)	(951)	(44,204)
Intangibles amortization	9,224	9,754	10,145	10,028	8,074
Income from operations	84,593	58,367	51,463	56,770	85,600
Interest expense	18,460	19,368	18,807	18,526	22,994
Derivative losses (gains) and other expense (income), net <sup>(2)</sup>	16,575	14,370	(1,177)	103	1,487
Income before income taxes	49,558	24,629	33,833	38,141	61,119
Income tax expense	20,855	9,483	19,422	15,645	26,184
Equity in net loss (income) of unconsolidated affiliates	5,234	2,335	3,086	(266)	(631)
Net income	23,469	12,811	11,325	22,762	35,566
Less net income attributable to noncontrolling interest	5,515	4,131	3,593	2,520	968
Net income attributable to ADS	17,954	8,680	7,732	20,242	34,598

(932)



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Accretion of redeemable noncontrolling interest					
Change in fair value of redeemable convertible preferred stock		(11,054)	(3,979)	(5,869)	(10,257)
Dividends to redeemable convertible preferred stockholders	(1,425)	(661)	(10,139)	(736)	(668)
Dividends paid to unvested restricted stockholders	(24)	(11)	(418)	(52)	(34)
Net income (loss) available to common stockholders and participating securities	15,573	(3,046)	(6,804)	13,585	23,639
Undistributed loss allocated to participating securities	(511)			(1,076)	(2,237)
Net income (loss) available to common stockholders	\$ 15,062	\$ (3,046)	\$ (6,804)	\$ 12,509	\$ 21,402

**Table of Contents****(Amounts in thousands, except per share data)**

	2016	2015	2014	2013	2012
<b>Weighted average common shares outstanding:</b>					
Basic	53,978	51,344	47,277	46,698	46,293
Diluted	55,052	51,344	47,277	47,249	47,051
Fully Converted <sup>(3)</sup>	73,500	71,601	67,877	67,545	67,337
<b>Net income (loss) per share</b>					
Basic	\$ 0.28	\$ (0.06)	\$ (0.14)	\$ 0.27	\$ 0.46
Diluted	0.27	(0.06)	(0.14)	0.26	0.45
Fully Converted <sup>(3)</sup>	0.38	0.29	0.56	0.41	0.59
Cash dividends declared per share	0.20	0.08	1.68	0.10	0.09
<b>Consolidated balance sheet data:</b>					
Cash	\$ 6,555	\$ 3,623	\$ 3,931	\$ 1,361	\$ 2,082
Working capital <sup>(4)</sup>	195,135	243,366	235,164	199,108	197,718
Total assets	1,037,648	1,034,685	982,487	944,603	938,831
Long-term debt	315,345	390,315	442,895	338,048	358,790
Long-term capital lease obligations	56,809	45,503	34,366	28,851	23,529
Total liabilities	708,268	726,577	760,787	641,834	656,953
Total mezzanine equity <sup>(5)</sup>	111,747	108,021	642,951	608,346	557,563
Total stockholders equity (deficit)	217,633	200,087	(421,251)	(305,577)	(275,685)
<b>Consolidated statement of cash flows data:</b>					
Net cash provided by operating activities	\$ 135,342	\$ 74,379	\$ 72,410	\$ 75,353	\$ 62,507
Net cash used in investing activities	(49,018)	(76,093)	(38,712)	(44,796)	(33,838)
Net cash (used in) provided by financing activities	(82,964)	1,791	(31,109)	(31,338)	(28,784)
<b>Other financial data:</b>					
Adjusted EBITDA <sup>(6)</sup>	\$ 187,340	\$ 143,877	\$ 151,333	\$ 131,591	\$ 119,601
Capital expenditures	44,942	32,080	40,933	39,835	28,349
Free cash flow <sup>(7)</sup>	90,400	42,299	31,477	35,518	34,158

- (1) During fiscal 2012, we sold our Septic Chamber business and recognized a gain of \$44.6 million.
- (2) Derivative losses (gains) and other expense (income), net for the fiscal years ended March 31, 2016 and 2015 includes unfavorable mark-to-market adjustments of \$2.2 million and \$7.7 million, respectively, for changes in fair value on derivative contracts, and for the year ended March 31, 2015, it also includes a loss on a currency hedge tied to our Ideal Pipe acquisition of \$5.6 million.
- (3) Adjusted Earnings per Fully Converted Share, Adjusted Net Income and Weighted Average Fully Converted Common Shares Outstanding, which are non-GAAP measures, are supplemental measures of financial performance that are not required by, or presented in accordance with GAAP. We calculate Adjusted earnings per fully converted share (Non-GAAP), Adjusted Net Income (Non-GAAP), and Weighted average fully converted common shares outstanding (Non-GAAP), by adjusting our Net income per share Basic and Weighted average common shares outstanding Basic, the most comparable GAAP measures. To effect this adjustment, we have (1) removed the adjustment for the change in fair value of Redeemable convertible preferred stock classified as mezzanine equity from the numerator of the Net income per share Basic computation, (2) added back the dividends to Redeemable convertible preferred stockholders and dividends paid to unvested restricted

stockholders, (3) made corresponding adjustments to the amount allocated to participating securities under the two-class earnings per share computation method, (4) added back ESOP deferred compensation attributable to the shares of Redeemable convertible preferred stock allocated to employee ESOP accounts during the applicable period, which is a non-cash charge to our earnings and not deductible for income tax purposes and (5) added back compensation expense recorded as a result of the January 2014 Special Dividend.

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

Adjusted Earnings Per Fully Converted Share (Non-GAAP) is a key metric used by management and our board of directors to assess our financial performance on a per share basis assuming all shares held by the ESOP and all shares of redeemable common stock are converted to common stock. This information is useful to investors as the preferred shares held by the ESOP are required to be distributed to our employees over time, which is done in the form of common stock after the conversion of the preferred shares. As such, this measure is included in this report because it provides the investors with information to understand the impact on the financial statements once all preferred shares are converted and distributed. Adjusted Earnings Per Fully Converted Share (Non-GAAP) is not necessarily comparable to other similarly titled captions of other companies due to different methods of calculation.

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

<b>(Amounts in thousands, except per share data)</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Net income (loss) available to common stockholders	\$ 15,062	\$ (3,046)	\$ (6,804)	\$ 12,509	\$ 21,402
Weighted average common shares outstanding Basic	53,978	51,344	47,277	46,698	46,293
Net income (loss) per share Basic	\$ 0.28	\$ (0.06)	\$ (0.14)	\$ 0.27	\$ 0.46
Adjustments to Net income (loss) available to common shareholders:					
Change in fair value of redeemable convertible preferred stock		11,054	3,979	5,869	10,257
Accretion of Redeemable non-controlling interest in subsidiaries	932				
Dividends to redeemable convertible preferred stockholders	1,425	661	10,139	736	668
Dividends paid to unvested restricted stockholders	24	11	418	52	34
Undistributed income allocated to participating securities	511			1,076	2,237
Total adjustments to net income (loss) available to common shareholders	2,892	11,726	14,536	7,733	13,196
Net income attributable to ADS	\$ 17,954	\$ 8,680	\$ 7,732	\$ 20,242	\$ 34,598
Adjustments to net income attributable to ADS:					
Fair value of ESOP compensation related to Redeemable convertible preferred stock	\$ 10,250	\$ 12,144	\$ 7,891	\$ 7,283	\$ 4,957
Special dividend compensation			22,624		
Adjusted net income (Non-GAAP)	\$ 28,204	\$ 20,824	\$ 38,247	\$ 27,525	\$ 39,555

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Adjustments to Weighted Average Common Shares

Outstanding Basic:

Unvested restricted shares	123	228	336	292	208
Redeemable convertible preferred shares	19,399	20,029	20,264	20,555	20,836

Weighted Average Fully Converted Common Shares

Outstanding (Non-GAAP)	73,500	71,601	67,877	67,545	67,337
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Adjusted Earnings per Fully Converted Share

(Non-GAAP)	\$ 0.38	\$ 0.29	\$ 0.56	\$ 0.41	\$ 0.59
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- (4) Working capital is equal to current assets less current liabilities. Working capital is an indication of liquidity and potential need for short-term funding.
- (5) Our mezzanine equity consists of the Redeemable convertible preferred stock held by our ESOP and Redeemable common stock held by certain stockholders who have certain rights associated with such shares, which rights are considered to be a redemption right, which is beyond our control, as well the Redeemable noncontrolling interest in subsidiaries related to the noncontrolling interest in the BaySaver joint venture. See Note 17. Mezzanine Equity, within our consolidated financial statements included in Item 8. Financial Statements and Supplementary Data, of this Form 10-K for further information regarding the accounting treatment for our mezzanine equity. Upon the effective date of our IPO (July 25, 2014), the redemption feature of our Redeemable common stock was terminated. As a result, the Redeemable common stock was recorded at fair value through the effective date of the IPO and was subsequently reclassified at that fair value to permanent equity. In addition, upon the effective date of the IPO, the redemption feature of our Redeemable convertible preferred stock was no longer applicable. However, if our common stock is no longer a registration-type class of security (e.g., in the event of a delisting), the option held by the ESOP trustee, which granted it the ability to put the shares of our Redeemable convertible preferred stock to us, would then become applicable. 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 8. Fair Value Measurement within our consolidated financial statements included in Item 8. Financial Statements and Supplementary Data, of this Form 10-K for further information regarding the accounting treatment for our mezzanine equity post-IPO.
- (6) Adjusted EBITDA, a non-GAAP financial measure, has been presented in this Annual Report on Form 10-K as a supplemental measure of financial performance that is not required by, or presented in accordance with GAAP. We calculate Adjusted EBITDA as net income before interest, income taxes, depreciation and amortization, stock-based compensation expense, non-cash charges and certain other expenses.

Adjusted EBITDA is included in this Annual Report on Form 10-K because it is a key metric used by management and our board of directors to assess our financial performance. Adjusted EBITDA is frequently used by analysts, investors and other interested parties to evaluate companies in our industry. In addition to covenant compliance and executive performance evaluations, we use Adjusted EBITDA to supplement GAAP measures of performance to evaluate the effectiveness of our business strategies, to make budgeting decisions and to compare our performance against that of other peer companies using similar measures.

Adjusted EBITDA is not a GAAP measure of our financial performance and should not be considered as an alternative to net income as a measure of financial performance or cash flows from operations or any other performance measure derived in accordance with GAAP, and it should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items. Adjusted EBITDA contains certain other limitations, including the failure to reflect our cash expenditures, cash requirements for working capital needs and cash costs to replace assets being depreciated and amortized. In evaluating Adjusted EBITDA, you should be aware that in the future we will incur expenses that are the same as or similar to some of the adjustments in this presentation, such as stock-based compensation expense, derivative fair value adjustments, and foreign currency transaction losses. Our presentation of Adjusted EBITDA should not be construed to imply that our future results will be unaffected by any such adjustments. Management compensates for these limitations by relying on our GAAP results in addition to using Adjusted EBITDA supplementally. Our measure of Adjusted EBITDA is not necessarily comparable to other similarly titled captions of other companies due to different methods of calculation.

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

(Amounts in thousands)	2016	2015	2014	2013	2012
<b>Net income</b>	<b>\$ 23,469</b>	<b>\$ 12,811</b>	<b>\$ 11,325</b>	<b>\$ 22,762</b>	<b>\$ 35,566</b>
Depreciation and amortization	71,009	65,472	63,674	63,102	63,264
Interest expense	18,460	19,368	18,807	18,526	22,994
Income tax expense	20,855	9,483	19,422	15,645	26,184
<b>EBITDA</b>	<b>133,793</b>	<b>107,134</b>	<b>113,228</b>	<b>120,035</b>	<b>148,008</b>
Derivative fair value adjustments <sup>(a)</sup>	2,163	7,746	(53)	(4)	2,315
Foreign currency transaction losses <sup>(b)</sup>	697	5,404	845	1,085	378
Loss (gain) on disposal of assets or businesses <sup>(c)</sup>	812	362	(2,863)	(951)	(44,204)
Unconsolidated affiliates interest, taxes, depreciation and amortization <sup>(d)</sup>	3,215	3,585	2,845	2,137	1,920
Special dividend compensation <sup>(e)</sup>			22,624		
Contingent consideration remeasurement	371	174	738	(74)	63
Stock-based compensation <sup>(f)</sup>	3,579	5,880	4,518	2,080	1,264
ESOP deferred stock-based compensation <sup>(g)</sup>	10,250	12,144	7,891	7,283	4,957
Loss related to BaySaver step acquisition	490				
Asset impairment					4,900
Restatement costs <sup>(h)</sup>	27,970				
Impairment of investment in unconsolidated affiliate <sup>(i)</sup>	4,000				
Transaction costs <sup>(j)</sup>		1,448	1,560		
<b>Adjusted EBITDA</b>	<b>\$ 187,340</b>	<b>\$ 143,877</b>	<b>\$ 151,333</b>	<b>\$ 131,591</b>	<b>\$ 119,601</b>

- (a) Represents the non-cash gains and losses arising from changes in mark-to-market values for derivative contracts related to diesel fuel, interest rate and propylene swaps. The impact of resin physical and financial derivatives is included in cost of goods sold.
- (b) Represents the gains and losses incurred on purchases, sales and intercompany loans and dividends denominated in non-functional currencies. Fiscal year 2015 includes a \$5.6 million loss on Canadian currency derivative contract related to the Ideal Pipe acquisition.
- (c) During fiscal 2012, we sold our septic chamber business and recognized a gain of \$44.6 million.
- (d) Represents our proportional share of interest, income taxes, depreciation and amortization related to our South American joint venture and our Tigre-ADS USA joint venture, which are accounted for under the equity method of accounting. In addition, these amounts include our proportional share of interest, income taxes, depreciation and amortization related to our BaySaver joint venture prior to our acquisition of BaySaver on July 17, 2015, which was previously accounted for under the equity method of accounting. Fiscal year 2014 includes our proportionate share of an asset impairment of \$1.0 million recorded by our South American joint venture.
- (e) Represents compensation recorded as a result of the January 2014 Special Dividend on shares of Redeemable convertible preferred stock held by the ESOP.
- (f)

Represents the non-cash stock-based compensation cost related to our stock options and restricted stock awards.

- (g) Represents the non-cash stock-based compensation expense attributable to the shares of convertible preferred stock allocated to employee ESOP accounts during the applicable period.
- (h) Represents expenses recorded related to legal, accounting and other professional fees incurred in connection with the restatement of our prior period financial statements.
- (i) Represents an other-than-temporary impairment of our investment in the South American Joint Venture.
- (j) Represents expenses recorded related to legal, accounting and other professional fees incurred in connection with our debt refinancing, the IPO and secondary public offering and asset acquisitions and dispositions.



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(7) Free cash flow is a non-GAAP financial measure that comprises cash flow from operations less capital expenditures. Free cash flow is a measure used by management and the Company's board of directors to assess the Company's ability to generate cash. Accordingly, Free cash flow has been presented in this Annual Report on Form 10-K as a supplemental measure of liquidity that is not required by, or presented in accordance with GAAP, because management believes that Free cash flow provides useful information to investors and others in understanding and evaluating our ability to generate cash flow from operations after capital expenditures. Free cash flow is not a GAAP measure of our liquidity and should not be considered as an alternative to cash flow from operating activities as a measure of liquidity or any other liquidity measure derived in accordance with GAAP. Our measure of Free cash flow is not necessarily comparable to other similarly titled captions of other companies due to different methods of calculation.

The following table presents a reconciliation of Free cash flow to Cash flow from operating activities, the most comparable GAAP measure, for each of the periods indicated.

<b>(Amounts in thousands)</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Cash flow from operating activities</b>	<b>\$ 135,342</b>	<b>\$ 74,379</b>	<b>\$ 72,410</b>	<b>\$ 75,353</b>	<b>\$ 62,507</b>
Capital expenditures	(44,942)	(32,080)	(40,933)	(39,835)	(28,349)
<b>Free cash flow</b>	<b>\$ 90,400</b>	<b>\$ 42,299</b>	<b>\$ 31,477</b>	<b>\$ 35,518</b>	<b>\$ 34,158</b>

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**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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

*The following discussion and analysis of our financial condition and results of our operations should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K. 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 below. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the sections titled Item 1A. Risk Factors and Cautionary Statement About Forward-Looking Statements included elsewhere in this Annual Report on Form 10-K. You should read the following discussion together with the sections titled Item 1A. Risk Factors, Item 6. Selected Financial and Operating Data and our consolidated financial statements, including the related notes, included in Item 8. Financial Statements and Supplementary Data of this Form 10-K.*

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

**Overview**

We are the leading manufacturer of high performance thermoplastic corrugated pipe, providing a comprehensive suite of water management products and superior drainage solutions for use in the underground 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 the United States, our national footprint combined with our strong local presence and broad product offering make 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 \$10.8 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 materials 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 HDPE pipe, 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.

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We have revised the previously reported consolidated financial statements for the years ending March 31, 2015 and 2014 for certain errors that were not material, individually or in the aggregate, in any of those years. Refer to Item 8. Financial Statements and Supplementary Data, Note 23. Revision of Prior Period Financial Statements of this Form 10-K.

## **Key Factors Affecting Our Results of Operations**

### ***Product Demand***

There are numerous factors that influence demand for our products. Our businesses are cyclical in nature and sensitive to general economic conditions, primarily in the United States, Canada, Mexico and South America. The non-residential, residential, agricultural and infrastructure markets we serve are affected by the availability of credit, lending practices, interest rates and unemployment rates. Demand for new homes, farm income, commercial development and highway infrastructure spending have a direct impact on our financial condition and results of operations. Accordingly, the following factors may have a direct impact on our business in the markets in which our products are sold:

the strength of the economy;

the amount and type of non-residential and residential construction;

funding for infrastructure spending;

farm income and agricultural land values;

inventory of improved housing lots;

changes in raw material prices;

the availability and cost of credit;

non-residential occupancy rates;

commodity prices; and

demographic factors such as population growth and household formation.

### ***Product Pricing***

The price of our products is impacted by competitive pricing dynamics in our industry as well as by raw material input costs. Our industry is highly competitive and the sales prices for our products may vary based on the sales policies of our competitors. Raw material costs represent a significant portion of the cost of goods sold for our pipe products, or Pipe. We aim to increase our product selling prices in order to cover raw material price increases, but the inability to do so could impact our profitability. Movements in raw material costs and resulting changes in the selling prices may also impact changes in period-to-period comparisons of net sales.

***Material Conversion***

Our HDPE and PP pipe and related water management product lines compete with other manufacturers of corrugated polyethylene pipe as well as manufacturers of alternative products made with traditional materials, such as concrete, steel and PVC. Our net sales are driven by market trends, including the continued increase in adoption of thermoplastic corrugated pipe products as a replacement for traditional materials. Thermoplastic corrugated pipe is generally lighter, more durable, more cost effective and easier to install than comparable products made from traditional materials. High performance thermoplastic corrugated pipe represented approximately 27% of the total storm sewer market in 2015; up from what we believe was less than 10% ten years ago and less than 1% twenty years ago. We believe this trend will continue as customers continue to acknowledge the superior attributes and compelling value proposition of our thermoplastic products and

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expanded regulatory approvals allow for their use in new markets and geographies. In addition, we believe that PP pipe products will also help accelerate conversion given the additional applications for which our PP pipe products can be used.

We believe the adoption of HDPE and PP pipe outside of the United States is still in its early stages and represents a significant opportunity for us to continue to increase the conversion to our products from traditional products in these markets, including Canada, Mexico and South America where we operate.

### ***Growth in Allied Products***

Our Allied Products include storm and septic chambers, PVC drainage structures, fittings, stormwater filters and water separators. These products complement our pipe product lines and allow us to offer a comprehensive water management solution to our customers and drive organic growth. Our leading market position in pipe products allows us to cross-sell Allied Products effectively. Our comprehensive offering of Allied Products also helps us increase pipe sales in certain markets. Our Allied Products typically carry higher gross margins as compared to our pipe product lines and are less sensitive to increases in resin prices since resin prices represent a smaller percentage of the cost for Allied Products.

Our leading position in the pipe market has allowed us to increase organic growth of our Allied Products. We also expect to expand our Allied Product offerings through acquisitions. For fiscal years 2016, 2015, and 2014, we generated sales of Allied Products of \$338.9 million, \$283.5 million, and \$260.4 million, respectively.

### ***Raw Material Costs***

Our raw material cost and product selling prices fluctuate with changes in the price of resins utilized in production. We actively manage our resin purchases and pass fluctuations in the cost of resin through to our customers, where possible, in order to maintain our profitability. Fluctuations in the price of crude oil and natural gas prices may impact the cost of resin. In addition, changes in and disruptions to existing ethylene or polyethylene capacities could also significantly increase resin prices (such as the aftermath of Hurricanes Katrina and Rita in late 2015), often within a short period of time, even if crude oil and natural gas prices remain low. Our ability to pass through raw material price increases to our customers may, in some cases, lag the increase in our costs of goods sold. Sharp rises in raw material prices over a short period of time have historically occurred with a significant supply disruption (hurricanes or fires at petrochemical facilities), which may increase prices to levels that cannot be fully passed through to customers due to pricing of competing products made from different raw materials or the anticipated length of time the raw material pricing will stay elevated. For more information regarding risks relating to our raw material costs, see Item 1A. Risk Factors Risks Relating to Our Business.

We currently purchase in excess of 850 million pounds of virgin and recycled resin annually from over 450 suppliers in North America. As a high-volume buyer of resin, we are able to achieve economies of scale to negotiate favorable terms and pricing. Our purchasing strategies differ based on the material (virgin resin versus recycled material) ordered for delivery to our production locations. The price movements of the different materials also vary, resulting in the need to use a number of strategies to reduce volatility.

In order to reduce the volatility of raw material costs in the future, our raw material strategies for managing our costs include the following:

increasing the use of less price-volatile recycled HDPE resin in our pipe products in place of virgin resin while meeting or exceeding industry standards;

internally processing an increasing percentage of our recycled HDPE resin in order to closely monitor quality and minimize costs (approximately 84% of our recycled HDPE resin was internally processed in fiscal year 2016);

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managing a resin price risk program that entails both physical fixed price and volume contracts along with financial hedges. For our polypropylene virgin resin price exposure, we utilize financial hedges of propylene as a proxy for the polypropylene.

maintaining supply agreements with our major resin suppliers that provide multi-year terms and volumes that are in excess of our projected consumption.

We also consume a large amount of energy and other petroleum products in our operations, including the electricity we use in our manufacturing process as well as the diesel fuel consumed in delivering a significant volume of products to our customers through our in-house fleet. As a result, our operating profit also depends upon our ability to manage the cost of the energy and fuel we require, as well as our ability to pass through increased prices or surcharges to our customers.

## ***Seasonality***

Our operating results are impacted by seasonality. Historically, sales of our products have been higher in the first and second quarters of each fiscal year due to favorable weather and longer daylight conditions accelerating construction project activity during these periods while fourth quarter results are impacted by the timing of spring in the northern United States and Canada. Seasonal variations in operating results may also be significantly impacted by inclement weather conditions, such as cold or wet weather, which can delay projects, resulting in decreased net sales for one or more quarters, but we believe that these delayed projects generally result in increased net sales during subsequent quarters.

In the non-residential, residential and infrastructure markets in the northern United States and Canada, the construction season typically begins to gain momentum in late March and lasts through November, before winter sets in, significantly slowing the construction markets. In the southern and western United States, Mexico, Central America and South America, the construction markets are less seasonal. The agricultural drainage market is concentrated in the early spring just prior to planting and in the fall just after crops are harvested prior to freezing of the ground in winter.

## ***Currency Exchange Rates***

Although we sell and manufacture our products in many countries, our sales and production costs are primarily denominated in U.S. dollars. We have wholly owned facilities in Canada, the Netherlands, and Puerto Rico and joint venture facilities in Mexico, Chile, Brazil, Argentina, Colombia and Peru. The functional currencies in the areas in which we have wholly owned facilities and joint venture facilities other than the U.S. dollar are the Canadian dollar, Euro, Mexican peso, Chilean peso, Brazilian real, Argentine peso and Colombian peso. From time to time, we use derivatives to reduce our exposure to currency fluctuations. In 2013, we entered into Euro-denominated forward contracts to hedge transactions related to the procurement of new equipment, which expired prior to March 31, 2014. Also in 2013, our South American Joint Venture entered into multiple non-deliverable forward contracts to reduce its exposure to fluctuations in the U.S. dollar relative to the Chilean peso, Argentine peso, Colombian peso and Brazilian real. During fiscal 2015, we began to implement hedging strategies to manage exposure to the Canadian dollar and, to a lesser extent, the Mexican peso, which we continued in fiscal 2016.

## ***Description of our Segments***

We operate a geographically diverse business, serving customers in approximately 80 countries. For fiscal year 2016, approximately 86% (\$1,113.8 million) of net sales were attributable to customers located in the United States and



approximately 14% (\$176.9 million) of net sales were attributable to customers outside of the United States.

Our operations are organized into two reportable segments based on the markets we serve: Domestic and International. We generate a greater proportion of our net sales and gross profit in our Domestic segment, which

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consists of all regions of the United States. We expect the percentage of total net sales and gross profit derived from our International segment to continue to increase in future periods as we continue to expand globally. See Note 21. Business Segment Information, to our audited consolidated financial statements included in Item 8. Financial Statements and Supplementary Data of this Form 10-K.

***Domestic***

Our operating results have been, and will continue to be, impacted by macroeconomic trends in the United States. For fiscal years 2016, 2015, and 2014, we generated net sales attributable to our Domestic segment of \$1,113.8 million, \$1,027.9 million, and \$935.3 million, respectively. Unconsolidated sales for our domestic unconsolidated joint ventures (our Tigre-ADS USA joint venture and our BaySaver joint venture prior to July 17, 2015), were \$20.9 million, \$24.9 million and \$5.2 million in fiscal years 2016, 2015, and 2014, respectively.

***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 those markets serviced through our joint ventures in Mexico and South America. Pipe manufactured in these countries is primarily sold into the same region. Our joint venture strategy has provided us with local and regional access to new markets. The outlook for our International segment has improved. Since 2011, a modest recovery in the international markets, as well as the acquisition of Ideal Pipe in late fiscal 2015, have had a favorable impact on our international product sales, which grew 16.3% in fiscal 2016 and 14.8% in fiscal 2015, after a decline in fiscal 2014. For fiscal years 2016, 2015, and 2014, we generated net sales attributable to our International segment of \$176.9 million, \$152.1 million, and \$132.5 million, respectively. Our investment in the South American Joint Venture is accounted for under the equity method and is not consolidated for financial reporting purposes. The unconsolidated sales of the South American Joint Venture were \$50.3 million, \$58.5 million, and \$61.2 million, in fiscal years 2016, 2015, and 2014, respectively.

**Recent Developments*****Acquisition of BaySaver***

On July 17, 2015, ADS Ventures, Inc. ( ADS/V ), a wholly-owned subsidiary of the Company, acquired an additional 10% of the issued and outstanding membership interests in BaySaver, for a purchase price of \$3.2 million, subject to certain additional post-closing purchase price payments, which was financed through our existing line of credit facility. The BaySaver joint venture was established in July 2013 to design, engineer, manufacture, market and sell water quality filters and separators used in the removal of sediment and pollution from storm water anywhere in the world except New Zealand, Australia and South Africa. The Company originally contributed cash, inventory, and intangible assets in exchange for a 55% equity interest and a 50% voting interest in BaySaver. Concurrent with the additional investment in July 2015, we also entered into an amendment to the BaySaver joint venture agreement to modify the voting rights for the joint venture from an equal vote for each member to a vote based upon the ownership interest. As a result, the Company increased its ownership interest to 65% of the issued and outstanding membership interests in BaySaver and obtained the majority of the voting rights.

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

equity interest, which is included in Derivative losses and other expense, net in our Condensed Consolidated Statements of Operations.

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***Acquisition of Ideal Pipe***

On January 30, 2015, Hancor of Canada, Inc., a wholly-owned subsidiary of the Company, acquired all issued and outstanding shares of Ideal Pipe for a contractual purchase price of \$55.7 million Canadian dollars, financed through our existing line of credit facility. Ideal Pipe designs, manufactures and markets high performance thermoplastic corrugated pipe and related water management products used across a broad range of Canadian end markets and applications, including nonresidential, residential, agriculture, and infrastructure applications. The acquisition further strengthens our positions in Canada by increasing our size and scale in the market, as well as enhancing our manufacturing, marketing and distribution capabilities. The results of operations of Ideal Pipe are included in our Consolidated Statements of Operations after January 30, 2015.

In connection with the agreement to acquire Ideal Pipe, we entered into a Canadian dollar foreign exchange contract to hedge our exposure to changes to the Canadian dollar-denominated purchase price, which had the effect of fixing the purchase price at \$49 million U.S. dollars net of the working capital true up payment expected to be received by ADS. As the result of foreign currency exchange rate changes between the agreement date and the date the purchase price was paid, the Company ultimately paid \$36.4 million U.S. dollars for the acquisition (net of \$7.4 million of cash acquired), and recorded a purchase price of \$43.8 million U.S. dollars. The Canadian dollar weakened during the period of time covered by the derivative, which resulted in a \$5.6 million loss. The loss on the derivative is recorded in Derivative losses (gains) and other expense (income), net in our Consolidated Statements of Operations.

***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 5,289,474 shares of common stock. We received total proceeds from the IPO of \$79.1 million after excluding underwriter discounts and commissions of \$5.5 million, based upon the price to the public of \$16.00 per share. After deducting other offering expenses of \$6.9 million, we used the net proceeds of \$72.2 million to reduce the outstanding indebtedness under the revolving portion of our credit facility. The common stock is listed on the NYSE under the symbol WMS.

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

***2014 Secondary Public Offering ( Secondary Public Offering )***

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

On December 15, 2014, an additional 1,500,000 shares of common stock were sold by a certain selling stockholder of the Company as a result of the full exercise by the underwriters of the over-allotment option granted by the selling stockholder to the underwriters in connection with the Secondary Public Offering. The shares were sold at the public offering price of \$21.25 per share. The Company did not receive any proceeds from the sale of such additional shares.



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### **Components of Results of Operations**

#### ***Net Sales***

Net sales consist of the consideration received or receivable for the sale of products in the ordinary course of our business and are presented net of sales tax and allowances for returns, rebates and discounts. We derive our net sales from selling Pipe and Allied Products. We ship products to customers primarily by our internal fleet of trucks with a much smaller portion being shipped by third-party carriers. Net sales are generally recognized at the time of delivery to the customer as it is when the criteria necessary for recognition of revenue (persuasive evidence of an arrangement exists, delivery has occurred, the price to the buyer is fixed or determinable, and collectability is reasonably assured) have been met. In fiscal year 2016, we served approximately 20,000 customers with two customers generating more than 10% of our total net sales. Such customers accounted for 21.1%, 20.3%, and 20.5% of fiscal year 2016, 2015 and 2014 net sales, respectively.

#### ***Cost of Goods Sold and Gross Profit***

Cost of goods sold consists of the direct cost of raw material and labor used in the manufacture of our products as well as indirect costs such as labor, depreciation, insurance, supplies, tools, repairs and shipping and handling. Our principal products are manufactured primarily from polyethylene and polypropylene resins that enable the end products to better resist weathering, ultraviolet degradation and chemical exposure. For Pipe, the majority of the costs to manufacture and deliver the products are variable in nature including raw materials, processing (including direct labor) and delivery (freight). For Allied Products, cost of goods sold varies by product line and consists of raw material/purchase costs, processing costs and delivery costs.

#### ***Selling Expenses***

Selling expenses consist of field selling and customer service personnel costs (salaries, benefits and variable sales commissions), travel and entertainment expenses, marketing, promotion and advertising expenses, as well as bad debt provisions.

#### ***General and Administrative Expenses***

General and administrative expenses consist 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, depreciation and utilities for the administrative offices, director fees, investor relations, membership fees, office supplies, insurance and other miscellaneous expenses.

#### ***Intangible Amortization***

Intangible amortization consists of the amortization of intangible assets purchased as part of business combinations, acquired technology, patents and technology licenses, which are amortized using the straight-line method over their estimated useful lives.

#### ***Interest Expense***

Interest expense consists of interest payments on our Credit Facilities, including our Bank Term Loans, Senior Notes, the amortization of deferred financing costs related to debt borrowings and interest on our capital lease obligations. See Note 5. Leases and Note 12. Debt to our consolidated financial statements included in Item 8.

Financial Statements and Supplementary Data of this Form 10-K.

***Income Tax Expense***

Income tax expense consists of federal, state, local and foreign taxes based on income in multiple jurisdictions, including the United States, Canada, Mexico, Chile, Brazil and Puerto Rico. We expect our effective tax rate to decrease over time as our earnings grow reducing the impact of non-deductible items in our Domestic tax calculations.

**Table of Contents*****Net Income***

Net income represents the amount of income or loss remaining after the deduction of expenses from revenue.

***Adjusted EBITDA***

Adjusted EBITDA, which is a non-GAAP financial measure, has been presented in this Annual Report on Form 10-K as a supplemental measure of financial performance that is not required by, or presented in accordance with GAAP. We calculate Adjusted EBITDA as net income before interest, income taxes, depreciation and amortization, stock-based compensation expense, non-cash charges and certain other expenses.

Adjusted EBITDA is included in this Annual Report on Form 10-K because it is a key metric used by management and our board of directors to assess our financial performance. Adjusted EBITDA is frequently used by analysts, investors and other interested parties to evaluate companies in our industry. In addition to covenant compliance and executive performance evaluations, we use Adjusted EBITDA to supplement GAAP measures of performance to evaluate the effectiveness of our business strategies, to make budgeting decisions and to compare our performance against that of other peer companies using similar measures.

Adjusted EBITDA is not a GAAP measure of our financial performance and should not be considered as an alternative to net income as a measure of financial performance, or any other performance measure derived in accordance with GAAP and they should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items. In evaluating Adjusted EBITDA, you should be aware that in the future we will incur expenses that are the same as or similar to some of the adjustments in this presentation, such as stock based compensation expense, derivative fair value adjustments, and foreign currency transaction losses. Our presentation of Adjusted EBITDA should not be construed to imply that our future results will be unaffected by any such adjustments. Management compensates for these limitations by relying on our GAAP results in addition to using Adjusted EBITDA. Our measure of Adjusted EBITDA is not necessarily comparable to other similarly titled captions of other companies due to different methods of calculation.

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

<b>(Amounts in thousands)</b>	<b>Fiscal Year Ended March 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
Net income	\$ 23,469	\$ 12,811	\$ 11,325
Depreciation and amortization	71,009	65,472	63,674
Interest expense	18,460	19,368	18,807
Income tax expense	20,855	9,483	19,422
<b>EBITDA</b>	<b>133,793</b>	<b>107,134</b>	<b>113,228</b>
Derivative fair value adjustments <sup>(a)</sup>	2,163	7,746	(53)
Foreign currency transaction losses <sup>(b)</sup>	697	5,404	845
Loss (gain) on disposal of assets or businesses	812	362	(2,863)
Unconsolidated affiliates interest, tax, depreciation and amortization <sup>(c)</sup>	3,215	3,585	2,845
Special dividend compensation <sup>(d)</sup>			22,624
Contingent consideration remeasurement	371	174	738



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Stock-based compensation <sup>(e)</sup>	3,579	5,880	4,518
ESOP deferred stock-based compensation <sup>(f)</sup>	10,250	12,144	7,891
Loss on BaySaver acquisition	490		
Restatement costs <sup>(g)</sup>	27,970		
Impairment of investment in unconsolidated affiliate <sup>(h)</sup>	4,000		
Transaction costs <sup>(i)</sup>		1,448	1,560
Adjusted EBITDA	\$ 187,340	\$ 143,877	\$ 151,333

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- (a) Represents the non-cash gains and losses arising from changes in mark-to-market values for derivative contracts related to propylene, diesel fuel and interest rate swaps. The impact of resin physical fixed price contracts is included in cost of goods sold.
- (b) Represents the gains and losses incurred on purchases, sales and intercompany loans and dividends denominated in non-functional currencies. Fiscal year 2015 includes a \$5.6 million loss on the Ideal Pipe acquisition Canadian currency derivative contract.
- (c) Represents our proportional share of interest, income taxes, depreciation and amortization related to our South American joint venture and our Tigre-ADS USA joint venture, which are accounted for under the equity method of accounting. In addition, these amounts include our proportional share of interest, income taxes, depreciation and amortization related to our BaySaver joint venture prior to our acquisition of BaySaver on July 17, 2015, which was previously accounted for under the equity method of accounting. Fiscal year 2014 includes our proportionate share of an asset impairment of \$1.0 million recorded by our South American joint venture.
- (d) Represents compensation recorded as a result of the January 2014 Special Dividend on shares of Redeemable convertible preferred stock held by the ESOP.
- (e) Represents the non-cash stock-based compensation cost related to our stock options and restricted stock awards.
- (f) Represents the non-cash stock-based compensation expense attributable to the shares of Redeemable convertible preferred stock allocated to employee ESOP accounts during the applicable period.
- (g) Represents expenses recorded related to legal, accounting and other professional fees incurred in connection with the restatement of our prior period financial statements.
- (h) Represents an other-than-temporary impairment of our investment in the South American Joint Venture.
- (i) Represents expenses recorded related to legal, accounting and other professional fees incurred in connection with our debt refinancing, the IPO and secondary public offering, and asset acquisitions and dispositions.

**System-Wide Net Sales**

System-Wide Net Sales is a non-GAAP measure which equals the sum of the net sales of our Domestic and International segments plus all net sales from our unconsolidated joint ventures (our South American Joint Venture, our Tigre-ADS USA joint venture and our BaySaver joint venture prior to July 17, 2015). We use this metric to measure the overall performance of our business across all of our geographies and markets we serve.

Our South American Joint Venture is managed as an integral part of our International segment, and our Tigre-ADS USA joint venture and our BaySaver joint venture are managed as an integral part of our Domestic segment. However, with the exception of our BaySaver joint venture which we have consolidated since we acquired it on July 17, 2015, they are not consolidated under GAAP. System-Wide Net Sales is prepared as if our South American Joint Venture, our Tigre-ADS USA joint venture, and our BaySaver joint venture were accounted for as consolidated subsidiaries for all periods.

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

<b>(Amounts in thousands)</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Reconciliation of System-Wide Net Sales to Net Sales:</b>			
Net sales	\$ 1,290,678	\$ 1,180,073	\$ 1,067,780
Net sales associated with our unconsolidated affiliates			
South American Joint Venture <sup>(a)</sup>	50,320	58,454	61,243
BaySaver joint venture <sup>(b)</sup>	3,611	10,623	5,195

Tigre-ADS USA joint venture <sup>(c)</sup>	17,332	14,264	
<b>System-Wide Net Sales</b>	<b>\$ 1,361,941</b>	<b>\$ 1,263,414</b>	<b>\$ 1,134,218</b>

(a) On July 31, 2009, we entered into an arrangement to form our South American joint venture.

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

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

***Adjusted Earnings per Fully Converted Share, Adjusted Net Income and Weighted Average Fully Converted Common Shares Outstanding***

Adjusted Earnings per Fully Converted Share, Adjusted Net Income and Weighted Average Fully Converted Common Shares Outstanding, which are non-GAAP measures, are supplemental measures of financial performance that are not required by, or presented in accordance with GAAP. We calculate Adjusted Earnings Per Fully Converted Share (Non-GAAP), Adjusted Net Income (Non-GAAP), and Weighted Average Fully Converted Common Shares Outstanding (Non-GAAP), by adjusting our Net income per share Basic and Weighted average common shares outstanding Basic, the most comparable GAAP measures. To effect this adjustment, we have (1) removed the adjustment for the change in fair value of Redeemable convertible preferred stock classified as mezzanine equity from the numerator of the Net income per share Basic computation, (2) added back the dividends to Redeemable convertible preferred stockholders and dividends paid to unvested restricted stockholders, (3) made corresponding adjustments to the amount allocated to participating securities under the two-class earnings per share computation method, and (4) added back ESOP deferred compensation attributable to the shares of Redeemable convertible preferred stock allocated to employee ESOP accounts during the applicable period, which is a non-cash charge to our earnings and not deductible for income tax purposes and (5) added back compensation expense recorded as a result of the January 2014 Special Dividend. We have also made adjustments to the Weighted average common shares outstanding Basic to assume, (1) share conversion of the Redeemable convertible preferred stock to outstanding shares of common stock and (2) add shares of outstanding unvested restricted stock.

Adjusted Earnings Per Fully Converted Share (Non-GAAP) is a key metric used by management and our board of directors to assess our financial performance as if all shares held by the ESOP and all redeemable common shares were to be converted to common shares. This information is useful to investors as the preferred shares held by the ESOP are required to be distributed to our employees over time, which is done in the form of common stock after the conversion of the preferred shares. As such, this measure is included in this report because it provides the investors with information to understand the impact on the financial statements once all preferred shares are converted and distributed. Adjusted Earnings Per Fully Converted Share (Non-GAAP) is not necessarily comparable to other similarly titled captions of other companies due to different methods of calculation.

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

<b>(Amounts in thousands, except per share data)</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Net income (loss) available to common shareholders	\$ 15,062	\$ (3,046)	\$ (6,804)
Adjustments to net income (loss) available to common shareholders:			
Change in fair value of Redeemable convertible preferred stock		11,054	3,979
Accretion of Redeemable noncontrolling interest	932		
Dividends to Redeemable convertible preferred stockholders	1,425	661	10,139
Dividends paid to unvested restricted stockholders	24	11	418
Undistributed income allocated to participating securities	511		
Total adjustments to net income (loss) available to common shareholders	2,892	11,726	14,536
Net income attributable to ADS	\$ 17,954	\$ 8,680	\$ 7,732
Adjustments to net income attributable to ADS:			
Fair value of ESOP compensation related to Redeemable convertible preferred stock	10,250	12,144	7,891
Special dividend compensation			22,624
Adjusted net income (Non-GAAP)	\$ 28,204	\$ 20,824	\$ 38,247
Weighted Average Common Shares Outstanding Basic	53,978	51,344	47,277
Adjustments to Weighted Average Common Shares Outstanding Basic			
Unvested restricted shares	123	228	336
Redeemable convertible preferred shares	19,399	20,029	20,264
Total Weighted Average Fully Converted Common Shares (Non-GAAP)	73,500	71,601	67,877
Adjusted Earnings per Fully Converted Share (Non-GAAP)	\$ 0.38	\$ 0.29	\$ 0.56

**Table of Contents****Results of Operations by Segment**

The following table presents our net sales by segment, net sales by segment as a percentage of total net sales, net income by segment, net income by segment as a percentage of total net income, Segment Adjusted EBITDA and Segment Adjusted EBITDA as a percentage of total Adjusted EBITDA by segment for the periods presented.

<b>(Amounts in thousands)</b>	<b>2016</b>		<b>2015</b>		<b>2014</b>	
<b>Net Sales by Segment</b>						
Domestic:						
Pipe	\$ 812,071	62.9%	\$ 771,214	65.4%	\$ 700,270	65.6%
Allied Products	301,725	23.4%	256,719	21.8%	235,022	22.0%
<b>Total domestic</b>	<b>1,113,796</b>	<b>86.3%</b>	<b>1,027,933</b>	<b>87.1%</b>	<b>935,292</b>	<b>87.6%</b>
International						
Pipe	139,731	10.8%	125,407	10.6%	107,078	10.0%
Allied Products	37,151	2.9%	26,733	2.3%	25,410	2.4%
<b>Total international</b>	<b>176,882</b>	<b>13.7%</b>	<b>152,140</b>	<b>12.9%</b>	<b>132,488</b>	<b>12.4%</b>
<b>Total net sales</b>	<b>\$ 1,290,678</b>	<b>100.0%</b>	<b>\$ 1,180,073</b>	<b>100.0%</b>	<b>\$ 1,067,780</b>	<b>100.0%</b>
<b>Net Income by Segment</b>						
Domestic	\$ 17,777	75.7%	\$ 7,064	55.1%	\$ 3,997	35.3%
International	5,692	24.3%	5,747	44.9%	7,328	64.7%
<b>Total net income</b>	<b>\$ 23,469</b>	<b>100.0%</b>	<b>\$ 12,811</b>	<b>100.0%</b>	<b>\$ 11,325</b>	<b>100.0%</b>
<b>Segment Adjusted EBITDA</b>						
Domestic	\$ 162,875	86.9%	\$ 128,973	89.6%	\$ 132,504	87.6%
International	24,465	13.1%	14,904	10.4%	18,829	12.4%
<b>Total Adjusted EBITDA</b>	<b>\$ 187,340</b>	<b>100.0%</b>	<b>\$ 143,877</b>	<b>100.0%</b>	<b>\$ 151,333</b>	<b>100.0%</b>

**Table of Contents****Results of Operations*****Fiscal Year Ended March 31, 2016 Compared with Fiscal Year Ended March 31, 2015***

The following table summarizes certain financial information relating to our operating results that have been derived from our consolidated financial statements for the fiscal years ended March 31, 2016 and 2015. 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, except per share data)	Fiscal Year Ended March 31, 2016	% of Net Sales	Fiscal Year Ended March 31, 2015	% of Net Sales	% Variance
<b>Consolidated Statements of Operations data:</b>					
Net sales	\$ 1,290,678	100.0%	\$ 1,180,073	100.0%	9.4%
Cost of goods sold	1,005,626	77.9	973,860	82.5	3.3
Gross profit	285,052	22.1	206,213	17.5	38.2
Selling expenses	88,978	6.9	78,981	6.7	12.7
General and administrative expenses	101,445	7.9	58,749	5.0	72.7
Loss on sale of disposal or businesses	812	0.1	362		124.3
Intangible amortization	9,224	0.7	9,754	0.8	(5.4)
Income from operations	84,593	6.6	58,367	4.9	44.9
Interest expense	18,460	1.4	19,368	1.6	(4.7)
Derivative losses and other expense, net	16,575	1.3	14,370	1.2	15.3
Income before income taxes	49,558	3.8	24,629	2.1	101.2
Income tax expense	20,855	1.6	9,483	0.8	119.9
Equity in net loss of unconsolidated affiliates	5,234	0.4	2,335	0.2	124.2
Net income	23,469	1.8	12,811	1.1	83.2
Less net income attributable to the non-controlling interest	5,515	0.4	4,131	0.4	33.5
Net income attributable to ADS	\$ 17,954	1.4%	\$ 8,680	0.7%	106.8%
<b>Other financial data:</b>					
Adjusted EBITDA	\$ 187,340	14.5%	\$ 143,877	12.2%	30.2%
System-Wide Net Sales	\$ 1,361,941	105.5%	\$ 1,263,414	107.1%	7.8%

Adjusted Earnings Per Fully Converted Share	\$	0.38	\$	0.29	31.0%
<i>Net sales</i>					

Net sales totaled \$1,290.7 million in fiscal year 2016, increasing \$110.6 million or 9.4%, as compared to \$1,180.1 million in fiscal year 2015. Our Domestic sales increased \$85.9 million, or 8.4%, as compared to fiscal year 2015. Domestic pipe sales increased \$40.9 million, or 5.3%, due to continued growth in our N-12 HDPE and High Performance Polypropylene product lines and further gains from conversion to our products from traditional products, offsetting lower agricultural sales. Domestic Pipe selling prices decreased 0.2% as compared to the prior year. Allied Product sales increased \$45.0 million, or 17.5%, due to strong sales volume sold primarily into the non-residential, residential and infrastructure markets. In addition, approximately \$10.2 million of the total Allied Product sales increase relates to the acquisition of BaySaver during the second fiscal quarter of fiscal 2016. International sales increased \$24.8 million, or 16.3%, to \$176.9 million in fiscal year 2016, as compared to \$152.1 million in the prior year. The growth was primarily due to increased sales in Canada, including in particular the contribution from the acquisition of Ideal Pipe, which increased sales by



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approximately \$39.7 million, helping to offset decreased sales in Mexico of \$9.4 million. In addition, the Canadian dollar was approximately 13% weaker against the U.S. dollar during fiscal 2016 compared to fiscal 2015, which had a negative impact on Net sales for Canada of \$15.2 million during the year ended March 31, 2016.

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

Cost of Goods Sold increased \$31.7 million, or 3.3%, to \$1,005.6 million during fiscal year 2016 as compared to \$973.9 million during fiscal year 2015.

Gross profit increased \$78.9 million, or 38.2%, to \$285.1 million from \$206.2 million during fiscal year 2015. Gross profit as a percentage of net sales increased to 22.1% in fiscal year 2016 from 17.5% in fiscal year 2015.

Domestic gross profit increased \$68.9 million, or 38.2%, to \$249.5 million for fiscal year 2016 as compared to \$180.6 million during fiscal 2015. In addition to the impact of the 8.4% increase in domestic net sales over the prior fiscal year, the increase was driven by a reduction in raw material costs of approximately 10.0%, particularly pipe resin costs. Raw material prices were flat in the first quarter and declined in the second, third and fourth quarters of fiscal 2016 as compared to the prior year periods. Freight costs totaled 9.8% of domestic net sales for both fiscal year 2016 and 2015. The higher freight costs relate to increased depreciation charges associated with new tractors and trailers added to the delivery fleet, which offset the benefit of lower diesel fuel. Diesel prices began to moderate towards the end of fiscal year 2015 and continued to decline throughout fiscal 2016. Diesel fuel prices during 2016 were approximately 31.0% below fiscal year 2015.

International gross profit increased \$9.9 million, or 38.6%, for fiscal year 2016 over fiscal year 2015. This was the result of the impact of a 16.3% increase in international net sales, decreased resin costs and improved gross profit performance in Mexico during fiscal year 2016.

### *Selling expenses*

Selling expenses consist of field selling and customer service 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 fiscal year 2016 increased \$10.0 million, or 12.7%, over fiscal year 2015, growing at a slightly higher rate than the change in net sales. The increase was primarily the result of selling expenses related to Ideal Pipe and BaySaver, increases in variable selling expenses due to higher sales volume, investments in additional sales coverage and growth initiatives, and an increase in bad debt expense. As a percentage of net sales, selling expenses increased slightly to 6.9% for fiscal year 2016 as compared to 6.7% for fiscal year 2015.

### *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 year ended March 31, 2016 increased \$42.7 million, or 72.7%, over fiscal year 2015. The increase was primarily the result of significant increases