UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

(Mark One)

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

For the quarterly period ended December 31, 2014

OR

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

Commission file number: 001-36557

Advanced Drainage Systems, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**51-0105665**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**

4640 Trueman Boulevard, Hilliard, Ohio 43026

(Address of Principal Executive Offices, Including Zip Code)

(614) 658-0050

(Registrant s Telephone Number, Including Area Code)

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

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

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer x (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

As of January 31, 2015, 53,259,576 shares of common stock were outstanding. The shares of common stock trade on the New York Stock Exchange under the ticker symbol WMS . In addition, as of January 31, 2015, 232,977 shares of unvested restricted common stock were outstanding and 25,797,512 shares of ESOP preferred stock, convertible into 19,843,446 shares of common stock, were outstanding. As of January 31, 2015, 73,335,999 shares of common stock were outstanding, inclusive of outstanding shares of unvested restricted common stock and on an as-converted basis with respect to the outstanding shares of ESOP preferred stock.

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EXPLANATORY NOTE

During the preparation of its Annual Report on Form 10-K for the fiscal year ended March 31, 2015, Advanced Drainage Systems, Inc. identified errors in its historical financial statements related to the accounting for leases, inventory, long-lived assets, ADS Mexicana, income taxes and other items. As a result, Advanced Drainage Systems, Inc. is filing this Amendment No. 1 on Form 10-Q/A to amend and restate in their entirety the following items of our Quarterly Report on Form 10-Q for the three and nine months ended December 31, 2014 as originally filed with the Securities and Exchange Commission on February 9, 2015 (the Original Form 10-Q): (i) Item 1 of Part I, Financial Statements, (ii) Item 2 of Part I, Management s Discussion and Analysis of Financial Condition and Results of Operations, (iii) Item 3 of Part I, Quantitative and Qualitative Disclosures About Market Risk, (iv) Item 4 of Part I, Controls and Procedures, (v) Item 1A of Part II, Risk Factors, and (vi) Item 6 of Part II, Exhibits . We have also updated the signature page, the certifications of our Chief Executive Officer and Chief Financial Officer in Exhibits 31.01, 31.02, 32.01 and 32.02, respectively, and our financial statements formatted in Extensible Business Reporting Language (XBRL) in Exhibits 101. No other sections were affected, or have been changed; however, for the convenience of the reader, this report on Form 10-Q/A restates in its entirety, as amended, our Original Form 10-Q. This report on Form 10-Q/A is presented as of the filing date of the Original Form 10-Q and does not reflect events occurring after that date, or modify or update disclosures, other than as required to reflect the restatement.

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

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PART I. FINANCIAL INFORMATION

ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited, as restated)[(1)]

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

Redeemable common stock: $0.01 par value; 0 and 38,320 shares issued outstanding, respectively		
Redeemable convertible preferred stock: $0.01 par value; 47,070 shares authorized; 44,170 shares issued; 25,797 and 26,129 shares outstanding, respectively	322,469	291,720
Deferred compensation unearned ESOP shares	(211,674)	(197,888)
Total mezzanine equity	110,795	642,951
Stockholders equity (deficit):		
Common stock; $0.01 par value: 1,000,000 and 148,271 shares authorized; 153,560 and 109,951 shares issued; 53,204 and 9,141 shares outstanding, respectively	12,393	11,957
Paid-in capital	693,799	12,438
Common stock in treasury, at cost	(446,479)	(448,439)
Accumulated other comprehensive loss	(11,560)	(6,830)
Retained deficit	(46,608)	(2,412)
Total ADS stockholders equity (deficit)	201,545	(433,286)
Noncontrolling interest in subsidiaries	18,445	18,584
Total stockholders equity (deficit)	219,990	(414,702)
Total liabilities, mezzanine equity and stockholders equity (deficit)	**$ 963,369**	**$ 989,567**

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

See accompanying notes to condensed consolidated financial statements.

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ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited, as restated)[(1)]

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

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

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

See accompanying notes to condensed consolidated financial statements.

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ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(Unaudited, as restated)[1]

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

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

See accompanying notes to condensed consolidated financial statements.

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ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, as restated)[(1)]

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

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

See accompanying notes to condensed consolidated financial statements.

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ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES

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

(Unaudited)

Paid-In Capital	Common Stock in Treasury Shares	Common Stock in Treasury Amount	Accumulated Other Comprehensive Loss	Retained Earnings (Deficit)	Total ADS Stockholders Equity (Deficit)	Non-controlling Interest in Subsidiaries	Total Stockholders Equity (Deficit)	Redeemable Common Stock Shares	Redeemable Common Stock Amount	Redeem Conve Prefe Sto Shares	
$ 41,152	**101,191**	**$ (448,571)**	**$ (856)**	**$ 87,331**	**$ (308,987)**	**$ 23,265**	**$ (285,722)**	**38,292**	**$ 522,276**	**26,547**	**$**
(1,126)			(225)	(8,129)	(9,480)	(4,721)	(14,201)				
$ 40,026	101,191	$ (448,571)	$ (1,081)	$ 79,202	$ (318,467)	$ 18,544	$ (299,923)	38,292	$ 522,276	26,547	$
				22,837	22,837	5,551	28,388				
			(5,287)		(5,287)	(1,323)	(6,610)				
				(526)	(526)		(526)				
				(4,089)	(4,089)		(4,089)				
						(2,006)	(2,006)				
(2,139)					(2,139)		(2,139)				
(203)	(141)	629			426		426				
299	23	(299)									
1,159					1,159		1,159				
1,013	(28)	125			1,138		1,138				
										(367)	

	80	(847)			(847)		(847)				
(385)					(385)		(385)	28	385		
				(8,492)	(8,492)		(8,492)				
				(55,359)	(55,359)		(55,359)		55,359		
$ 39,770	**101,125**	**$ (448,963)**	**$ (6,368)**	**$ 33,573**	**$ (370,031)**	**$ 20,766**	**$ (349,265)**	**38,320**	**$ 578,020**	**26,180**	**$**
$ 22,547	**100,810**	**$ (448,439)**	**$ (5,977)**	**$**	**$ (419,912)**	**$ 22,576**	**$ (397,336)**	**38,320**	**$ 549,119**	**26,129**	**$**
(10,109)			(853)	(2,412)	(13,374)	(3,992)	(17,366)				
$ 12,438	100,810	$ (448,439)	$ (6,830)	$ (2,412)	$ (433,286)	$ 18,584	$ (414,702)	38,320	$ 549,119	26,129	$
				22,085	22,085	4,400	26,485				
			(4,730)		(4,730)	(2,668)	(7,398)				
				(256)	(256)		(256)				
				(2,127)	(2,127)		(2,127)				
						(1,871)	(1,871)				
(1,999)					(1,999)		(1,999)				
218	(87)	388			606		606				
93	7	(93)									
2,956					2,956		2,956				
1,831	(119)	531			2,362		2,362				

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

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

See accompanying notes to condensed consolidated financial statements.

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ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(Amounts in thousands, except per share data)

1. BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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

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

2014 Initial Public Offering (IPO)

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

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

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

2014 Secondary Public Offering

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

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

Basis of Presentation

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

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Principles of Consolidation

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

Estimates

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

Property, Plant and Equipment and Depreciation Method

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

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

Costs of additions and major improvements are capitalized, whereas maintenance and repairs that do not improve or extend the life of the asset are charged to expense as incurred. When assets are retired or disposed, the cost and related accumulated depreciation are removed from the asset accounts and any resulting gain or loss is reflected in Loss (gain) on disposal of assets or businesses in our Condensed Consolidated Statements of Operations. Construction in progress is also recorded at cost and includes capitalized interest, capitalized payroll costs and related costs such as taxes and other fringe benefits. Interest capitalized was $0 and $316 during the three and nine months ended December 31, 2014, respectively, and $80 and $490 during the three and nine months ended December 31, 2013, respectively.

Leases

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

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Acquisitions

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

Recent Accounting Pronouncements Not Yet Adopted

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

In May 2014, the Financial Accounting Standards Board issued an accounting standards update which amends the guidance for revenue recognition. This amendment contains principles that will require an entity to recognize revenue to depict the transfer of goods and services to customers at an amount that an entity expects to be entitled to in exchange for goods or services. The amendment sets forth a new revenue recognition model that requires identifying the contract, identifying the performance obligations and recognizing the revenue upon satisfaction of performance obligations. This amendment is effective for annual periods beginning on or after December 15, 2016, and interim periods within those years, with earlier adoption not permitted. We will adopt this standard effective April 1, 2017. We are currently evaluating the impact of this amendment on our consolidated financial statements.

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

2. RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS

Background

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

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

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Accounting Adjustments

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

Lease Accounting Adjustments

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

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

Inventory Accounting Adjustments

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

Long-Lived Assets Accounting Adjustments

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

ADS Mexicana Accounting Adjustments

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

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

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

Income Taxes and Other Accounting Adjustments

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

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

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

Impact on Condensed Consolidated Statements of Operations

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

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

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