

ADVANCED DRAINAGE SYSTEMS, INC.

Form S-1

April 02, 2014

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As filed with the Securities and Exchange Commission on April 2, 2014

Registration No. 333-

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM S-1  
REGISTRATION STATEMENT  
*UNDER*  
*THE SECURITIES ACT OF 1933*

Advanced Drainage Systems, Inc.

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

3084  
(Primary Standard Industrial  
Classification Code Number)

51-0105665  
(I.R.S. Employer  
Identification Number)

**4640 Trueman Boulevard**

**Hilliard, Ohio 43026**

**(614) 658-0050**

**(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)**

**Joseph A. Chlapaty**

**Chairman, President & Chief Executive Officer**

**4640 Trueman Boulevard**

**Hilliard, Ohio 43026**

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**Approximate date of commencement of proposed sale of the securities to the public:** As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. "

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

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.

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

**CALCULATION OF REGISTRATION FEE**

<b>Title of Each Class of Securities to be Registered</b>	<b>Proposed Maximum Aggregate Offering Price <sup>(1)</sup></b>	<b>Amount of Registration Fee</b>
Common Stock, \$0.01 par value per share	\$100,000,000	\$12,880

(1) Estimated solely for the purpose of calculating the amount of the registration fee pursuant to Rule 457(o) promulgated under the Securities Act of 1933, as amended. Includes offering price of shares of Common Stock that may be sold upon exercise of the underwriters' option to purchase additional shares.

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.**

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**The information in this preliminary prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state or jurisdiction where the offer or sale is not permitted.**

Subject to Completion, dated April 2, 2014

PROSPECTUS

Shares

**Advanced Drainage Systems, Inc.**

**Common Stock**

This is the initial public offering of common stock of Advanced Drainage Systems, Inc.

We are offering \_\_\_\_\_ shares of common stock in this offering. The selling stockholder identified in this prospectus is offering \_\_\_\_\_ shares of common stock in this offering. We will not receive any of the proceeds from the sale of shares of common stock by the selling stockholder. Prior to this offering, there has been no public market for our common stock.

It is currently estimated that the initial public offering price per share will be between \$ \_\_\_\_\_ and \$ \_\_\_\_\_. We intend to apply to list our common stock on the New York Stock Exchange under the symbol WMS.

*Investing in our common stock involves risks. See Risk Factors beginning on page 19 of this prospectus.*

	Per Share	Total
Price to the public	\$ _____	\$ _____
Underwriting discounts and commissions <sup>(1)</sup>	\$ _____	\$ _____
Proceeds to us (before expenses)	\$ _____	\$ _____

Proceeds to the selling stockholder (before expenses) \$ \$

(1) We refer you to Underwriting beginning on page 163 of this prospectus for additional information regarding total underwriter compensation.

The underwriters also may purchase up to additional shares of common stock from us and up to additional shares of common stock from the selling stockholder at the initial public offering price less the underwriting discounts and commissions.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares of common stock on or about , 2014.

**Barclays**

**Deutsche Bank Securities**

**Citigroup**

Prospectus dated , 2014

**RBC Capital Markets**

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Through and including \_\_\_\_\_, 2014 (the 25th day after the date of this prospectus), all dealers effecting transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to a dealer's obligation to deliver a prospectus when acting as an underwriter and with respect to an unsold allotment or subscription.

We, the selling stockholder and the underwriters have not authorized anyone to provide any information or to make any representations other than those contained in this prospectus or in any free writing prospectuses we have prepared. We take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you. This prospectus is an offer to sell only the shares offered hereby but only in circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus is accurate only as of its date,

regardless of the time of delivery of this prospectus or any sale of the shares.

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**TRADEMARKS**

We use various trademarks, service marks and brand names that we deem particularly important to the marketing activities and operation of our various lines of business, and some of these marks are registered in the United States and, in some cases, other jurisdictions. This prospectus also refers to the brand names, trademarks or service marks of other companies. All brand names and other trademarks or service marks referenced in this prospectus, including N-12<sup>®</sup>, SaniTite<sup>®</sup>, StormTech<sup>®</sup>, Nyloplast<sup>®</sup>, Inserta Tee<sup>®</sup>, BaySeparator, BayFilter and FleXstorm, are the property of their respective holders. Solely for convenience, we refer to trademarks, service marks and brand names in this prospectus without <sup>SM</sup> and <sup>®</sup> symbols. We do not intend our use or display of other parties' trademarks, service marks or brand names to imply, and such use or display should not be construed to imply, a relationship with, or endorsement or sponsorship of us by, these other parties.

**MARKET AND INDUSTRY DATA**

This prospectus includes estimates regarding market and industry data and forecasts, which are based on publicly-available information, industry publications and surveys, reports from government agencies, reports by market research firms and our own estimates based on our management's knowledge of and experience in the market sectors in which we compete. These estimates and forecasts are based on data from third-party sources, including certain market and industry data provided on a subscription basis by the Freedonia Group, Inc., an independent research firm and industry consultant based in Cleveland, Ohio, which we refer to as Freedonia. We also base certain estimates and forecasts related to stormwater retention/detention and water quality on a special study that we commissioned for a fee specifically for the purpose of this offering by Freedonia Custom Research, Inc., an affiliate of Freedonia, which we refer to in this prospectus as the Freedonia Special Report. We have not independently verified market and industry data provided by Freedonia, or by other third-party sources such as McGraw Hill, the U.S. Environmental Protection Agency, Reed Construction Data, the American Institute of Architects, the U.S. Census Bureau, the National Association of Realtors, the St. Louis Federal Reserve, HIRI / IHS Global Insight, The Ohio State University and the U.S. Department of Agriculture, although we believe such market and industry data included in this prospectus is reliable. This information cannot always be verified with complete certainty due to the limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other limitations and uncertainties inherent in surveys of market size.

**PRESENTATION OF INFORMATION**

Unless the context otherwise indicates or requires, as used in this prospectus, 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.

Because our fiscal year ends on March 31, any reference to a fiscal year means the fiscal year ended March 31 of the same calendar year. For example, references to fiscal year 2014 mean the fiscal year ending March 31, 2014 and references to fiscal year 2013, fiscal year 2012 and fiscal year 2011 mean the fiscal years ended March 31, 2013, March 31, 2012 and March 31, 2011, respectively.

Our consolidated financial statements include our ownership interests in various consolidated joint ventures through which we conduct operations in Mexico and Central America. We also have an ownership interest in an unconsolidated joint venture through which we conduct operations in South America, which we refer to in this prospectus as our South American Joint Venture, and an unconsolidated joint venture through which we conduct certain operations in the United States, which we refer to in this prospectus as our BaySaver Joint Venture. Our equity interest in the operating results of both the South American Joint Venture and the BaySaver Joint Venture



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is presented in our consolidated financial statements as equity in net (income) loss of unconsolidated affiliates in accordance with U.S. generally accepted accounting principles, or GAAP. Although not consolidated under GAAP, we treat the South American Joint Venture and the BaySaver Joint Venture as if they are consolidated subsidiaries for internal reporting purposes. Throughout this prospectus, when we refer to our financial results or operations, we are referring to our financial results and operations as presented in our consolidated financial statements under GAAP, which do not consolidate our South American Joint Venture or our BaySaver Joint Venture, unless the context otherwise indicates.

We also sponsor a tax-qualified employee stock ownership plan, or ESOP, that covers our employees who meet certain service requirements. The ESOP was originally funded with a 30-year term loan from us as well as shares of our convertible preferred stock through a transfer of assets from our profit sharing retirement plan. The loan is secured by a pledge of unallocated shares of convertible preferred stock purchased by the ESOP that has not yet been released from the pledge and allocated to ESOP accounts. The 2.50% Cumulative Convertible Voting Preferred Stock held by the ESOP is referred to in this prospectus as our convertible preferred stock. The ESOP operates as a leveraged ESOP and was designed to enable eligible employees to acquire stock ownership interests in their accounts under the ESOP. See [Description of Employee Stock Ownership Plan](#) for a description of the ESOP.

Unless otherwise indicated, all information in this prospectus assumes the following:

a -for- stock split to be effected immediately prior to the effectiveness of the registration statement of which this prospectus forms a part;

no exercise by the underwriters of their option to purchase additional shares;

the filing of our amended and restated certificate of incorporation and the adoption of our amended and restated bylaws immediately prior to the closing of this offering; and

an initial public offering price of \$ per share, which is the midpoint of the price range set forth on the cover of this prospectus.

### **PRESENTATION OF CERTAIN FINANCIAL MEASURES**

For purposes of calculating the weighted average number of shares outstanding and net income per share in this prospectus, we divide net income available to common stockholders by the weighted average number of shares of common stock outstanding. These items are described below in [Summary Consolidated Financial Data](#) and [Selected Historical Consolidated Financial Data](#).

We refer in this prospectus to Redeemable Common Stock, which represents shares of our common stock that are held by certain stockholders who hold in excess of 15% of our common stock. These stockholders entered into an amended and restated stockholders' agreement, which provides such stockholders with the right to cause the shares to be repurchased by us at fair value in certain specified circumstances as described in Note 17 to our consolidated financial statements included elsewhere in this prospectus. As this right is considered for purposes of GAAP to be a redemption right, which is outside our control, we have classified the shares of common stock held by such stockholders in the mezzanine section of our consolidated balance sheets and changes in fair value are recorded in retained earnings. We

anticipate that the stockholders' agreement will be terminated upon completion of this offering and the rights associated with these shares, which require them to be classified in mezzanine equity, will no longer be in effect. Accordingly, we anticipate reclassifying these balances to total stockholders' equity upon the completion of this offering. Our Redeemable Common Stock is also described below in Summary Consolidated Financial Data and Selected Historical Consolidated Financial Data.

We also refer in this prospectus to Redeemable Convertible Preferred Stock, which represents our convertible preferred stock held by our ESOP. Prior to this offering, the trustee of our ESOP has the ability to

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require us to repurchase the shares of convertible preferred stock at fair value in the event that it needs cash to pay for distributions, pre-retirement diversification, or other expenses, causing the shares to be repurchased at the option of the holder as described in Note 17 to our consolidated financial statements included elsewhere in this prospectus. As this right is considered for purposes of GAAP to be a redemption right, which is outside our control, we have classified the shares of convertible preferred stock in the mezzanine section of our consolidated balance sheets and changes in fair value are recorded in retained earnings. Upon completion of this offering, the rights associated with these shares, which require them to be classified in mezzanine equity, will no longer be in effect. Accordingly, we anticipate reclassifying these balances to total stockholders' equity upon completion of this offering. Our Redeemable Convertible Preferred Stock is also described below in Summary Consolidated Financial Data and Selected Historical Consolidated Financial Data.

Certain financial measures presented in this prospectus, such as System-Wide Net Sales, Net Income Per Share As Adjusted Basic and Diluted, EBITDA, Adjusted EBITDA, Segment EBITDA and Segment Adjusted EBITDA, are not recognized under GAAP. For definitions of System-Wide Net Sales, Net Income Per Share As Adjusted Basic and Diluted, EBITDA, Adjusted EBITDA, Segment EBITDA and Segment Adjusted EBITDA and reconciliations of those measures to the most directly comparable GAAP measures, see Selected Historical Consolidated Financial Data and Management's Discussion and Analysis of Financial Condition and Results of Operations Components of Results of Operations.

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**PROSPECTUS SUMMARY**

*The following summary highlights information contained elsewhere in this prospectus. This summary does not contain all of the information that you should consider before investing in our common stock. You should read this entire prospectus carefully, especially the information set forth under Risk Factors, Management's Discussion and Analysis of Financial Condition and Results of Operations, and the financial statements and notes included elsewhere in this prospectus, before making an investment decision.*

**Our Company**

We are the leading manufacturer of high performance thermoplastic corrugated pipe, providing a comprehensive suite of water management products and superior drainage solutions for use in the construction and infrastructure marketplace. Our innovative products are used across a broad range of end markets and applications, including non-residential, residential, agriculture and infrastructure applications. We have established a leading position in many of these end markets by leveraging our national sales and distribution platform, our overall product breadth and scale and our manufacturing excellence. In North America, our national footprint combined with our strong local presence and broad product offering makes us the leader in an otherwise highly fragmented sector comprised of many smaller competitors. We believe the markets we serve in the United States represent approximately \$10.1 billion of annual revenue opportunity. In addition, we believe the increasing acceptance of thermoplastic pipe products in international markets represents an attractive growth opportunity. For the nine months ended December 31, 2013, we generated net sales of \$887.8 million, net income of \$24.7 million and Adjusted EBITDA of \$130.6 million. For a reconciliation of Adjusted EBITDA to the most directly comparable GAAP measure, see Selected Historical Consolidated Financial 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 polyvinyl chloride, or PVC, across an ever expanding range of end markets. This has allowed us to consistently gain share and achieve above market growth throughout economic cycles. We expect to continue to drive conversion to our products from traditional products as contractors, civil design engineers and municipal agencies increasingly acknowledge the superior physical attributes and compelling value proposition of our thermoplastic products. In addition, we believe that overall demand for our products will benefit as the regulatory environment continues to evolve.

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

We have an extensive domestic network of 48 manufacturing plants and 19 distribution centers allowing us to effectively serve all major markets in all 50 U.S. states. 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 in our industry with a national footprint, thereby allowing us to efficiently service those customers that value having one source of supply throughout their entire distribution network. We believe our extensive national footprint creates a cost and service advantage versus our HDPE pipe producing competitors, the largest of which has only 10 domestic HDPE pipe manufacturing plants.

Internationally, we have two manufacturing plants and three distribution centers in Canada, four manufacturing plants in Mexico, four manufacturing plants and five distribution centers in South America and one distribution center in Europe.

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We have long-standing distribution relationships with many of the largest national and independent waterworks distributors, including 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, Menards 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.



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### **Our Strengths**

We believe that we benefit significantly from the following competitive strengths:

***Market leader with unmatched scale.*** We are the leading manufacturer of high performance thermoplastic corrugated pipe and a leading manufacturer of related water management products. We believe our extensive national footprint of 48 manufacturing plants and 19 distribution centers creates a cost and service advantage versus our HDPE pipe producing competitors, the largest of which has only 10 domestic HDPE pipe manufacturing plants. We maintain an in-house fleet of approximately 625 tractor-trailers and approximately 1,100 trailers that are specially designed to haul our lightweight pipe and fittings products. Our effective shipping radius is approximately 200 miles from one of our manufacturing plants or distribution centers. Our world-class manufacturing expertise and extensive national distribution and fleet network allow us to service customers across the United States on a cost-effective and timely basis. Our long-standing customer relationships also provide us with visibility to attractive market opportunities.

***Well positioned to drive continued material conversion.*** Our products are generally lighter, more durable, more cost effective and easier to install than comparable alternatives made with traditional materials. For example, concrete pipe generally weighs more than 20 times as much per foot as our thermoplastic pipe, resulting in the significant handling advantages that our product line enjoys during installation by contractors. These advantages typically provide our thermoplastic pipe with an installed cost advantage of approximately 20% over concrete pipe. High performance thermoplastic corrugated pipe represented approximately 25% of the total storm sewer market in 2012, up from what we believe was less than 10% ten years ago and less than 1% twenty years ago. We believe the penetration rate will continue to increase over time, as contractors, engineers and municipal agencies increasingly acknowledge the superior attributes and compelling value proposition of our thermoplastic products. We believe the recent introduction of our PP pipe products will also help accelerate this conversion given the additional applications for which our PP pipe products can be used. We continue to drive this material conversion through extensive sales force training and education of our customers. We have been at the forefront of educating an industry undergoing significant change in the regulatory environment, while pushing for expanded approvals of our products in new markets and geographies. Since 2006, 32 states have enhanced their approval of our pipe products, and an average of approximately 60 state, county and municipal approvals have been added or enhanced each year over the past five years.

***Broad portfolio of Allied Products.*** Our Allied Products include storm and septic chambers, PVC drainage structures, fittings and 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. We have a long history of leveraging our broad distribution platform to develop or acquire, and market, complementary Allied Products that provide new technologies and product capabilities. Given our strong brand recognition, network of customer and distributor relationships and large team of trained salespeople, we believe we are the acquirer of choice for many providers of ancillary products who wish to partner with an industry leader. Our broad product line and reputation for quality provide our sales force with a competitive advantage in sourcing new opportunities and cross-selling products.

***Industry-leading manufacturing and technical expertise.*** We believe we have developed a reputation in the industry for products that deliver technically-superior performance with lower installation and maintenance costs versus competing products. Our products are lightweight and flexible, strong, resistant to corrosion and resistant to abrasion. These characteristics allow for easy and low-cost installation, provide strength comparable to much heavier materials (as a result of the corrugated profile design of our thermoplastic pipe products) and provide an excellent service life expectancy. Our significant investment in custom-designed mold and die tooling (\$173 million investment over the last nine years) allows us to manufacture a variety of corrugated pipe sizes and provides us with the flexibility to meet demand fluctuations in local regions. In addition, we rotate these setups across our network of manufacturing plants as needed to meet demand, which provides us with a unique



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competitive advantage. We employ proprietary resin blending technology to minimize raw material cost and optimize production efficiency, while maintaining a consistent level of product performance. Utilizing this technology has allowed us to increase our ratio of recycled resin as a percent of total resin from approximately 24% in 2005 to approximately 52% in 2013, resulting in significant cost savings and reduced exposure to fluctuations in raw material costs.

***Long-term customer relationships.*** We believe we have the largest and most experienced sales force in the industry, which allows us to maintain strong, long-standing relationships with key distributors, contractors and engineers. The combination of our technical expertise, product selection and customer delivery capabilities allows us to meet our customers' critical installation schedules and positions us as a strategic partner. We strive to educate the regulatory and design community while offering the distributor and contractor network a comprehensive product suite. Our products are manufactured, assembled, delivered and serviced from a network of plants and yards that are strategically positioned in close proximity to most major domestic geographic markets. Our national scale combined with our local presence, dedication to service and broad product offering has enabled us to maintain our long-standing customer relationships.

***Highly diversified across end markets, channels and geographies.*** We are strategically diversified across a broad range of end markets, distribution channels and geographies. Our products are used globally in a diverse range of end markets across non-residential construction, residential construction, agriculture and infrastructure. These end markets include storm sewer systems, agriculture, retail, stormwater retention/detention, on-site septic systems and structures. We maintain and service these end markets through strong product distribution relationships with many of the largest national and independent waterworks distributors, a network of hundreds of small to medium-sized distributors across the United States, major national retailers that carry drainage products and a broad variety of buying groups and co-ops in the United States. We serve our customers in all 50 U.S. states as well as approximately 90 other countries. Our domestic sales, which represented approximately 86% of our net sales in fiscal year 2013, are diversified across all regions of the United States. Approximately 14% of our net sales in fiscal year 2013 were generated outside of the United States.

***Experienced management team with successful operating record and significant equity ownership.*** Our management team, led by our Chief Executive Officer, Joe Chlapaty, has an average of over 23 years of industry experience. We have a long history of generating profitable growth, attractive margins and cash flow. During periods of weaker economic conditions, we believe we have benefitted from an increased market focus on our products as a cost effective alternative to traditional materials. In stronger economic cycles, we have delivered profitable growth and an ability to leverage our scale and excess production capacity to meet rapid increases in demand.

After the completion of this offering, our management and directors will own approximately % of our common stock on a fully-converted basis. In addition, after the completion of this offering, the convertible preferred stock held by our ESOP will account for approximately % of our common stock on a fully-converted basis. This high level of management and employee ownership ensures that incentives are closely aligned with equity holders.

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**Our Business Strategy**

We intend to grow our net sales, improve our profitability and enhance our position as the leading provider of high performance thermoplastic corrugated pipe and related water management products by executing on the following strategies.

***Continue to drive conversion to our products.*** Our products are generally lighter, more durable, more cost effective and easier to install than comparable alternatives made with traditional materials such as concrete, steel and PVC. We intend to continue to drive conversion to our products from traditional products as contractors, engineers and municipal agencies increasingly acknowledge the superior attributes and compelling value proposition of our thermoplastic products. Expanded regulatory approvals allow for their use in new markets and geographies, and we continue to invest heavily in industry education. We believe we are the industry leader in these efforts as regulatory approvals are essential to the specification and acceptance of these product lines.

***Expand our product offering and markets served.*** Our strong market position provides us with insight into the evolving needs of our customers, which has allowed us to proactively develop and deliver comprehensive water management solutions. The strength of our overall sales and distribution platform has allowed us to acquire new Allied Products and deliver solution-based product portfolios that typically result in significantly higher net sales post-acquisition than the products generated before the addition to our product portfolio. Our ability to further develop our offering of Allied Products represents an attractive opportunity to capture additional growth and improve our overall margins. We will continue to focus on enhancing our core products and expanding our Allied Products through cross-selling opportunities in order to further penetrate untapped markets and customers. We also expect to continue to enter into selective adjacent new markets that leverage our sales and engineering capabilities, customer relationships and national distribution network and provide more water management solutions to our customers.

***Expand our presence in attractive new geographies.*** Outside of the United States, we believe thermoplastic corrugated pipe represents a small part of the overall market. We further believe there is significant opportunity to convert new geographies based on the overall performance and value of our products, similar to what continues to occur in our existing markets. To date, in order to increase our speed to market, we have expanded internationally primarily through joint ventures with best-in-class local partners. Our existing joint ventures provide us with access to markets such as Brazil, Chile, Argentina, Mexico, Peru and Colombia. 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 strong platform with additional opportunities for international expansion. In the future, we will continue to identify new geographies to access markets through joint venture relationships with domestic partners in targeted areas.

***Capitalize on growth related to the recovery in our primary end markets.*** We believe we are well positioned to take advantage of renewed growth and recovery in the non-residential and residential construction and infrastructure markets in the United States. Additionally, we believe we have the potential to capitalize on a substantial backlog of deferred infrastructure spending in the United States as a result of upgrades and repairs that were delayed in the recent economic downturn. Spending on the replacement of aging water drainage and sewer infrastructure (estimated to cost approximately \$298 billion between 2013 and 2033, according to the American Society of Civil Engineers, or ASCE) and stricter U.S. Environmental Protection Agency, or EPA, guidelines for stormwater and wastewater management will drive additional demand for our products.

***Continue our focus on operational excellence.*** Our focus on continuously improving operating efficiencies, reducing costs and improving product quality has enabled us to improve our position as a leading low-cost provider. We constantly strive to achieve operating and cost efficiencies across all facets of our business. For



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example, we employ sophisticated resin blending technology to minimize raw material costs and optimize production efficiency, while maintaining a high level of product quality and performance. We believe this and our other initiatives, combined with continued prudent management of our overhead, and the operating leverage inherent in our business model will allow us to maximize profitability as we continue to grow.

***Selectively pursue strategic acquisitions.*** By utilizing our customer relationships and sales force, we have a demonstrated ability to identify and integrate numerous strategic acquisitions. We believe our strong reputation for product growth has allowed us to become the acquirer of choice, attracting acquisition opportunities that provide new technologies and product capabilities. We have remained one of the strongest and best capitalized companies in the industry throughout the recent economic cycle and are well positioned to capitalize on current market dynamics to selectively acquire key products and technologies. We have strong industry relationships and maintain an active acquisition pipeline.

## **Industry Overview and Trends**

We serve a broad range of end markets across non-residential construction, residential construction, agriculture and infrastructure. We are the leading manufacturer of high performance thermoplastic corrugated pipe and a leading manufacturer of related water management products. We compete against other HDPE pipe producers, as well as pipe manufacturers selling products made from traditional materials such as concrete, corrugated steel and PVC on a national, regional and local basis. We compete primarily in the United States and Canada; however, we have also expanded internationally in Mexico, Central America and South America through our joint ventures. We believe the markets we serve in the United States represent approximately \$10.1 billion of annual revenue opportunity. In addition, we believe the increasing acceptance of thermoplastic pipe products in international markets represents an attractive growth opportunity.

## ***Core Product Categories***

### ***Pipe Market***

Demand for our products is largely driven by residential and non-residential construction, transportation and related water drainage infrastructure spending and the repair and replacement of aging stormwater management infrastructure. Freedonia estimates that demand for large diameter pipe (defined as 15" diameter or larger depending on industry standards by material type) in the United States will increase at an average of 6.2% per year from approximately 146 million feet in 2011, to 197 million feet in 2016. We compete in the storm sewer, drainage, sanitary sewer and irrigation markets, which collectively represent approximately 70% of the overall large diameter pipe market in the United States. According to Freedonia, sanitary and storm sewers, which represent approximately 50% of the total large diameter pipe market demand, are expected to continue to drive growth for the large diameter pipe market through 2016. Additionally, Freedonia estimates that the largest expected growth in the forecast period will come from the drainage market, as non-residential and residential construction continues to rebound. According to Freedonia, HDPE, the primary material in our products, is projected to become a larger portion of the overall large diameter pipe market as states and municipalities are expected to continue to adopt this product as a result of its superior attributes and approve its use in a broader range of applications.

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*Source: Freedonia*

Positive end market trends in the non-residential construction, residential construction, agricultural and infrastructure markets are also expected to drive increased demand for pipe products in Canada. Growth in fixed investment spending is expected to result in a higher number of sewer and drainage infrastructure projects. Housing starts in Canada are forecasted to grow from 185,000 in 2012 to 215,000 by 2017, according to Freedonia. We believe the large industry around forestry, minerals, petroleum and natural gas markets in Canada provide opportunity for pipe applications.

The GDP in Mexico is forecasted to expand at 3.7% annually through 2017. Construction growth in Mexico is driven by demand for housing, non-residential property and additional investment in public infrastructure. Freedonia forecasts HDPE pipe demand to grow 8% annually through 2017 in Mexico, to 50,000 metric tons, the fastest growth rate of any plastic resin.

The largest pipe markets in South America are Brazil and Chile. Other South American countries such as Argentina, Colombia, Ecuador and Peru are also forecasted to see strong growth in construction. Brazil has large infrastructure investment occurring related to the country hosting the 2014 FIFA World Cup and 2016 Summer Olympics. HDPE pipe is taking market share from concrete and PVC pipe in drainage and sewer applications in these markets. In Argentina, primary end markets for HDPE pipe are construction, natural resources and agriculture.

*Related Water Management Solutions Market*

We also offer a wide range of Allied Products to meet our customers' water management requirements across various markets. The demand for these products is largely driven by residential and non-residential construction, transportation and related water drainage infrastructure spending and the replacement of aging stormwater management infrastructure.

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### Stormwater Retention/Detention

Current EPA regulations require any development of one acre or larger to retain stormwater on site and gradually release it over time. This requirement is met by either using natural solutions, such as retention ponds, or structural solutions, which include systems constructed underground. According to the Freedonia Special Report, demand in this market is forecasted to grow 7.5% annually from 2013 to 2016. Growth of structural solutions is forecasted to grow 8.5% over this period, compared to 5.4% for natural solutions.

### On-Site Septic

According to the EPA, an estimated 20% of total U.S. housing units depend upon on-site septic systems for the treatment and disposal of household sewage. An on-site septic system allows for effluent to be leached into the soil for treatment. The market is driven by new residential construction and, to a lesser extent, the repair and replacement of existing systems. Our plastic septic chamber products perform their septic treatment functions with gravel, reducing the cost to the contractor and homeowner over traditional pipe and stone systems that are also used for these systems.

### Structures

Drainage structures are used in all major storm projects and are used to move surface-collected stormwater vertically down to pipe conveyance systems. The predominant products used today are concrete structures. We compete in this market with our Nyloplast product line, an engineered drainage structure made from PVC. Our Nyloplast product reduces construction cost and increases speed of installation compared to traditional precast concrete structures.

### Water Quality

EPA regulations also limit the amount of sediment or other pollutants in discharged water. Similar to stormwater management, these requirements are met through the use of either natural or structural solutions. Freedonia forecasts that demand for these solutions will increase 10.1% annually through 2016, with natural and structural solutions growing at nearly the same rate. We provide structural solutions for water quality through our BaySaver and FlexStorm product lines.

### Geosynthetics

We offer geosynthetic products through resale agreements with leading suppliers. Geosynthetics are used in a wide range of environmental and civil engineering applications to promote drainage, retain soils, control the flow of liquids and construct natural soil structures. Demand in this market is primarily driven by trends in non-residential and transportation construction activity. According to a December 2013 study by Freedonia on world geosynthetics demand, U.S. geosynthetic demand is forecasted to grow 6.5% annually through 2017.

### ***Core End Markets***

#### *Non-Residential Construction (49% of Domestic Net Sales in Fiscal Year 2013)*

For fiscal year 2013, our net sales in the U.S. non-residential construction market were \$430.1 million, which represented 49% of our domestic net sales. Reed Construction Data is forecasting U.S. non-residential construction, consisting of commercial, institutional, manufacturing and warehouse construction, to grow 6.6% annually from 2013 to 2016 and increase 8.2% in 2014 over 2013.





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*Residential Construction (21% of Domestic Net Sales in Fiscal Year 2013)*

For fiscal year 2013, our net sales in the U.S. residential construction market were \$184.3 million, which represented 21% of our domestic net sales. U.S. residential new construction has begun to recover since reaching historic lows during the recent economic downturn. While new housing starts demonstrated an annual growth rate of 16% from 2010 to 2013, 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. According to McGraw Hill, residential new housing is expected to increase to 1.13 million starts, or 17%, in 2014, and increase to 1.36 million starts, or 20%, in 2015. As of September 2013, the Home Improvement Research Institute projects that U.S. sales of repair, renovation and improvement products will grow at a rate of 5.4% in 2013, 6.8% in 2014 and 7.0% in 2015, driven by the improving economy, rising home prices and greater consumer confidence.

*Agriculture (21% of Domestic Net Sales in Fiscal Year 2013)*

For fiscal year 2013, our net sales in the U.S. agriculture market were \$184.3 million, which represented 21% of our domestic net sales. U.S. and global demand for corn and soybeans, net farm income and corn use for ethanol are significant drivers of our agriculture business and are leading indicators in regards to our product demand. According to the U.S. Department of Agriculture, agricultural exports were a record \$140.9 billion in 2013 and are forecasted to increase 1% in 2014. According to the U.S. Department of Agriculture, net farm income increased to \$130.5 billion in 2013, up from \$85.0 billion in 2008. The U.S. Department of Agriculture estimates that 40% of corn production in the United States is consumed by ethanol production, with requirements not expected to decline in the near future.

*Infrastructure (9% of Domestic Net Sales in Fiscal Year 2013)*

For fiscal year 2013, our net sales in the U.S. infrastructure market were \$79.0 million, which represented 9% of our domestic net sales. The main drivers of our products in the infrastructure market include the construction of streets and highways, storm and sanitary sewers, airports and railroads. ASCE rated the overall U.S. infrastructure a grade of D+ in its recent 2013 report card, and estimates that \$298 billion is needed over the next 20 years to replace and upgrade the existing wastewater infrastructure in the United States. ASCE's primary concern is the need to address sanitary and combined sewer overflows. Citing the 2008 Clean Watersheds Needs Survey, the ASCE report states \$64 billion is needed to address combined sewer overflows and stormwater management over the 20-year period. There are four million miles of public roads and highways in the United States, primarily constructed over 50 years ago. The Federal Highway Administration estimates that \$170 billion is needed annually to improve the condition of the nation's roads and highways, a significant increase from the \$101 billion that is needed to just maintain their current condition.

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**Ownership and Corporate Information**

We have a long history of employee ownership as well as ownership by financial sponsors. Our current ownership is comprised of members of our management team and other non-employee stockholders, ASP ADS Investco, LLC, an affiliate of American Securities LLC, or American Securities, and our ESOP in which our employees participate. For more information regarding our ESOP, see Description of Employee Stock Ownership Plan.

The following chart illustrates our ownership and organizational structure, including stock ownership percentages, after giving effect to this offering (assuming no exercise of the underwriters' option to purchase additional shares):

- (1) Excludes (on a post-stock split basis) \_\_\_\_\_ million shares of common stock issuable upon exercise of options outstanding as of December 31, 2013 at a weighted average exercise price of \$ \_\_\_\_\_ per share.
- (2) ASP ADS Investco, LLC is an affiliate of American Securities.
- (3) The ESOP currently holds all outstanding shares of our convertible preferred stock, which converts at the election of the ESOP into shares of our common stock as further described below under Description of Employee Stock Ownership Plan. The percentage ownership for the ESOP is on an as-converted basis.
- (4) ADS Worldwide, Inc. is our wholly-owned subsidiary through which we hold interests in the various international joint ventures through which we operate in Mexico, Central America and South America.

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**Summary of Risk Factors**

Our business is subject to a number of risks of which you should be aware and carefully consider before making an investment decision. These risks are discussed in Risk Factors, and include but are not limited to the following:

fluctuations in the price and availability of resins, our principal raw material, and our inability to pass on resin price increases to customers;

our inability to obtain adequate supplies of resins from suppliers;

disruption or volatility in general business and economic conditions in the markets in which we operate, such as non-residential and residential construction, agriculture and infrastructure markets ;

our ability to convert current demand for competitive products into demand for our products;

effect of weather or seasonality;

loss of any of our significant customers;

failure to collect monies owed from customers;

exposure of our international operations to political, economic and regulatory risks;

risks associated with conducting a portion of our operations through joint ventures;

our ability to successfully expand into new geographic or product markets;

risks associated with acquisitions;

risks associated with increased fuel and energy prices;

risks associated with manufacturing process, construction defect and product liability and legal proceedings;

our current levels of indebtedness and related restrictions and limitations imposed on us;

securities or industry analysts may not publish research or may publish misleading or unfavorable research about our business; and

fulfilling our obligations incident to being a public company.

### **Corporate 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). Information on, and which can be accessed through, our website is not part of, and is not incorporated by reference in this prospectus.

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**The Offering**

Common stock offered by us	shares ( shares if the underwriters exercise in full their option to purchase additional shares).
Common stock offered by the selling stockholder	shares ( shares if the underwriters exercise in full their option to purchase additional shares).
Common stock outstanding immediately after this offering	shares ( shares if the underwriters exercise in full their option to purchase additional shares).
Option to purchase additional shares of common stock	The underwriters have a 30-day option to purchase up to an additional shares of common stock from us and up to an additional shares of common stock from the selling stockholder.
Proposed New York Stock Exchange symbol	WMS.
Use of proceeds	We intend to use the net proceeds from this offering (together with cash on hand, if necessary) to repay at least \$ million of outstanding indebtedness under the revolving portion of our credit facility. We intend to use the remaining proceeds (if any) for general corporate purposes. We will not receive any proceeds from the sale of shares by the selling stockholder. See Use of Proceeds.
Risk factors	See Risk Factors and other information included in this prospectus for a discussion of factors that you should carefully consider before deciding whether to invest in shares of our common stock.
Dividend policy	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 after this offering. 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. See Dividend Policy.

The number of shares of common stock to be outstanding immediately following this offering gives effect to a -for- stock split to be effected immediately prior to the effectiveness of the registration statement of which this prospectus forms a part, and includes (i) shares of our common stock outstanding as of , 2014, and (ii) shares of common stock offered by us in connection with this offering (assuming no exercise of the underwriters option to purchase additional shares), and excludes (on a post-stock split basis):

million shares of restricted stock outstanding as of , 2014 under our 2008 Restricted Stock Plan;

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million shares of common stock issuable upon exercise of options outstanding as of December 31, 2013 at a weighted average exercise price of \$            per share; and

million shares of common stock reserved for future issuance under our 2013 Stock Option Plan. Unless otherwise indicated, all information in this prospectus assumes the following:

a            -for-            stock split to be effected immediately prior to the effectiveness of the registration statement of which this prospectus forms a part;

no exercise by the underwriters of their option to purchase additional shares;

the filing of our amended and restated certificate of incorporation and the adoption of our amended and restated bylaws immediately prior to the closing of this offering; and

an initial public offering price of \$            per share, which is the midpoint of the price range set forth on the cover of this prospectus.



**Table of Contents****Summary Consolidated Financial Data**

The summary consolidated financial data presented below as of March 31, 2012 and 2013 and for fiscal years 2011, 2012 and 2013 have been derived from our audited consolidated financial statements included elsewhere in this prospectus. The summary consolidated financial data presented below as of December 31, 2013 and for the nine months ended December 31, 2012 and 2013 have been derived from our unaudited condensed consolidated financial statements included elsewhere in this prospectus. The summary consolidated financial data presented below as of March 31, 2011 have been derived from our audited consolidated financial statements which are not included in this prospectus.

The results indicated below and elsewhere in this prospectus are not necessarily indicative of our future performance. You should read this data in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes included elsewhere in this prospectus. This summary consolidated financial data does not reflect the earnings per share and dividends per share impact of our -for- stock split to be effected immediately prior to the effectiveness of the registration statement of which this prospectus forms a part.

(Amounts in thousands, except per share data)	Fiscal Year Ended			Nine Months Ended	
	2011	March 31, 2012	2013	December 31, 2012	2013
<b>Consolidated statement of income data:</b>					
Net sales	\$ 863,138	\$ 1,013,756	\$ 1,017,041	\$ 832,565	\$ 887,777
Cost of goods sold	692,164	818,398	807,730	659,283	698,791
Gross profit	170,974	195,358	209,311	173,282	188,986
Selling expenses	63,103	67,625	69,451	52,847	52,433
General and administrative expenses	61,648	65,927	67,712	48,913	54,354
Gain on sale of assets/ business		(44,634)	(2,210)	(2,210)	(4,848)
Intangibles amortization	7,294	11,387	11,295	8,119	8,576
Income from operations	38,929	95,053	63,063	65,613	78,471
Interest expense	27,121	21,837	16,095	12,465	11,860
Other miscellaneous (income) expense, net	(847)	2,425	283	176	398
Income before income taxes	12,655	70,791	46,685	52,972	66,213
Income tax expense	4,053	27,064	16,894	20,112	40,845
Equity in net (income) loss of unconsolidated affiliates	(736)	(704)	(387)	(402)	714
Net income	9,338	44,431	30,178	33,262	24,654
Less net income attributable to the noncontrolling interest	3,342	1,171	2,019	1,654	1,360
Net income attributable to ADS	5,996	43,260	28,159	31,608	23,294
	(3,541)	(10,257)	(5,869)	(3,682)	(8,492)

Change in fair value of Redeemable Convertible Preferred Stock

Dividends paid to Redeemable Convertible Preferred Stockholders	(844)	(668)	(736)	(554)	(640)
Dividends paid to unvested restricted stockholders	(104)	(34)	(52)	(39)	(47)
Net income available to common stockholders and participating securities	1,507	32,301	21,502	27,333	14,115
Undistributed income allocated to participating securities		(3,241)	(2,042)	(2,703)	(1,184)
Net income available to common stockholders	\$ 1,507	\$ 29,060	\$ 19,460	\$ 24,630	\$ 12,931

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(Amounts in thousands, except per share data)	Fiscal Year Ended			Nine Months Ended	
	2011	March 31, 2012	2013	December 31, 2012	2013
Weighted average common shares outstanding:					
Basic	10,127	9,835	9,921	9,917	9,980
Diluted	10,346	9,996	10,038	10,033	10,087
As adjusted Basic <sup>(2)</sup>					
As adjusted Diluted <sup>(2)</sup>					
Net income per share:					
Basic	\$ 0.15	\$ 2.95	\$ 1.96	\$ 2.48	\$ 1.30
Diluted	\$ 0.15	\$ 2.91	\$ 1.94	\$ 2.45	\$ 1.28
As adjusted Basic <sup>(2)</sup>	\$ 0.49	\$ 3.88	\$ 2.48	\$ 2.81	\$ 2.05
As adjusted Diluted <sup>(2)</sup>	\$ 0.47	\$ 3.81	\$ 2.45	\$ 2.75	\$ 2.00
Cash dividends declared per share	\$ 0.44	\$ 0.44	\$ 0.48	\$ 0.33	\$ 0.36

(Amounts in thousands, except percentages)	Fiscal Year Ended			Nine Months Ended	
	2011	March 31, 2012	2013	December 31, 2012	2013
<b>Other financial data:</b>					
Capital expenditures	\$ 30,041	\$ 26,467	\$ 40,004	\$ 35,421	\$ 27,097
Adjusted EBITDA <sup>(3)</sup>	100,780	116,873	129,759	115,731	130,567
Adjusted EBITDA margin <sup>(4)</sup>	11.7%	11.5%	12.8%	13.9%	14.7%

(Amounts in thousands)	2011 <sup>(1)</sup>	As of		2013	As of	
		March 31, 2012	2013		December 31, 2012	2013
<b>Consolidated balance sheet data:</b>						
Cash	\$ 2,151	\$ 2,082	\$ 1,361	\$ 5,335		
Working capital <sup>(5)</sup>	204,061	208,268	220,276	208,097		
Total assets	866,798	905,028	907,739	885,948		
Long-term debt	374,746	370,672	349,990	306,265		
Total liabilities	618,351	615,314	585,115	545,632		
Total mezzanine equity <sup>(6)</sup>	493,674	557,563	608,346	678,175		
Total stockholders equity	(245,227)	(267,849)	(285,722)	(337,859)		
Total mezzanine equity and stockholders equity	248,447	289,714	322,624	340,316		

(Amounts in thousands)	Fiscal Year Ended			Nine Months Ended	
	2011	March 31, 2012	2013	December 31, 2012	2013
<b>Statement of cash flows data:</b>					
Net cash from operating activities	\$ 37,233	\$ 56,997	\$ 68,215	\$ 60,176	\$ 88,104
Net cash from investing activities	(53,237)	(35,833)	(47,199)	(42,079)	(30,116)
Net cash from financing activities	15,134	(21,233)	(21,737)	(15,987)	(54,014)

- (1) The presentation of our summary consolidated financial data as of March 31, 2011 has been adjusted to comply with the retrospective application of our inventory accounting principle change. See Note 1, Background and Summary of Significant Accounting Policies, within our consolidated financial statements included elsewhere in this prospectus for further details regarding our inventory accounting principle change.
- (2) Net Income Per Share As Adjusted Basic and Diluted, which are non-GAAP measures, have been presented in this prospectus as supplemental measures of financial performance that are not required by, or presented in accordance with generally accepted accounting principles or GAAP. As described elsewhere in this prospectus, upon completion of this offering, the redemption rights associated with these shares, which require them to be classified as mezzanine equity, will be no longer in effect and, as such, we anticipate reclassifying these balances to total stockholders equity upon the completion of this offering. We calculate Net Income Per Share As Adjusted Basic,

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and the corresponding Weighted Average Common Shares Outstanding As Adjusted Basic, by adjusting our historical net income per share and weighted average common shares outstanding amounts for the reclassification of Redeemable Convertible Preferred Stock from mezzanine equity to total stockholders' equity in order to present historical amounts as if this reclassification occurred as of the beginning of the earliest period presented.

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 Basic Net Income Per Share computation, and (2) made a corresponding adjustment to the amount allocated to participating securities under the two-class earnings per share computation method.

We have also made adjustments to Net Income Per Share as Adjusted Diluted, and the corresponding Weighted Average Common Shares Outstanding As Adjusted Diluted, to assume share settlement of the Redeemable Convertible Preferred Stock to the extent that the if-converted computation method is more dilutive than the two-class computation method.

Net Income Per Share As Adjusted Basic and Diluted are included in this prospectus because they are key metrics used by management and our board of directors to assess our financial performance. Net Income Per Share As Adjusted Basic and Diluted are not necessarily comparable to other similarly titled captions of other companies due to different methods of calculation.

The following table presents a reconciliation of Net Income Per Share As Adjusted Basic and Diluted, and the corresponding Weighted Average Common Shares Outstanding As Adjusted Basic and Diluted to our historical net income per share and corresponding historical weighted average common share amounts, the most comparable GAAP measure, for each of the periods indicated.

(Amounts in thousands, except per share data)	Fiscal Year Ended			Nine Months Ended	
	2011	2012	2013	March 31, 2012	December 31, 2013
<b>Net Income Per Share As Adjusted Basic</b>					
Net income available to common stockholders	\$ 1,507	\$ 29,060	\$ 19,460	\$ 24,630	\$ 12,931
Adjustment for:					
Change in fair value of Redeemable Convertible Preferred Stock	3,541	10,257	5,869	3,682	8,492
Undistributed income allocated to participating securities	(76)	(1,189)	(716)	(418)	(997)
Net income available to common stockholders used to calculate Net Income Per Share As Adjusted Basic	\$ 4,972	\$ 38,128	\$ 24,613	\$ 27,894	\$ 20,426
Weighted average common shares outstanding:					
Basic	10,127	9,835	9,921	9,917	9,980
As adjusted Basic	10,127	9,835	9,921	9,917	9,980
<b>Net Income Per Share As Adjusted Diluted</b>					
Net income available to common stockholders used to calculate Net Income Per Share As Adjusted Basic	\$ 4,972	\$ 38,128	\$ 24,613	\$ 27,894	\$ 20,426

Adjustment for:

Undistributed income allocated to participating Redeemable Convertible Preferred Stock	74		2,972	2,071
Dividends paid to Redeemable Convertible Preferred Stockholders, net of tax impact	557		360	416
Other adjustments	(4)		(5)	45

Net income available to common stockholders used to calculate Net Income Per Share As Adjusted

Diluted	\$ 5,599	\$ 38,128	\$ 24,613	\$ 31,221	\$ 22,958
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Weighted average common shares outstanding

Diluted	10,346	9,996	10,038	10,033	10,087
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Conversion of the outstanding Redeemable

Convertible Preferred Stock on an as converted basis	1,607			1,305	1,366
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As adjusted Diluted	11,953	9,996	10,038	11,338	11,453
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Net income (loss) per share:

As adjusted Basic	\$ 0.49	\$ 3.88	\$ 2.48	\$ 2.81	\$ 2.05
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As adjusted Diluted	\$ 0.47	\$ 3.81	\$ 2.45	\$ 2.75	\$ 2.00
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- (3) EBITDA and Adjusted EBITDA, which are non-GAAP financial measures, have been presented in this prospectus as supplemental measures of financial performance that are not required by, or presented in accordance with generally accepted accounting principles or GAAP. We calculate EBITDA as net income attributable to ADS before interest, income taxes, depreciation and amortization. We calculate Adjusted EBITDA as EBITDA before stock based compensation expense, non-cash charges and certain other expenses.

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EBITDA and Adjusted EBITDA are included in this prospectus because they are key metrics used by management and our board of directors to assess our financial performance. EBITDA and Adjusted EBITDA are 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.

EBITDA and Adjusted EBITDA are not GAAP measures of our financial performance or liquidity and should not be considered as alternatives to net income as a measure of financial performance or cash flows from operations as a measure of liquidity, 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. Additionally, EBITDA and Adjusted EBITDA are not intended to be measures of free cash flow for management's discretionary use, as they do not reflect certain cash requirements such as tax payments, debt service requirements, capital expenditures and certain other cash costs that may recur in the future. EBITDA and Adjusted EBITDA contain 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 EBITDA and Adjusted EBITDA supplementally. Our measures of EBITDA and Adjusted EBITDA are not necessarily comparable to other similarly titled captions of other companies due to different methods of calculation.

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

(Amounts in thousands)	Fiscal Year Ended			Nine Months Ended	
	March 31,			December 31,	
	2011	2012	2013	2012	2013
Net income attributable to ADS	\$ 5,996	\$ 43,260	\$ 28,159	\$ 31,608	\$ 23,294
Depreciation and amortization <sup>(a)</sup>	56,327	59,356	56,926	42,188	43,076
Interest expense, net	27,121	21,837	16,095	12,465	11,860
Income tax expense	4,053	27,064	16,894	20,112	40,845
<b>EBITDA</b>	<b>93,497</b>	<b>151,517</b>	<b>118,074</b>	<b>106,373</b>	<b>119,075</b>
Derivative fair value adjustments <sup>(b)</sup>	(1,365)	2,315	(4)	220	54
Foreign currency transaction losses <sup>(c)</sup>	332	378	1,085	659	251
Gain on sale of Septic Chamber business <sup>(d)</sup>		(44,634)			
Unconsolidated affiliates interest and tax <sup>(e)</sup>	624	915	729	488	347
One-time management fee to minority interest holder <sup>(f)</sup>					739
Stock based compensation <sup>(g)</sup>	2,725	1,425	2,592	1,207	2,640
ESOP deferred stock based compensation <sup>(h)</sup>	4,564	4,957	7,283	6,784	7,343
Transaction costs <sup>(i)</sup>	403				118
<b>Adjusted EBITDA</b>	<b>\$ 100,780</b>	<b>\$ 116,873</b>	<b>\$ 129,759</b>	<b>\$ 115,731</b>	<b>\$ 130,567</b>

- (a) Includes our proportionate share of depreciation and amortization expense of \$552, \$985 and \$1,321 related to our South American Joint Venture and our BaySaver Joint Venture, which amounts are included in equity in net income of unconsolidated affiliates in our consolidated statements of income for fiscal years 2011, 2012 and 2013, respectively, and \$977 and \$1,031 included in equity in net income of unconsolidated affiliates in our condensed consolidated statements of income for the nine months ended December 31, 2012 and 2013, respectively. Depreciation and amortization expense for fiscal year 2012 also includes a charge of \$3,200 related to the impairment of one of our trademarks.
- (b) Represents the non-cash gains and losses arising from changes in mark-to-market values for derivative contracts related to diesel fuel and interest rate swaps. The impact of resin physical and financial derivatives is included in cost of goods sold.
- (c) Represents the gains and losses incurred on purchases, sales and intercompany loans and dividends denominated in non-functional currencies.
- (d) Represents a gain recognized on the sale of our septic chamber business in January 2012.
- (e) Represents our proportional share of income taxes and interest related to our South American Joint Venture and our BaySaver Joint Venture, which are accounted for under the equity method of accounting.



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- (f) Represents management fee paid to a minority interest holder of a consolidated subsidiary.
  - (g) Represents the non-cash stock based compensation cost related to our stock options and restricted stock awards.
  - (h) 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.
  - (i) Represents expenses recorded related to legal, accounting and other professional fees incurred in connection with our recent debt refinancing and in connection with this offering.
- (4) Adjusted EBITDA margin for any period represents Adjusted EBITDA as a percentage of net sales for that period.
- (5) Working capital is the difference between our current assets and current liabilities. Working capital is an indication of liquidity and potential need for short-term funding.
- (6) 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 for purposes of GAAP to be a redemption right, which is beyond our control. See Note 17, Mezzanine Equity, within our consolidated financial statements included elsewhere in this prospectus for further information regarding the accounting treatment for our mezzanine equity. Upon completion of this offering, the redemption rights associated with these shares, which require them to be classified in mezzanine equity, will be no longer be in effect. As a result, we anticipate reclassifying these balances to total stockholders equity upon the completion of this offering.

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**RISK FACTORS**

*Investing in our common stock involves a high degree of risk. Before you make your investment decision, you should carefully consider the risks described below and the other information contained in this prospectus, including our consolidated financial statements and the related notes. 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, and you may lose all or part of your investment.*

**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 refining 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. The weighted average market cost for the types of resin that we use increased by approximately 7.2% and 0.9% for fiscal years 2012 and 2013, respectively. Unanticipated changes in and disruptions to existing refining 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 long-standing relationships as well as supply contracts with some of these suppliers but we have no fixed-price contracts with any of our major suppliers. Prices are typically negotiated on a continuous basis. We have implemented a limited resin price hedging program which has historically covered less than 50% of our virgin resin purchases. 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. A 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

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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 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. According to the U.S. Census Bureau, actual non-residential construction put-in-place in the United States during 2013 remained 13.5% lower than 2009 levels. 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 16% from 2010 to 2013, 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 2013, 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 depends 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

86.5%, 6.2% and 5.8%, respectively, of our net sales for fiscal year 2013 and collectively represented approximately 98.4% of our net sales for fiscal year 2013.

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. 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, 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.

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

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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 operation 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 35.1% of our domestic net sales in fiscal year 2013. 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.

***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;

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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;

terrorist acts;

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, or the FCPA, and similar foreign anti-corruption laws generally prohibit companies and their intermediaries from making improper payments or providing anything of value to influence foreign government officials for the purpose of obtaining or retaining business or obtaining an unfair advantage. 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 U.S. Securities and Exchange Commission, or 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, Central America 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 always will protect us from unauthorized reckless or criminal acts committed by our employees, agents or joint venture partners. 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. Violations 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.***

With respect to our existing joint ventures in Mexico, Central 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

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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 geographic or product markets.***

We may expand into new geographic or 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.

Our expansion into new 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 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 or product 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.

***We may not achieve the acquisition component of our growth strategy.***

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.

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### ***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 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.

### ***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), which 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.

### ***Our business is subject 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

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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 at December 31, 2013 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.***

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.

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, 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

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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. Department of Transportation, or DOT, regulates our operations in domestic interstate commerce. We are subject to safety requirements governing interstate operations prescribed by the 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.

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 IT systems could disrupt operations and cause unanticipated increases in costs or decreases in revenues, or both.***

Because we use our information 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 information 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

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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 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. Though we believe that we have adequate insurance coverage in excess of self-insured retention levels, 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 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

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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.

***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

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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 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

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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 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.

***Our failure to maintain effective disclosure controls and internal control over financial reporting could adversely affect our business, financial position and results of operations.***

Upon completion of this offering, we will be required to evaluate the effectiveness of our disclosure controls and internal control over financial reporting 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. These reporting and other obligations place significant additional demands on our management and administrative and operational resources, including our accounting resources, which could adversely affect our operations among other things. To comply with these requirements, we have upgraded, and are continuing to upgrade our systems, including information technology, implemented additional financial and management controls, reporting systems and procedures. We cannot be certain that we will be successful in maintaining adequate control over our financial reporting and financial processes. 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 that these controls remain effective. 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.

We have not been required to have and have not had our independent registered public accounting firm perform an evaluation of our internal control over financial reporting as of the end of our last fiscal year in accordance with the provisions of the Sarbanes-Oxley Act of 2002. Had our independent registered public accounting firm performed an evaluation of our internal control over financial reporting in accordance with the provisions of the Sarbanes-Oxley Act of 2002, additional control deficiencies may have been identified by our independent registered public accounting firm and those control deficiencies could have also represented one or more material weaknesses.

***Future changes in financial accounting standards may significantly change our reported results of operations.***

In an exposure draft issued in August 2010 and revised in May 2013, the Financial Accounting Standards Board, or FASB, together with the International Accounting Standards Board, proposed a comprehensive set of changes in

accounting for leases. The lease accounting model contemplated by these changes is a right of use model that assumes that each lease creates an asset (the lessee's right to use the leased asset) and a liability (the

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future rent payment obligations) which should be reflected on a lessee's balance sheet to fairly represent the lease transaction and the lessee's related financial obligations. We conduct some of our operations under leases that are accounted for as operating leases, with no related assets and liabilities on our balance sheet. The proposed changes would require that substantially all of our operating leases be recognized as assets and liabilities on our balance sheet. The effective date has not been determined. Comments on the revised exposure draft were due by September 13, 2013. Changes in lease accounting rules or their interpretation, or changes in underlying assumptions, estimates or judgments by us could significantly change our reported or expected financial performance.

***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, or 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 EPA, spurred by judicial interpretation of the Clean Air Act, has begun regulating GHG emissions following its issuance of the Tailoring Rule that determines which stationary sources require permits for greenhouse emissions. EPA has issued rules that require monitoring and reporting of annual GHG emissions, as well as performance standards for CO<sub>2</sub> emissions from new fossil-fuel electric utility generating units. Thus far, EPA has addressed vehicle and mobile source emissions by implementing Renewable Fuel Standard regulations and by working with manufacturers to improve fuel efficiency in new vehicles. However, EPA has been directed by President Obama to develop and issue new fuel efficiency standards for medium- and heavy-duty vehicles by March 2016, 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 in order to comply with application regulations. 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.



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**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 December 31, 2013, we had an aggregate principal amount of \$306.3 million of outstanding debt. In the nine months ended December 31, 2013, we incurred \$11.9 million of interest expense.

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;

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 Senior Loan Facilities and our Senior Notes, which we have defined in [Description of Certain Indebtedness](#), 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.

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***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 even if operating leases were to be treated as debt under GAAP. In addition, our Revolving Credit Facility provides an aggregate commitment of up to \$325.0 million. As of December 31, 2013, we had an additional \$218 million of availability under the Revolving Credit Facility plus \$12 million in indebtedness outstanding under a separate revolving credit facility with our subsidiary, ADS Mexicana, S.A. de C.V. If new debt is added to our current debt levels, the related risks that we now face could intensify. See Description of Certain Indebtedness.

***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 Senior Loan Facilities 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,

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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 Senior Loan Facilities, bears interest at variable rates. As a result, increases in interest rates would increase the cost of servicing our debt and could 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 \$0.8 million based on balances as of December 31, 2013. Assuming all revolving loans were fully drawn, each 1.0% increase in interest rates would result in a \$2.8 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 Description of Certain Indebtedness.

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

Under the Senior Loan Facility, 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 and This Offering**

### ***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 after this offering. 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. For more information on our convertible preferred stock, see Description of Capital Stock Preferred Stock. 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. See Dividend Policy.

### ***Our common stock has no prior public market and the market price of our common stock may be volatile and could decline after this offering.***

Prior to this offering, there has not been a public market for our common stock, and an active market for our common stock may not develop or be sustained after this offering. We will negotiate the initial public offering price per share with the representatives of the underwriters and therefore, that price may not be indicative of the market price of our common stock after this offering. We cannot assure you that an active public market for our

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common stock will develop after this offering or, if it does develop, will be sustained. In the absence of a public trading market, you may not be able to liquidate your investment in our common stock. In addition, 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 ASP ADS Investco, LLC), including future sales;

speculation in the press or investment community;

investor perception of us and our industry;

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.

In particular, we cannot assure you that you will be able to resell your shares at or above the initial public offering price. 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 ESOP, could cause our stock price to decline.***

Sales of substantial amounts of our common stock in the public market following this offering, 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 December 31, 2013, upon completion of this offering, we will have                    outstanding shares of common stock (or                    outstanding shares of common stock, assuming exercise in full by the underwriters of their option to purchase additional shares). All of the shares sold pursuant to this offering will be immediately tradeable without restriction under the Securities Act of 1933, as amended, unless held by affiliates, as that term is defined in Rule 144 under the Securities Act. The remaining shares of common stock outstanding upon completion of this offering will be 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, subject to the terms of the lock-up agreements entered into among us, Barclays Capital Inc. and Deutsche Bank Securities Inc., as the representatives of the underwriters, and stockholders holding more than        % of our common stock prior to this offering. Upon completion

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of this offering, we intend to file one or more registration statements 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 will also be freely tradable under the Securities Act, subject to the terms of the lock-up agreements, unless purchased by our affiliates. As of December 31, 2013, there were stock options outstanding to purchase a total of approximately shares of our common stock. In addition, shares of common stock are reserved for future issuance under our 2013 Stock Option Plan.

We, stockholders holding more than % of our common stock prior to this offering and our executive officers and directors have agreed to a lock-up, meaning that, subject to certain exceptions, neither we nor they will sell any shares of our common stock without the prior consent of Barclays Capital Inc. and Deutsche Bank Securities Inc., as the representatives of the underwriters, for 180 days after the date of this prospectus. Following the expiration of this 180-day lock-up period, approximately million shares of our common stock will be eligible for future sale, subject to the applicable volume, manner of sale, holding period and other limitations of Rule 144. See Shares of Common Stock Eligible for Future Sale for a discussion of the shares of common stock that may be sold into the public market in the future. In addition, certain of our significant stockholders may distribute shares that they hold to their investors who themselves may then sell into the public market following the expiration of the lock-up period. Such sales may not be subject to the volume, manner of sale, holding period and other limitations of 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. Barclays Capital Inc. and Deutsche Bank Securities Inc., as the representatives of the underwriters, may, in their sole discretion and at any time, release all or any portion of the securities subject to lock-up agreements entered into in connection with this offering. See Underwriting.

All of the shares of our convertible preferred stock held by our 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 and 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 December 31, 2013, there were approximately 5,562,020 shares of convertible preferred stock held by our ESOP, which in aggregate could be converted into approximately 4,278,305 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. After the completion of this offering, the convertible preferred stock held by our ESOP will account for approximately % of our common stock on a fully-converted basis, assuming no exercise of the underwriters option to purchase additional shares, or %, assuming exercise in full of the underwriters option to purchase additional shares. See Description of Employee Stock Ownership Plan for shares relating to distributions and diversifications during fiscal years 2012, 2013 and 2014.

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 will depend in part on the research and reports that securities or industry analysts publish about us or our business. We do not currently have and may never obtain research coverage by securities and industry analysts. If there is no coverage of us by securities or industry analysts, the trading price for our stock would be negatively impacted. In the event we obtain securities or industry analyst coverage, 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.

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***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 trustee of the ESOP votes the shares of stock held by the ESOP as directed by the ESOP's committee. Consequently, the trustee of the ESOP, per the ESOP committee's discretion, has the ability to vote a significant block of shares on certain matters presented to shareholders for approval. However, in the event of either a corporate matter with respect to the approval or disapproval of any corporate merger or consolidation, recapitalization, reclassification, liquidation, dissolution, sale of substantially all of the assets of a trade or business or with respect to any tender or exchange offer, or a request or invitation for tenders or exchanges, each participant in the ESOP may direct the trustee of the ESOP on how to vote the shares of stock allocated to the participant's ESOP accounts; and the 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 our obligations incident to being a public company, including with respect to the requirements of and related rules under the Sarbanes-Oxley Act of 2002, will be 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.***

Following this offering, we will be subject to the reporting and corporate governance requirements, the listing standards of the New York Stock Exchange, or the NYSE, and the Sarbanes-Oxley Act of 2002, that apply to issuers of listed equity, which will impose certain new compliance costs and obligations upon us. The changes necessitated by publicly listing our equity will require a significant commitment of additional resources and management oversight which will increase our operating costs. These changes will also place additional 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. As a public company, we will be required, among other things, to:

define and expand the roles and the duties of our board of directors and its committees; and

institute more comprehensive compliance, investor relations and internal audit functions.

In particular, beginning with the year ending March 31, 2016, our independent registered public accounting firm will be required to provide an attestation report on the effectiveness of our internal control over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Act of 2002. If our independent registered public accounting firm is unable to provide us with an unqualified report regarding the effectiveness of our internal control over financial reporting (at such time as it is required to do so), investors could lose confidence in the reliability of our financial statements. This 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.

***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 will 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 will:

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

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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;

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 DGCL that has the effect of delaying or deterring a change in control could limit the 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. See [Description of Capital Stock](#) [Anti-Takeover Effects of our Certificate of Incorporation and Bylaws](#).

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.

***Investors purchasing common stock in this offering will experience immediate and substantial dilution as a result of this offering and future equity issuances.***

If you purchase shares of our common stock in this offering, you will incur immediate and substantial dilution in the book value of your stock, because the price that you pay will be substantially greater than the net tangible book value per share of the shares you acquire. As a result, you will pay a price per share that substantially exceeds the book value of our assets after subtracting our liabilities. The net tangible book value per share, calculated as of December 31, 2013 and after giving effect to the offering (assuming an initial public offering price of \$        per share, the midpoint of the price range set forth on the cover page of this prospectus), is \$        . Investors purchasing common stock in this offering will experience immediate and substantial dilution of \$        a share, based on an initial public offering price of \$        , which is the midpoint of the price range set forth on the cover page of this prospectus. In addition, we have issued options to acquire common stock at prices significantly below the initial public offering price. To the extent outstanding options are ultimately exercised, there will be further dilution to investors in this offering. In addition, if the underwriters exercise in full their option to purchase additional shares, or if we issue additional equity securities in the future, investors purchasing common stock in this offering will experience additional dilution. See Dilution.

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**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS AND INFORMATION**

This prospectus includes forward-looking statements. 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, comparable terms. These forward-looking statements include all matters that are not related to present facts or current conditions or that are not historical facts. They appear in a number of places throughout this prospectus and include statements regarding our intentions, beliefs or current expectations concerning, among other things, our consolidated results of operations, financial condition, liquidity, prospects and growth strategies and the industries in which we operate and including, without limitation, statements relating to our future performance.

Forward-looking statements are subject to known and unknown risks and uncertainties, many of which are beyond our control. We caution you that forward-looking statements are not guarantees of future performance and that our actual consolidated results of operations, financial condition and liquidity, and industry development may differ materially from those made in or suggested by the forward-looking statements contained in this prospectus. In addition, even if our consolidated results of operations, financial condition and liquidity, and industry development are consistent with the forward-looking statements contained in this prospectus, those results or developments may not be indicative of results or developments in subsequent periods. A number of important factors could cause actual results to differ materially from those contained in or implied by the forward-looking statements, including the risks and uncertainties discussed in this prospectus under the headings Prospectus Summary, Risk Factors, Management's Discussion and Analysis of Financial Condition and Results of Operations, and Business. Factors that could cause actual results to differ from those reflected in forward-looking statements relating to our operations and business include:

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

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

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

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

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

the effect of weather or seasonality;

the loss of any of our significant customers;

the risks of doing business internationally;

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

our ability to expand into new geographic or product markets;

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

the risk associated with manufacturing processes;

our ability to manage our assets;

the risks associated with our product warranties;

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

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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 Risk Factors.

All forward-looking statements are made only as of the date of this prospectus 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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**USE OF PROCEEDS**

Based upon an assumed initial public offering price of \$        per share, which is the mid-point of the price range set forth on the cover page of this prospectus, we estimate that we will receive net proceeds from this offering of approximately \$        million (or approximately \$        million if the underwriters exercise in full their option to purchase additional shares), after deducting estimated underwriting discounts and commissions in connection with this offering and estimated offering expenses payable by us. We will not receive any proceeds from the sale of shares by the selling stockholder.

We intend to use the net proceeds from this offering (together with cash on hand, if necessary) to repay at least \$        million of outstanding indebtedness under the revolving portion of our credit facility. We intend to use the remaining proceeds (if any) for general corporate purposes, including working capital. The revolving portion of our credit facility consists of a \$325.0 million secured revolving credit facility, with an interest rate based on a fluctuating rate of interest, currently at approximately 2.3%, which matures on June 12, 2018. Our revolving credit facility and other indebtedness is described below under Description of Certain Indebtedness Senior Loan Facilities. In the last 12 months, we borrowed under our revolving credit facility to pay a \$108.1 million special dividend and to fund working capital.

Assuming no exercise of the underwriters' option to purchase additional shares, a \$1.00 increase or decrease in the assumed initial public offering price of \$        per share (the mid-point of the price range set forth on the cover page of this prospectus) would increase or decrease the net proceeds to us from this offering by \$        million assuming the number of shares offered by us remains the same and after deducting estimated underwriting discounts and commission and estimated offering expenses payable by us. An increase or decrease of 1,000,000 shares in the number of shares offered by us would increase or decrease the net proceeds to us to us by \$        million, assuming no change in the assumed initial public offering price of \$        per share (the mid-point of the price range set forth on the cover page of this prospectus) and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us.

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**DIVIDEND POLICY**

We have a history of paying dividends to our stockholders when sufficient cash is available, and we currently intend to pay regular quarterly dividends in the future after this offering. Our quarterly dividend will initially be set at \$        per share of our common stock (including, on an as-converted basis, our shares of convertible preferred stock). During fiscal years 2013 and 2012, we declared dividends on our common stock of approximately \$4.8 million and \$4.3 million, respectively. Through December 31, 2013, we declared dividends on our common stock of approximately \$4.0 million. All such declared dividends were paid in quarterly installments.

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.



**Table of Contents****CAPITALIZATION**

The following table sets forth our cash and capitalization on a consolidated basis as of December 31, 2013:

on an actual basis; and

on an as adjusted basis to give effect to (i) the sale by us of \_\_\_\_\_ shares of our common stock in this offering at an assumed initial public offering price of \$ \_\_\_\_\_ per share (the mid-point of the price range set forth on the cover page of this prospectus) and (ii) the use of the net proceeds from this offering as described in Use of Proceeds.

You should read this table in conjunction with the sections of this prospectus entitled Use of Proceeds, Selected Historical Consolidated Financial Data, Management's Discussion and Analysis of Financial Condition and Results of Operations, Description of Certain Indebtedness and our consolidated financial statements and related notes included elsewhere in this prospectus.

	<b>As of December 31, 2013</b>	
	<b>Actual</b>	<b>As Adjusted <sup>(1)</sup></b>
<b>(Amounts in thousands, except per share amounts)</b>		
Cash	\$ 5,335	
Long Term Debt (including current portion)		
Revolving Credit Facility	\$ 98,400	
Term Loan	98,750	
Senior Notes	100,000	
Other debt	9,115	
<b>Total Long Term Debt (including current portion)</b>	<b>306,265</b>	
Mezzanine equity		
Redeemable Common Stock; \$0.01 par value: (i) actual: 8,141 shares issued and outstanding and (ii) as adjusted: no shares issued and outstanding <sup>(2)</sup>	578,020	
Redeemable Convertible Preferred Stock; \$0.01 par value: 10,000 authorized: (i) actual: 5,562 issued and outstanding and (ii) as adjusted: _____ issued and outstanding <sup>(3)</sup>	307,581	
Deferred compensation unearned ESOP share <sup>(3)</sup>	(207,426)	
<b>Total mezzanine equity</b>	<b>678,175</b>	
Stockholders' equity:		
Convertible preferred stock, \$0.01 par value per share, (i) actual: no shares authorized, issued and outstanding and (ii) as adjusted: _____ shares authorized and _____ shares issued and outstanding		
Common stock, \$0.01 par value per share: (i) actual: 23,359 shares authorized and issued and 1,875 shares outstanding and (ii) as adjusted: _____ shares authorized and issued and _____ shares outstanding	11,957	

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Paid-in capital	40,991
Common stock in treasury, at cost	(448,963)
Accumulated other comprehensive loss	(6,122)
Retained earnings	42,159
Total ADS stockholders' equity	(359,978)
Noncontrolling interest in subsidiaries	22,119
Total stockholders' equity	(337,859)
Total capitalization	\$ 646,581

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(1) Each \$1.00 increase or decrease in the assumed initial public offering price of \$        per share (the mid-point of the price range set forth on the cover page of this prospectus) would increase or decrease, as applicable, our as adjusted cash, paid-in capital and stockholders' equity by \$        million, assuming that the number of shares offered by us as set forth on the cover page of this prospectus remains the same and after deducting estimated underwriting discounts and commissions and estimated offering expenses. Each 1,000,000 increase or decrease in the number of shares offered by us would increase or decrease, as applicable, our as adjusted cash, paid-in capital and stockholders' equity by \$        million assuming no change in the assumed initial public offering price of \$        per share (the mid-point of the price range set forth on the cover page of this prospectus) and after deducting estimated underwriting discounts and commissions and estimated offering expenses.

The share information as of December 31, 2013 shown in the table above excludes (on a post-stock split basis):

      million shares of restricted stock outstanding as of       , 2014 under our 2008 Restricted Stock Plan;

      million shares of common stock issuable upon exercise of options outstanding as of December 31, 2013 at a weighted average exercise price of \$        per share; and

      million shares of common stock reserved for future issuance under our 2013 Stock Option Plan.

- (2) Upon completion of this offering, the redemption rights associated with these shares, which require them to be classified in mezzanine equity, will be no longer be in effect. As a result, we anticipate reclassifying these balances to total stockholders' equity upon the completion of this offering.
- (3) Upon completion of this offering, the redemption rights associated with these shares, which require them to be classified in mezzanine equity, will be no longer be in effect. As a result, we anticipate reclassifying these balances to total stockholders' equity upon the completion of this offering.

**Table of Contents****DILUTION**

If you invest in our common stock, the book value of your ownership interest will be immediately diluted to the extent of the difference between the initial public offering price per share of our common stock and the net tangible book value per share of our common stock immediately after this offering.

Our net tangible book value as of December 31, 2013 was approximately \$184.8 million, and net tangible book value per share was \$ . Net tangible book value per share before the offering has been determined by dividing net tangible book value (total book value of tangible assets less total liabilities) by the number of shares of common stock outstanding at December 31, 2013, after giving effect to a -for- stock split to be effected immediately prior to the effectiveness of the registration statement of which this prospectus forms a part.

After giving effect to the sale of shares of our common stock in this offering at an assumed initial public offering price of \$ per share (the mid-point of the price range set forth on the cover page of this prospectus) and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us, our net tangible book value at December 31, 2013 would have been \$ million, or \$ per share. This represents an immediate decrease in net tangible book value per share of \$ to the existing stockholders and dilution in net tangible book value per share of \$ to new investors who purchase shares in this offering. The following table illustrates this per share dilution to new investors:

Assumed initial public offering price per share		\$
Net tangible book value per share as of December 31, 2013	\$	
Increase per share attributable to this offering		
Net tangible book value, as adjusted to give effect to this offering		
Dilution in net tangible book value to new investors in this offering		\$

A \$1.00 increase or decrease in the assumed initial offering price of \$ per share (the mid-point of the price range set forth on the cover page of this prospectus) would increase or decrease our net tangible book value as adjusted to give effect to this offering by \$ per share, assuming that the number of shares offered by us set forth on the cover page of this prospectus remains the same, and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us. An increase or decrease of 1,000,000 shares in the number of shares offered by us would increase or decrease our net tangible book value as adjusted to give effect to this offering by \$ per share, assuming the assumed initial offering price of \$ per share (the mid-point of the price range set forth on the cover page of this prospectus) remains the same, and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us.

The following table summarizes, as of December 31, 2013, the total number of shares of common stock purchased from us, the total consideration paid to us and the average price per share paid by the existing stockholders and by new investors purchasing shares in this offering:

	Shares Purchased		Total Consideration		Average
	Number	Percent	Amount	Percent	Price Per

			<b>Share</b>	
	%	\$	%	\$
Existing Stockholders				
New investors				
<b>Total</b>	<b>%</b>	<b>\$</b>	<b>%</b>	<b>\$</b>

The share information as of December 31, 2013 shown in the table above excludes:

approximately            million shares of common stock issuable upon exercise of options outstanding as of December 31, 2013 at a weighted average exercise price of \$            per share; and

                 million shares of common stock reserved for future issuance under our 2013 Stock Option Plan, 2008 Restricted Stock Plan and Amended 2000 Incentive Stock Option Plan.

**Table of Contents****SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA**

The selected historical consolidated financial data presented below as of March 31, 2012 and 2013 and for fiscal years 2011, 2012 and 2013 have been derived from our audited consolidated financial statements included elsewhere in this prospectus. The selected historical consolidated financial data presented below as of December 31, 2013 and for the nine months ended December 31, 2012 and 2013 have been derived from our unaudited condensed consolidated financial statements included elsewhere in this prospectus. The selected historical consolidated financial data presented below as of March 31, 2009, 2010 and 2011 and for fiscal years 2009 and 2010 have been derived from our audited consolidated financial statements which are not included in this prospectus.

The results indicated below and elsewhere in this prospectus are not necessarily indicative of our future performance. You should read this data in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes included elsewhere in this prospectus. This selected historical consolidated financial data does not reflect the earnings per share and dividends per share impact of our -for- stock split to be effected immediately prior to the effectiveness of the registration statement of which this prospectus forms a part.

Amounts in thousands, except per share data)	Fiscal Year Ended					Nine Months Ended	
	2009 <sup>(1)</sup>	2010 <sup>(1)</sup>	March 31, 2011	2012	2013	December 31, 2012	2013
<b>Consolidated statement of income data:</b>							
Net sales	\$ 963,478	\$ 751,237	\$ 863,138	\$ 1,013,756	\$ 1,017,041	\$ 832,565	\$ 887,777
Cost of goods sold	793,479	553,863	692,164	818,398	807,730	659,283	698,799
Gross profit	169,999	197,374	170,974	195,358	209,311	173,282	188,978
Selling expenses	64,546	58,801	63,103	67,625	69,451	52,847	52,433
General and administrative expenses	66,813	61,872	61,648	65,927	67,712	48,913	54,355
Gain on sale of assets/ business				(44,634)	(2,210)	(2,210)	(4,844)
Intangibles amortization	4,800	4,636	7,294	11,387	11,295	8,119	8,577
Income from operations	33,840	72,065	38,929	95,053	63,063	65,613	78,477
Interest expense	13,958	10,725	27,121	21,837	16,095	12,465	11,866
Other miscellaneous (income) expense, net <sup>(2)</sup>	4,382	(26,875)	(847)	2,425	283	176	399
Income before income taxes	15,500	88,215	12,655	70,791	46,685	52,972	66,211
Income tax expense	4,568	33,067	4,053	27,064	16,894	20,112	40,844
Equity in net (income) loss of unconsolidated affiliates	(2,573)	(2,404)	(736)	(704)	(387)	(402)	711
Net income	13,505	57,552	9,338	44,431	30,178	33,262	24,655
Loss net income attributable to the noncontrolling interest	9,188	3,677	3,342	1,171	2,019	1,654	1,366
Net income attributable to ADS	4,317	53,875	5,996	43,260	28,159	31,608	23,289
	6,010	(11,890)	(3,541)	(10,257)	(5,869)	(3,682)	(8,499)

Change in fair value of Redeemable Convertible Preferred Stock								
Dividends paid to Redeemable Convertible Preferred Stockholders	(1,091)	(1,029)	(844)	(668)	(736)	(554)	(64)	(64)
Dividends paid to unvested restricted stockholders	(29)	(6)	(104)	(34)	(52)	(39)	(4)	(4)
Net income available to common stockholders and participating securities	9,207	40,950	1,507	32,301	21,502	27,333	14,111	14,111
Undistributed income allocated to participating securities	(820)	(6,058)		(3,241)	(2,042)	(2,703)	(1,187)	(1,187)
Net income available to common stockholders	\$ 8,387	\$ 34,892	\$ 1,507	\$ 29,060	\$ 19,460	\$ 24,630	\$ 12,924	\$ 12,924

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(Amounts in thousands, except per share data)	Fiscal Year Ended					Nine Months Ended	
	2009 <sup>(1)</sup>	2010 <sup>(1)</sup>	March 31,		2013	December 31,	2013
Weighted average common shares outstanding:							
Basic	10,647	10,437	10,127	9,835	9,921	9,917	9,980
Diluted	11,003	10,742	10,346	9,996	10,038	10,033	10,087
As adjusted Basic <sup>(3)</sup>							
As adjusted Dilute <sup>(3)</sup>							
Net income per share:							
Basic	\$ 0.79	\$ 3.34	\$ 0.15	\$ 2.95	\$ 1.96	\$ 2.48	\$ 1.30
Diluted	\$ 0.76	\$ 3.25	\$ 0.15	\$ 2.91	\$ 1.94	\$ 2.45	\$ 1.28
As adjusted Basic <sup>(3)</sup>	\$ 0.30	\$ 4.29	\$ 0.49	\$ 3.88	\$ 2.48	\$ 2.81	\$ 2.05
As adjusted Dilute <sup>(3)</sup>	\$ 0.29	\$ 4.17	\$ 0.47	\$ 3.81	\$ 2.45	\$ 2.75	\$ 2.00
Cash dividends declared per share	\$ 0.40	\$ 0.40	\$ 0.44	\$ 0.44	\$ 0.48	\$ 0.33	\$ 0.36

(Amounts in thousands, except percentages)	Fiscal Year Ended					Nine Months Ended	
	2009 <sup>(1)</sup>	2010 <sup>(1)</sup>	March 31,		2013	2012	2013
<b>Other financial data:</b>							
Capital expenditures	\$ 27,562	\$ 23,140	\$ 30,041	\$ 26,467	\$ 40,004	\$ 35,421	\$ 27,097
Adjusted EBITDA <sup>(4)</sup>	82,237	127,228	100,780	116,873	129,759	115,731	130,567
Adjusted EBITDA margin <sup>(5)</sup>	8.5%	16.9%	11.7%	11.5%	12.8%	13.9%	14.7%

(Amounts in thousands)	As of					As of	
	2009 <sup>(1)</sup>	2010 <sup>(1)</sup>	March 31,		2013	December 31,	2013
<b>Consolidated balance sheet data:</b>							
Cash	\$ 10,137	\$ 3,021	\$ 2,151	\$ 2,082	\$ 1,361	\$ 5,335	
Working capital <sup>(6)</sup>	146,482	166,125	204,061	208,268	220,276	208,097	
Total assets	714,310	794,049	866,798	905,028	907,739	885,948	
Long-term debt	259,547	251,446	374,746	370,672	349,990	306,265	
Total liabilities	424,381	457,138	618,351	615,314	585,115	545,632	
Total mezzanine equity <sup>(7)</sup>	93,418	104,859	493,674	557,563	608,346	678,175	
Total stockholders equity	196,511	232,052	(245,227)	(267,849)	(285,722)	(337,859)	
Total mezzanine equity and stockholders equity	289,929	336,911	248,447	289,714	322,624	340,316	

(Amounts in thousands)	Fiscal Year Ended					Nine Months Ended	
	2009 <sup>(1)</sup>	2010 <sup>(1)</sup>	March 31,		2013	2012	2013
<b>Statement of cash flows data:</b>							
Net cash from operating activities	\$ 102,348	\$ 70,343	\$ 37,233	\$ 56,997	\$ 68,215	\$ 60,176	\$ 88,104



Net cash from investing activities	(27,562)	(47,011)	(53,237)	(35,833)	(47,199)	(42,079)	(30,116)
Net cash from financing activities	(72,524)	(30,448)	15,134	(21,233)	(21,737)	(15,987)	(54,014)

- (1) The presentation of our selected historical consolidated financial data as of March 31, 2009, 2010 and 2011 and for fiscal years 2009 and 2010 has been adjusted to comply with the retrospective application of our inventory accounting principle change. See Note 1, Background and Summary of Significant Accounting Policies, within our consolidated financial statements included elsewhere in this prospectus for further details regarding our inventory accounting principle change.
- (2) Other miscellaneous (income) expense, net for fiscal year ended March 31, 2010 includes a gain of \$25,952 from the purchase of the controlling interest of an unconsolidated affiliate.
- (3) Net Income Per Share As Adjusted Basic and Diluted, which are non-GAAP measures, have been presented in this prospectus as supplemental measures of financial performance that are not required by, or presented in accordance with generally accepted accounting principles or GAAP. As described elsewhere in this prospectus, upon completion of this offering, the redemption rights associated with these shares, which require them to be classified as mezzanine equity, will be no longer in effect and, as such, we anticipate reclassifying these balances to total stockholders equity upon the completion of this offering. We calculate Net Income Per Share As Adjusted Basic, and the corresponding Weighted Average Common Shares Outstanding As Adjusted Basic, by adjusting our historical net income per share and weighted average common shares outstanding amounts for the reclassification of Redeemable Convertible

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Preferred Stock from mezzanine equity to total stockholders' equity in order to present historical amounts as if this reclassification occurred as of the beginning of the earliest period presented.

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 Basic Net Income Per Share computation, and (2) made a corresponding adjustment to the amount allocated to participating securities under the two-class earnings per share computation method.

We have also made adjustments to Net Income Per Share as Adjusted - Diluted, and the corresponding Weighted Average Common Shares Outstanding As Adjusted - Diluted, to assume share settlement of the Redeemable Convertible Preferred Stock to the extent that the if-converted computation method is more dilutive than the two-class computation method.

Net Income Per Share As Adjusted - Basic and Diluted are included in this prospectus because they are key metrics used by management and our board of directors to assess our financial performance. Net Income Per Share As Adjusted - Basic and Diluted are not necessarily comparable to other similarly titled captions of other companies due to different methods of calculation.

The following table presents a reconciliation of Net Income Per Share As Adjusted - Basic and Diluted, and the corresponding Weighted Average Common Shares Outstanding As Adjusted - Basic and Diluted to our historical net income per share and corresponding historical weighted average common share amounts, the most comparable GAAP measure, for each of the periods indicated.

(Amounts in thousands, except per share data)	2009	Fiscal Year Ended				Nine Months Ended	
		2010	2011	2012	2013	2012	2013
		March 31,				December 31,	
<b>Net Income Per Share As Adjusted - Basic</b>							
Net income available to common stockholders	\$ 8,387	\$ 34,892	\$ 1,507	\$ 29,060	\$ 19,460	\$ 24,630	\$ 12,931
Adjustment for:							
Change in fair value of Redeemable Convertible Preferred Stock	(6,010)	11,890	3,541	10,257	5,869	3,682	8,492
Undistributed income allocated to participating securities	820	(1,959)	(76)	(1,189)	(716)	(418)	(997)
<b>Net income available to common stockholders used to calculate Net Income Per Share As Adjusted - Basic</b>	<b>\$ 3,197</b>	<b>\$ 44,823</b>	<b>\$ 4,972</b>	<b>\$ 38,128</b>	<b>\$ 24,613</b>	<b>\$ 27,894</b>	<b>\$ 20,426</b>
<b>Weighted average common shares outstanding:</b>							
Basic	10,647	10,437	10,127	9,835	9,921	9,917	9,980
As adjusted - Basic	10,647	10,437	10,127	9,835	9,921	9,917	9,980
<b>Net Income Per Share As Adjusted - Diluted</b>							
Net income available to common stockholders used to calculate Net Income Per Share As Adjusted - Basic	\$ 3,197	\$ 44,823	\$ 4,972	\$ 38,128	\$ 24,613	\$ 27,894	\$ 20,426
Adjustment for:							
			74			2,972	2,071

Undistributed income allocated to participating Redeemable Convertible Preferred Stock								
Dividends paid to Redeemable Convertible Preferred Stockholders, net of tax impact								
			557		360	416		
Other adjustments								
			(4)		(5)	45		
Net income available to common stockholders used to calculate Net Income Per Share As								
Adjusted	Diluted	\$ 3,197	\$ 44,823	\$ 5,599	\$ 38,128	\$ 24,613	\$ 31,221	\$ 22,958
Weighted average common shares outstanding								
Diluted								
		11,003	10,742	10,346	9,996	10,038	10,033	10,087
Conversion of the outstanding Redeemable Convertible Preferred Stock on an as converted basis								
				1,607			1,305	1,366
As adjusted	Diluted	11,003	10,742	11,953	9,996	10,038	11,338	11,453
Net income (loss) per share:								
As adjusted	Basic	\$ 0.30	\$ 4.29	\$ 0.49	\$ 3.88	\$ 2.48	\$ 2.81	\$ 2.05
As adjusted	Diluted	\$ 0.29	\$ 4.17	\$ 0.47	\$ 3.81	\$ 2.45	\$ 2.75	\$ 2.00

(4) EBITDA and Adjusted EBITDA, which are non-GAAP financial measures, have been presented in this prospectus as supplemental measures of financial performance that are not required by, or presented in accordance with generally accepted accounting principles or GAAP. We calculate EBITDA as net income attributable to ADS before interest, income taxes, depreciation and amortization. We calculate Adjusted EBITDA as EBITDA before stock-based compensation expense, non-cash charges and certain other expenses.

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EBITDA and Adjusted EBITDA are included in this prospectus because they are key metrics used by management and our board of directors to assess our financial performance. EBITDA and Adjusted EBITDA are 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.

EBITDA and Adjusted EBITDA are not GAAP measures of our financial performance or liquidity and should not be considered as alternatives to net income as a measure of financial performance or cash flows from operations as a measure of liquidity, 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. Additionally, EBITDA and Adjusted EBITDA are not intended to be measures of free cash flow for management's discretionary use, as they do not reflect certain cash requirements such as tax payments, debt service requirements, capital expenditures and certain other cash costs that may recur in the future. EBITDA and Adjusted EBITDA contain 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 EBITDA and Adjusted EBITDA supplementally. Our measures of EBITDA and Adjusted EBITDA are not necessarily comparable to other similarly titled captions of other companies due to different methods of calculation.

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

(Amounts in thousands)	Fiscal Year End					Nine Months Ended	
	2009	2010	March 31, 2011	2012	2013	December 31, 2012	2013
Net income attributable to ADS	\$ 4,317	\$ 53,875	\$ 5,996	\$ 43,260	\$ 28,159	\$ 31,608	\$ 23,294
Depreciation and amortization <sup>(a)</sup>	49,940	50,033	56,327	59,356	56,926	42,188	43,076
Interest expense, net	13,958	10,725	27,121	21,837	16,095	12,465	11,860
Income tax expense	4,568	33,067	4,053	27,064	16,894	20,112	40,845
<b>EBITDA</b>	<b>72,783</b>	<b>147,700</b>	<b>93,497</b>	<b>151,517</b>	<b>118,074</b>	<b>106,373</b>	<b>119,075</b>
Derivative fair value adjustments <sup>(b)</sup>	1,915	(1,665)	(1,365)	2,315	(4)	220	54
Foreign currency transaction losses <sup>(c)</sup>			332	378	1,085	659	251
Gain on sale of Septic Chamber business <sup>(d)</sup>				(44,634)			
Unconsolidated affiliates interest and tax <sup>(e)</sup>		166	624	915	729	488	347
		(25,952)					

Gain from purchase of the controlling interest of an unconsolidated affiliate <sup>(f)</sup>							
One-time management fee to minority interest holder <sup>(g)</sup>							739
Stock based compensation <sup>(h)</sup>	1,349	1,823	2,725	1,425	2,592	1,207	2,640
ESOP deferred stock based compensation <sup>(i)</sup>	6,190	5,156	4,564	4,957	7,283	6,784	7,343
Transaction costs <sup>(i)</sup>			403				118
Adjusted EBITDA	\$ 82,237	\$ 127,228	\$ 100,780	\$ 116,873	\$ 129,759	\$ 115,731	\$ 130,567

- (a) Includes our proportionate share of depreciation and amortization expense of \$0, \$233, \$552, \$985 and \$1,321 related to our South American Joint Venture and our BaySaver Joint Venture, which amounts are included in equity in net income of unconsolidated affiliates in our consolidated statements of income for fiscal years 2009, 2010, 2011, 2012 and 2013, respectively, and \$977 and \$1,031 included in equity in net income of unconsolidated affiliates in our condensed consolidated statements of income for the nine months ended December 31, 2012 and 2013, respectively. Depreciation and amortization expense for fiscal year 2012 also includes a charge of \$3,200 related to the impairment of one of our trademarks.
- (b) Represents the non-cash gains and losses arising from changes in mark-to-market values for derivative contracts related to diesel fuel and interest rate swaps. The impact of resin physical and financial derivatives is included in cost of goods sold.
- (c) Represents the gains and losses incurred on purchases, sales and intercompany loans and dividends denominated in non-functional currencies.
- (d) Represents a gain recognized on the sale of our septic chamber business in January 2012.
- (e) Represents our proportional share of income taxes and interest related to our South American Joint Venture and our BaySaver Joint Venture, which are accounted for under the equity method of accounting.
- (f) Represents a gain from fair value re-measurement of investment in an unconsolidated affiliate upon acquiring the controlling interest of the affiliate.
- (g) Represents management fee paid to a minority interest holder of a consolidated subsidiary.
- (h) Represents the non-cash stock based compensation cost related to our stock options and restricted stock awards.

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- (i) 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.
  - (j) Represents expenses recorded related to legal, accounting and other professional fees incurred in connection with our recent debt refinancing and in connection with this offering.
- (5) Adjusted EBITDA margin for any period represents Adjusted EBITDA as a percentage of net sales for that period.
- (6) Working capital is the difference between our current assets and current liabilities. Working capital is an indication of liquidity and potential need for short-term funding.
- (7) 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 for purposes of GAAP to be a redemption right, which is beyond our control. See Note 17, Mezzanine Equity, within our consolidated financial statements included elsewhere in this prospectus for further information regarding the accounting treatment for our mezzanine equity. Upon completion of this offering, the redemption rights associated with these shares, which require them to be classified in mezzanine equity, will be no longer be in effect. As a result, we anticipate reclassifying these balances to total stockholders equity upon the completion of this offering.

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

*The following discussion and analysis of the financial condition and results of our operations should be read in conjunction with the consolidated financial statements and related footnotes included elsewhere in this prospectus. 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 *Risk Factors* and *Special Note Regarding Forward-Looking Statements and Information* included elsewhere in this prospectus. You should read the following discussion together with the sections titled *Risk Factors*, *Selected Historical Consolidated Financial Data* and our consolidated financial statements, including the related footnotes, included elsewhere in this prospectus.*

*We consolidate all of our joint ventures for purposes of GAAP, except for our South American Joint Venture and our BaySaver Joint Venture.*

**Overview**

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

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

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





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**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 25% of the total storm sewer market in 2012, 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 expanded regulatory approvals allow for their use in new markets and geographies. In addition, we believe that the recent introduction of 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 and Europe 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.

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

Our Allied Products include storm and septic chambers, PVC drainage structures, fittings and 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 of goods sold 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. Sales of Allied Products have increased from \$201.4 million for the nine months ended December 31, 2012 to \$215.1 million for the nine months ended December 31, 2013. For fiscal years 2011, 2012 and 2013, we generated sales of Allied Products of \$195.3 million, \$230.7 million and \$248.6 million, respectively.

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

Our raw material costs and product selling prices fluctuate with changes in the prices of resins utilized in production. Virgin and recycled resins, which are derived either directly or indirectly from crude oil derivatives and natural gas liquids, currently account for over 60% of our cost of goods sold for pipe products. Raw materials account for a significantly smaller percentage of the cost of our Allied Products. We actively manage our resin purchases and typically pass fluctuations in the cost of resin through to our customers in order to maximize our profitability. Fluctuations in the price of crude oil and natural gas prices may impact the cost of resin. For example, the weighted average market cost for the types of resin that we use increased by approximately 7.3% and 0.9% for fiscal years 2012 and 2013, respectively. In addition, unanticipated changes in and disruptions to existing ethylene or polyethylene 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 pass through raw material price increases to our customers may, in some cases, lag the increase in our costs of goods sold.

We currently purchase in excess of 700 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 and successfully pass on cost increases to our customer through timely selling price increases when needed.

Our raw material strategies for managing our cost of goods sold include the following:

increasing the use of less price-volatile recycled HDPE resin in our pipe products in place of virgin resin;

internally processing an increasing percentage of our recycled HDPE resin in order to closely monitor quality and minimize costs (approximately 64% of our recycled HDPE resin was internally processed in fiscal year 2014);

managing a resin hedging program targeting monthly fixed price contracts that hedge approximately 50% of our anticipated virgin HDPE resin purchases on a rolling 12 month basis; and

implementing financial hedges for propylene, with a goal of hedging a similar portion of our anticipated virgin PP resin purchases on a rolling 12 month basis.

The goal of these strategies is to reduce the volatility of raw material costs in the future.

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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 domestic regions 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 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 are the Canadian dollar, Euro, Mexican peso, Chilean peso, Brazilian real, Argentine peso and Colombian peso, respectively. We have not hedged foreign currency exposures related to transactions denominated in currencies other than U.S. dollars. From time to time, we use derivatives to reduce our exposure to currency fluctuations. In 2013, we entered into Euro-denominated forwards to hedge transactions related to the procurement of new equipment, which expired prior to December 31, 2013. 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 Chile peso, Argentina peso, Colombia peso and Brazil real.

### **Description of our Segments**

We operate a geographically diverse business, serving customers in approximately 90 countries. For fiscal year 2013, approximately 86% (\$877.7 million) of net sales were attributable to customers located in the United States and approximately 14% (\$139.3 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 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 Segments Information, to our audited consolidated financial statements included elsewhere in this prospectus.



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In the United States, the markets we serve were strong through 2007, but slowed significantly beginning in 2008 in tandem with the decline in general economic conditions in the United States associated with the global financial crisis. Since 2011, a modest recovery in the markets in the United States has had a favorable impact on our product sales. Our operating results have been, and will continue to be, impacted by macroeconomic trends in the United States. For fiscal years 2011, 2012 and 2013, we generated net sales attributable to our Domestic segment of \$738.4 million, \$888.7 million and \$877.7 million, respectively, and for the nine months ended December 31, 2012 and 2013, we generated net sales attributable to our Domestic segment of \$718.9 million and \$778.3 million, 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, Central America 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 has had a favorable impact on our product sales, which experienced year-over-year growth in each of fiscal years 2012 and 2013. For fiscal years 2011, 2012 and 2013, we generated net sales attributable to our International segment of \$124.8 million, \$125.1 million and \$139.3 million, respectively, and for the nine months ended December 31, 2012 and 2013, we generated net sales attributable to our International segment of \$113.6 million and \$109.4 million, respectively. Net sales of our South American Joint Venture are accounted for under the equity method and not consolidated for financial reporting purposes. These unconsolidated sales were \$41.9 million, \$57.7 million and \$64.8 million in fiscal years 2011, 2012 and 2013, respectively, and were \$47.5 million and \$48.3 million for the nine months ended December 31, 2012 and 2013, respectively.

**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 is presented net of 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 recognized when delivery has occurred or services have been rendered, price to the buyer is fixed and determinable and collectability is reasonably assured. In fiscal year 2013, we served approximately 17,000 customers and no single customer generated more than 10% of our total net sales.

***Cost of goods sold***

Cost of goods sold consists of the direct cost of raw materials 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 with chemical additives that enable the end products to better resist weathering, ultraviolet degradation and chemical exposure. For Pipe, the majority of the cost to manufacture and deliver the products are variable in nature including raw materials, processing costs (including direct labor) and delivery costs (freight). Our fixed production costs (including facility overhead, depreciation, etc.) currently represent approximately 10% of net sales. 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 personnel costs (salaries, benefits and variable sales commissions), travel and entertainment expenses, marketing, promotion and advertising expenses, as well as bad debt provisions.

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### ***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 and utilities for the administrative offices, director fees, investor relations, membership fees, office supplies, insurance and other miscellaneous expenses.

### ***Intangibles Amortization***

Intangibles amortization consists of the amortization of intangibles 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 consist of interest payment on our Credit Facilities, including our Senior Loan Facilities, Senior Notes and the amortizing of deferred financing costs related to debt borrowings. See Note 11 to our consolidated financial statements included elsewhere in this prospectus.

### ***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 permanent M s in our Domestic tax calculations.

### ***EBITDA and Adjusted EBITDA***

EBITDA and Adjusted EBITDA, including Segment EBITDA and Segment Adjusted EBITDA, which are non-GAAP financial measures, have been presented in this prospectus as supplemental measures of financial performance that are not required by, or presented in accordance with generally accepted accounting principles or GAAP. We calculate EBITDA as net income attributable to ADS before interest, income taxes, depreciation and amortization. We calculate Adjusted EBITDA as EBITDA before stock-based compensation expense, non-cash charges and certain other expenses.

EBITDA and Adjusted EBITDA are included in this prospectus because they are key metrics used by management and our board of directors to assess our financial performance. EBITDA and Adjusted EBITDA are 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.

EBITDA and Adjusted EBITDA are not GAAP measures of our financial performance or liquidity and should not be considered as alternatives to net income as a measure of financial performance or cash flows from operations as a measure of liquidity, 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. Additionally, EBITDA and Adjusted EBITDA are not intended to be measures of free cash flow for management s discretionary use, as they do not reflect certain cash requirements such as tax payments, debt service requirements, capital expenditures and certain other cash costs that may recur in the future. EBITDA and Adjusted EBITDA contain 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

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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 EBITDA and Adjusted EBITDA supplementally. Our measures of EBITDA and Adjusted EBITDA are not necessarily comparable to other similarly titled captions of other companies due to different methods of calculation.

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

(Amounts in thousands)	Fiscal Year Ended			Nine Months Ended	
	2011	March 31, 2012	2013	December 31, 2012	2013
Net income attributable to ADS	\$ 5,996	\$ 43,260	\$ 28,159	\$ 31,608	\$ 23,294
Depreciation and amortization <sup>(a)</sup>	56,327	59,356	56,926	42,188	43,076
Interest expense, net	27,121	21,837	16,095	12,465	11,860
Income tax expense	4,053	27,064	16,894	20,112	40,845
<b>EBITDA</b>	<b>93,497</b>	<b>151,517</b>	<b>118,074</b>	<b>106,373</b>	<b>119,075</b>
Derivative fair value adjustments <sup>(b)</sup>	(1,365)	2,315	(4)	220	54
Foreign currency transaction losses <sup>(c)</sup>	332	378	1,085	659	251
Gain on sale of Septic Chamber business <sup>(d)</sup>		(44,634)			
Unconsolidated affiliates interest and tax <sup>(e)</sup>	624	915	729	488	347
One-time management fee to minority interest holder <sup>(f)</sup>					739
Stock based compensation <sup>(g)</sup>	2,725	1,425	2,592	1,207	2,640
ESOP deferred stock based compensation <sup>(h)</sup>	4,564	4,957	7,283	6,784	7,343
Transaction costs <sup>(i)</sup>	403				118
<b>Adjusted EBITDA</b>	<b>\$ 100,780</b>	<b>\$ 116,873</b>	<b>\$ 129,759</b>	<b>\$ 115,731</b>	<b>\$ 130,567</b>

(a) Includes our proportionate share of depreciation and amortization expense of \$552, \$985 and \$1,321 related to our South American Joint Venture and our BaySaver Joint Venture, which amounts are included in equity in net income of unconsolidated affiliates in our consolidated statements of income for fiscal years 2011, 2012 and 2013, respectively, and \$977 and \$1,031 included in equity in net income of unconsolidated affiliates in our condensed consolidated statements of income for the nine months ended December 31, 2012 and 2013, respectively. Depreciation and amortization expense for fiscal year 2012 also includes a charge of \$3,200 related to the impairment of one of our trademarks.

(b) Represents the non-cash gains and losses arising from changes in mark-to-market values for derivative contracts related to diesel fuel and interest rate swaps. The impact of resin physical and financial derivatives is included in cost of goods sold.

(c) Represents the gains and losses incurred on purchases, sales and intercompany loans and dividends denominated in non-functional currencies.

- (d) Represents a gain recognized on the sale of our septic chamber business in January 2012.
- (e) Represents our proportional share of income taxes and interest related to our South American Joint Venture and our BaySaver Joint Venture, which are accounted for under the equity method of accounting.
- (f) Represents management fee paid to a minority interest holder of a consolidated subsidiary.
- (g) Represents the non-cash stock based compensation cost related to our stock options and restricted stock awards.
- (h) 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.
- (i) Represents expenses recorded related to legal, accounting and other professional fees incurred in connection with our recent debt refinancing and in connection with this offering.

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

Amounts in thousands)	Fiscal Year Ended March 31,						Nine Months Ended December 31,			
	2011		2012		2013		2012		2013	
	Domestic	International	Domestic	International	Domestic	International	Domestic	International	Domestic	International
Net income attributable to ADS	\$ (1,492)	\$ 7,488	\$ 37,894	\$ 5,366	\$ 18,332	\$ 9,827	\$ 22,700	\$ 8,908	\$ 18,835	\$ 4,455
Depreciation and amortization (a)	51,237	5,090	52,832	6,524	50,691	6,235	37,653	4,535	38,439	4,637
Interest expense, net	26,870	251	21,597	240	16,045	50	12,430	35	11,815	44
Income tax expense	2,088	1,965	25,855	1,209	14,787	2,107	17,639	2,473	38,998	1,847
Segment EBITDA	78,703	14,794	138,178	13,339	99,855	18,219	90,422	15,951	108,087	10,988
Derivative fair value adjustments (b)	(1,365)		2,315		(4)		220		54	
Foreign currency transaction losses (c)		332		378		1,085		659		251
Gain on sale of Septic Chamber business (d)			(44,634)							
Unconsolidated affiliates interest and tax (e)		624		915		729		488		347
Management fee to minority interest holder (f)										735
Stock based compensation (g)	2,725		1,425		2,592		1,207		2,640	
SOP deferred compensation (h)	4,564		4,957		7,283		6,784		7,343	
Transaction costs (i)	403								118	
Segment Adjusted EBITDA	\$ 85,030	\$ 15,750	\$ 102,241	\$ 14,632	\$ 109,726	\$ 20,033	\$ 98,633	\$ 17,098	\$ 118,242	\$ 12,322

(a) Includes our proportionate share of depreciation and amortization expense of \$552, \$985 and \$1,321 related to our South American Joint Venture and our BaySaver Joint Venture, which amounts are included in equity in net income of unconsolidated affiliates in our consolidated statements of income for fiscal years 2011, 2012 and 2013, respectively, and \$977 and \$1,031 included in equity in net income of unconsolidated affiliates in our condensed consolidated statements of income for the nine months ended December 31, 2012 and 2013, respectively. Depreciation and amortization expense for fiscal year 2012 also includes a charge of \$3,200 related to the impairment of one of our trademarks.

(b) Represents the non-cash gains and losses arising from changes in mark-to-market values for derivative contracts related to diesel fuel and interest rate swaps. The impact of resin physical and financial derivatives is included in

cost of goods sold.

- (c) Represents the gains and losses incurred on purchases, sales and intercompany loans and dividends denominated in non-functional currencies.
- (d) Represents a gain recognized on the sale of our septic chamber business in January 2012.
- (e) Represents our proportional share of income taxes and interest related to our South American Joint Venture and our BaySaver Joint Venture, which are accounted for under the equity method of accounting.
- (f) Represents management fee paid to a minority interest holder of a consolidated subsidiary.
- (g) Represents the non-cash stock based compensation cost related to our stock options and restricted stock awards.
- (h) 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.
- (i) Represents expenses recorded related to legal, accounting and other professional fees incurred in connection with our recent debt refinancing and in connection with this offering.

***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 and our BaySaver Joint Venture). 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 BaySaver Joint Venture is managed as an integral part of our Domestic segment. However, they are not consolidated under GAAP. System-Wide Net Sales is prepared as if our South American Joint Venture and our BaySaver Joint Venture were accounted for as consolidated subsidiaries for management and segment reporting purposes.

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

(Amounts in thousands)	Fiscal Year Ended			Nine Months Ended	
	2011	March 31, 2012	2013	December 31, 2012	2013
<b>Reconciliation of System-Wide Net Sales to Net Sales:</b>					
Net sales	\$ 863,138	\$ 1,013,756	\$ 1,017,041	\$ 832,565	\$ 887,777
Net sales associated with our unconsolidated affiliates:					
South American Joint Venture <sup>(a)</sup>	41,872	57,687	64,834	47,539	48,314
BaySaver Joint Venture <sup>(b)</sup>					3,592
System-Wide Net Sales	\$ 905,010	\$ 1,071,443	\$ 1,081,875	\$ 880,104	\$ 939,683

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

(b) On July 15, 2013, we entered into an arrangement to form our BaySaver Joint Venture.

**Results of Operations*****Nine Months Ended December 31, 2013 Compared with Nine Months Ended December 31, 2012***

The following table summarizes certain financial information relating to our operating results that have been derived from our consolidated financial statements for the nine months ended December 31, 2013 and 2012. 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)	Nine Months Ended		Nine Months Ended		% Variance
	December 31, 2012	% of Net Sales	December 31, 2013	% of Net Sales	
<b>Consolidated Statements of Income data:</b>					
Net sales	\$ 832,565	100.0%	\$ 887,777	100.0%	6.6%
Cost of goods sold	659,283	79.2	698,791	78.7	6.0
Gross profit	173,282	20.8	188,986	21.3	9.1
Selling expenses	52,847	6.3	52,433	5.9	(0.8)
General and administrative expenses	48,913	5.9	54,354	6.1	11.1
Gain on sale of assets/business	(2,210)	(0.3)	(4,848)	(0.5)	(119.4)
Intangible amortization	8,119	1.0	8,576	1.0	5.6
Income from operations	65,613	7.9	78,471	8.8	19.6
Interest expense	12,465	1.5	11,860	1.3	(4.9)

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Other miscellaneous (income) expenses, net	176	0.0	398	0.0	126.1
Income before income taxes	52,972	6.4	66,213	7.5	25.0
Income tax expense	20,112	2.4	40,845	4.6	103.1
Equity in net (income) loss of unconsolidated affiliates	(402)	(0.0)	714	0.1	(277.6)
Net income	33,262	4.0	24,654	2.8	(25.9)
Less net income attributable to the non-controlling interests	1,654	0.2	1,360	0.2	(17.8)
Net income attributable to ADS	\$ 31,608	3.8%	\$ 23,294	2.6%	(26.3)%
<b>Other financial data:</b>					
Adjusted EBITDA	115,731	13.9%	130,567	14.7%	12.8%
System-Wide Net Sales	880,104	105.7%	939,683	105.8%	6.8%

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**Table of Contents***Net sales*

Net sales totaled \$887.8 million in the first nine months of fiscal year 2014, increasing \$55.2 million, or 6.6%, as compared to the same period in fiscal year 2013. Our Domestic sales increased \$59.4 million, or 8.3%, as compared to the same period in fiscal year 2013 due to increases in Pipe and Allied Product sales of \$45.5 million, or 8.4%, and \$13.9 million, or 7.7%, respectively. Continued strong recovery in our markets, impacted by an increase in residential construction, modest increases in non-residential construction and further gains from conversion to our products from traditional products, were the primary drivers of the increase in the volume of Domestic Pipe and Allied Product sales. Pipe selling prices remained flat as compared to the prior year. The increase in Domestic Pipe and Allied Product sales was partially offset by lower International sales, which declined \$4.2 million, or 3.7%, to \$109.4 million in the first nine months of fiscal year 2014 as compared to \$113.6 million in the same period in the prior year. International Pipe sales were primarily lower in Mexico due to the impact of the loss of a national certification (which has since been regained in December 2013) and in Canada due to weather conditions and slower construction markets. System-Wide Net Sales were \$939.7 million in the first nine months of fiscal year 2014, an increase of \$59.6 million, or 6.8%, over System-Wide Net Sales of \$880.1 million in the first nine months of fiscal year 2013. Net sales at our South American Joint Venture were relatively flat in first nine months of fiscal year 2014.

*Gross profit*

Gross profit increased \$15.7 million, or 9.1%, to \$189.0 million during the first nine months of fiscal year 2014 as compared to \$173.3 million during the same period in fiscal year 2013. The increase in gross profit was primarily driven by growth in Domestic Pipe and Allied Product sales which resulted in an increase in Domestic gross profit of \$17.9 million, or 12.1%, in the first nine months of fiscal year 2014 compared to the same period in fiscal year 2013. Gross profit from our International segment decreased \$2.2 million or 8.4% due to lower sales volume in Canada and Mexico. Gross profit as a percentage of net sales, which we refer to as gross margin, increased to 21.3% from 20.8% due primarily to increased sales of Allied Products, which typically carry a higher gross margin, as well as lower Domestic freight costs. Allied Products sales grew 6.8% in the first nine months of fiscal year 2014 compared to Pipe sales growing 6.6% in the same period. Domestic freight costs declined to 9.7% of Domestic net sales in the first nine months of fiscal year 2014 as compared to 10.3% of Domestic net sales in the same period in fiscal year 2013. The decrease in Domestic freight costs was partially offset by increased Domestic Pipe raw material prices of 3.9% due to higher virgin raw material prices, which we were not able to immediately pass through to customers during the period.

*Selling expenses*

Selling expenses decreased \$0.4 million, or 0.8%, to \$52.4 million during the first nine months of fiscal year 2014 compared to \$52.8 million in fiscal year 2013. As a percentage of net sales, selling expenses totaled 5.9% of net sales in fiscal year 2014 compared to 6.3% of net sales in fiscal year 2013. Selling expenses were impacted by lower Domestic field selling and customer services expenses of \$0.7 million which were offset by an increase in International commissions of \$0.3 million during the period.

*General and administrative expenses*

General and administrative expenses increased \$5.4 million, or 11.1%, to \$54.4 million in the first nine months of fiscal year 2014 compared to \$49.0 million in the first nine months of fiscal year 2013. As a percentage of net sales, general and administrative expenses totaled 6.1% of net sales in fiscal year 2014 compared to 5.9% of net sales in fiscal year 2013. This increase was due to non-cash stock based compensation expense which increased by \$1.4 million, increases in personnel costs of \$3.0 million due to additional headcount and compensation tied to company performance, higher legal and consulting fees of \$0.8 million and other miscellaneous increases of \$0.2 million.



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**Table of Contents***Intangibles amortization*

Intangibles amortization totaled \$8.6 million in the first nine months of fiscal year 2014 compared to \$8.1 million in the first nine months of fiscal year 2013. The \$0.5 million increase was due to the amortization of intangibles from recent acquisitions.

*Interest expense*

Interest expense decreased \$0.6 million, or 4.9%, to \$11.9 million in the first nine months of fiscal year 2014 compared to \$12.5 million in the first nine months of fiscal year 2013. The decrease was due to a combination of lower average debt and lower interest rates on our Senior Loan Facilities and Senior Notes in fiscal year 2014 compared to fiscal year 2013.

*Other miscellaneous (income) expenses, net*

Our miscellaneous (income)/expense increased \$0.2 million in the first nine months of fiscal year 2014 to net expense of \$0.4 million as other miscellaneous expenses were up \$0.2 million in the first nine months of fiscal year 2014.

*Income tax expense*

The provision for income taxes totaled \$40.8 million in the first nine months of fiscal year 2014 compared to \$20.1 million in the first nine months of fiscal year 2013, an increase of \$20.7 million or 103.1%. Our effective tax rate was 61.7% in the first nine months of fiscal year 2014 compared to 38.0% in same period for fiscal year 2013. The increase in our effective tax rate was primarily driven by the expected special dividend payment to participants in the ESOP, which increased our effective tax rate by 19%.

*Income attributed to non-controlling interests*

Income attributed to non-controlling interests decreased \$0.3, or 17.8%, to \$1.4 million in the first nine months of fiscal year 2014 compared to \$1.7 million in the first nine months of fiscal year 2013. Non-controlling interests are held in our International operations which generated lower earnings in the first nine months of fiscal year 2014 compared to the first nine months of fiscal year 2013.

*Net income attributed to ADS*

Net income attributable to ADS was \$23.3 million in the first nine months of fiscal year 2014, a decrease of \$8.3 million, or 26.3%, compared to the same period in fiscal year 2013.

*Adjusted EBITDA*

Adjusted EBITDA totaled \$130.6 million in the first nine months of fiscal year 2014, an increase of \$14.8 million, or 12.8%, compared to \$115.7 million in the first nine months of fiscal year 2013. Domestic Adjusted EBITDA increased \$19.6 million, or 19.9%, to \$118.2 million in the first nine months of fiscal year 2014 compared to \$98.6 million in the same period in fiscal year 2013. International Adjusted EBITDA declined \$4.8 million in the first nine months of fiscal year 2014 to \$12.3 million compared to \$17.1 million in the first nine months of fiscal year 2013. Adjusted EBITDA as a percentage of net sales increased to 14.7% in the first nine months of fiscal year 2014 compared to 13.9% in the same period of fiscal year 2013.



**Table of Contents*****Fiscal Year Ended March 31, 2013 Compared with Fiscal Year Ended March 31, 2012***

The following table summarizes certain financial information relating to our operating results that have been derived from our consolidated financial statements for fiscal years 2013 and 2012. 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)	Fiscal Year Ended March 31, 2012	% of Net Sales	Fiscal Year Ended March 31, 2013	% of Net Sales	% Variance
<b>Consolidated Statements of</b>					
<b>Income data:</b>					
Net sales	\$ 1,013,756	100.0%	\$ 1,017,041	100.0%	0.3%
Cost of goods sold	818,398	80.7	807,730	79.4	(1.3)
Gross profit	195,358	19.3	209,311	20.6	7.1
Selling expenses	67,625	6.7	69,451	6.8	2.7
General and administrative expenses	65,927	6.5	67,712	6.7	2.7
Gain on sale of assets/business	(44,634)	(4.4)	(2,210)	(0.2)	(95.0)
Intangible amortization	11,387	1.1	11,295	1.1	(0.8)
Income from operations	95,053	9.4	63,063	6.2	(33.7)
Interest expense	21,837	2.2	16,095	1.6	(26.3)
Other miscellaneous (income) expenses, net	2,425	0.2	283	0.0	(88.3)
Income before income taxes	70,791	7.0	46,685	4.6	(34.1)
Income tax expense	27,064	2.7	16,894	1.7	(37.6)
Equity in net (income) loss of unconsolidated affiliates	(704)	(0.1)	(387)	(0.0)	(45.0)
Net income	44,431	4.4	30,178	3.0	(32.1)
Less net income attributable to the non-controlling interests	1,171	0.1	2,019	0.2	72.4
Net income attributable to ADS	\$ 43,260	4.3%	\$ 28,159	2.8%	(34.9)%
<b>Other Data:</b>					
Adjusted EBITDA	116,873	11.5%	129,759	12.8%	11.0%
System-Wide Net Sales	1,071,443	105.7%	1,081,875	106.4%	1.0%
<i>Net sales</i>					

Net sales totaled \$1,017.0 million in fiscal year 2013, an increase of \$3.3 million, or 0.3%, compared to \$1,013.8 million in fiscal year 2012. The increase in net sales was attributable primarily to an increase in the selling price of our Domestic Pipe, which contributed \$20.5 million to net sales in fiscal year 2013, and an \$13.9 million, or 6.6%,

increase in sales of Domestic Allied Products, partially offset by a decline in the volume of Domestic Pipe sales in fiscal year 2013. The \$45.0 million decline in Domestic Pipe sales volume was partially a result of weather related issues impacting agriculture sales (a late start to spring at the end of fiscal year 2013 delayed the agricultural installation season) and N-12 sales in the midwest and northeast regions of the country. The decline in our sales volume was also attributable to a soft non-residential end market, while partially offset by increased demand from the residential end market and continued conversion to our products from traditional materials. Our International net sales totaled \$139.3 million in fiscal year 2013 compared to \$125.1 million in fiscal year 2012, an increase of \$14.2 million, or 11.4%. Growth was experienced across most international markets, led by Canada, with International Pipe sales increasing \$10.2 million, or 9.8%, in fiscal year 2013 compared to fiscal year 2012 and Allied Products increasing \$4.0 million, or 18.9%, in fiscal year 2013 compared to fiscal year 2012. System-Wide Net Sales were \$1,081.9 million in fiscal year 2013, an increase of \$10.5 million, or 1.0%, over System-Wide Net Sales of \$1,071.4 million in fiscal year 2012. Net sales at our South American Joint Venture totaled \$64.8 million in fiscal year 2013 compared to \$57.7 million in fiscal year 2012. Pipe market penetration in Brazil led the increase, partially offset by weaknesses in Pipe sales to the copper mining markets in Chile.

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**Table of Contents***Gross profit*

Gross profit increased \$14.0 million, or 7.1%, to \$209.3 million during fiscal year 2013 as compared to \$195.4 million in fiscal year 2012. Our Domestic gross profit increased \$7.2 million in fiscal year 2013 as compared to fiscal year 2012 due to increased volume of Allied Products sales, which contributed additional gross profit of \$7.5 million, partially offset by a decrease in the volume of Domestic Pipe sales, which negatively impacted gross profit by \$0.3 million. International gross profit increased 27.2%, or \$6.8 million, in fiscal year 2013 due to increases of \$2.7 million and \$4.1 million for Pipe and Allied Products gross profit, respectively. Gross margin increased to 20.6% in fiscal year 2013 from 19.3% in fiscal year 2012 due to increased sales of our higher margin Allied Products as well as increased Pipe gross margins attributable to lower freight costs and increased selling prices. Allied Products sales grew 7.8% in fiscal year 2013 totaling 24.4% of net sales compared to 22.8% in fiscal year 2012 as our market penetration for these products increased. Domestic Pipe selling prices increased 3.3% in fiscal year 2013, with gross margin being partially offset by a 1% increase in raw material prices as compared to fiscal year 2012. Freight costs declined slightly to 9.8% of net sales in fiscal year 2013 as compared to 9.9% of net sales in fiscal year 2012.

*Selling expenses*

Selling expenses increased \$1.8 million, or 2.7%, to \$69.5 million during fiscal year 2013 compared to \$67.6 million in fiscal year 2012. As a percentage of net sales, selling expenses totaled 6.8% in fiscal year 2013 compared to 6.7% in fiscal year 2012. Commissions increased \$0.4 million, field selling expenses increased \$1.0 million and customer service expenses increased \$0.5 million in fiscal year 2013 as compared to fiscal year 2012.

*General and administrative expenses*

General and administrative expenses increased \$1.8 million, or 2.7%, to \$67.7 million during fiscal year 2013 compared to \$65.9 million in fiscal year 2012. General and administrative expenses increased to 6.7% of net sales in fiscal year 2013, up from 6.5% of net sales in fiscal year 2012. This increase was due to stock based compensation expense which increased by \$1.2 million, higher plant administrative expenses of \$0.8 million due to recently opened manufacturing facilities in the agricultural markets and higher other administrative expenses of \$1.7 million, partially offset by lower transaction costs of \$1.9 million in fiscal year 2013 as compared to fiscal year 2012.

*Gain on sale of assets/business*

We recognized a gain of \$2.2 million in fiscal year 2013 resulting from the sale of our plastic edging product line as compared to a \$44.6 million gain recognized in fiscal year 2012 resulting from the sale of our septic chamber product line to Infiltrator Systems. As part of the sale in fiscal year 2012, we entered into a Distribution Agreement to continue to sell septic chambers manufactured by Infiltrator Systems.

*Intangibles amortization*

Intangibles amortization totaled \$11.3 million in fiscal year 2013, down \$0.1 million from intangible amortization in fiscal year 2012.

*Interest expense*

Interest expense decreased \$5.7 million, or 26.3%, to \$16.1 million during fiscal year 2013 as compared to \$21.8 million in fiscal year 2012. The decrease was due to a combination of lower average debt and interest rates in fiscal year 2013 as compared to fiscal year 2012. In fiscal year 2013, ADS achieved a leverage ratio of Adjusted EBITDA to

Debt below 3-to-1 which reduced our interest rates by 0.5% for our Senior Loan Facilities and 2.0% for our Senior Notes, resulting in a decrease in interest expense of \$3.4 million or 15.6%.



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*Other miscellaneous (income) expenses, net*

Our miscellaneous (income)/expense decreased \$2.1 million in fiscal year 2013 as mark to market losses on our fuel and interest rate hedges of \$2.3 million in fiscal year 2012 compared to no change in fiscal year 2013. Earnings from our unconsolidated South American Joint Venture declined \$0.3 million in fiscal year 2013 and other miscellaneous expenses increased \$0.2 million in fiscal year 2013 as compared to fiscal year 2012.

*Income tax expense*

The provision for income taxes totaled \$16.9 million in fiscal year 2013 compared to \$27.1 million in fiscal year 2012, a decrease of \$10.2 million, or 37.6%. Our effective tax rate was 35.9% in fiscal year 2013 compared 37.9% in fiscal year 2012. The primary factors for the decline in our effective tax rate were lower state and local taxes (3.0% in fiscal year 2013 compared to 3.6% in fiscal year 2012) and an increase in International income which is taxed at lower rates.

*Income attributed to non-controlling interests*

Income attributed to non-controlling interests increased \$0.8, or 72.4%, to \$2.0 million in fiscal year 2013 as compared to \$1.2 million in fiscal year 2012. Non-controlling interests are held in our International operations which generated higher earnings in fiscal year 2013 compared to fiscal year 2012.

*Net income attributed to ADS*

Net income attributable to ADS was \$28.2 million in fiscal year 2013, a decrease of \$15.1 million, or 34.9%, compared to fiscal year 2012. This decrease was primarily due to the \$44.6 million gain from the sale of our U.S. septic chamber business in fiscal year 2012.

*Adjusted EBITDA*

Adjusted EBITDA totaled \$129.8 million in fiscal year 2013, an increase of \$12.9 million, or 11.0%, compared to \$116.9 million in fiscal year 2012. Domestic Adjusted EBITDA increased \$7.5 million, or 7.3%, to \$109.7 million in fiscal year 2013 compared to \$102.2 million in fiscal year 2012. International Adjusted EBITDA increased \$5.4 million in fiscal year 2013 to \$20.0 million as compared to \$14.6 million in fiscal year 2013. Adjusted EBITDA as a percentage of net sales increased to 12.8% in fiscal year 2013 compared to 11.5% in fiscal year 2012.

**Table of Contents*****Fiscal Year Ended March 31, 2012 Compared with Fiscal Year Ended March 31, 2011***

The following table summarizes certain financial information relating to our operating results that have been derived from our consolidated financial statements for fiscal years 2012 and 2011. 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)	Fiscal Year Ended March 31, 2011	% of Net Sales	Fiscal Year Ended March 31, 2012	% of Net Sales	% Variance
<b>Consolidated Statements of Income data:</b>					
Net sales	\$ 863,138	100.0%	\$ 1,013,756	100.0%	17.5%
Costs of goods sold	692,164	80.2	818,398	80.7	18.2
Gross profit	170,974	19.8	195,358	19.3	14.3
Selling expenses	63,103	7.3	67,625	6.7	7.2
General and administrative expenses	61,648	7.1	65,927	6.5	6.9
Gain on sale of assets/business			(44,634)	(4.4)	N/A
Intangible amortization	7,294	0.8	11,387	1.1	56.1
Income from operations	38,929	4.5	95,053	9.4	144.2
Interest expense	27,121	3.1	21,837	2.2	(19.5)
Other miscellaneous (income) expenses, net	(847)	(0.1)	2,425	0.2	(386.3)
Income before income taxes	12,655	1.5	70,791	7.0	459.4
Income tax expense	4,053	0.5	27,064	2.7	567.8
Equity in net (income) loss of unconsolidated affiliates	(736)	(0.1)	(704)	(0.1)	(4.3)
Net income	9,338	1.1	44,431	4.4	375.8
Less net income attributable to the non-controlling interests	3,342	0.4	1,171	0.1	(65.0)
Net income attributable to ADS	\$ 5,996	0.7%	\$ 43,260	4.3%	621.5%
<b>Other Data:</b>					
Adjusted EBITDA	100,780	11.7%	116,873	11.5%	16.0%
System-Wide Net Sales	905,010	104.9%	1,071,443	105.7%	18.4%
<i>Net sales</i>					

Net sales totaled \$1,013.8 million in fiscal year 2012, an increase of \$150.7 million, or 17.5%, compared to \$863.1 million in fiscal year 2011. The increase in net sales was attributable primarily to an increase in the selling price of our Domestic Pipe, which contributed \$42.4 million to net sales in fiscal year 2012, an increase in Domestic sales of Allied Products of \$34.2 million, or 19.5%, and an increase in the volume of Domestic Pipe sales of \$64.3 million, as

compared to fiscal year 2011. The increase in Domestic Pipe sales volume was a result of favorable weather conditions helped by an early start to spring in the fourth quarter of fiscal year 2012, which resulted in increased demand from the agriculture market, as well as continued conversion to our products from traditional materials. The increase in Domestic Pipe sales volume was partially offset by continued weakness in the non-residential, residential and infrastructure end markets. Our International net sales increased \$0.3 million in fiscal year 2012 due to an increase in volume of \$1.2 million, or 6.0%, in Allied Products primarily in Canada, and was partially offset by a decline in Pipe volume of \$0.9 million, or 0.8%, due to lower Pipe sales in Mexico which were impacted by the loss of a national certification (which has since been regained in December 2013), as compared to fiscal year 2011. System-Wide Net Sales were \$1,071.4 million in fiscal year 2012, an increase of \$166.4 million, or 18.4%, over System-Wide Net Sales of \$905.0 million in fiscal year 2011. Net sales at our South American Joint Venture totaled \$57.7 million in fiscal year 2012, an increase of 37.7%, compared to \$41.9 million in fiscal year 2011. In addition, the increase in System-Wide Net Sales was aided by increased penetration and increased Pipe sales in Chile, Peru and Brazil.

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**Table of Contents***Gross profit*

Gross profit increased \$24.4 million, or 14.3%, to \$195.4 million during fiscal year 2012 as compared to \$171.0 million in fiscal year 2011. Our Domestic gross profit increased \$27.5 million in fiscal year 2012 as compared to fiscal year 2011. International gross profit declined \$3.1 million in fiscal year 2012 as compared to fiscal year 2011. Gross margin decreased to 19.3% in fiscal year 2012 from 19.8% in fiscal year 2011 due to lower Allied Products margins, while partially offset by decreased Domestic freight costs. Allied Products margins decreased as a result of the sale of our septic chamber manufacturing business, which resulted in a \$4.9 million reduction in gross profit in fiscal year 2012 as compared to fiscal year 2011 and the acquisition of a lower margin precast concrete business. Domestic freight costs as a percentage of Domestic net sales decreased to 10.5% in fiscal year 2012 compared to 11.4% in fiscal year 2011, which was helped by the increased sales mix into the agricultural markets where freight as a percentage of net sales is lower than other markets. Raw material prices increased 7.2% as compared to fiscal year 2011.

*Selling expenses*

Selling expenses increased \$4.5 million, or 7.2%, to \$67.6 million during fiscal year 2012 as compared to fiscal year 2011. As a percentage of net sales, selling expenses totaled 6.7% of in fiscal year 2012 compared to 7.3% in fiscal year 2011. Variable selling commissions tied to sales growth represented \$2.4 million of the higher selling expenses in fiscal year 2012 compared to fiscal year 2011 while field selling expenses were \$2.1 million in fiscal year 2012 as additional sales personnel were added to support the growth in net sales.

*General and administrative expenses*

General and administrative expenses increased \$4.3 million, or 6.9%, to \$65.9 million during fiscal year 2012 compared to fiscal year 2011. This increase in fiscal year 2012 as compared to fiscal year 2011 was due to higher corporate administrative expenses of \$3.6 million for personnel costs, legal expenses, outside consulting expenses and travel expenses and higher transaction costs of \$1.4 million and higher plant administrative expenses of \$0.4 million, while partially offset by a \$1.3 million decline in stock based compensation expense. General and administrative expenses decreased to 6.5% of net sales in fiscal year 2012 compared to 7.1% of net sales in fiscal year 2011.

*Gain on sale of assets/business*

We recognized a gain of \$44.6 million in fiscal year 2012 resulting from the sale of our septic chamber product line to Infiltrator Systems.

*Intangibles amortization*

Intangibles amortization totaled \$11.4 million in fiscal year 2012, an increase of \$4.1 million, or 56.1%, compared to fiscal year 2011. Amortization of intangibles related to new acquisitions and a \$3.2 million impairment charge for the Hancor trademark intangible were the factors resulting in the increase.

*Interest expense*

Interest expense decreased \$5.3 million to \$21.8 million, or 19.5%, during fiscal year 2012 as compared to \$27.1 million in fiscal year 2011. The decrease was primarily due to a \$9.5 million make-whole payment made on notes prepaid in October 2010 increasing fiscal year 2011 interest expense being partially offset by higher average debt levels in fiscal year 2012 resulting from our October 2010 recapitalization.



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*Other miscellaneous (income) expenses, net*

Our miscellaneous (income)/expense increased \$3.3 million in fiscal year 2012 as mark to market losses on our fuel and interest rate hedges of \$2.3 million in fiscal year 2012 compared to a gain of \$1.4 million in fiscal year 2011. Earnings from our South American Joint Venture was flat in fiscal year 2012 and other miscellaneous expenses decreased \$0.4 million in fiscal year 2012 as compared to fiscal year 2011.

*Income tax expense*

The provision for income taxes totaled \$27.1 million in fiscal year 2012 compared to \$4.1 million in fiscal year 2011. The effective rate for our provision was 37.9% in fiscal year 2012 as compared to 30.3% in fiscal year 2011. Lower effective tax rates in International and decreased Domestic net income in fiscal year 2011 were the major factors impacting the rate change.

*Income attributed to non-controlling interests*

Income attributed to non-controlling interest totaled \$1.2 million in fiscal year 2012 compared to \$3.3 million in fiscal year 2011. Lower earnings were generated in these operations resulted in the decrease in our non-controlled portion.

*Net income attributed to ADS*

Net income attributable to ADS was \$43.3 million in fiscal year 2012, an increase of \$37.3 million compared to fiscal year 2011. The large one time gain was primarily attributable to the sale of our septic chamber business in fiscal year 2012 of \$44.6 million.

*Adjusted EBITDA*

Adjusted EBITDA totaled \$116.9 million in fiscal year 2012, an increase of \$16.1 million, or 16.0%, compared to \$100.8 million in fiscal year 2011. Domestic Adjusted EBITDA increased \$17.2 million or 20.2%, to \$102.2 million in fiscal year 2012 compared to \$85.0 million in fiscal year 2011. International Adjusted EBITDA decreased \$1.1 million in the fiscal year 2012 to \$14.6 million compared to \$15.7 million in fiscal year 2011. Adjusted EBITDA as a percentage of net sales decreased to 11.5% in fiscal year 2012 compared to 11.7% in fiscal year 2011.

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

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

(Amounts in thousands)	Fiscal Year Ended March 31,						Nine Months Ended December 31,			
	2011		2012		2013		2012		2013	
<b>Net Sales by Segment</b>										
<b>Domestic:</b>										
Pipe	\$ 562,854	65%	\$ 678,934	67%	\$ 654,068	64%	\$ 539,043	65%	\$ 584,567	66%
Allied Products	175,529	21%	209,736	21%	223,676	22%	179,890	21%	193,763	22%
	738,383	86%	888,670	88%	877,744	86%	718,933	86%	778,330	88%
<b>International:</b>										
Pipe	104,971	12%	104,107	10%	114,349	11%	92,185	11%	88,126	10%
Allied Products	19,784	2%	20,979	2%	24,948	3%	21,447	3%	21,321	2%
	124,755	14%	125,086	12%	139,297	14%	113,632	14%	109,447	12%
<b>Total net sales</b>	<b>\$ 863,138</b>	<b>100%</b>	<b>\$ 1,013,756</b>	<b>100%</b>	<b>\$ 1,017,041</b>	<b>100%</b>	<b>\$ 832,565</b>	<b>100%</b>	<b>\$ 887,777</b>	<b>100%</b>
<b>Segment Adjusted EBITDA</b>										
Domestic	\$ 85,030	84%	\$ 102,241	87%	\$ 109,726	85%	\$ 98,633	85%	\$ 118,242	91%
International	15,750	16%	14,632	13%	20,033	15%	17,098	15%	12,325	9%
<b>Total Adjusted EBITDA</b>	<b>\$ 100,780</b>	<b>100%</b>	<b>\$ 116,873</b>	<b>100%</b>	<b>\$ 129,759</b>	<b>100%</b>	<b>\$ 115,731</b>	<b>100%</b>	<b>\$ 130,567</b>	<b>100%</b>

**Quarterly Net Sales Information**

The following tables set forth certain historical unaudited consolidated quarterly net sales for each of the quarters during the year ended March 31, 2013 and the nine months ended December 31, 2013. This unaudited information has been prepared on a basis consistent with our annual financial statements and includes all adjustments (consisting only of normal recurring adjustments) necessary for the fair presentation of the unaudited quarterly data. This information should be read together with our consolidated financial statements and the related notes, included elsewhere in this prospectus. The results of operations for any quarter are not necessarily indicative of results that we may achieve for any subsequent periods.

(Amounts in thousands)	Quarters Ended During the Fiscal Year Ended March 31, 2013	Quarters Ended During the Nine Months Ended December 31, 2013
<b>Net Sales by Quarter</b>		
Three months ended June 30	\$ 298,390	\$ 293,102
Three months ended September 30	285,749	333,495
Three months ended December 31	248,425	261,180
Three months ended March 31	184,477	
 Total net sales	 \$ 1,017,041	 \$ 887,777

### Liquidity and Capital Resources

Our primary liquidity requirements are working capital, capital expenditures, debt service, and dividend payments for our convertible preferred stock and common stock. We have historically funded, and expect to continue to fund, our operation primarily through equity issuance, internally generated cash flow and debt financings. From time to time we may explore additional financing methods and other means to raise capital. There can be no assurance that any additional financing will be available to us on acceptable terms or at all.



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As of December 31, 2013, we had \$5,322 in cash that was held by our foreign subsidiaries. Our intent is to indefinitely reinvest our earnings in foreign subsidiaries. In the event that foreign earnings are repatriated, these amounts will be subject to income tax liabilities in the appropriate tax jurisdiction. No restrictions exist on our liquidity that is impacted by the significance of cash held by foreign subsidiaries.

**Working Capital and Cash Flows**

During the nine months ended December 31, 2013, our source of funds was primarily driven by an increase in operating earnings and higher inventory turnover. During fiscal year 2013, our use of cash was primarily driven by increased capital expenditures. During fiscal year 2012, our use of cash was primarily driven by net acquisition activity. During fiscal year 2011, our use of cash was primarily driven by repurchases of common stock and acquisition activities.

As of December 31, 2013, we had \$235.4 million in liquidity, including \$5.3 million of cash and cash equivalents and \$230.1 million in borrowings available under our Revolving Credit Facility, described below. We believe that our cash on hand, together with the availability of borrowings under our Revolving Credit Facility and other financing arrangements and cash generated from operations, will be sufficient to meet our working capital requirements, anticipated capital expenditures, scheduled interest payments on our indebtedness and dividend payment requirement for our convertible preferred stock for at least the next twelve months. We are not dependent on this offering to meet our liquidity needs during that period.

As of December 31, 2013, we had total consolidated indebtedness of approximately \$306.3 million. We anticipate that we will repay a portion of our outstanding indebtedness with the proceeds from this offering. See Use of Proceeds.

The following table sets forth the major sources and uses of cash for each of the periods presented:

(Amounts in thousands)	Fiscal Year Ended			Nine Months Ended	
	2011	March 31, 2012	2013	December 31, 2012	2013
<b>Statement of Cash Flows data:</b>					
Net cash from operating activities	\$ 37,233	\$ 56,997	\$ 68,215	\$ 60,176	\$ 88,104
Net cash from investing activities	(53,237)	(35,833)	(47,199)	(42,079)	(30,116)
Net cash from financing activities	15,134	(21,233)	(21,737)	(15,987)	(54,014)

**Working Capital**

Working capital is an indication of liquidity and potential need for short-term funding. We define working capital as the difference between our current assets and current liabilities.

Working capital decreased to \$208.1 million as of December 31, 2013, from \$220.3 million as of March 31, 2013, primarily due to an increase in accounts payable and accrued expenses and accrued income taxes, partially offset by higher accounts receivable and inventories reflecting higher sales volume.

Working capital increased to \$220.3 million as of March 31, 2013, from \$208.3 million as of March 31, 2012, primarily due to higher inventories which offset a decrease in accounts receivable.

Working capital increased to \$208.3 million as of March 31, 2012, from \$204.1 million as of March 31, 2011, primarily due to higher receivables from fourth quarter sales, which offset a decline in inventories and an increase in accrued taxes.

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### *Operating Cash Flows*

Cash flow from operating activities for the nine months ended December 31, 2013 was \$88.1 million as compared with cash provided by operating activities of \$60.2 million for the nine month ended December 31, 2012. Cash flow during the nine months ended December 31, 2013 was driven by higher revenues and favorable changes in working capital.

Cash flow from operating activities in fiscal year 2013 was \$68.2 million as compared with cash generated by operating activities of \$57.0 million for fiscal year 2012. Cash flow for fiscal year 2012 was driven by improved operating margins.

Cash flow from operating activities in fiscal year 2012 was \$57.0 million as compared with cash generated by operating activities of \$37.2 million for fiscal year 2011. The increase of cash in fiscal year 2013 was driven by higher revenues and operating margins.

### *Investing Cash Flows*

During the nine months ended December 31, 2013, cash used for investing activities was \$30.1 million, primarily due to capital expenditures in support of operations. During the nine months ended December 31, 2012, cash used for investing activities was \$42.1 million, primarily due to capital expenditures in support of operations.

During fiscal year 2013, cash used in investing activities was \$47.2 million, primarily driven by capital expenditures (\$40.0 million).

During fiscal year 2012, cash used in investing activities was \$35.8 million, primarily driven by capital expenditures (\$26.5 million) and net acquisition activity (\$8.8 million).

During fiscal year 2011, cash used in investing activities was \$53.2 million, primarily driven by capital expenditures (\$30.0 million) and net acquisition activities (\$20.3 million).

### *Financing Cash Flows*

During the nine months ended December 31, 2013, cash used in financing activities was \$54.0 million, utilizing our operating cash flow to pay down debt (net debt pay down of \$43.7 million) and for dividends and redemption of our convertible preferred stock in connection with the ESOP. During the nine months ended December 31, 2012, cash used in financing activities was \$16.0 million primarily due to payments on various term and revolving debt (\$17.2 million) with the balance used for dividends and redemption of convertible preferred stock in connection with the ESOP.

During fiscal year 2013, cash used by financing activities was \$21.7 million as compared to cash used by financing activities of \$21.2 million for fiscal year 2012. Our net cash flow was directed to pay down term debt, dividends, and redemption of our convertible preferred stock in connection with the ESOP.

During the fiscal year 2012, cash used for financing activities was \$21.2 million primarily due to payments of term debt, dividends, and redemption of our convertible preferred stock in connection with the ESOP.

During the fiscal year 2011, cash provided by financing activities was \$15.1 million primarily due to proceeds from the sale of common stock and new debt financing offsetting the purchase of our common stock and our convertible

preferred stock.

***Capital Expenditures***

We had capital expenditures of \$30.0 million, \$26.5 million and \$40.0 million in fiscal years 2011, 2012 and 2013, respectively. Our capital expenditures in fiscal year 2013 were used primarily to support the growth of HP N-12 pipe production capacity, expansion of our recycled resin initiatives and other capital projects.

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We currently anticipate that we will make capital expenditures of approximately \$33.0 million to \$35.0 million in each of fiscal years 2014 and 2015. We expect our total capital expenditures to be relatively similar to the past several fiscal years. Such capital expenditures are expected to be financed using funds generated by operations. As of December 31, 2013, there were no material contractual obligations or commitments related to these planned capital expenditures.

### ***Financing Transactions***

#### ***Senior Loan Facilities***

On September 24, 2010, we entered into a credit agreement with PNC Bank, National Association, or PNC, as administrative agent, and the other lenders parties thereto. The credit agreement, as amended and restated on June 12, 2013 and subsequently further amended, provides for our Senior Loan Facilities consisting of (i) the Revolving Credit Facility providing for revolving loans and letters of credit of up to a maximum aggregate principal amount of \$325.0 million and (ii) the Term Loan Facility providing for the Term Loans in an aggregate original principal amount of \$100.0 million. The Senior Loan Facilities also permit us to add additional commitments to the Revolving Credit Facility or the Term Loan Facility not to exceed \$50 million in the aggregate. The proceeds of the Revolving Credit Facility are primarily used to provide for our ongoing working capital and capital expenditure needs, to finance acquisitions and distributions, and for our other general corporate purposes. The proceeds of the Term Loan Facility were primarily used for our general corporate purposes. The interest rates on the Senior Loan Facilities are determined by certain base rates or LIBOR rates, plus an applicable margin. The obligations under the Senior Loan Facilities are guaranteed by certain of our subsidiaries and secured by substantially all of our personal property assets. For further information about the Senior Loan Facilities, see Description of Certain Indebtedness Senior Loan Facilities. As of December 31, 2013, the outstanding principal drawn on the Revolving Credit Facility was \$98.4 million, with \$218.1 million available to be drawn, subject to customary conditions precedent. As of December 31, 2013, the outstanding principal balance of the Term Loan was \$98.8 million. On December 20, 2013, we amended the Revolving Credit Facility to, among other things, permit the payment of a cash dividend.

We intend to use the net proceeds from this offering (together with cash on hand, if necessary) to repay a portion of our outstanding indebtedness under the Revolving Credit Facility.

#### ***Mexicana Revolving Credit Facility***

On September 24, 2010, our joint venture ADS Mexicana entered into a credit agreement with PNC, as administrative agent, and the other lenders parties thereto. The credit agreement, as amended and restated on June 12, 2013 and subsequently further amended, provides for revolving loans and letters of credit of up to a maximum aggregate principal amount of \$12.0 million. The proceeds of the revolving credit facility are primarily used to cover working capital needs. The interest rates of the revolving credit facilities are determined by certain base rates or LIBOR rates, plus an applicable margin. The obligations under the revolving credit facility are guaranteed by us and certain of our subsidiaries and secured by substantially all of our assets. For further information about the Senior Loan Facilities, see Description of Certain Indebtedness Senior Loan Facilities. As of December 31, 2013, there was no outstanding principal drawn on the revolving credit facility and the entire \$12 million was available to be drawn.

#### ***Senior Notes***

On December 11, 2009, we entered into a private shelf agreement with Prudential Investment Management Inc., or Prudential, which agreement, as amended and restated on September 24, 2010 and subsequently further amended, provides for the issuance by us of senior secured promissory notes to Prudential or its affiliates from time to time in

the aggregate principal amount up to \$100.0 million. Pursuant to the private shelf agreement, on September 27, 2010, we issued \$75.0 million in aggregate principal amount of the 5.60% Senior Series A Notes

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due September 24, 2018 to repurchase outstanding shares of common stock from certain of our stockholders and to repurchase outstanding shares of convertible preferred stock from the ESOP. On July 24, 2013, we issued \$25.0 million in aggregate principal amount of the 4.05% Senior Series B Notes due September 24, 2019 for our general corporate purposes. The Senior Notes are guaranteed by certain of our subsidiaries and secured by substantially all of our assets. For further information about the Senior Notes, see Description of Certain Indebtedness Senior Notes. We have no further amount available for issuance of senior notes under the private shelf agreement. On December 20, 2013, we amended the private shelf agreement to, among other things, make certain amendments in order to permit the payment of a cash dividend.

**Covenant Compliance**

Our outstanding debt agreements and instruments contain various restrictive covenants including, but not limited to, limitations on additional indebtedness and capital distributions, including dividend payments. The two primary debt covenants include a Leverage Ratio and a Fixed Charge Ratio maintenance covenant. For any relevant period of determination, the Leverage Ratio is calculated by dividing Total Consolidated Indebtedness (funded debt plus guarantees) by Consolidated EBITDA. The current upper limit is 4.0 times. The Fixed Charge Ratio is calculated by dividing the sum of Consolidated EBITDA minus Capital Expenditures minus cash Income Taxes paid, by the sum of Fixed Charges. Fixed Charges include cash Interest expense, scheduled principal payments on Indebtedness, and ESOP Capital Distributions in excess of \$10 million in a given fiscal year. The current minimum ratio is 1.25 times. For further information, see Description of Certain Indebtedness. We were in compliance with our debt covenants as of December 31, 2013.

**Contractual Obligation as of December 31, 2013**

(Amounts in thousands)	Total	Payments Due by Period			
		Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
<b>Contractual obligations:</b>					
Long-term debt <sup>(1)</sup>	\$ 306,265	\$ 8,240	\$ 47,560	\$ 225,225	\$ 25,240
Interest payments <sup>(2)</sup>	45,667	11,566	21,401	11,940	760
Operating leases	68,222	18,580	29,851	12,848	6,943
Contractual purchase obligations <sup>(3)</sup>	87,563	87,563			
<b>Total</b>	<b>\$ 507,717</b>	<b>\$ 125,949</b>	<b>\$ 98,812</b>	<b>\$ 250,013</b>	<b>\$ 32,943</b>

(1) The current Revolving Credit Facility and Term Loan mature in June, 2018.

(2) Based on applicable rates and pricing margins as of December 31, 2013, including interest rate swaps.

(3) Purchase obligations include various commitments with vendors to purchase goods and services, primarily inventory, machinery, supplies and other equipment.

**Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements, with the exception of the guarantee of 50% of certain debt of our unconsolidated South American Joint Venture, as further discussed in Note 10 of our Notes to Consolidated Financial Statements. As of December 31, 2013, our South American Joint Venture had approximately \$11.6 million of

outstanding debt. We do not believe that this guarantee will have a current or future effect on our financial condition, results of operations, liquidity, or capital resources.

**Critical Accounting Policies and Estimates**

The preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period.



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Significant estimates include, but are not limited to, our allowance for doubtful accounts, useful lives of our property, plant and equipment and amortizing intangible assets, valuation allowance on deferred tax assets, reserves for uncertain tax positions, evaluation of goodwill, intangible assets and other long-lived assets for impairment, accounting for stock based compensation and our ESOP, reserves for general liability, workers' compensation, and medical insurance, cash discounts and customer rebates and valuation of our Redeemable Common Stock and Redeemable Convertible Preferred Stock. 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.

***Consolidation and Investments***

Our consolidated financial statements include us, our wholly-owned subsidiaries and VIEs of which we are the primary beneficiary. The non-controlling interests in our subsidiaries that are consolidated but not wholly owned by us are included in the accompanying financial statements. We use the equity method of accounting for equity investments where we exercise significant influence but do not hold a controlling financial interest, including our South American Joint Venture and our BaySaver Joint Venture. Such investments are recorded in Other Assets in the balance sheets and equity earnings are included in Equity Earnings of Unconsolidated Subsidiaries in the statements of income. All intercompany balances and transactions have been eliminated in consolidation.

***Allowance for Doubtful Accounts***

We hold receivables from customers in various countries. Credit is extended to customers based on an evaluation of their financial condition and collateral is generally not required. The evaluation of the customer's financial condition is performed to reduce the risk of loss. Accounts receivable are evaluated for collectability based on numerous factors, including the length of time individual receivables are past due, past transaction history with customers, their credit worthiness and the economic environment. An allowance for doubtful accounts is estimated as a percentage of aged receivables. This estimate is periodically adjusted when management becomes aware of a specific customer's inability to meet its financial obligations (e.g., bankruptcy filing) or as a result of changes in historical collection patterns.

***Goodwill***

We account for costs of acquired assets in excess of fair value, or Goodwill, and other intangible assets not subject to amortization in accordance with FASB Accounting Standards Codification, or ASC, Topic 350, Intangibles—Goodwill and Other. Goodwill is reviewed annually for impairment as of March 31 or whenever events or changes in circumstances indicate the carrying value may not be recoverable. The goodwill impairment analysis is comprised of two steps. The first step requires the comparison of the fair value of the applicable reporting unit to its respective carrying value. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is not considered impaired and we would not be required to perform further testing. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then we must perform the second step of the impairment test in order to determine the implied fair value of the reporting unit's goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, then we would record an impairment loss equal to the difference. With respect to this testing, our reporting units are generally one level below our operating segments for which discrete financial information is available and reviewed by segment management. However, components of an operating segment can be aggregated as one reporting unit if the components have similar economic characteristics. Our reporting units include Domestic, Mexico, Puerto Rico, Canada, Chile and Europe. Implied fair value of goodwill is determined by considering both the income and market approach. Determining the fair value of a reporting unit is judgmental in nature and involves the use of significant estimates and assumptions. These estimates

and assumptions include revenue

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growth rates and operating margins used to calculate projected future cash flows, risk-adjusted discount rates, future economic and market conditions, and determination of appropriate market comparables. The fair value estimates are based on assumptions management believes to be reasonable, but are inherently uncertain.

We did not incur any impairment expense for goodwill in the years ended 2013 and 2012.

### ***Intangible Assets***

Definite-lived intangible assets are tested for recoverability whenever events or changes in circumstances indicate that carrying amounts of the asset group may not be recoverable. Asset groups are established primarily by determining the lowest level of cash flows available. If the estimated undiscounted future cash flows are less than the carrying amounts of such assets, an impairment loss is recognized to the extent the fair value of the asset less any costs of disposition is less than the carrying amount of the asset. Determining the fair value of these assets is judgmental in nature and involves the use of significant estimates and assumptions. Future events and unanticipated changes to assumptions could require a provision for impairment in a future period.

In April 2011, we recharacterized the Hancor trademark previously classified as indefinite lived since 2005 to definite lived based on management's decision to discontinue to the use of the trademark over the next 15 years. When such a change is made, the asset is required to be tested for impairment. We tested the trademark for impairment using the relief from royalty valuation method and recorded an impairment charge of \$3,200 in General and administrative expenses in the Consolidated Statements of Income, resulting in the carrying value of the trademark being reduced, and thus equal, to the estimated fair value, which will be amortized over a 15-year period.

No additional impairment charges were recorded in fiscal years 2011, 2012 or 2013.

Indefinite-lived intangible assets are tested for impairment annually as of March 31 or whenever events or changes in circumstances indicate the carrying value may be greater than fair value. Determining the fair value of these assets is judgmental in nature and involves the use of significant estimates and assumptions. We base our fair value estimates on assumptions we believe to be reasonable, but that are inherently uncertain. To estimate the fair value of these indefinite-lived intangible assets, we use an income approach, which utilizes a market derived rate of return to discount anticipated performance. An impairment loss is recognized when the estimated fair value of the intangible asset is less than the carrying value.

We did not record any impairment in fiscal years 2011, 2012 or 2013 other than the Hancor trademark impairment described previously. Future events and unanticipated changes to assumptions could require a provision for impairment in a future period.

### ***Revenue Recognition***

We recognize revenue and cost of goods sold when persuasive evidence of an agreement exists, delivery has occurred, the price to the buyer is fixed and determinable and collectability is reasonably assured.

We ship products to customers predominantly by internal fleet and to a lesser extent by third-party carriers. Revenues, net of sales tax and allowances for returns, rebates and discounts are recognized from product sales when title to the products is passed to the customer which generally occurs upon delivery.

### ***Employee Benefit Plans***

*Employee Stock Ownership Plan (ESOP)*

Unallocated shares of convertible preferred stock held by our ESOP in the ESOP's loan suspense account are allocated each year to employee-participants' ESOP stock accounts upon the ESOP making its annual ESOP loan payment. The annual allocation of convertible preferred stock to the ESOP stock accounts of ESOP participants is accounted for as share based compensation expense as part of our overall employee benefits.

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expense. Such shares of convertible preferred stock are valued based on an annual valuation completed by management with the assistance of an independent third-party appraisal firm. When shares of convertible preferred stock are allocated to the ESOP stock accounts of ESOP participants, we reduce the amount of deferred compensation reflected in Deferred compensation — unearned ESOP shares in mezzanine equity. The amount of deferred compensation is reduced by the number of allocated shares of convertible preferred stock, multiplied by the value of the convertible preferred stock when originally issued. The difference between the current share value and the original value is credited to the equity account paid in capital.

*Stock-Based Compensation Plans*

We have several programs for stock based payments to employees and directors in accordance with FASB ASC Topic 718, Compensation — Stock Compensation. Equity-classified awards are measured based on the grant-date estimated fair value of each award, net of estimated forfeitures, and liability-classified awards are re-measured at their fair value, net of estimated forfeitures, at each reporting date for accounting purposes. Compensation expense is recognized over the employee's requisite service period, which is generally the vesting period of the grant. Compensation expense is recorded for new awards and existing awards that are modified, repurchased or forfeited.

The fair value of restricted stock equals the fair value of the underlying common stock as of the date of the grant, as discussed in Valuation of Redeemable Common Stock and Redeemable Convertible Preferred Stock — Valuation of Redeemable Common Stock.

The fair value of each stock option granted is estimated, as of the date of the grant, using the Black-Scholes option pricing model. Determining the fair value of stock options under the Black-Scholes option-pricing model requires judgment, including estimating the fair value per share of our common stock as a private company prior to this offering, volatility, expected term of the awards, dividend yield and the risk-free interest rate. The assumptions used in calculating the fair value of stock options represent our best estimates, based on management's judgment and subjective future expectations. These estimates involve inherent uncertainties. If any of the assumptions used in the model change significantly, stock based compensation recorded for future awards may differ materially from that recorded for awards granted previously.

We developed our assumptions as follows:

*Fair value of common stock.* As our common stock is not publicly traded, we estimate the fair value of common stock as discussed in Valuation of Redeemable Common Stock and Redeemable Convertible Preferred Stock — Valuation of Redeemable Common Stock.

*Volatility.* The expected price volatility for our common stock is estimated by taking the median historic price volatility for industry peers based on daily prices over a period equivalent to the expected term of the stock option grants.

*Expected term.* The expected term represents the period of time that options granted are expected to be outstanding based on historical experience.

*Risk-free interest rate.* The risk-free interest rate is based on the yields of United States Treasury securities with maturities similar to the expected term of the options.

*Dividend yield.* The dividend yield is based on our anticipated dividend payments over the remaining expected holding period.

We estimate potential forfeitures of grants and adjust stock-based compensation expense accordingly. The estimate of forfeitures is adjusted over the requisite service period to the extent that actual forfeitures differ from the prior estimates. We estimate forfeitures based upon our historical experience, and, at each period, review the estimated forfeiture rate and make changes as factors affecting the forfeiture rate calculations and assumptions change.

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**Table of Contents*****Valuation of Redeemable Common Stock and Redeemable Convertible Preferred Stock******Valuation of Redeemable Common Stock***

Certain of our outstanding shares of common stock are subject to agreements that permit the holder of those shares to put its shares to us for cash. This Redeemable Common Stock is recorded at its fair value in the mezzanine section of our consolidated balance sheets and changes in fair value are recorded in retained earnings. The fair value of our common stock is based on the most recent contemporaneous third-party valuation report, which historically applied industry-appropriate multiples to EBITDA and performed a discounted cash flow analysis. Under the industry-appropriate multiples approach, to arrive at concluded multiples, we considered differences between the risk and return characteristics of us and the guideline companies. Under the discounted cash flow analysis, the cash flows expected to be generated by us are discounted to their present value equivalent using a rate of return that reflects the relative risk of an investment in us, as well as the time value of money. This return is an overall rate based upon the individual rates of return for invested capital (equity and interest-bearing debt). The return, known as the weighted average cost of capital, or WACC, is calculated by weighting the required returns on interest-bearing debt and common stock in proportion to their estimated percentages in an expected capital structure. The categorization of the framework used to price this temporary equity is considered a Level 3, due to the subjective nature of the unobservable inputs used to determine the fair value.

***Valuation of Redeemable Convertible Preferred Stock***

The trustee of our ESOP has the ability to put the shares of our Redeemable Convertible Preferred Stock to us. Our Redeemable Convertible Preferred Stock is recorded at its fair value in the mezzanine section of our consolidated balance sheets and changes in fair value are recorded in retained earnings. Accordingly, we estimated the fair value of the Redeemable Convertible Preferred Stock through estimating the fair value of our common stock and applying certain adjustments including for the fair value of the total dividends to be received and assuming conversion of the preferred stock to common stock at the stated conversion ratio per our certificate of incorporation. The categorization of the framework used to price this temporary equity is considered a Level 3, due to the subjective nature of the unobservable inputs used to determine the fair value.

***Income Taxes***

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized and represent the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. They are measured using the enacted tax rates expected to apply to taxable income in the years in which the related temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The deferred income tax provision represents the change during the reporting period in the deferred tax assets and deferred tax liabilities. Penalties and interest recorded on income taxes payable are recorded as part of income taxes.

We follow the GAAP guidance for uncertain tax positions within ASC 740, Income Taxes. ASC 740 provides guidance related to the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. The standard prescribes the minimum recognition threshold that a tax position is required to meet before being recognized in the financial statements. ASC 740 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods and disclosure. Initial recognition, derecognition and measurement is based on management's judgment given the facts, circumstances and information available at the reporting date. If these judgments are not accurate then future income tax expense or benefit could be different.





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**Table of Contents****Recently Adopted Accounting Pronouncements*****Fair value measurement***

In May 2011, the FASB issued Accounting Standard Update (ASU) No. 2011-04, Fair Value Measurement (Topic 820), which clarifies the measurement of fair value for certain assets and liabilities and expands the disclosure requirements for Level 3 fair value investments. The amendments in this ASU are intended to improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with GAAP and International Financial Reporting Standards. ASU No. 2011-04 became effective for us in fiscal year 2013. The adoption of the amended guidance did not have a material impact on our consolidated financial statements and related disclosures.

***Comprehensive income: Presentation***

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (Topic 220), accounting guidance related to the presentation of comprehensive income in ASC 220, Comprehensive Income. The objective of this ASU is to improve the comparability, consistency and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. Under this guidance, entities are required to report the components of net income and comprehensive income either in one continuous statement or in two separate but consecutive statements. The option to present items of other comprehensive income in the statement of changes in equity was eliminated. The guidance became effective for us in fiscal year 2013. We elected to present items of other comprehensive income in two but consecutive statements.

***Comprehensive income: Reclassifications***

In February 2013, the FASB issued ASU No. 2013-02, Comprehensive Income (Topic 220), accounting guidance related to the presentation of comprehensive income in ASC 220, Comprehensive Income. This ASU supersedes and replaces the presentation requirements for reclassifications out of accumulated other comprehensive income in ASU 2011-05, which were deferred indefinitely under ASU No. 2011-12, Deferral of the Effective Date for Amendments to the Presentation of Reclassification of Items out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05 which was issued in December 2011. The amendments in ASU 2013-02 would require an entity to provide additional information about reclassifications out of accumulated other comprehensive income by the respective line items of net income. For public entities, the provisions of this ASU became effective for reporting periods beginning after December 15, 2012. The adoption of the amended guidance did not have a material impact on our consolidated financial statements and related disclosures.

***Income Taxes***

In July 2013, the FASB issued ASU No. 2013-11, Income Taxes (Topic 740), which requires that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carry forward. However, if a net operating loss carry forward, a similar tax loss, or a tax credit carry forward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The amendments are not expected to have a material impact on our consolidated financial statements and related disclosures.



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**Table of Contents****Quantitative and Qualitative Disclosure About Market Risk**

We are subject to various market risks, primarily related to changes in interest rates, raw material supply prices, and to a lesser extent, foreign currency exchange rates. Our financial position, results of operations or cash flows may be negatively impacted in the event of adverse movements in the respective market rates or prices in each of these risk categories. Our exposure in each category is limited to those risks that arise in the normal course of business, as we do not engage in speculative, non-operating transactions.

***Interest Rate Risk***

We are subject to interest rate risk associated with our debt. Changes in interest rates impact the fair value of our fixed-rate debt, but there is no impact to earnings and cash flow. Alternatively, changes in interest rates do not affect the fair value of our variable-rate debt, but they do affect future earnings and cash flow. The Revolving Credit Facility, the Term Loan Facility, and our industrial development revenue bond, or IDRB, notes bear variable interest rates. The Revolving Credit Facility and Term Loan Facility bear interest either at LIBOR or the Prime Rate, at our option, plus applicable pricing margins. The IDRB notes bear interest at weekly commercial paper rates, plus applicable pricing margins. A 1% increase in interest rates on our variable rate debt would increase our annual forecasted interest expense by approximately \$.8 million based on our borrowings as of December 31, 2013. Assuming the Revolving Credit Facility is fully drawn, each 1% increase or decrease in the applicable interest rate would change our interest expense by approximately \$2.8 million per year. To mitigate the impact of interest rate volatility, we have two interest rate swaps in effect as of December 31, 2013. The first swap is at \$70 million notional value, amortizing \$2.5 million per quarter at a fixed LIBOR rate of 1.105%, and expires in September, 2014. The other swap is a \$50 million notional value, non-amortizing swap at a LIBOR rate of 0.86% which expires in September, 2016. A third \$50 million notional value swap will take effect on September 1, 2014 and expires on September 1, 2016. The rate is at a fixed LIBOR of 1.08%.

***Credit Risk***

Financial instruments that potentially subject us to a concentration of credit risk consist principally of accounts receivable. We provide our products to customers based on an evaluation of the customers' financial condition, generally without requiring collateral. Exposure to losses on receivables is principally dependent on each customer's financial condition. We monitor the exposure for credit losses and maintains allowances for anticipated losses. Concentrations of credit risk with respect to our accounts receivable are limited due to the large number of customers comprising our customer base and their dispersion among many different geographies.

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

Our primary raw materials used in the production of our products are polyethylene and polypropylene resins. As these resins are hydrocarbon-based materials, changes in the price of feedstocks, such as crude oil and natural gas, as well as changes in the market supply and demand may cause the cost of these resins to fluctuate significantly. Raw materials account for the majority of our cost of goods sold. Given the significance of these costs and the inherent volatility in supplier pricing, our ability to reflect these changes in the cost of resins in our product selling prices in an efficient manner, passing the increase on to our customers, contributes to the management of our overall supply price risk and the potential impact on our results of operations.

We manage supply risk with financial and physical hedge contracts for the HDPE and PP resins used in the manufacture of our Pipe and Allied Products, as well as for the diesel fuel used by our in-house fleet of delivery trucks. Our physical hedge contracts for HDPE resins are typically at a fixed price and volume over time. We use to a

limited extent financial derivatives for PP resin in the form of fixed price swaps based on propylene monomer. For diesel fuel, we have utilized option contracts in the form of collars with put and call options.

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We have supply contracts that typically include supply periods of greater than one year. Except for physical-hedged resin contracts, we generally do not enter into long-term purchase orders for the delivery of raw materials. Our orders with suppliers are flexible and do not normally contain minimum purchase volumes or fixed prices. Accordingly, our suppliers may change their selling prices or other relevant terms on a monthly basis, exposing us to pricing risk. Our use of pricing and forecasting tools, centralized procurement, additional sources of supply and incorporation of vertical integration for recycled material have increased our focus on efficiency and resulted in lower overall supply costs. If the price of HDPE and PP virgin resin increased or decreased by 5%, it would result in a material change to our cost of goods sold.

### ***Inflation***

Our cost of goods sold is subject to inflationary pressures and price fluctuations of the raw materials we use, primarily high density polyethylene and polypropylene resins. Historically, we have generally been able over time to recover the effects of inflation and price fluctuations through sales price increases and production efficiencies related to technological enhancements and improvements. However, we cannot reasonably estimate our ability to successfully recover any price increases.

### ***Financial Instruments***

We have operations in countries outside of the United States, all of which use the respective local foreign currency as their functional currency. Each of these operations may enter into contractual arrangements with customers or vendors that are denominated in currencies other than its respective functional currency. Consequently, our results of operations may be affected by exposure to changes in foreign currency exchange rates and economic conditions in the regions in which we sell or distribute our products. Exposure to variability in foreign currency exchange rates from these transactions is managed, to the extent possible, by natural hedges which result from purchases and sales occurring in the same foreign currency within a similar period of time, thereby offsetting each other to varying degrees.

In addition, to the transaction-related gains and losses that are reflected within the results of operations, we are subject to foreign currency translation risk, as the financial statements for our foreign subsidiaries are measured and recorded in the respective subsidiary's functional currency and translated into U.S. dollars for consolidated financial reporting purposes. The resulting translation adjustments are recorded net of tax impact in the Consolidated Statement of Income.

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**INDUSTRY**

We compete in the multi-billion dollar global pipe and related water management solutions market. Our end markets include non-residential construction, residential construction, agriculture and infrastructure, focused primarily in the United States and Canada. We also compete in Mexico, Central America and South America through our joint ventures. We believe the markets we serve in the United States represent approximately \$10.1 billion of annual revenue opportunity. In addition, we believe the increasing acceptance of thermoplastic pipe products in international markets represents an attractive growth opportunity.

We estimate that HDPE pipe and PP pipe represent approximately 25% of all domestic storm pipe sales, up from what we believe was less than 10% ten years ago, and less than 1% twenty years ago. Market penetration is expected to continue to grow significantly as the regulatory environment continues to change and as contractors, civil design engineers and municipal agencies fully recognize the superior physical attributes and compelling value proposition of HDPE and PP pipe. In part due to the efforts and success of our corporate and field civil engineers, an average of approximately 60 state, county and municipal approvals have been added or enhanced each year over the past five years, including 32 states over the past eight years.

**Core Product Categories**

***Pipe Market***

Demand for our products is largely driven by non-residential and residential construction, transportation and related water drainage infrastructure spending and the repair and replacement of aging stormwater management infrastructure. Freedonia estimates that demand for large diameter pipe (defined as 15" diameter or larger depending on industry standards by material type) in the United States will increase at an average of 6.2% per year from approximately 146 million feet in 2011, to 197 million feet in 2016, driven by the recovery of general economic and construction activity, as well as the need to repair and upgrade aging and obsolete sewer, drain and water distribution networks. We compete in the storm sewer, drainage, sanitary sewer and irrigation markets, which collectively represent approximately 70% of the overall large diameter pipe market in the United States.

***Source: Freedonia***

According to Freedonia, demand for HDPE pipe is projected to grow at 7.0% annually through 2016, to 62.8 million feet due to the material's competitive cost, light weight, resistance to corrosion, longer life and lower installed costs versus traditional materials such as concrete, steel and ductile iron. According to Freedonia, HDPE, the primary material in our products, is projected to become a larger portion of the overall large diameter pipe market as states and municipalities are expected to continue to adopt this product as a result of its superior attributes and approve its use in a broader range of applications.

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Since the introduction of PP pipe for use in the storm sewer market did not occur until 2012, the Freedonia growth projections referenced above do not take into account the potential impact that PP pipe may have in the larger diameter pipe market. Pipe manufactured from PP material has demonstrated improved stiffness and strength that allows for storm and sanitary sewer applications, which we believe will result in increased market share over concrete and PVC products. We further believe that our product line made from PP, in combination with our HDPE product line, provides us with a unique opportunity to grow market share in the large diameter pipe market.

According to Freedonia, sanitary and storm sewers, which represent approximately 50% of the total large diameter pipe market demand, are expected to continue to drive growth for the large diameter pipe market through 2016. Freedonia estimates that a large part of the growth will come from population increases in the South and West regions of the United States. EPA requirements and regulations are expected to continue to drive growth in the sanitary and storm sewer markets. Additionally, Freedonia estimates that the largest expected growth in the forecast period will come from the drainage market, as non-residential and residential construction continues to rebound.

*Source: Freedonia*

In the United States, our market diversification positions us to take advantage of cyclical recovery in the non-residential and residential construction end markets, increased spending from the expected replacement of aging water drainage and sewer infrastructure, stricter EPA regulations for stormwater and wastewater management, and the need for increased crop production. According to the U.S. Department of Agriculture, demand for U.S. crops is expected to remain steady with a growing worldwide population and increased demand from developing nations. Steady global economic growth supports gains in worldwide food demand. Economic growth in developing countries is especially important because food consumption and feed use are responsive to income growth in these countries, with movement away from traditional staple foods to an increased diversification of diets.

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Positive end market trends in the non-residential construction, residential construction, agricultural and infrastructure markets are also expected to drive increased demand for pipe products in Canada. A growing population, increased economic development, and rising export demand for food are leading to further growth in the Canadian pipe market. In Mexico, Central America and South America, additional investments in modern storm and sanitary sewer systems are needed to support the economic growth and development occurring in those nations.

The construction sector is responsible for a majority of the pipe use and demand in Canada. According to Freedonia, HDPE pipe is expected to grow 6.5% annually through 2017 to 81,000 metric tons, the fastest growth of any plastic resin. Both non-residential and residential end markets will provide good opportunity for growth. Growth in fixed investment spending is expected to result in a higher number of sewer and drainage infrastructure projects. Housing starts in Canada are forecasted to grow from 185,000 in 2012 to 215,000 by 2017, according to Freedonia. A large industry around forestry, minerals, petroleum and natural gas also provides opportunity for pipe applications.

The GDP in Mexico is forecasted to expand at 3.7% annually through 2017. Construction demand accounted for 60% of the total pipe demand in Mexico in 2012. Freedonia forecasts HDPE pipe demand to grow 8% annually through 2017 to 50,000 metric tons, the fastest rate of any plastic resin. Construction growth in Mexico is driven by demand for housing, non-residential property development and additional investment in public infrastructure.

In South America, HDPE pipe demand is forecasted by Freedonia to increase 8.5% annually to 173,000 metric tons by 2017. Investment in sewer and drainage networks is associated with growth in the construction sector. The largest pipe markets in this geography are Brazil and Argentina.

Brazil is the largest country in South America in terms of population, area and economic output. Construction accounted for 75% of the total pipe demand in 2012 and is forecasted to stay near those levels through 2017. Freedonia forecasts HDPE pipe to grow 5.8% annually to 53,000 metric tons by 2017. HDPE is taking market share from PVC in drainage and sewer applications. Brazil has large infrastructure investment occurring related to the country hosting the 2014 FIFA World Cup and the 2016 Summer Olympics.

Argentina is the second largest pipe market in South America and Freedonia forecasts HDPE pipe demand to increase 8.4% annually to 24,000 metric tons by 2017. Primary end markets are construction, natural resources and agriculture. HDPE is expected to see wider use in drainage and sewer use due to its performance advantages compared to other competitive materials.

According to Freedonia, HDPE pipe is also expected to see solid growth in construction applications in other South American countries such as Colombia, Chile, Ecuador and Peru.

## ***Related Water Management Solutions Market***

### ***Stormwater Retention/Detention***

Current EPA regulations require any development of one acre or larger to retain stormwater on site and gradually release it over time. This is typically accomplished by holding the stormwater in a pond or in an underground system that allows the water to leach gradually into surrounding soil or be discharged at a regulated rate. Underground systems are an economical alternative to retention ponds as they maximize the use of the available land. Ponds also require more maintenance, use valuable land, and present inherent design, aesthetic and safety issues.

Growth in the stormwater retention/detention market is primarily driven by the continued recovery in the construction markets as well as current EPA regulations regulating the discharge of pollutants. According to the Freedonia Special



Report, growth of retention/detention solutions is forecasted to grow 7.5% annually from 2013

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to 2016. Over this period, structural solutions such as pipe and plastic chambers are forecasted to grow 8.5%, while natural solutions such as ponds are forecasted to grow at a slower rate of 5.4%. Freedonia forecasts annual growth of 9.0% and 11.5% for plastic pipe and plastic chambers, respectively, from 2013 to 2016 as compared to other alternatives. This growth is due in part to plastic systems offering advantages from ease of installation, lower freight costs, space efficiencies and better corrosion resistance.

Our key product offerings in this market include our N-12 pipe, HP pipe and StormTech chambers. StormTech chambers are durable, chemically-resistant underground chambers that function as stormwater detention or retention systems. The chambers allow for the storage of large stormwater volumes at minimal depths and are primarily used in non-residential applications.

### *On-Site Septic*

According to the EPA, an estimated 20% of total U.S. housing units depend upon on-site septic systems for the treatment and disposal of household sewage. Many of these systems consist of a septic tank and a soil absorption area where effluent is leached into the soil. A common component of all soil absorption lines and/or fields is a type of conduit that distributes the effluent throughout the soil, and the soil has the function of absorbing and treating effluent. The market is driven by new residential construction and, to a lesser extent, the repair and replacement of existing systems.

### *Structures*

Drainage structures, such as manholes, catch basins and inlet structures, are used in all major storm projects in the non-residential, residential and infrastructure markets. Drainage structures move surface collected stormwater vertically down to the pipe conveyance systems. The predominant material used for structures today is concrete. The precast market is highly fragmented with a heavy concentration of local and regional competitors, due to the high freight costs incurred for transportation of the product.

Growth will be driven by the cyclical recovery in the construction markets. We compete in the structures market with our Nyloplast product line. Nyloplast products are an engineered drainage structure with a PVC body combined with ductile iron grates to create effective surface drainage solutions. Nyloplast structures are customized to site specific requirements and delivered ready to install. Limited field fabrication or other job site work such as concrete grouting or brick and mortar is required, which reduces construction cost and increases speed of installation compared to traditional precast concrete structures.

### *Water Quality*

Due to the fact that stormwater runoff collects trash, oil, sediment and other pollutants, EPA regulations require development of one acre or larger to limit the level of sediment or other pollutants in discharged water. Water quality requirements are satisfied through the use of natural water quality systems, such as ponds and wetlands, or structural water quality systems, such as filters and separators. Each state in the United States has a preferred method of water treatment based primarily on environmental factors.

Similar to the retention/detention market, future growth and demand for water quality solutions is supported by increased construction activity, EPA regulations and increasing awareness of ecological issues of water quality. According to the Freedonia Special Report, water quality solutions are forecasted to grow 10.1% annually from 2013 to 2016. Both structural and natural solutions are anticipated to have similar growth rates. Within structural solutions, both separators and filters are forecasted to grow at an annual rate of 10.1%. Structural solutions are ideal

for urbanized areas or where land is expensive or not available for natural solutions.

We compete in this market with our Water Quality Units and our BaySaver and FleXstorm products. We offer a water quality solution that fits a specific state's requirements and assists owners, developers and design engineers in remaining compliant with the EPA regulations.

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### *Geosynthetics*

The geosynthetics market consists of geotextile, geomembrane, georid and geonet products. Geosynthetics are used in a wide range of environmental and civil engineering applications to promote drainage, retain soils, control the flow of liquids and construct natural soil structures. Demand in this market is primarily driven by trends in nonbuilding and transportation construction activity. In 2012, approximately 60% of the geosynthetics area demand was in the infrastructure and construction markets. According to a study by Freedonia on world Geosynthetics demand (December 2013), U.S. geosynthetics demand is forecasted to grow 6.5% annually to 1.1 billion square meters by 2017, from 765 million square meters in 2012. We offer geotextile products by resale agreements with leading suppliers. We are able to combine our broad product offering with our sales and distribution network to bundle and deliver geotextile products in an efficient and cost effective way for our customers.

### **Core End Markets**

Our end markets include the non-residential construction, residential construction, agricultural and infrastructure markets.

### ***Total Non-Residential and Residential Construction (70% of Domestic Net Sales in Fiscal Year 2013)***

For fiscal year 2013, our total net sales in the U.S. non-residential and residential construction markets were \$614.4 million, which represented 70% of our domestic net sales. Our products are used in a diverse range of construction projects, including the construction of streets and highways, storm and sanitary sewer systems for non-residential, residential and industrial projects, golf courses, athletic fields and other construction projects where water management solutions are needed.

Combined non-residential and residential spending reached bottom in 2009 and began to slowly recover. Driven by a recovery in the residential construction market, the combination of these two end markets is forecasted to have a CAGR of 18% from 2012 to 2016, according to McGraw Hill.

### ***Non-Residential Construction (49% of Domestic Net Sales in Fiscal Year 2013)***

For fiscal year 2013, our net sales in the U.S. non-residential construction market were \$430.1 million, which represented 49% of our domestic net sales. The main drivers of our products in the non-residential construction markets include the construction of commercial buildings and office parks, shopping centers and other large retail sites, healthcare facilities and hospitals, schools and education facilities and other institutional buildings. The Federal Clean Water Act and other EPA regulations impact the stormwater management and sewer construction markets of the non-residential sector.

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Reed Construction Data is forecasting U.S. non-residential construction, consisting of commercial, institutional, manufacturing and warehouse construction, to grow 6.6% annually from 2013 to 2016 and increase 8.2% in 2014 over 2013.

**U.S. Non-Residential Building Construction Starts**

*Source: Reed Construction Data*

Additionally, the American Institute of Architects' survey tracking billing activity for the industrial, residential, non-residential and institutional sectors indicates that the building construction markets continue to recover.

**Architectural Billings Index Market Activity**

*Source: American Institute of Architects*

*Note: An ABI reading above 50 indicates an increase in month-to-month seasonally adjusted billings and a reading below 50 indicates a decrease in month-to-month seasonally adjusted billings.*

**Table of Contents*****Residential Construction (21% of Domestic Net Sales in Fiscal Year 2013)***

For fiscal year 2013, our net sales in the U.S. residential construction market were \$184.3 million, which represented 21% of our domestic net sales. The main drivers of our products in the residential construction market include large community developments, single-family home construction, multi-family construction and home improvement spending through our various retail channels.

U.S. residential new construction has begun to recover since reaching historic lows during the recent economic downturn. According to the U.S. Census Bureau, new housing starts peaked in 2005 at approximately 2.1 million units, and subsequently declined to approximately 554,000 units in 2009. Housing starts began to recover in 2010, and strengthened to 925,000 in 2013, according to U.S. Census Bureau data. While new housing starts demonstrated an annual growth rate of 16% from 2010 to 2013, 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. According to McGraw Hill, residential new housing is expected to increase to 1.13 million starts, or 17%, in 2014, and increase to 1.36 million starts, or 20%, in 2015.

As the housing market declined, homebuilders were left with excess inventory of improved lots with existing water drainage infrastructure already in place. From 2010 to 2012, as the housing market began to recover, new home sales and related construction activity occurred on those previously developed lots. As a result, we did not see an increase in sales in the residential real estate market during the early period of the housing recovery, since new home construction was occurring on parcels already developed. As this inventory of previously developed existing lots has been depleted, home builders are now looking for land acquisition and development of new housing construction, a trend which we believe will have a greater positive impact on our sales in this end market moving forward, as compared to sales that occurred during the beginning of the recovery of the housing market.

According to the American Housing Survey by the U.S. Census Bureau and the U.S. Department of Housing and Urban Development, more than 61% of the current U.S. housing stock was built before 1980 and the median estimated home age has increased from 23 years in 1985 to 37 years in 2011. We expect the home improvement market to continue to become a larger growth driver as housing markets continue to show growth and home equity values continue to increase. As of September 2013, the Home Improvement Research Institute projects that U.S. sales of repair, renovation and improvement products will grow at a rate of 5.4% in 2013, 6.8% in 2014 and 7.0% in 2015, driven by the improving economy, rising home prices and greater consumer confidence.

**Total U.S. Housing Starts****Residential Repair, Renovation and Remodeling**

*Source: McGraw Hill*

*Source: HIRI / IHS Global Insight*

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***Agriculture (21% of Domestic Net Sales in Fiscal Year 2013)***

For fiscal year 2013, our net sales in the U.S. agriculture market were \$184.3 million, which represented 21% of our domestic net sales. Draining cropland improves root development, resulting in stronger crops, as well as allowing for earlier planting in the spring, thereby extending the growing season. Draining cropland also reduces soil erosion by moving water underground rather than allowing it to flow over the soil surface. We have maintained a strong presence in the agriculture market for decades, as local and corporate farmers continue to appreciate the value proposition and increased crop yield associated with the use of our pipe products. The Renewable Fuel Standard mandated by the EPA, as part of the Energy Independence and Security Act of 2007, establishes levels of renewable fuels that apply to gasoline or diesel produced or imported for use. The standard currently mandates approximately 15 billion gallons of ethanol used for gasoline or diesel use. The U.S. Department of Agriculture estimates that approximately 40% of corn production in the United States is consumed by ethanol production. With ethanol requirements not expected to decline, this combined with the needs of corn for human and livestock consumption, is anticipated to keep demand at strong levels for the foreseeable future.

According to a 1998 study published by The Ohio State University (in cooperation with several U.S. Department of Agriculture agencies and other Midwest land grant universities), improved harvesting technology, including the use of drainage pipe, can improve crop yields and therefore drive growth in the agriculture market. As compared to the previous five-year period from 2004 to 2008, U.S. agricultural exports increased by nearly \$230 billion between 2009 and 2013. The past five years represent the strongest five-year period for agricultural exports in the history of the United States.

U.S. and global demand for corn and soybeans, net farm income and corn use for ethanol are significant drivers of our agriculture business and are leading indicators in regards to our product demand. According to the U.S. Department of Agriculture, agricultural exports were a record \$140.9 billion in 2013 and are forecasted to increase 1% in 2014. The average yield of corn for grain production in the United States is estimated at 158.8 bushels per acre, up 35.4 bushels from the 2012 average yield of 123.4. Area harvested for grain is estimated at 87.7 million acres, up slightly from 2012. The average yield per acre of soybean production is estimated at 43.3 bushels, 3.5 bushels above last year's yield. Harvested area is down slightly from 2012 to 75.9 million acres. Increases in production levels generate market demand for our products.

A rise in net farm income is a driving factor in growth in the drainage products industry. According to the U.S. Department of Agriculture, net farm income increased to \$130.5 billion in 2013, up from \$85.0 billion in 2008. The U.S. Department of Agriculture estimates that 40% of corn production in the United States is consumed by ethanol production, with requirements not expected to decline in the near future.

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The average value of cropland in the United States has risen from \$1,750 per acre in 2004 to \$4,000 in 2013, which in combination with the rise in net farm income leads to greater net worth for farmers. This makes drainage an attractive investment leading to higher land values for improved land, increased yields and lower cost for the farmer.

**Average Cropland Value United States**

*Source: U.S. Department of Agriculture*

***Infrastructure (9% of Domestic Net Sales in Fiscal Year 2013)***

For fiscal year 2013, our net sales in the U.S. infrastructure market were \$79.0 million, which represented 9% of our domestic net sales. The main drivers of our products in the infrastructure market include the construction of streets and highways, storm and sanitary sewers, airports and railroads. The infrastructure market includes publicly-funded projects which often require local, state or federal government approvals. Many sanitary sewer construction and repair projects are funded through the implementation of increased water and drainage rates, levies and taxes.



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The aging infrastructure in the United States is expected to require repair or replacement in the coming years. The U.S. road network and sewer systems consist of approximately four million and 800,000 miles, respectively, of public road and highways and sewer mains that were primarily constructed over 50 years ago. The American Society of Civil Engineers, or ASCE, rated the overall U.S. infrastructure a grade of D+ in its recent 2013 report card, and estimates that \$298 billion is needed over the next 20 years to replace and upgrade the existing wastewater infrastructure in the United States. ASCE's primary concern is the need to address sanitary and combined sewer overflows. Citing the 2008 Clean Watersheds Needs Survey, the ASCE report states \$64 billion is needed to address combined sewer overflows and stormwater management over the 20-year period (CSOs). At times of significant rainfall, the capacity of the CSO is exceeded, leading to a combination of storm and sanitary wastewater being discharged into streams and rivers. The ASCE report states that 32% of major roads are in poor or mediocre condition. The report also states that 42% of the urban highways remain congested, costing \$101 billion in wasted time and fuel. There are four million miles of public roads and highways in the United States, primarily constructed over 50 years ago. The Federal Highway Administration estimates that \$170 billion is needed annually to improve the condition of the nation's roads and highways, a significant increase from the \$101 billion that is needed to just maintain their current condition.

**Street and Highway Spending****Sewer Spending**

*Source: McGraw Hill*

The recently enacted highway bill, Moving Ahead for Progress in the 21st Century (MAP-21), was signed into law in July 2012 and provides funding for federal transportation programs through the U.S. federal government's fiscal year ending September 30, 2014 with annual funding levels approximating the levels in the U.S. federal government's fiscal year ended September 30, 2012. Typically, federal funding for road construction represents 25-35% of a state's transportation budget, but analysts believe that the federal program heavily impacts each State's overall ability to plan and fund the majority of larger state/local road construction projects, which generally range in duration from one to five years. Most notable within MAP-21 is the Transportation Infrastructure Finance and Innovation Act (TIFIA) program's expansion and simplification, which could potentially increase the overall reach of the federal construction budget by about 50%. The majority of Map-21's direct budget authority is through regular highway grants, which provides states with funding of \$37.5 billion in the U.S. federal government's fiscal year ended September 30, 2013 and \$37.8 billion in the U.S. federal government's fiscal year ending September 30, 2014, essentially flat versus the U.S. federal government's fiscal year ended September 30, 2012.

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**BUSINESS**

**Company Overview**

We are the leading manufacturer of high performance thermoplastic corrugated pipe, providing a comprehensive suite of water management products and superior drainage solutions for use in the construction and infrastructure marketplace. Our innovative products are used across a broad range of end markets and applications, including non-residential, residential, agriculture and infrastructure applications. We have established a leading position in many of these end markets by leveraging our national sales and distribution platform, our overall product breadth and scale and our manufacturing excellence. In North America, our national footprint combined with our strong local presence and broad product offering makes us the leader in an otherwise highly fragmented sector comprised of many smaller competitors. We believe the markets we serve in the United States represent approximately \$10.1 billion of annual revenue opportunity. In addition, we believe the increasing acceptance of thermoplastic pipe products in international markets represents an attractive growth opportunity. For the nine months ended December 31, 2013, we generated net sales of \$887.8 million, net income of \$24.7 million and Adjusted EBITDA of \$130.6 million. For a reconciliation of Adjusted EBITDA to the most directly comparable GAAP measure, see Selected Historical Consolidated Financial 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 polyvinyl chloride, or PVC, across an ever expanding range of end markets. This has allowed us to consistently gain share and achieve above market growth throughout economic cycles. We expect to continue to drive conversion to our products from traditional products as contractors, civil design engineers and municipal agencies increasingly acknowledge the superior physical attributes and compelling value proposition of our thermoplastic products. In addition, we believe that overall demand for our products will benefit as the regulatory environment continues to evolve.

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

We have an extensive domestic network of 48 manufacturing plants and 19 distribution centers allowing us to effectively serve all major markets in all 50 U.S. states. 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 in our industry with a national footprint, thereby allowing us to efficiently service those customers that value having one source of supply throughout their entire distribution network. We believe our extensive national footprint creates a cost and service advantage versus our HDPE pipe producing competitors, the largest of which has only 10 domestic HDPE pipe manufacturing plants. Internationally, we have two manufacturing plants and three distribution centers in Canada, four manufacturing plants in Mexico, four manufacturing plants and five distribution centers in South America and one distribution center in 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, 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, Menards and Do it Best, and also sell to buying groups and co-ops in the United States that serve the plumbing, hardware,

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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.

## **Our Strengths**

We believe that we benefit significantly from the following competitive strengths:

### ***Market leader with unmatched scale***

We are the leading manufacturer of high performance thermoplastic corrugated pipe and a leading manufacturer of related water management products. Our significant scale and market share position enable us to manufacture and distribute a broad range of high quality, attractively priced products. Our industry-leading manufacturing, engineering excellence, product innovation and world-class reputation are significant competitive advantages. We believe we have the largest sales force in the industry, with approximately 230 dedicated direct sales professionals that call on engineers, contractors and developers, allowing us to achieve direct access to numerous selling opportunities and end users. We believe our extensive national footprint of 48 manufacturing plants and 19 distribution centers creates a cost and service advantage versus our HDPE pipe producing competitors, the largest of which has only 10 domestic HDPE pipe manufacturing plants. We maintain an in-house fleet of approximately 625 tractor-trailers and approximately 1,100 trailers that are specially designed to

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haul our lightweight pipe and fittings products. Our effective shipping radius is approximately 200 miles from one of our manufacturing plants or distribution centers. Our world-class manufacturing expertise and extensive national distribution and fleet network allow us to service customers across the United States on a cost-effective and timely basis. Our long-standing customer relationships also provide us with visibility to attractive market opportunities.

***Well positioned to drive continued material conversion***

Our products are generally lighter, more durable, more cost effective and easier to install than comparable alternatives made with traditional materials. For example, concrete pipe generally weighs more than 20 times as much per foot as our thermoplastic pipe, resulting in the significant handling advantages that our product line enjoys during installation by contractors. These advantages typically provide our thermoplastic pipe with an installed cost advantage of approximately 20% over concrete pipe. High performance thermoplastic corrugated pipe represented approximately 25% of the total storm sewer market in 2012, up from what we believe was less than 10% ten years ago and less than 1% twenty years ago. We believe the penetration rate will continue to increase over time, as contractors, engineers and municipal agencies increasingly acknowledge the superior attributes and compelling value proposition of our thermoplastic products. We believe the recent introduction of our PP pipe products will also help accelerate this conversion given the additional applications for which our PP pipe products can be used. We continue to drive this material conversion through extensive sales force training and education of our customers. Our direct sales team is supported by approximately 50 field-based engineers who work closely with government agencies to obtain regulatory approval for our products, as well as with civil engineering firms influencing the specification of our products on construction projects. We have been at the forefront of educating an industry undergoing significant change in the regulatory environment, while pushing for expanded approvals of our products in new markets and geographies. Since 2006, 32 states have enhanced their approval of our pipe products, and an average of approximately 60 state, county and municipal approvals have been added or enhanced each year over the past five years.

***Broad portfolio of Allied Products***

Our Allied Products include storm and septic chambers, PVC drainage structures, fittings and 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.

We have a long history of leveraging our broad distribution platform to develop or acquire, and market, complementary Allied Products that provide new technologies and product capabilities, such as Nyloplast, StormTech, Flexstorm and Inserta Tee. Given our strong brand recognition, network of customer and distributor relationships and large team of trained salespeople, we believe we are the acquirer of choice for many providers of ancillary products who wish to partner with an industry leader. Our broad product line and reputation for quality provide our sales force with a competitive advantage in sourcing new opportunities and cross-selling products. Our broadly diversified product offering presents our customers with the ability to purchase a comprehensive water management solution from a single vendor. The breadth of our product offering allows distributors to minimize their number of transactions and keep order minimums low. Our ability to offer a diverse product suite is a key selling strategy and a driver of our growth and profitability.

***Industry-leading manufacturing and technical expertise***

We believe we have developed a reputation in the industry for products that deliver technically-superior performance with lower installation and maintenance costs versus competing products. Our products are: (i) lightweight and flexible allowing for easy and low-cost installation and thereby significantly reducing the need for heavy equipment; (ii) strong the corrugated profile design of our thermoplastic pipe products provides strength comparable to much

heavier materials; (iii) resistant to corrosion polyethylene and

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polypropylene are chemically inert materials; and (iv) resistant to abrasion polyethylene and polypropylene have an excellent service life expectancy. We believe these characteristics provide our products with a competitive advantage over traditional products.

Our manufacturing process utilizes proprietary production equipment, designed by us in partnership with our equipment suppliers, that we believe is faster and more efficient than the equipment available to other companies. Our significant investment in custom-designed mold and die tooling (\$173 million investment over the last nine years) allows us to manufacture a variety of corrugated pipe sizes and provides us with the flexibility to meet demand fluctuations in local regions. In addition, we rotate these setups across our network of manufacturing plants as needed to meet demand, which provides us with a unique competitive advantage. We believe that the footprint of our manufacturing plants, combined with our manufacturing technology and a low-cost production profile, provide a significant competitive advantage. The broad range of pipe sizes and custom products that we produce and maintain in finished goods inventory at numerous manufacturing plants and distribution centers provides our customers with a rapid delivery cycle, which is important to project contractors. We employ proprietary resin blending technology to minimize raw material cost and optimize production efficiency, while maintaining a consistent level of product performance. Utilizing this technology has allowed us to increase our ratio of recycled resin as a percent of total resin from approximately 24% in 2005 to approximately 52% in 2013, resulting in significant cost savings and reduced exposure to fluctuations in raw material costs.

### ***Long-term customer relationships***

We believe we have the largest and most experienced sales force in the industry, which allows us to maintain strong, long-standing relationships with key distributors, contractors and engineers. We also have sales agreements with many of the premier national distributor groups.

The combination of our technical expertise, product selection and customer delivery capabilities allows us to meet our customers' critical installation schedules and positions us as a strategic partner. We strive to educate the regulatory and design community while offering the distributor and contractor network a comprehensive product suite. Our products are manufactured, assembled, delivered and serviced from a network of plants and yards that are strategically positioned in close proximity to most major domestic geographic markets.

We strive to be meaningfully involved in all phases of the project cycle, including design, bidding, award and installation. Many of our 230 sales professionals have technical or engineering backgrounds, which helps them educate design specialists on the benefits of our products. Our direct sales force is supported by approximately 50 field-based engineers who work closely with government agencies to obtain regulatory approval for our products and also help educate design engineers to encourage the specification and inclusion of our products into new projects. We consistently maintain thousands of touch-points with customers and regulatory authorities, continuously educating them on new product innovations, regulatory changes and the benefits of our products over traditional products. Our national scale combined with our local presence, dedication to service and broad product offering has enabled us to maintain our long-standing customer relationships.

### ***Highly diversified across end markets, channels and geographies***

We are strategically diversified across a broad range of end markets, distribution channels and geographies. We believe the markets we serve in the United States represent approximately \$10.1 billion of annual revenue opportunity. Our products are used globally in a diverse range of end markets across non-residential construction, residential construction, agriculture and infrastructure. These end markets include storm sewer systems, agriculture, retail, stormwater retention/detention, on-site septic systems and structures. We maintain and service these end

markets through strong product distribution relationships with many of the largest national and



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independent waterworks distributors, including Ferguson, HD Supply and WinWholesale, who sell primarily to the storm sewer and sanitary sewer markets. We also maintain relationships with a network of hundreds of small to medium-sized distributors across the United States. We also have strong relationships with major national retailers that carry drainage products, including The Home Depot, Lowes, Ace Hardware, Menards and Do it Best. We also sell through a broad variety of buying groups and co-ops in the United States. These groups are made up of related distribution members that leverage their collective buying power under a unified association. In addition to our large sales force and manufacturing footprint, our preferred vendor status with these groups allows us to reach thousands of locations in an effective manner. Organized buying groups include, but are not limited to, building products, waterworks, plumbing, landscaping, irrigation and hardware.

We serve our customers in all 50 U.S. states as well as approximately 90 other countries. Our domestic sales, which represented approximately 86% of our net sales in fiscal year 2013, are diversified across all regions of the United States. Approximately 14% of our net sales in fiscal year 2013 were generated outside of the United States. Our international growth strategy is focused on expanding our Canadian business and our joint ventures with best-in-class local partners in Mexico, Central America and South America. This joint venture strategy has provided us with local and regional access to markets such as Brazil, Chile, Argentina, Peru and Colombia.

***Experienced management team with successful operating record and significant equity ownership***

Our management team, led by our Chief Executive Officer, Joe Chlapaty, has an average of over 23 years of industry experience. We have a long history of generating profitable growth, attractive margins and cash flow. During periods of weaker economic conditions, we believe we have benefitted from an increased market focus on our products as a cost effective alternative to traditional materials. In stronger economic cycles, we have delivered profitable growth and an ability to leverage our scale and excess production capacity to meet rapid increases in demand. We believe we have managed our industry-leading cost profile and profitability throughout economic cycles by driving continuous improvement initiatives in our manufacturing, distribution and service operations. Raw material costs are a significant portion of the cost of our pipe products, but we have been successful over time at passing through raw material cost increases to maintain our margins.

Our management and directors own approximately 19.2% of our capital stock on a fully-converted basis while our employees own an additional approximately 29.7% on a fully-converted basis through our employee stock ownership plan, or ESOP. After the completion of this offering, our management and directors will own approximately % of our common stock on a fully-converted basis. In addition, after the completion of this offering, the convertible preferred stock held by our ESOP will account for approximately % of our common stock on a fully-converted basis. This high level of management and employee ownership ensures that incentives are closely aligned with equity holders.

**Our Business Strategy**

We intend to grow our net sales, improve our profitability and enhance our position as the leading provider of high performance thermoplastic corrugated pipe and related water management products by executing on the following strategies.

***Continue to drive conversion to our products***

Our products are generally lighter, more durable, more cost effective and easier to install than comparable alternatives made with traditional materials such as concrete, steel and PVC. For example, concrete pipe generally weighs more than 20 times as much per foot as our thermoplastic pipe, resulting in the significant handling advantages that our

product line enjoys during installation by contractors. These advantages typically provide our thermoplastic pipe with an installed cost advantage of approximately 20% over concrete pipe. We

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intend to continue to drive conversion to our products from traditional products as contractors, engineers and municipal agencies increasingly acknowledge the superior attributes and compelling value proposition of our thermoplastic products. Expanded regulatory approvals allow for their use in new markets and geographies, and we continue to invest heavily in industry education. We believe we are the industry leader in these efforts, 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.

The market conversion opportunities in Canada are similar to those in the United States except that the storm sewer market for HDPE and PP corrugated pipe is less developed. Recent approvals are accelerating the replacement of traditional materials. In Mexico, Central America and South America, sales opportunities to replace PVC pipe and concrete pipe in storm sewer, sanitary sewer, highway and electrical conduit markets continue to gain momentum as our sales force focuses on future market development.

### ***Expand our product offering and markets served***

We are able to successfully capitalize on our product development capabilities through our market presence, sales and distribution channels and customer relationships. Our ability to further develop our offering of Allied Products represents an attractive opportunity to capture additional growth and improve our overall margins. We have a dedicated team focused solely on selling Allied Products to our various end markets. We will continue to focus on enhancing our core products and expanding our Allied Products through cross-selling opportunities in order to further penetrate untapped markets and customers.

Our strong market position provides us with insight into the evolving needs of our customers, which has allowed us to proactively develop and deliver comprehensive water management solutions. The strength of our overall sales and distribution platform has allowed us to acquire new Allied Products and deliver solution-based product portfolios that typically result in significantly higher net sales post-acquisition than the products generated before the addition to our product portfolio.

We recently developed and introduced several innovative new products: SaniTite HP pipe for the storm sewer and sanitary sewer markets and StormTech Mega-Chamber products for the stormwater retention/detention market. These products are opening new avenues of growth for us and are providing access to new customers, selling opportunities and product conversion.

SaniTite HP is a higher-performance polypropylene-based version of our popular N-12 product that is the result of more than three years and \$3 million of R&D as well as \$25 million of investments in production capacity. SaniTite HP offers us a large diameter (12 to 60 ) storm and sanitary sewer product line to compete with PVC, concrete and steel pipe in the storm and sanitary sewer markets. Higher performance characteristics are driving sales growth through new and expanded regulatory approvals.

Our StormTech Mega-Chamber stormwater retention/detention chambers are innovative new products that deliver increased underground storage with a compact product installation footprint, providing an attractive design option for engineers working on project sites where land is limited and/or expensive. These new chambers enable us to continue to accelerate our market share capture from large diameter corrugated metal pipe and pond-based retention/detention while accelerating the growth of Nyloplast basins, related water quality filters and pipe product sales.

We also expect to continue to enter into selective adjacent new markets that leverage our sales and engineering capabilities, customer relationships and national distribution network and provide more water management solutions to our customers.

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### ***Expand our presence in attractive new geographies***

Outside of the United States, we believe thermoplastic corrugated pipe represents a small part of the overall market. We further believe there is significant opportunity to convert new geographies based on the overall performance and value of our products, similar to what continues to occur in our existing markets. For example, in terms of opportunity for our products, the Canadian market is similar to the United States. The establishment of our facilities, sales and engineering teams in Canada strengthens our position and gives us a local presence in order to capitalize on these opportunities. To date, in order to increase our speed to market, we have expanded internationally primarily through joint ventures with best-in-class local partners. Our existing joint ventures provide us with access to markets such as Brazil, Chile, Argentina, Mexico, Peru and Colombia. 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 strong platform with additional opportunities for international expansion. Our South American Joint Venture recently opened a second manufacturing plant in northeast Brazil to better service our growing business in this portion of the country, as well as doubling our production capacity to make N-12 pipe.

The introduction of our products in Brazil, Chile and other South American countries offers additional growth opportunities in areas where there is an increasing focus on the positive impact of drainage for roads and non-residential and residential construction. In the future, we will continue to identify new geographies to access markets through joint venture relationships with domestic partners in targeted areas.

### ***Capitalize on growth related to the recovery in our primary end markets***

We believe we are well positioned to take advantage of renewed growth and recovery in the non-residential and residential construction and infrastructure markets in the United States. As it has in prior cycles, the recovery in non-residential construction has lagged residential recovery but began to improve modestly in 2012. According to the U.S. Census Bureau, the new residential construction market in the United States is in the midst of a recovery after declining to an historic low of 554,000 housing starts in 2009. In 2013, new housing starts were 925,000, and McGraw Hill projects growth of 22% in 2014, 20% in 2015 and 15% in 2016, when total housing starts are expected to reach their 50-year average of 1.5 million. Additionally, we believe we have the potential to capitalize on a substantial backlog of deferred infrastructure spending in the United States as a result of upgrades and repairs that were delayed in the recent economic downturn. Spending on the replacement of aging water drainage and sewer infrastructure (estimated to cost approximately \$298 billion between 2013 and 2033, according to ASCE), and stricter U.S. Environmental Protection Agency, or EPA, guidelines for stormwater and wastewater management will drive additional demand for our products.

### ***Continue our focus on operational excellence***

Our focus on continuously improving operating efficiencies, reducing costs and improving product quality has enabled us to improve our position as a leading low-cost provider. We believe our lower production cost profile and a rapid customer delivery cycle serves as a significant competitive advantage.

We constantly strive to achieve operating and cost efficiencies across all facets of our business. For example, we employ sophisticated resin blending technology to minimize raw material costs and optimize production efficiency, while maintaining a high level of product quality and performance. We have implemented continuous improvement practices across all plants; and currently have three plant sites with comprehensive lean-six sigma-5S programs in early phases of implementation. We are already realizing benefits from these initiatives in many areas including product quality, productivity, safety, uptime and customer service.

Our production lines are built with transportable mold and die tooling, which provides us with the flexibility to maximize production capacity and leverage capital expenditures. We have a dedicated team of approximately 40 skilled tradesmen (tool and die machinists, fabricators, electricians) who build, service and maintain our

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molds and dies along with various plant equipment. This affords us high levels of uptime, equipment consistency and standardization and a low cost basis versus externally sourced machine shop services. We also have a specialized group of approximately 15 mechanical and industrial engineers who focus on optimizing efficiency, outfitting facilities and training employees and ensuring that we employ best practices across all of our locations.

***Selectively pursue strategic acquisitions***

By utilizing our customer relationships and sales force, we have a demonstrated ability to identify and integrate numerous strategic acquisitions. We believe our strong reputation for product growth has allowed us to become the acquirer of choice, attracting acquisition opportunities that provide new technologies and product capabilities. The acquisitions of strategic product lines such as BaySaver, FleXstorm, Nyloplast, Inserta Tee and StormTech have strengthened our market position while enhancing long-term growth and profitability. These strategic additions have allowed us to expand our suite of water management products.

We have remained one of the strongest and best capitalized companies in the industry throughout the recent economic cycle and are well positioned to capitalize on current market dynamics to selectively acquire key products and technologies. We have strong industry relationships and maintain an active acquisition pipeline.

**Table of Contents****Product Portfolio**

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 and septic chambers, or Chambers; PVC drainage structures, or Structures; fittings and filters, or Fittings; and water quality filters and separators, or Water Quality. We also sell various complementary products distributed through resale agreements, including geotextile soil stabilization products, or Other Resale.

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 (76% of Total Net Sales in Fiscal Year 2013)</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 (24% of Total Net Sales in Fiscal Year 2013)</b>			
<i>Chambers</i>	Underground chambers made from polypropylene that can function as stormwater detention, retention, and/or first flush storage systems	StormTech, ARC (Septic Chambers), BioDiffuser (Septic Chambers)	
<i>Structures</i>	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	
<i>Fittings</i>	Standard and fabricated joining systems	Fittings	
<i>Water Quality</i>	Water quality structures and filters	BaySeparator, BayFilter, Water Quality Units, FleXstorm	
<i>Other Resale</i>	Complementary products providing services adjacent to core expertise	Geotextiles	



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### **Pipe**

#### ***Dual Wall Corrugated Pipe***

Our N-12 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 also sold with watertight and soil-tight coupling and fitting systems.

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, or 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 increase the effective service life of the product, which reduces the overall product cost 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, or 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 impact of drainage on crop yields. For homeowners, it is an economical and easily-installed solution for downspout run-offs, 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 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 wall 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.

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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. 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 for distributors and the end user, 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.

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***

We produce and sell our StormTech chambers that are used for the stormwater retention, detention and first flush underground water storage systems 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 at minimum depths, 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 system. 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 table through a gravel 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

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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 materials.

### ***Fittings***

We produce fittings and couplings utilizing blow molding, injection molding and custom fabrication in addition to protective filters 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 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.

### **Customers**

We have a large, active customer base of over 17,000 customers, with no customer representing more than 10% of fiscal year 2013 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, Menards 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 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

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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 N-12 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.

For example, we have recently obtained approval for HP pipe use in several areas that had previously not approved our N-12 HDPE product – Colorado DOT, Missouri DOT, City of Atlanta, Metro St. Louis Sewer District, City of Indianapolis, Denver Metro Wastewater Reclamation District, and New York City Department of Buildings.

Our customer service organization of more than 100 employees is supplemented by the employees of our 58 manufacturing plants, 28 distribution centers and drivers of our approximately 625 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, Lowes, 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 force in the industry, with approximately 230 dedicated direct sales professionals that call on engineers, contractors, distributors and developers. 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



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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 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.

## **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 90 other countries through 58 manufacturing plants and 28 distribution centers including the facilities owned or leased by our joint ventures. We also operate an in-house fleet of 625 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 Nistevo, a customized software platform to ensure that lowest delivered freight costs are achieved. In addition, in the United States and Canada, more than 10% 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 1,100 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 best-in-class 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.

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### **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. Blow 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 120 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. Significant unused capacity is in place to support growth in our N-12 pipe sales volume requiring minimal additional capital for molds. To produce our broad range of pipe sizes, we own and utilize approximately 250 mold and die setups, which had an original capital cost of approximately \$130 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.

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 17 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, rotational molding, 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 NTPEP, IAPMO, BNQ and CSA (Canada) and numerous state DOT and municipal authorities (e.g., Illinois, Michigan, Massachusetts, 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 400 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.



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### **Raw Materials**

Virgin and recycled resins, which are derived either directly or indirectly from crude oil derivatives and natural gas liquids, are the principal raw materials utilized in our production process. We currently purchase in excess of 700 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, as the price of crude oil reached unprecedented levels, we began to further augment our raw material blending and processing technologies to produce an HDPE pipe that incorporates recycled resin. This new product, which meets an American Society for Testing and Materials (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., or 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 2013, 64% 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 and expand our supplier base for virgin resin. With the significant increase in U.S. shale gas extraction expected to continue, along with related increases in natural gas production, we anticipate continued growth in the availability of ethylene and propylene and their polymer derivatives at competitive prices.

We have managed a resin price hedging program since early in 2010. Our program is designed to target a monthly volume of fixed price contracts that hedge a significant portion of our virgin resin purchases. In conjunction with our forward price hedging 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. In addition, we recently began implementing financial hedges for virgin PP resin to reduce the potential price volatility of that material, with a goal of hedging a significant portion of our annual purchases.

We 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 escalating 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.

### **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 purchase for our new SaniTite HP product line and rapidly expanding StormTech retention/detention product line, including Braskem Americas, Chevron Phillips Chemical Co. LP, Dow Chemicals, Equistar Chemicals, ExxonMobil Chemical Company, Formosa Plastics, Ineos O&P USA and Phillips 66.

We also maintain relationships with several of the largest environmental companies such as Waste Management, Inc., Republic Services, Inc., Rumpke, Inc. and QRS, Inc., which provide us with post-consumer

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HDPE recycled materials. We also maintain relationships with several key post-industrial HDPE suppliers, including Dupont, Silgan Plastics, Consolidated Container Company and Alpla, which provide us with materials that cannot otherwise be utilized in their respective production processes.

The North American capacity for ethylene and polyethylene derivatives is being expanded primarily as a result of the new supplies of natural gas liquids being produced through shale gas exploration and production. This low-cost stream of feedstocks (ethane and propane) has positioned several companies such as Lyondell Basell, ExxonMobil, Chevron Phillips Chemical Co. LP and Dow Chemical to begin the permitting and engineering phases for significant amounts of ethylene and propylene feedstocks. We anticipate that the first wave of derivative capacity will begin coming on stream during 2015 and extending through 2018.

## **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 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 HDPE and our N-12 HP PP pipe by approving it for use in a broader range of applications.

## **Properties**

### *Real Property*

We operate across all 50 U.S. states and 10 Canadian provinces through 72 locations in the United States and Canada, with 50 total manufacturing plants and 22 total distribution centers. We also have joint ventures that operate through 13 locations in Mexico, Central America and South America. We currently own approximately 36,000 square feet of

office space in Hilliard, Ohio for our corporate headquarters.

As of March 31, 2014, we had a network of 58 plant locations, of which 39 were owned and 19 were leased. We generally prefer to own our locations, with a typical pipe manufacturing facility consisting of approximately



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40,000 square feet and 15-20 acres of land for storage of pipe and related products. We believe that our properties have been adequately maintained, are in good condition generally and are suitable and adequate for its business as presently conducted. The extent to which we use our properties varies by property and from time to time, but all distribution centers carry single wall and dual wall pipe and fittings and Allied Products per needs of the local market.

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

### *In-house Fleet*

As of December 31, 2013, our in-house fleet consisted of approximately 625 tractor-trailers and approximately 1,100 trailers that are specially designed to haul our lightweight pipe and fittings products.

## **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.

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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 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.

## **Information Technology**

We recently completed a company-wide systems and software upgrade that was intended to serve as a scalable platform to support the next phase of our growth. This information technology project began in 2007 and was fully implemented in 2011. It has further enhanced our shared services strategy for all of our global operations. Our Oracle software platform has been configured to implement best practices across all of our business processes, and has greatly enhanced firm-wide integration, providing consistent internal system controls, data tracking, reporting and analytical capabilities. The capacity and flexibility of our systems allow us to support and enhance organic growth and profitability, as well as increase the ease of future acquisition integration. In addition, we developed an enterprise data warehouse system, downloading data from our Oracle software to provide timely reporting across our organization utilizing Microsoft SQL technology, which we use to more efficiently run our business.

## **Employees**

In domestic and international operations, we averaged approximately 3,700 employees in the fiscal year ended March 31, 2014, consisting of approximately 2,500 hourly personnel and approximately 1,200 salaried employees. As of March 1, 2014, none of our hourly workforce was 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 saleability of our products. The transportation and disposal of many of our products are also subject to federal regulations. The DOT regulates our operations in domestic interstate commerce. We are subject to safety requirements governing interstate operations prescribed by the 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. The 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.

**Legal Proceedings**

We are involved in litigation from time to time in the ordinary course of business. In management's opinion, none of the proceedings are material in relation to our consolidated operations, cash flows, or financial position, and we have adequate reserves to cover our estimated probable loss exposure.

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The following table sets forth certain information concerning our executive officers and directors. The respective age of each individual in the table below is as of March 31, 2014.

<b>Name</b>	<b>Age</b>	<b>Position(s)</b>
Joseph A. Chlapaty	68	Chairman of the Board of Directors, Director, President and Chief Executive Officer
Mark B. Sturgeon	59	Executive Vice President, Chief Financial Officer, Secretary and Treasurer
Thomas M. Fussner	56	Executive Vice President and Co-Chief Operating Officer
Ronald R. Vitarelli	47	Executive Vice President and Co-Chief Operating Officer
Robert M. Klein	51	Executive Vice President, Sales
Ewout Leeuwenburg	47	Senior Vice President, International
Robert M. Eversole	51	Director
Alexander R. Fischer	46	Director
Tanya Fratto	53	Director
M.A. (Mark) Haney	59	Director
David L. Horing	51	Director
C. Robert Kidder	69	Director
Mark A. Lovett	32	Director
Richard A. Rosenthal	81	Director
Abigail S. Wexner	52	Director
Scott M. Wolff	36	Director

*Joseph A. Chlapaty* joined us in 1980 and has served as Chairman of our board of directors since 2008, a director since 1988, President since 1994 and Chief Executive Officer since 2004. From 1980 to 1994, Mr. Chlapaty served as our Vice President and Chief Financial Officer. Before joining us Mr. Chlapaty served as Corporate Accounting Manager, Assistant Treasurer, and Treasurer for Lindberg Corporation and prior to that was with Arthur Andersen LLP. Mr. Chlapaty serves on the advisory board to Fifth Third Bank of Columbus, and is also a member or former member of several not-for profit boards, including Nationwide Children's Hospital, KIPP Journey Academy, Ohio Foundation of Independent Colleges, the University of Dubuque and Marietta College. Mr. Chlapaty holds a bachelor's degree in Business Administration from the University of Dubuque and an MBA from DePaul University. We believe that Mr. Chlapaty's leadership capabilities, his thorough knowledge of all facets of our business and operations and his deep understanding of our history, culture and the markets in which we operate make him qualified to serve as a member of our board of directors.

*Mark B. Sturgeon* joined us in March 1981 and has served as Executive Vice President and Chief Financial Officer since February 1994. Mr. Sturgeon has held the positions of Corporate Cost and Budget Manager and Market Planning Manager positions and was named Corporate Controller in October 1988. Prior to joining us he spent three years as a Budget & Financial Analyst for Borden Company and a year with Touche Ross & Company. Mr. Sturgeon holds both a bachelor's and master's degree in Accounting from Penn State University.

*Thomas M. Fussner* joined us in October 1989 and has served as Executive Vice President since February 2006 and Co-Chief Operating Officer since November 2009. Mr. Fussner joined us as Director, Supplier Relations and has held advancing leadership roles in our manufacturing and operations functions, including being named Vice President, Manufacturing Operations in July 1995 and Senior Vice President, Manufacturing Operations in January 2009. He currently oversees our manufacturing, logistics, procurement, manufacturing engineering, operational services, human

resources, and information technology functions. Prior to joining us, he spent seven years at the lighting division of General Electric in plant, product, and customer service management positions. Mr. Fussner holds a bachelor's degree in Chemistry from Colgate University and an M.B.A. with a concentration in Operations Management from the University of Michigan.

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*Ronald R. Vitarelli* joined us in November 1988 and has served as Executive Vice President & Co-Chief Operating Officer since November 2011. Mr. Vitarelli joined us as a Sales Representative and was promoted to Regional Sales Manager in December 1995. In July 2003, he was named General Manager of Stormtech LLC, a manufacturer of underground storm water retention and detention systems that was a 50/50 joint venture of ours with Infiltrator Systems, Inc. Upon our acquisition of the remaining 50% interest in Stormtech from Infiltrator in November 2009, Mr. Vitarelli rejoined us and continued to lead the Stormtech business until March 2010, when he was named Vice President, Storm & Sanitary Markets. He currently oversees our sales, product development, market management, and engineering functions. Mr. Vitarelli holds a bachelor's degree in Marketing from Providence College.

*Robert M. Klein* joined us in June 1992 and has served as Executive Vice President, Sales since February 2006. Upon joining us, Mr. Klein held several leadership positions in operations including Manager, Regional Manufacturing, Manager, Distribution Yards, Director, Purchasing and was named Vice President, Manufacturing Services in January 2009. In July 2001, he was named Vice President, Sales and Marketing and began providing leadership to our field sales, corporate account sales, marketing, customer service, and market analysis functions. Prior to joining us he spent seven years at The Gerstenslager Company in manufacturing management positions. Mr. Klein holds a bachelor's degree in Business Administration from Ashland College.

*Ewout Leeuwenburg* joined us in April 2001 and has served as Senior Vice President, International since November 2011. He began leading our international operations in December 2007 and was named Vice President, International in July 2008. Mr. Leeuwenburg joined us upon the completion of our acquisition of the Inline Drain & Drain Basin division of Nyloplast, USA in 2001. At the time of the acquisition, Mr. Leeuwenburg had been with Nyloplast, USA Inc. since July 1988 in various business development, operations, sales, and marketing manager positions, and had served as President, United States since July 1996. Upon joining us, he served as General Manager, Nyloplast and expanded his responsibilities to Director, Allied Products in September 2002. Mr. Leeuwenburg holds a bachelor's degree in Mechanical Engineering from Hogeschool Rotterdam in the Netherlands.

*Robert M. Eversole* became a director in 2008. Mr. Eversole is a Principal of Stonehenge Partners, Inc., a private investment capital firm and has been continuously employed as such since 2007. Prior to joining Stonehenge Partners, Mr. Eversole spent 22 years with Fifth Third Bank, most recently as President and Chief Executive Officer of Central Ohio, and additionally served as Regional President for Fifth Third Bancorp affiliate banks in Western Ohio, Central Florida and Ohio Valley. He also served as a member of the Fifth Third Bancorp Operating Committee. Mr. Eversole currently serves on the boards of directors for certain privately-held companies and also serves on the boards of Nationwide Children's Hospital Foundation, the Dean's Advisory Council for The Ohio State University Fisher College of Business and the Catholic Foundation. Mr. Eversole is a graduate of The Ohio State University and has completed a number of executive education programs. We believe that Mr. Eversole's extensive background in private equity and commercial banking, his expertise on financial matters and his extensive leadership and management experience make him qualified to serve as a member of our board of directors.

*Alexander R. Fischer* became a director in 2014. Mr. Fischer has been the President and CEO of the Columbus Partnership, an organization of CEOs focused on civic, philanthropic, education and economic development opportunities in Columbus, Ohio, since 2009. Prior to his role at the Columbus Partnership, Mr. Fischer worked at Battelle Memorial Institute, a science and technology company, from 2002-2009, where he served as Senior Vice President for Business and Economic Development, Vice President of Commercialization, and Director of Technology Transfer and Economic Development. Mr. Fischer has also worked in the public sector, as Commissioner of Economic Development, Deputy Governor and the Chief of Staff for the State of Tennessee from 1997 to 2002. In the past he has served on the boards of directors for a variety of for-profit and not-for-profit organizations, and currently serves on the boards of N8 Medical, Nationwide Children's Hospital, the Columbus Chamber of Commerce, Experience Columbus, Columbus 2020, Tech Columbus and The Ohio State Innovation Foundation. Mr. Fischer

graduated from The University of Tennessee with a B.S. in Economics and Public Administration and also received a Master s of Science in Urban



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Planning and Economic Development from The University of Tennessee. We believe that Mr. Fischer's executive management experience, his knowledge of economic development and commercialization and the knowledge he has gained from his extensive involvement in the public policy sectors make him qualified to serve as a member of our board of directors.

*Tanya Fratto* became a director in 2013. Ms. Fratto spent 25 years with General Electric, prior to her retirement in 2011. From 2000 to 2011, Ms. Fratto served as President and CEO of General Electric's Superabrasives division, a leading supplier of manufactured diamond, cubic boron nitride, and polycrystalline products. Her career at General Electric also included leadership roles in GE Plastics, Corporate Sourcing, GE Appliances and GE Consumer Services. She currently sits on the boards of Boart Longyear, a mining products and services company, and Smiths Global Plc, a global technology company. We believe that Ms. Fratto's extensive executive and management experience as well as her experience managing global operations and the insights gained from those experiences make her qualified to serve as a member of our board of directors.

*M.A. (Mark) Haney* became a director in 2014. Mr. Haney retired in December 2011 from Chevron Phillips Chemical Company LP, a chemical producer, where he served as Executive Vice President of Olefins and Polyolefins from January 2011 until his retirement. From 2008 to 2011, Mr. Haney served as Senior Vice President, Specialties, Aromatics and Styrenics. He also served as Vice President of Polyethylene and President of Performance Pipe. Prior to joining Chevron, Mr. Haney served in numerous roles at Phillips Petroleum Company including business manager for Advanced Plastics, plant manager of Phillips Drislopipe and plant manager of the K-Resin plant, President of P66 Propane Company, Phillips Woods Cross business general manager, and President of Driscopipe. Mr. Haney currently serves on the board of directors of Phillips 66 Partners LP. Mr. Haney attended West Texas University and majored in chemistry. We believe that Mr. Haney's extensive executive and management experience and his understanding of the petro-chemicals industry and the raw materials used in our products make him qualified to serve as a member of our board of directors.

*David L. Horing* became a director in 2010 and was appointed to our board of directors by ASP ADS Investco, LLC, an affiliate of American Securities. Mr. Horing is a Managing Director of American Securities, an investment firm, and is a Managing Member of the general partner of certain funds managed by American Securities. Before joining American Securities in 1995, he spent seven years at The Dyson-Kissner-Moran Corporation, a middle-market private equity investment firm and previously worked in Salomon Brothers' Investment Banking division and with The Boston Consulting Group. He currently is a director of Healthy Directions, LLC, Liberty Tire Recycling Co., LLC, SpecialtyCare, Inc. and Tekni-Plex, Inc. Mr. Horing holds a bachelor's degree in Engineering and a bachelor's degree in Economics from the University of Pennsylvania and an M.B.A. from the Harvard Business School. We believe that Mr. Horing's business education, extensive private equity experience, his industry and financial expertise and his years of experience providing strategic advisory services to complex organizations, as well as his understanding of American Securities, make him qualified to serve as a member of our board of directors.

*C. Robert Kidder* became a director in 2014. Mr. Kidder served as Chairman and Chief Executive Officer of 3Stone Advisors LLC, a private investment firm, from 2006 to 2011, and as non-executive Chairman of the Board of Chrysler Group LLC from 2009 to 2011. He was a Principal at Stonehenge Partners, Inc., a private investment firm, from 2004 to 2006. Mr. Kidder served as President of Borden Capital, Inc., a company that provided financial and strategic advice to the Borden family of companies, from 2001 to 2003. He was Chairman of the Board from 1995 to 2004 and Chief Executive Officer from 1995 to 2002 of Borden Chemical, Inc. (formerly Borden, Inc.), a forest products and industrial chemicals company. Mr. Kidder was Chairman and Chief Executive Officer and President and Chief Executive Officer of Duracell International Inc. Prior to joining Duracell International Inc. Mr. Kidder worked in planning and development at Dart Industries as well as a management consultant with McKinsey & Co. Mr. Kidder currently serves on the boards of directors of Merck & Co., Inc., Morgan Stanley, and Microvi Biotech Inc. He is also

a director of Wildcat Discovery Technologies, Inc., a private technology research company. Mr. Kidder earned a B.S. in industrial engineering from the University of Michigan and a graduate degree in industrial economics from Iowa State University. We believe

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Mr. Kidder's extensive financial and senior executive experience, including in business development, operations and strategic planning, as well as knowledge he has gained through his directorship service at other public companies, make him qualified to serve as a member of our board of directors.

*Mark A. Lovett* became a director in 2013 and was appointed to our board of directors by ASP ADS Investco, LLC, an affiliate of American Securities. Mr. Lovett is a Vice President at American Securities, focusing primarily on buyouts in the industrials and chemicals sectors. Since joining American Securities in 2007, Mr. Lovett has been actively involved in several of the firm's portfolio companies and was a member of the transaction team that executed American Securities' investments in each of MECS, Inc., Liberty Tire Recycling, LLC, and Tekni-Plex, Inc. Mr. Lovett previously worked at Liberty Tire Recycling and at UBS in the investment banking division. He holds a bachelor's degree in Economics from Yale University and an M.B.A. from the Wharton School at the University of Pennsylvania. Mr. Lovett currently serves on the board of directors of Tekni-Plex and Liberty Tire Recycling. We believe that Mr. Lovett's extensive private equity experience, his industry and financial expertise and his years of experience providing strategic advisory services to complex organizations, as well as his understanding of American Securities, make him qualified to serve on our board of directors.

*Richard A. Rosenthal* became a director in 1988. Mr. Rosenthal retired from the University of Notre Dame in 1995 after successfully serving as Athletic Director for eight years. Prior to his service as athletic director and following a professional basketball career, Mr. Rosenthal held several leadership roles in banking, including as Executive Vice President of Indiana Bank & Trust as well as serving over 25 years as Chairman and CEO of St. Joseph Bancorp. He formerly served on the boards of directors of LaCrosse Footwear, St. Joseph Capital Bank, Beck Corp., and two advisory boards of venture capital funds. Mr. Rosenthal holds a bachelor's degree in Finance from the University of Notre Dame. We believe that Mr. Rosenthal's extensive financial and senior executive experience, as well as knowledge he has gained through his directorship service with other companies, make him qualified to serve as a member of our board of directors.

*Abigail S. Wexner* became a director in 2014. Mrs. Wexner is a member and former Chair of the boards of directors of Nationwide Children's Hospital Inc. and Nationwide Children's Hospital. She is Founder and Chair of the boards of the Center for Family Safety & Healing (f/k/a Columbus Coalition Against Family Violence) and KidsOhio.org, Vice Chair of the board of KIPP Journey Academy, and a Trustee of The Wexner Center Foundation and the United States Equestrian Team Foundation. Mrs. Wexner also serves as a director of L Brands (formerly Limited Brands, Inc.). Mrs. Wexner graduated from Columbia University and New York University School of Law. We believe Mrs. Wexner's executive and legal experience, as well as her expertise with respect to a wide range of organizational, philanthropic and public policy issues make her qualified to serve as a member of our board of directors.

*Scott M. Wolff* became a director in 2010 and was appointed to our board of directors by ASP ADS Investco, LLC, an affiliate of American Securities. Mr. Wolff is a Managing Director of American Securities, an investment firm, and joined American Securities in 2002. Before joining American Securities, Mr. Wolff was with Merrill Lynch where he worked in the Mergers & Acquisitions Group, focusing on a variety of industries including consumer products, food, packaging, and automotive. He currently serves on the boards of directors of Arizona Chemical, SeaStar Solutions, HHI Group Holdings, GT Technologies, and Lakeside Energy. Mr. Wolff holds a bachelor's degree in Finance from Indiana University and an MBA from the University of Pennsylvania, Wharton School. We believe Mr. Wolff's extensive private equity experience, his industry and financial expertise and his years of experience providing strategic advisory services to complex organizations, as well as his understanding of American Securities, make him qualified to serve as a member of our board of directors.

**Corporate Governance**

***Board Composition***

Our business and affairs are managed under the direction of our board of directors. We currently have eleven directors. Our directors hold office until their successors have been elected and qualified or until the earlier of their resignation or removal.

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Our board of directors is divided into three classes of directors serving staggered terms of three years each. At each annual meeting of stockholders, a class of directors will be elected for a three-year term to succeed the class whose term is then expiring. The terms of our current directors will expire upon the election and qualification of successor directors at the annual meeting of stockholders to be held during fiscal year 2015 for the Class I directors, fiscal year 2016 for the Class II directors and fiscal year 2017 for the Class III directors:

Our Class I directors are Joseph A. Chlapaty, Robert M. Eversole, Tanya Fratto and David L. Horing;

Our Class II directors are Alexander R. Fischer, M.A. (Mark) Haney and Scott M. Wolff; and

Our Class III directors are Abigail S. Wexner, Mark A. Lovett, Richard A. Rosenthal and C. Robert Kidder.

Any vacancies in our classified board of directors will be filled by the remaining directors and the elected person will serve the remainder of the term of the class to which he or she is appointed. Any additional directorships resulting from an increase in the number of directors will be distributed among the three classes so that, as nearly as possible, each class will consist of one-third of the directors.

When considering whether directors and nominees have the experience, qualifications, attributes or skills, taken as a whole, to enable our board of directors to satisfy their oversight responsibilities effectively in light of our business and structure, our board of directors focused primarily on each person's background and experience as reflected in the information discussed in each of the directors' individual biographies set forth immediately above. We believe that our directors provide an appropriate mix of experience and skills relevant to the size and nature of our business. We also value the experience that our directors bring from their service on other boards.

## ***Director Independence***

Upon the completion of this offering, we intend to have our common stock listed on the NYSE. Under the rules of the NYSE, independent directors must comprise a majority of our board of directors within a specified period after the completion of this offering. In addition, the rules of the NYSE require that, subject to specified exceptions, each member of a listed company's audit, compensation, and nominating and governance committees be independent. Audit committee members must also satisfy the independence criteria set forth in Rule 10A-3 under the Securities Exchange Act of 1934, as amended. Under the rules of the NYSE, a director will only qualify as an independent director if, in the opinion of that company's board of directors, that person does not have a relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director.

In order to be considered to be independent for purposes of Rule 10A-3, a member of an audit committee of a listed company may not, other than in his or her capacity as a member of the audit committee, our board of directors, or any other board committee: (i) accept, directly or indirectly, any consulting, advisory, or other compensatory fee from the listed company or any of its subsidiaries or (ii) be an affiliated person of the listed company or any of its subsidiaries.

In fiscal year 2014, our board of directors undertook a review of its composition, the composition of its committees, and the independence of each director. Based upon information requested from and provided by each director concerning his background, employment, and affiliations, including family relationships, our board of directors has determined that none of our directors except for Mr. Chlapaty has a relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director and that each of these directors, other than Mr. Chlapaty, is independent as that term is defined under the rules of the NYSE.

Except as otherwise described below, our board of directors has determined that those directors who serve on our audit committee, compensation committee and nominating and governance committee satisfy the independence standards for those committees established by the rules of the NYSE and (in the case of the audit committee) the applicable SEC rules. In making this determination, our board of directors considered the

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relationships that each non-employee director has with us and all other facts and circumstances our board of directors deemed relevant in determining their independence, including the beneficial ownership of our capital stock by each non-employee director.

### ***Board Leadership Structure***

Our board of directors does not have a formal policy on whether the roles of Chief Executive Officer and Chairman of our board of directors should be separate. The positions of the Chief Executive Officer and Chairman have historically been combined. Upon completion of this offering, Joseph A. Chlapaty will continue to serve as both Chief Executive Officer and Chairman. We believe that our stockholders are best served by having one person serve both positions. We further believe that combining the roles fosters accountability, effective decision-making and alignment between interests of our board of directors and management. Mr. Chlapaty also is able to use the in-depth focus and perspective gained in his executive function to assist our board of directors in addressing both internal and external issues affecting us.

Our board of directors recognizes that depending on future circumstances, other leadership models may become more appropriate. Accordingly, our board of directors will periodically review its leadership structure.

### ***Board's Role in Risk Oversight***

The entire board of directors is engaged in risk management oversight. At the present time, our board of directors has not established a separate committee to facilitate its risk oversight responsibilities. Our board of directors expects to continue to monitor and assess whether such a committee would be appropriate. The audit committee assists our board of directors in its oversight of our risk management and the process established to identify, measure, monitor, and manage risks, in particular major financial risks. Our board of directors will receive regular reports from management, as well as from the audit committee, regarding relevant risks and the actions taken by management to address those risks.

### ***Committees of the Board of Directors***

Our board of directors has established an audit committee, a compensation committee, a nominating and governance committee and an executive committee, each of which will have the composition and responsibilities described below. Our board of directors intends to adopt written charters for the committees that comply with current federal law and applicable NYSE rules relating to corporate governance matters, which will be available on our website upon completion of this offering. Our board of directors may also establish from time to time any other committees that it deems necessary or desirable.

#### ***Audit committee***

Our audit committee is comprised of Messrs. Eversole, Fischer, Haney, Lovett and Ms. Fratto, with Mr. Eversole serving as the chairperson of the audit committee. Our board of directors has determined that Mr. Lovett is not independent for the purposes of audit committee membership because he is affiliated with our significant stockholder, American Securities. All of the members of the audit committee are financially literate and have accounting or related financial management expertise within the meaning of the rules of the NYSE. Our board of directors has determined that Mr. Eversole qualifies as an audit committee financial expert, as that term is defined under the SEC rules implementing Section 407 of the Sarbanes-Oxley Act of 2002.

Our audit committee will be responsible for, among other things:

reviewing and approving the selection of our independent auditors, and approving the audit and non-audit services to be performed by our independent auditors;

monitoring the integrity of our financial statements and our compliance with legal and regulatory requirements as they relate to financial statements or accounting matters;

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reviewing the adequacy and effectiveness of our internal control policies and procedures;

discussing the scope and results of the audit with the independent auditors and reviewing with management and the independent auditors our interim and year-end operating results; and

preparing the audit committee report that the SEC requires in our annual proxy statement.

*Compensation committee*

Our compensation committee is comprised of Messrs. Kidder, Horing, Rosenthal and Ms. Wexner. Mr. Kidder is the chairperson of our compensation committee. The compensation committee will be responsible for, among other things:

overseeing our compensation policies, plans, and benefit programs;

reviewing and approving for our executive officers: the annual base salary, the annual incentive bonus, including the specific goals and amount, equity compensation, employment agreements, severance arrangements and change in control arrangements, and any other benefits, compensations or arrangements;

reviewing the succession planning for our executive officers;

preparing the compensation committee report that the SEC requires to be included in our annual proxy statement; and

administering our equity compensation plans.

*Nominating and corporate governance committee*

Our nominating and corporate governance committee is comprised of Messrs. Kidder, Fischer, Wolff and Ms. Wexner. Ms. Wexner is the chairperson of our nominating and corporate governance committee. The nominating and corporate governance committee will be responsible for, among other things:

assisting our board of directors in identifying prospective director nominees and recommending nominees for each annual meeting of stockholders to our board of directors;

reviewing developments in corporate governance practices and developing and recommending governance principles applicable to our board of directors;

overseeing the evaluation of our board of directors and management; and

recommending members for each board committee to our board of directors.

*Executive committee*

The executive committee is comprised of Messrs. Chlapaty, Horing and Rosenthal, meets between meetings of our board of directors, as needed, and has the power to exercise all the powers and authority of our board of directors with respect to matters delegated to the executive committee by our board of directors, except for the limitations under Section 141(c) of the Delaware General Corporation Law and/or applicable limitations under our organizational documents. Mr. Chlapaty is the chairperson of our executive committee.

***Code of Conduct and Guidelines for Ethical Behavior***

Prior to the completion of this offering, our board of directors will establish a Code of Ethics for Senior Executive and Financial Officers that applies to our senior executive and financial officers including our principal executive officer, principal financial officer, principal accounting officer, or persons performing similar functions. A copy of the Code of Ethics for Senior Executive and Financial Officers will be available on our website at [www.ads-pipe.com](http://www.ads-pipe.com). We will promptly disclose any future amendments to this code on our website as

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well as any waivers from this code for executive officers and directors. Copies of this code will also be available in print from our Corporate Secretary, without charge, upon request. We also maintain a Standards of Ethical and Legal Conduct policy that governs all of our employees.

### ***Compensation Committee Interlocks and Insider Participation***

There are no interlocking relationships between any member of our Compensation Committee and any of our executive officers that require disclosure under the applicable rules promulgated under the federal securities laws.

### ***Director Compensation***

From April 1, 2013 to February 27, 2014, non-employee director compensation reflected a combination of a \$30,000 annual retainer and a \$2,500 per meeting attendance fee for each board of directors meeting attended, paid on a quarterly basis. Members of the management development & compensation committee (now referred to as the compensation committee) and audit committee also received a \$2,500 per meeting attendance fee for each committee meeting attended.

In fiscal year 2014 we performed a review of the compensation structure and levels for non-employee directors in connection with the planning process for this offering and in connection with changes to the composition of our board of directors implemented prior to this offering. We engaged Towers Watson to assist in the review and development of recommended changes to non-employee director compensation structure and levels. Based on this review and the recommendations prepared by management, our board of directors modified its non-employee director compensation policy effective as of February 27, 2014.

Under the new policy, each non-employee director receives an annual cash retainer of \$75,000. Each member of a committee of our board of directors receives an additional cash retainer as follows: \$8,000 for a member of the audit committee, \$6,000 for a member of the compensation committee and \$4,000 for a member of the nominating and governance committee (to be established prior to the completion of this offering). The chairman of each committee of our board of directors also receives an additional cash retainer as follows: \$10,000 for the chairman of the audit committee, \$8,000 for the chairman of the compensation committee and \$6,000 for the chairman of the nominating and governance committee. None of our directors receive meeting fees in addition to these retainers. The new cash compensation described above was prorated for the period beginning on February 27, 2014 and continuing through March 31, 2014.

The new non-employee director compensation policy further provides that upon completion of this offering and continuing each fiscal year thereafter until changed, each non-employee director who is not affiliated with American Securities will be granted restricted stock in an amount equal to \$75,000 at the date of grant that will vest on the one year anniversary of the grant date (provided that the initial grant made to directors under the new compensation policy for fiscal year 2015 after completion of this offering will vest on February 27, 2015), subject to cancellation and forfeiture of unvested shares upon termination of service with our board of directors. Non-employee directors will also continue to receive reimbursement of all reasonable travel and other expenses for attending meetings of our board of directors or other Company-related functions. Non-employee directors who are affiliated with American Securities are awarded an annual fee of \$150,000 in cash, along with fees for service on the various committees as described above, which fees are paid directly to American Securities and not to the director individually.

**Table of Contents***Fiscal Year 2014 Director Compensation*

The following table summarizes the total compensation earned by each of our directors for the year ended March 31, 2014.

Name	Fees Earned or Paid in		All Other Compensation	Total
	Cash	Stock Awards		
	(\$)	(\$)	(\$)	(\$)
Joseph A. Chlapaty <sup>(1)</sup>				
Robert M. Eversole <sup>(2)(12)</sup>	54,250			60,500
David L. Horing <sup>(3)</sup>	60,500			60,500
Tanya Fratto <sup>(4)</sup>	60,000		45,833 <sup>(6)</sup>	105,833
David E. West <sup>(4)(5)</sup>	48,000			48,000
William P. Sexton <sup>(5)(2)(12)</sup>	48,000			48,000
Scott M. Wolff <sup>(7)</sup>	60,500			60,500
Richard A. Rosenthal <sup>(8)(12)</sup>	54,250			60,500
Fredric L. Smith <sup>(5)(9)(12)</sup>	40,500			40,500
Mark A. Lovett <sup>(10)</sup>	58,000			58,000
Alexander R. Fischer <sup>(11)</sup>	12,500			12,500
M.A. (Mark) Haney <sup>(11)</sup>	12,500			12,500
C. Robert Kidder <sup>(11)</sup>	12,500			12,500
Abigail S. Wexner <sup>(11)</sup>	12,500			12,500

- (1) Mr. Chlapaty serves as our Chief Executive Officer and therefore receives no compensation for his service as a director.
- (2) Represents quarterly payments of annual retainer for membership on our board of directors, attendance fees for meetings of our board of directors and attendance fees for audit committee meetings.
- (3) Represents quarterly payments of annual retainer for membership on our board of directors, attendance fees for meetings of our board of directors and attendance fees for compensation committee meetings. During fiscal year 2014, Mr. Horing served as a Managing Director at American Securities. Such fees are paid directly to American Securities and not to the director individually.
- (4) Represents quarterly payments of annual retainer for membership on our board of directors, attendance fees for meetings of our board of directors and attendance fees for compensation committee meetings.
- (5) Resigned from our board of directors effective as of February 27, 2014.
- (6) Represents consulting fees paid pursuant to a consulting agreement entered into between us and Ms. Fratto on April 1, 2013, pursuant to which Ms. Fratto received \$12,500 per calendar quarter for providing certain consulting services to us. Ms. Fratto's consulting arrangement terminated on February 27, 2014.
- (7) Represents quarterly payments of annual retainer for membership on our board of directors, attendance fees for meetings of our board of directors and attendance fees for audit committee meetings. During fiscal year 2014, Mr. Wolff served as a Managing Director at American Securities. Such fees are paid directly to American Securities and not to the director individually.
- (8) Represents quarterly payments of annual retainer for membership on our board of directors, attendance fees for meetings of our board of directors and attendance fees for compensation committee meetings.
- (9)

Represents quarterly payments of annual retainer for membership on our board of directors and attendance fees for meetings of our board of directors.

- (10) Represents quarterly payments of annual retainer for membership on our board of directors, attendance fees for meetings of our board of directors and attendance fees for audit committee meetings. During fiscal year 2014, Mr. Lovett served as a Vice President at American Securities. Such fees are paid directly to American Securities and not to the director individually.
- (11) Joined our board of directors effective as of February 27, 2014. Amounts represent fees earned for service on our board of directors under the new non-employee director compensation policy described above.
- (12) Each of Messrs. Eversole, Rosenthal, Sexton and Smith elected to receive shares of common stock in lieu of a portion of their respective cash compensation pursuant to the deferred fee program for non-employee directors described below. Each director elected to receive the following amounts of cash compensation in the form of common stock (i) Mr. Eversole: \$32,500, (ii) Mr. Rosenthal: \$50,000, (iii) Mr. Sexton: \$35,000 and (iv) Mr. Smith: \$50,000. The number of shares of common stock granted in lieu of cash compensation was based on the aggregate grant date fair value of our common stock computed in accordance with FASB ASC Topic 718, Compensation – Stock Compensation. We calculated the estimated fair value of the shares of common stock issued in lieu of cash compensation on the date of grant as described above under Management’s Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Estimates – Employee Benefit Plans – Stock-Based Compensation Plans. Each participating director agreed to pay cash to us if and to the extent that the grant date fair market value of the shares of common stock awarded exceeded the actual amount of fees otherwise payable to the director as compensation during the fiscal year, with such refund payment due and payable on the earlier of the end of the fiscal year or at the request of our board of directors.

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*Fiscal Year 2014 Deferred Fee Program for Non-Employee Directors*

For fiscal year 2014, our board of directors established a program pursuant to which non-employee directors were permitted to receive a portion of director fees in the form of shares of common stock, up to a maximum of \$50,000. In general, at the beginning of fiscal year 2014, each director was permitted to make an election to receive an amount of fees otherwise payable as cash during the fiscal year in the form of common stock, which shares of common stock were then awarded as of the beginning of the fiscal year based on the grant date fair market value. Each participating director agreed to pay cash to us if and to the extent that the grant date fair market value of the shares of common stock awarded exceeded the actual amount of fees otherwise payable to the director as compensation during the fiscal year, with such refund payment due and payable on the earlier of the end of the fiscal year or at the request of our board of directors. Four directors elected to receive a portion of director fees in the form of common stock as described in the fiscal year 2014 director compensation table above. We intend to adopt a non-employee incentive compensation program prior to the completion of this offering, pursuant to which non-employee directors may elect to receive a portion of their director fees in the form of shares of our common stock.

*Non-Employee Director Stock Ownership Guidelines*

To encourage equity ownership among non-employee directors, our board of directors intends to adopt stock ownership guidelines applicable to all non-employee directors other than those directors who are affiliated with American Securities that would become effective upon the completion of this offering. Under the stock ownership guidelines, each non-employee director who is not otherwise affiliated with American Securities, upon completion of this offering will be expected to own common stock having a value of at least three times their annual cash retainer. The non-employee directors will have five years from the later of the completion of this offering or the date of their election to fulfill this ownership requirement. The stock ownership guidelines will require each non-employee director to retain all shares received, net of shares sold for tax purposes, until the ownership requirements are met.

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**EXECUTIVE COMPENSATION**

**Compensation Discussion and Analysis**

The following Compensation Discussion and Analysis provides information regarding the material elements of our fiscal year 2014 compensation program for our named executive officers, also referred to as the NEOs. Our NEOs for the fiscal year ended March 31, 2014 were:

Joseph A. Chlapaty, our President and Chief Executive Officer;

Mark B. Sturgeon, our Executive Vice President, Chief Financial Officer, Secretary and Treasurer;

Thomas M. Fussner, our Executive Vice President and Co-Chief Operating Officer;

Ronald R. Vitarelli, our Executive Vice President and Co-Chief Operating Officer; and

Robert M. Klein, our Executive Vice President of Sales.

The Compensation Committee of our board of directors, or the Committee, pursuant to its charter, is responsible for establishing, implementing and reviewing on an annual basis our compensation programs and actual compensation paid to our NEOs, except for our Chief Executive Officer, with respect to whom the Committee's decisions are subject to review and final approval by our board of directors.

***Executive Summary***

We believe our compensation practices and the overall level of executive compensation are competitive when compared to the marketplace and reflect our commitment to performance-based pay. Our compensation programs are intended to align our NEOs' interests with those of our stockholders by rewarding performance that meets or exceeds the goals the Committee establishes, with the objective of increasing long-term stockholder value. Further, our executive compensation programs are intended to align with our financial performance.

At the beginning of fiscal year 2014 the Committee requested that management complete a review of our existing executive compensation programs as compared to market practice and in light of our current business model and growth strategy. While we have historically used a performance-based pay system for compensation, and have arm's-length-negotiated employment agreements with each NEO, it was the view of the Committee that there were design elements in our cash-based incentive plan and long-term equity-based incentive plan that, if adjusted, could further align these plans with the interests of stockholders. Our human resources department, in consultation with our Chief Executive Officer and the Chair of the Committee, completed an assessment of all cash and equity compensation plans, including an analysis of the competitive market range for each executive position, and presented these findings, along with recommended changes, for the review and approval of the Committee in August of 2013. Recommended changes for the compensation plans of the Chief Executive Officer were also reviewed and approved by our board of directors in September of 2013 and implemented for the remainder of fiscal year 2014.

The executive compensation plans implemented in fiscal year 2014 are intended to serve as a multi-year framework, with the awards made in fiscal year 2014 intended to manage the transition to the new plans and their potential implications for total compensation of our executives, including our NEOs. Key changes in fiscal year 2014 to the components of compensation for our NEOs are as follows:

*Base salary* Above-market annual base salary adjustments were provided effective September 1, 2013 based on an assessment of each NEO's performance, position versus the competitive marketplace, and elapsed time since their last base salary adjustment.

*Annual Cash Incentive Plan* Transitioned from a profit sharing pool-based incentive design to a plan design with explicit performance goals based on performance versus the prior year and corresponding



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awards (established as a percent of salary) for each NEO. Financial performance across two measures constitutes 80% of the target award with the remaining 20% allocated to individual performance.

*Long-Term Equity-Based Incentives* For the past several years, including in May 2013, the Committee recommended and our board of directors approved restricted stock grants to executives, including the NEOs which grants were made based on the aggregate grant date fair value of the restricted stock awarded. As part of the review of the executive compensation program in fiscal year 2014 the Committee determined that non-qualified stock option grants would better align the compensation of our NEOs with our long-term growth. Effective September 1, 2013 the Committee recommended and our board of directors approved non-qualified stock option grants to the NEOs, which are designed to be multi-year awards to encourage the retention and motivation of the executives through the transition to becoming a public company.

The changes implemented resulted in a shift of the total compensation mix of the NEOs from short to long-term compensation, which the Committee believes further aligns the interests of our executives with those of our stockholders.

### ***Our Compensation Philosophy and Principles***

Our culture is based on delivering sustainable results; a philosophy we believe is best embodied by our core values of:

focusing on long-term growth and profitability;

creating an environment that promotes loyalty among employees, customers, and suppliers;

being sales and marketing driven;

being committed to innovation in product, process, and technology; and

ensuring quality throughout our products and organization.

#### ***Compensation Philosophy***

The Committee and our management believe that fostering the core values referenced above requires a strong performance culture and compensation programs that align our executives' interests with those of all of our stockholders by rewarding performance that meets or exceeds the goals established by the Committee and our board of directors.

#### ***Compensation Principles***

Our executive compensation programs are designed according to the following principles:

emphasizing pay-for-performance to motivate both short and long-term performance;

placing greater emphasis on variable pay versus fixed pay;

linking the total compensation of our executives to the sustained value they create for our stockholders through the use of equity-based compensation;

structuring total compensation levels within competitive range for similar executive roles; and

attracting, retaining and motivating top executive talent.

***Determining Executive Compensation***

*Role of our Compensation Committee.* Pursuant to authority delegated by our board of directors, the Committee is responsible for the design and implementation of our executive compensation policies and programs and determines the compensation for each of our executive officers other than the Chief Executive

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Officer consistent with the terms of the employment agreement for each NEO. In fiscal year 2014, our board of directors determined the compensation of Mr. Chlapaty, our Chief Executive Officer, based on the Committee's recommendations and in accordance with Mr. Chlapaty's employment agreement. A summary of the employment agreements currently in effect with each of our NEOs is described below under Employment Agreements.

*Role of Management.* Our human resources department, in partnership with the Committee, supports the design and implementation of all executive compensation programs. Our finance department supports this process by providing financial analysis and input as part of the review of program design. Except with respect to his own compensation, our Chief Executive Officer has final management-level review of any compensation program before it is sent to the Committee for consideration and approval. The Committee has responsibility for approving our material compensation programs, including our equity compensation program. Management frequently consults with the Committee during the design process to obtain their direction and feedback on how the design of our executive compensation programs supports our overall strategy.

*Use of Comparator Data.* For consideration in the review and approval of the fiscal year 2014 executive compensation programs, neither we nor the Committee retained the services of any third-party compensation consultants to benchmark our compensation policies against a targeted peer group of companies. Instead, the Chief Executive Officer and the Committee utilized a market analysis prepared by the human resources department to provide an understanding of the competitive market for use in the development, review, and approval of the fiscal year 2014 executive compensation programs.

To provide competitive market range information for fiscal year 2014, a market analysis was performed based on ownership, industry, and revenue, as most recently taken from the 2012 Mercer Executive Compensation Survey (2,541 organizations participating) and the 2012 Towers Watson Executive Compensation Survey (534 organizations participating). The market segmentation used for base salary and short-term incentive comparisons was private companies of all industries and revenue between \$500 million and \$1.5 billion. The market segmentation used for long-term compensation comparison was public and private companies of all industries and revenue between \$500 million and \$1.5 billion. To establish market ranges, data from the two surveys were averaged together and a low and high range established from the calculated median data. For base salary and short-term incentives, a plus or minus factor of 20% was applied to establish the low and high market ranges and for long-term compensation a plus or minus factor of 25% factor was applied to establish the low and high market ranges.

*Role of Compensation Consultants.* While the Committee did not engage the services of a compensation consultant in connection with the revisions made to our incentive programs in fiscal year 2014, in January 2014, our vice president of human resources, at the direction of the Chief Executive Officer, engaged Towers Watson, a third-party executive compensation consultant, to assist management in connection with a further review of our existing and proposed director and executive officer compensation programs, in anticipation of this offering. Towers Watson also assisted management with respect to the review of this prospectus and the disclosures related to executive compensation. Towers Watson did not provide any services to us, or receive any payments from us, other than in their capacity as a consultant to our management for the limited purposes described above.

## ***Setting Pay Levels***

When setting pay levels the Committee exercises its discretion to position individual pay levels higher or lower in the competitive market range based on a subjective assessment of individual facts and circumstances, including:

the strategic importance of the position to our growth objectives;

the individual experience, competency, skill, performance, and potential;

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the overall performance and contribution of the individual to the business performance; and

the elapsed time since the last compensation adjustment.

***Components of Compensation***

For fiscal year 2014, the principal components of compensation for the named executive officers were:

base salary;

annual cash incentive compensation;

long-term equity-based compensation; and

benefits and executive perquisites.

The Committee has responsibility for determining all elements of compensation granted to the NEOs and reviews each element of compensation, as well as the relative mix or weighting of elements, on an annual basis.

***Base Salary***

Base salary is the primary fixed element of total compensation and serves as the foundation for the executive's compensation structure, since the annual cash incentive program is directly linked to base salary levels. Our NEOs are covered by employment agreements and, accordingly, we pay annual base salaries initially as set forth in these agreements as thereby adjusted, which are determined based on each NEO's position and responsibility and on available market data. Base salaries for each NEO are reviewed on an annual basis and compared against the competitive range for similar positions based on survey data provided by our human resources department. Each year, the Chief Executive Officer, with input from the human resources department, proposes base salary increases, if any, for all NEOs, excluding himself, based on the aforementioned criteria. His proposal is subject to review and approval (with or without modifications) by the Committee. Changes to Mr. Chlapaty's base salary are initiated and approved by the Committee directly, subject to the review and final approval of our board of directors.

As part of our overall review of our executive compensation programs, the Committee recommended an increase in the fiscal year 2014 base salary for our Chief Executive Officer, following its review of Mr. Chlapaty's performance, the compensation information from the comparison survey data referenced above and the elapsed time since his last base salary adjustment, which was May 2010. For all the other NEOs, the Committee increased 2014 salary levels taking into account the recommendations from the Chief Executive Officer, the performance of each NEO, the compensation information from the comparison survey data referenced above and the elapsed time since the last base salary adjustment for each NEO. For Mr. Sturgeon, Mr. Fussner, and Mr. Klein their last base salary adjustment was May of 2010. Mr. Vitarelli's last salary adjustment was in November of 2011 as part of his promotion to Executive Vice President and Co-Chief Operating Officer.

The table below shows the adjustments in base salary for the NEOs in fiscal year 2014. Base salary adjustments were effective as of September 1, 2013 with no adjustments or annualization for amounts paid prior to the adjustment date

for fiscal year 2014.

<b>Named Executive Officer</b>	<b>Base Salary As of August 3 2013(\$)</b>	<b>Base Salary After Adjustment(\$)</b>	<b>Change</b>
Joseph A. Chlapaty	425,000	475,000	12%
Mark B. Sturgeon	250,000	285,000	14%
Thomas M. Fussner	300,000	315,000	5%
Ronald R. Vitarelli	250,000	275,000	10%
Robert M. Klein	250,000	270,000	8%

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**Table of Contents***Annual Cash Incentive Compensation*

Prior to fiscal year 2014, the executive annual cash incentive plan functioned as a profit-sharing pool in which a designated percentage of our annual operating earnings were allocated to an incentive pool. Our Chief Executive Officer, subject to the approval of our board of directors, received a pre-established percentage of the allocated incentive pool. For all other executives, including all NEOs except himself, the CEO would recommend a distribution for the review and approval of the Committee from the incentive pool for each executive based on the assessment of the executive's individual performance and contribution to our overall annual performance. As part of the assessment discussed above under Executive Summary, the design of this program was evaluated and changes to the design were recommended and approved by the Committee and our board of directors for fiscal year 2014.

The fiscal year 2014 ADS Cash Incentive Plan, or the Cash Incentive Plan, provides annual cash incentive compensation opportunities based on two performance measures related to our financial performance, as well as an individual performance measure based upon the performance of the NEO as compared to their annual performance objectives. By tying a significant portion of the executive's total annual cash compensation to annual variable pay, the Committee believes it further reinforces our pay for performance culture and focuses our executives on critical short-term financial and operational objectives, which also support our long-term financial goals.

**Establishing Target Payouts**

Under the Cash Incentive Plan, target payouts for each NEO are reviewed on an annual basis and compared against the competitive range for similar positions based on survey data provided by the human resources department. The Chief Executive Officer, with input from the human resources department, proposes annual target payout adjustments, if any, for all NEOs, excluding himself, based on the aforementioned performance measures. His proposal is subject to review and approval (with or without modifications) by the Committee. Changes to Mr. Chlapaty's targeted payout from the Cash Incentive Plan are initiated and approved by the Committee directly, subject to the review and final approval of our board of directors.

Consistent with our compensation principles, the target payouts from the Cash Incentive Program are a significant portion of the target annual cash compensation for our NEOs. In general, the annual target percentages for each of the NEOs is high in the competitive range as compared to the survey data. The Committee believes the established targets enhance the alignment to our pay-for-performance and stakeholder alignment principles. The target annual cash incentive payouts for 2014 as a percentage of salary were as follows:

	<b>Target Payout (as a percent of salary)</b>
Joseph A. Chlapaty	140%
Mark B. Sturgeon	75%
Thomas M. Fussner	75%
Ronald R. Vitarelli	75%
Robert M. Klein	65%

In making award determinations under the Cash Incentive Plan, the Committee also has the authority and discretion to take into consideration the impact of other factors or events that positively or negatively affected our business during the year and adjust any payout awards accordingly.

**Performance Measures**

The Committee believes that the following measures reflect key value drivers for purposes of establishing payouts under the Cash Incentive Plan:

*EBITDA* earnings before interest, taxes, depreciation and amortization.

We are subject to general litigation and regulatory disputes.

From time to time, we are involved in other disputes or regulatory inquiries that arise in the ordinary course of business. The number and significance of these disputes and inquiries have increased as our company has grown larger, our businesses have expanded in scope (e.g., our mobile, local, social and digital initiatives) and our products and services have increased in complexity. We have in the past been forced to litigate such claims. We may also become more vulnerable to third-party claims as laws such as the Digital Millennium Copyright Act, the Lanham Act and the Communications Decency Act are interpreted by the courts as our products and services to users continues to expand and as we expand geographically into jurisdictions where the underlying laws with respect to the potential liability of online intermediaries such as ourselves are either unclear or less favorable. As an increasing portion of our business shifts to mobile, we may be subject to additional laws, such as the Telephone Consumer Protection Act, which have significant penalties. The Federal Communications Commission has recently amended its regulations under the Telephone Consumer Protection Act, effective in July 2012, which could increase our exposure to liability for certain types of telephonic communication with customers, including but not limited to text messages to mobile phones. We are also subject to federal, state, local and foreign laws of general applicability, including laws regulating working conditions. Any claims or regulatory actions against us, whether meritorious or not, could be time consuming, result in costly litigation, damage awards (including statutory damages for certain causes of action in certain jurisdictions), injunctive relief, or increased costs of doing business through adverse judgment or settlement, require us to change our business practices in expensive ways, require significant amounts of management time, result in the diversion of significant operational resources, or otherwise harm



our business.

Changes to our dispute resolution process could increase our costs and loss rate.

Beginning in 2009, we have transitioned buyers in the U.S., U.K. and Germany to a dispute resolution (“resolutions”) process provided by eBay customer support, which now serves as the primary entry point for buyers in these countries if they are unable to resolve their disputes with eBay sellers. Among other things, the resolutions process provides that eBay will generally reimburse the buyer for the full amount of an item's purchase price (including original shipping costs) in cases where the item was not received or the item they received was different from that described in the listing and the seller does not provide adequate resolution to the buyer. eBay then attempts to recoup amounts paid to the buyer from the seller's PayPal accounts or through other collection methods. Our costs associated with resolutions have increased as a result of these changes to our resolutions policies and process, in part because eBay may not have the same level of rights of recoupment against sellers as PayPal, resulting in higher costs to operate the program. These changes, together with any further changes that we may make to our resolutions process in the future, may be negatively received by, and lead to dissatisfaction on the part of, some of our sellers, and may also result in an increase in buyer fraud and associated transaction losses.

In the event of the bankruptcy or other business interruption of a merchant that sells goods or services in advance of the date of their delivery or use (e.g., airline, cruise or concert tickets, custom-made goods and subscriptions), eBay and/or PayPal could be liable to the buyers of such goods or services, either through its buyer protection program or through chargebacks on payment cards used by customers to fund their payment through PayPal. While we have established reserves based on assumptions and estimates that we believe are reasonable to cover such eventualities, these reserves may be insufficient and our operating results could be adversely affected.

Failure to deal effectively with bad transactions and customer disputes would increase our loss rate and harm our business.

Over the last several years, we have enhanced the buyer and seller protections offered by PayPal in certain eBay marketplaces, and in certain countries for transactions outside of eBay marketplaces.

These changes to PayPal's buyer and seller protection program could result in future changes and fluctuations in our Payments transaction loss rate. For the fiscal year ended December 31, 2011 and the six months ended June 30, 2012, our Payments transaction losses (including both direct losses and buyer protection payouts) totaled \$246 million and \$130 million, representing 0.21% and 0.19% of our net total payment volume, respectively. Beginning in 2009, we have also changed the dispute resolution process for transactions on eBay.com, eBay.co.uk and eBay.de, as described in more detail above under the caption "Changes to our dispute resolution process could increase our costs and loss rate," which could result in an increase in our combined eBay and PayPal transaction losses.

PayPal's highly automated and liquid payment service makes PayPal an attractive target for fraud. In configuring its service, PayPal continually strives to maintain the right balance of appropriate measures to promote both convenience and security for customers. Identity thieves and those committing fraud using stolen credit card or bank account numbers can potentially steal large amounts of money from businesses such as PayPal. We believe that several of PayPal's current and former competitors in the electronic payments business have gone out of business or significantly restricted their businesses largely due to losses from this type of fraud. While PayPal uses advanced anti-fraud technologies, we expect that technically knowledgeable criminals will continue to attempt to circumvent PayPal's anti-fraud systems using increasingly sophisticated methods. From time to time, such fraudsters may discover and exploit vulnerabilities that may not immediately be identified and remediated, which may in turn result in one-time increases in fraud and associated transaction losses. In addition, because users frequently use the same passwords for different sites, a data breach of a third party site can result in

a spike in transaction losses. Finally, PayPal's service could be subject to employee fraud or other internal security breaches, and PayPal may be required to reimburse customers for any funds stolen as a result of such breaches. Merchants could also request reimbursement, or stop using PayPal, if they are affected by buyer fraud or other types of fraud. Additional fraud risks associated with PayPal's point of sale solutions are described below under the caption "PayPal's point of sale solutions expose us to additional risks."

PayPal incurs substantial losses due to claims from buyers that merchants have not performed or that their goods or services do not match the merchant's description, whether those claims arise from merchant fraud or from an unintentional failure to perform by the merchant. PayPal seeks to recover such losses from the merchant, but may not be able to recover in full if the merchant is unwilling or unable to pay. PayPal also incurs losses from claims that the customer did not authorize the purchase, from buyer fraud, from erroneous transmissions and from customers who have closed bank accounts or have insufficient funds in them to satisfy payments. In addition, if losses incurred by PayPal related to payment card transactions become excessive, they could potentially result in PayPal losing the right to accept payment cards for payment, which would materially and adversely affect PayPal's business both on and off eBay. In the event that PayPal was unable to accept payment cards, the velocity of trade on eBay and websites operated by GSI's clients that accept PayPal as a form of payment could also decrease, in which case our business would further suffer. The Bill Me Later service is similarly subject to the risk of fraudulent activity associated with merchants, users of the Bill Me Later service and third parties handling its user information. Our Payments business has taken measures to detect and reduce the risk of fraud, but these measures need to be continually improved and may not be effective against new and continually evolving forms of fraud or in connection with new product offerings. If these measures do not succeed, our business will suffer.

eBay faces similar risks with respect to fraudulent activities on its websites. eBay periodically receives complaints from users who may not have received the goods that they had purchased. In some cases, individuals have been arrested and convicted for fraudulent activities using our websites. eBay also

receives complaints from sellers who have not received payment for the goods that a buyer had contracted to purchase. Non-payment may occur because of miscommunication, because a buyer has changed his or her mind and decided not to honor the contract to purchase the item, or because the buyer bid on the item maliciously in order to harm either the seller or eBay. In some European and Asian jurisdictions, buyers may also have the right to withdraw from a sale made by a professional seller within a specified time period. While eBay can, in some cases, suspend the accounts of users who fail to fulfill their payment or delivery obligations to other users, eBay does not have the ability to require users to make payment or deliver goods, or otherwise make users whole other than through our buyer protection programs.

Our limited eBay and PayPal buyer protection programs represent the means by which we compensate users who believe that they have been defrauded, have not received the item that they purchased, or have received an item different than what was described. However, users who pay through PayPal may have reimbursement rights from their credit card company or bank, which in turn will seek recovery from PayPal. eBay also periodically receives complaints from buyers as to the quality of the goods purchased. We expect to continue to receive communications from users requesting reimbursement or threatening or

commencing legal action against us if no reimbursement is made. Our liability for these sort of claims is only beginning to be clarified in some jurisdictions and may be higher in some non-U.S. jurisdictions than it is in the U.S. Litigation involving liability for third-party actions could be costly and time consuming for us, divert management attention, result in increased costs of doing business, lead to adverse judgments, or otherwise harm our business. In addition, affected users will likely complain to regulatory agencies that could take action against us, including imposing fines or seeking injunctions.

Negative publicity and user sentiment generated as a result of fraudulent or deceptive conduct by users of our Marketplaces, Payments and GSI services could damage our reputation, reduce our ability to attract new users or retain our current users and diminish the value of our brand names. We believe that negative user experiences are one of the primary reasons users stop using our services.

From time to time, we have considered more active mechanisms designed to combat bad buyer experiences and increase buyer satisfaction, including evaluating sellers on the basis of their transaction history and restricting or suspending their activity as a result. For example, in the U.S. and the U.K., we may request that PayPal hold seller funds in certain instances (e.g., for sellers with a limited selling history or below-standard performance ratings), which is intended to help improve seller performance and increase buyer satisfaction. We may expand the scope of such programs in the future and introduce other programs with similar aims in these and other countries. Our increased usage of these or other mechanisms to attempt to improve buyer satisfaction could result in dissatisfaction on the part of sellers, loss of share to competing marketplaces, reduced selection of inventory on our sites and other adverse effects. Governmental regulators worldwide are also evaluating approaches intended to reduce online fraud. Some of the current proposals (e.g., two-factor authentication in France to verify a user's identity) could increase our costs or require us to change our business practices in a manner that could harm our business.

Any factors that reduce cross-border trade could harm our business.

Cross-border trade has become an increasingly important source of both revenue and profits for us. Cross-border transactions using our websites generally provide higher revenues and gross margins than similar transactions that take place within a single country or market. We generally earn higher transaction fees for cross-border transactions involving PayPal, and our Marketplaces business continues to represent a relatively straightforward way for buyers and sellers to engage in cross-border trade compared with other alternatives. Cross-border trade also represents our primary (or in some cases, only) presence in certain markets in which Internet use is accelerating and we have a limited (or no) domestic Marketplaces business (e.g., Brazil/Latin America, China, Russia and various developing countries).

The interpretation and application of specific national or regional laws, such as those related to intellectual property rights of authentic products and those related to selective distribution networks to sellers in other countries listing on the Internet and the potential interpretation and application of laws of multiple jurisdictions (e.g., the jurisdiction of the buyer, the seller, and/or the location of the item being sold) are extremely complicated in the context of cross-border trade. Some of these issues are involved in the L'Oréal and Louis Vuitton Malletier cases (see "Item 1: Legal Proceedings" above). To the extent any interpretation or application of such laws imposes restrictions on, or increases the costs of, purchasing, selling or shipping goods across national borders, our business would be harmed. Any additional factors that increase the costs of purchasing, selling or shipping goods across national borders or make it more difficult to do so in practice, including fluctuations in currency exchange rates, delivery service rates, currency restrictions, export control laws, customs enforcement, court rulings and the application of (or increases in) tariffs, duties or other taxes on imports or exports, or that otherwise would result in a net reduction in cross-border trade on our sites, would adversely affect our business. As part of our ongoing efforts to drive more sales and improve seller efficiency and buyer experience, we are evaluating opportunities to potentially become more actively involved in different aspects of cross-border transactions, which could potentially expose us to additional liability based upon our involvement in aspects of such

transactions and/or the actions of our users in more countries.

Our cross-border trade is also subject to, and impacted by currency exchange rate fluctuations, as discussed under the caption “We are exposed to fluctuations in currency exchange rates and interest rates” above.

Our business is subject to online security risks, including security breaches.

Our businesses involve the storage and transmission of users' proprietary information, and security breaches could expose us to a risk of loss or misuse of this information, litigation and potential liability.

An increasing number of websites, including several other large Internet companies, have recently disclosed breaches of their security, some of which have involved sophisticated and highly targeted attacks on portions of their sites. Because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems, change frequently and often are not recognized until launched against a target,

we may be unable to anticipate these techniques or to implement adequate preventative measures. If an actual or perceived breach of our security occurs, public perception of the effectiveness of our security measures could be harmed and we could lose users. A party that is able to circumvent our security measures could misappropriate our or our users' proprietary information, cause interruption in our operations, damage our computers or those of our users, or otherwise damage our reputation and business. Any compromise of our security could result in a violation of applicable privacy and other laws, significant legal and financial exposure, damage to our reputation and a loss of confidence in our security measures, which could harm our business. Data security breaches may also result from non-technical means, for example, actions by a suborned employee. GSI's clients also face similar risks of security breaches, and to the extent that such clients are harmed as a result of a security breach, GSI's business would also be adversely affected.

A significant number of our users authorize us to bill their payment card accounts directly for all transaction fees charged by us. For example, PayPal's users routinely provide credit card and other financial information, and GSI customers routinely provide credit card information and other personally identifiable information which we maintain to facilitate the ease of future transactions. We rely on encryption and authentication technology licensed from third parties to provide the security and authentication to effectively secure transmission of confidential information, including customer payment card numbers. Advances in computer capabilities, new discoveries in the field of cryptography or other developments may result in the technology used by us to protect transaction data being breached or compromised. Financial services regulators in various jurisdictions, including the U.S. and the EU, have implemented or are considering proposals to impose new authentication requirements on banks and payment processors. These requirements could impose significant costs on PayPal, make it more difficult for new customers to join its network and reduce the ease of use of its products.

Under payment card rules and our contracts with our card processors, if there is a breach of payment



card information that we store, or that is stored by PayPal's direct payment card processing customers, we could be liable to the payment card issuing banks for their cost of issuing new cards and related expenses. In addition, if we fail to follow payment card industry security standards, even if customer information has not been compromised, we could incur significant fines or lose our ability to give customers the option of using payment cards to fund their payments or pay their fees. If we were unable to accept payment cards, our businesses would be seriously damaged.

Our servers are also vulnerable to computer viruses, physical or electronic break-ins and similar disruptions, and we have experienced "denial-of-service" type attacks on our system that have, in certain instances, made all or portions of our websites unavailable for periods of time. For example, in December 2010, PayPal was subject to a series of distributed "denial of service" attacks following PayPal's decision to indefinitely restrict the account used by WikiLeaks due to an alleged violation of PayPal's Acceptable Use Policy. We may need to expend significant resources to protect against security breaches or to address problems caused by breaches. These issues are likely to become more difficult as we expand the number of places where we operate. Security breaches, including any breaches of our security measures or those of parties with which we have commercial relationships (e.g., our clients and third-party service providers) that result in the unauthorized release of users' personal information, could damage our reputation and expose us to a risk of loss or litigation and possible liability. Our insurance policies carry low coverage limits, which may not be adequate to reimburse us for losses caused by security breaches.

Our users, as well as those of other prominent Internet companies, have been and will continue to be targeted by parties using fraudulent "spoof" and "phishing" emails to misappropriate passwords, credit card numbers, or other personal information or to introduce viruses or other malware through "trojan horse" programs to our users' computers. These emails appear to be legitimate emails sent by eBay, PayPal, a GSI client, or one of our other businesses (e.g., StubHub), or by a user of one of our businesses, but direct recipients to fake websites operated by the sender of the email or request that the recipient send a password or other confidential

information via email or download a program. Despite our efforts to mitigate “spoof” and “phishing” emails through product improvements and user education, “spoof” and “phishing” activities remain a serious problem that may damage our brands, discourage use of our websites and increase our costs.

Changes in regulations or user concerns regarding privacy and protection of user data could adversely affect our business.

We are subject to laws relating to the collection, use, retention, security and transfer of personally identifiable information about our users, especially for financial information and for users located outside of the U.S. As an entity licensed and subject to regulation as a bank in Luxembourg, PayPal (Europe) S.à r.l et Cie, SCA is subject to banking secrecy laws. In many cases, these laws apply not only to third-party transactions, but also to transfers of information between ourselves and our subsidiaries, and between ourselves, our subsidiaries and other parties with which we have commercial relations. In particular, the collection and use of personal information by companies has come under increased regulatory scrutiny. The interpretation and application of user data protection laws are in a state of flux, and may be interpreted and applied inconsistently from country to country. The European Union recently proposed new data laws that give customers additional rights and provide additional restrictions

and harsher penalties on companies for illegal collection and misuse of personal information, including restrictions on the use of Internet tracking tools called “cookies”. While the European Union directive on cookies has taken effect, the manner in which member states adopt implementing legislation, and whether the European Union deems that legislation sufficient, continues to evolve. To the extent implementing legislation by member states is more restrictive, it could negatively impact the manner in which we use cookies for many of our services, ranging from advertising to anti-fraud, and require us to incur additional costs or change our business practices, any of which could harm our business. The European Union has announced proposed changes to the European Data Protection Directive, the Federal Trade Commission, or FTC, and the White House have both proposed U.S. privacy frameworks, and a number of other countries in which we operate have either recently passed privacy legislation or are in the process of doing so. Our current data protection policies and practices may not be consistent with new laws and regulations or evolving interpretations and applications. It is unclear how the application of existing privacy laws and regulations will impact mobile services and technologies, which are evolving rapidly. Complying with these varying international requirements could cause us to incur substantial costs or require us to change our business practices in a manner adverse to our business.

In addition, we have and post on our websites our own privacy policies and practices concerning the collection, use and disclosure of user data. Any failure, or perceived failure, by us to comply with our posted privacy policies or with any regulatory requirements or orders or other federal, state or international privacy or consumer protection-related laws and regulations (or, in the case of our GSI businesses, any such failure or perceived failure on the part of GSI or GSI's clients) could result in proceedings or actions against us by governmental entities or others (e.g., class action privacy litigation), subject us to significant penalties and negative publicity, require us to change our business practices, increase our costs and adversely affect our business. For example, the FTC has recently entered into a number of consent decrees with major

online companies, including Facebook and Google, to settle allegations of unfair or deceptive privacy practices. The FTC's consent decrees with Facebook and Google require those companies to implement a comprehensive privacy program and undergo regular, independent privacy audits for the next 20 years, among other requirements.

Certain of our businesses, including GSI's interactive marketing services business, utilize "behavioral marketing" (generally, the tracking of a user's online activities) to deliver relevant content to Internet users. The FTC has released a Staff Report with principles to address consumer privacy issues that may arise from behavioral marketing and to encourage industry self-regulation. In March 2012, the FTC issued a final report titled "Protecting Consumer Privacy in an Era of Rapid Change: Recommendations for Businesses and Policymakers," which details the FTC's perspective on best practices for companies that collect and use consumer data to protect the privacy of consumers. Legislators and regulators in various jurisdictions are increasingly focusing on the capture and use of location-based information relating to users of smartphones and other mobile devices, which may result in additional restrictions being placed on the collection and use of such information. Any such regulations or legislation could, if enacted, prohibit the use of certain technologies, including those that track individuals' activities on the Internet or geolocation via mobile devices. Such laws and regulations could restrict our ability to collect and use page viewing data and personal information, which may reduce demand for our services or require changes to our current business models, such as advertising, which could harm our business. Data collection, privacy and security have become the subject of increasing public concern. If Internet and mobile users were to reduce their use of our websites and services as a result, our business could be harmed. As noted above, we are also subject to the possibility of security breaches, which themselves may result in a violation of these laws. Our revenue from advertising is subject to factors beyond our control.

We derive significant revenue from advertising on our websites and applications. Revenues from online advertising are sensitive to events and trends that affect advertising expenditures, such as general changes in the economy and changes in consumer spending, the effectiveness of online advertising

versus offline advertising media and the value our websites provide to advertisers relative to other websites. The economic downturn adversely impacted our advertising revenue. In addition, major search engine operators have the ability to change from time to time, at their sole discretion, the rules and search algorithms governing the pricing, availability and placement of online advertising. Any changes in these rules or search algorithms could materially reduce the value that we derive from online advertising on our websites, either directly or indirectly. For example, retailers pay a fee to Shopping.com for online shoppers directed to their websites by our Shopping.com website. Rule changes made by search engines beginning in 2008 disrupted traffic to our Shopping.com website, which in turn adversely affected click-through traffic to retailers from our Shopping.com website and associated fee revenue. Finally, legislators and regulators in various jurisdictions, including the U.S. and the European Union, are reviewing Internet advertising models and the use of user-related data, including location-based information relating to users of smartphones and other mobile devices, and are considering proposals that could restrict or otherwise impact these business models and practices. If we experience a reduction in our advertising revenues due to economic, competitive, regulatory, technological or other factors, or the renegotiation of the terms of our contracts with major advertising companies, or a reduction in our ability to effectively place advertisements on our

sites, or are otherwise unable to provide value to our advertisers, our business and financial results would suffer.

Our growth will depend on our ability to develop our brands, and these efforts may be costly.

We believe that continuing to strengthen our brands will be critical to achieving widespread acceptance of our services, and will require a continued focus on active marketing efforts across all of our brands.

We will need to continue to spend substantial amounts of money on, and devote substantial resources to, advertising, marketing, and other efforts to create and maintain brand loyalty among users. Since 2005, we have significantly increased the number of brands we are supporting, adding Shopping.com, our classified websites (including Den Blå Avis, BilBasen, eBay Classifieds (including eBay Anuncios, eBay Kleinanzeigen and eBay Annunci), Gumtree, Kijiji, LoQUo, Marktplaats.nl, mobile.de and Alamaula), StubHub, Bill Me Later, Gmarket, Milo, WHERE, RedLaser, Zong and GSI, among others. Each of these brands requires its own resources, increasing the costs of our branding efforts. Brand promotion activities may not yield increased revenues, and even if they do, any increased revenues may not offset the expenses incurred in building our brands. Also, major search engine operators that we use to advertise our brands have frequently changing rules that govern the pricing, availability and placement of online advertisements (e.g., paid search, keywords), and changes to these rules could negatively affect our ability to use online advertising to promote our brands in a cost-effective manner. If we fail to promote and maintain our brands, or if we incur substantial expenses in an unsuccessful attempt to promote and maintain our brands, our business would be harmed.

New and existing regulations could harm our business.

We are subject to the same foreign and domestic laws as other companies conducting business on and off the Internet. It is not always clear how existing laws governing issues such as property ownership, copyrights, trademarks and other intellectual property issues, parallel imports and distribution controls, taxation, libel and defamation, obscenity and personal privacy apply to online businesses such as ours. The majority of these laws

were adopted prior to the advent of the Internet and related technologies and, as a result, do not contemplate or address the unique issues of the Internet and related technologies. Those laws that do reference the Internet, such as the U.S. Digital Millennium Copyright Act, the U.S. "CAN-SPAM" Act and the European Union's Directives on Distance Selling and Electronic Commerce, are being interpreted by the courts, but their applicability and scope remain uncertain. As our activities, the types of goods and services listed on our websites, and products and services we offer expand, including through acquisitions such as Bill Me Later and StubHub, regulatory agencies or courts may claim or hold that we or our users are subject to licensure or prohibited from conducting our business in their jurisdiction, either generally or with respect to certain actions (e.g., the sale of real estate, event tickets, cultural goods, boats and automobiles). Recent financial and political events may increase the level of regulatory scrutiny on large companies in general, and financial services companies in particular, and regulatory agencies may view matters or interpret laws and regulations differently than they have in the past and in a manner adverse to our businesses.

Our success and increased visibility has driven some existing businesses that perceive our business model to be a threat to their business to raise concerns about our business models to policymakers and regulators. These established businesses and their trade association groups employ significant resources in their efforts to shape the legal and regulatory regimes in countries where we have significant operations. They may employ these resources in an effort to change the legal and regulatory regimes in ways intended to reduce the effectiveness of our businesses and the ability of users to use our products and services. In particular, these established businesses have raised concerns relating to pricing, parallel imports, professional seller obligations, selective distribution networks, stolen goods, copyrights, trademarks and other intellectual property rights and the liability of the provider of an Internet marketplace for the conduct of its users related to those and other issues. Changing the legal or regulatory regimes in a manner that would increase our liability for third-party listings could negatively impact our business.

Over the last few years some large retailers and their trade associations have sought legislation in a number of states and the U.S. Congress that would make eBay liable for the sale of stolen property or would ban certain categories of goods from sale on our platform, including gift cards and health and beauty products. While no such legislation has passed to date, the proponents continue to seek passage of such legislation, and if any of these laws are adopted they could harm our business.

Numerous states and foreign jurisdictions, including the State of California, where our headquarters are located, have regulations regarding “auctions” and the handling of property by “secondhand dealers” or “pawnbrokers.” Several states and some foreign jurisdictions, including France, have attempted, and may attempt in the future, to impose such regulations upon us or our users. Attempted enforcement of these laws against some of our users appears to be increasing. In France, we have been sued by Conseil des Ventes, the French auction regulatory authority, which has alleged that sales on our French website constitute illegal auctions that cannot be performed without its consent. We have won this lawsuit at the trial and appeals court levels, but it may be subject to further appeal. A lawsuit alleging similar claims has been brought against us by two associations of French antique dealers, and is now pending on appeal after we won in the first instance. We intend to vigorously defend against these lawsuits. However, these and other regulatory and licensure claims and enforcement actions could result in costly



litigation and, if unsuccessful, we could be required to change the way we or our users do business in ways that increase costs or reduce revenues (for example, by forcing us to prohibit listings of certain items or restrict certain listing formats in some locations). We could also be subject to fines or other penalties, and any of these outcomes could harm our business.

A number of the lawsuits against us relating to trademark issues seek to have our websites subject to unfavorable local laws. For example, “trademark exhaustion” principles provide trademark owners with certain rights to control the sale of a branded authentic product until it has been placed on the market by the trademark holder or with the holder's consent. The application of “trademark exhaustion” principles is largely unsettled in the context of the Internet, and if trademark owners are able to force us to prohibit listings of certain items in one or more locations, our business could be harmed.

As we expand and localize our international activities, we become obligated to comply with the laws of the countries or markets in which we operate. In addition, because our services are accessible worldwide and we facilitate sales of goods and provide services to users worldwide, one or more jurisdictions may claim that we or our users are required to comply with their laws based on the location of our servers or one or more of our users, or the location of the product or service being sold or provided in an ecommerce transaction. For example, in the Louis Vuitton Malletier litigation, we were found liable in France, under French law, for transactions on some of our websites worldwide that did not involve French buyers or sellers (see “Item 1: Legal Proceedings” above). Laws regulating Internet and ecommerce companies outside of the U.S. are generally be less favorable than those in the U.S., giving greater rights to consumers, content owners, competitors, users and other third parties. Compliance may be more costly or may require us to change our business practices or restrict our service offerings, and the imposition of any regulations on us or our users may harm our business. In addition, we may be subject to multiple overlapping legal or regulatory regimes that impose conflicting requirements on us (e.g., in cross-border trade). Our alleged failure to comply with foreign laws could subject us to penalties ranging from

criminal prosecution to significant fines to bans on our services, in addition to the significant costs we may incur in defending against such actions. Following the global financial crisis, U.S. federal lawmakers enacted the Dodd-Frank Wall Street Reform and Consumer Protection Act in 2010 overhauling the federal government's oversight of consumer financial products and systemic risk in the U.S. financial system. Although the full effect of the new legislation will be dependent on regulations to be adopted by a number of different agencies (including the recently created Consumer Financial Protection Bureau), we expect the general effect of the financial reform law will be to require PayPal and Bill Me Later to make additional disclosures to their users and to impose new restrictions on certain of their activities. These new obligations will impose new compliance requirements and obligations on us, increase our costs and may result in increased litigation, the need to make expensive product changes and other adverse impacts on our business. In addition, we also expect that the continued implementation of the financial reform law enacted in 2010 will adversely impact some significant traditional revenue streams for banks. For example, in June 2011, the Federal Reserve Board issued a final rule capping debit card interchange fees. As a result of this and other regulations implementing the financial reform law, banks may need to revise their business models to remain profitable, which may lead them to charge more for services which were previously provided for free or at lower cost. Any resulting increases in service fees required for PayPal to process transactions (e.g., service fees for automated clearing house transactions) would increase our costs and could adversely affect our business. In addition, in January 2012, the Consumer Financial Protection Bureau finalized new regulations, required by the Dodd-Frank Wall Street Reform and Consumer Protection Act, which will require PayPal, starting in February 2013, to provide additional disclosures, error resolution rights and cancellation rights to U.S. consumers who make international remittance payments. These new requirements could increase our costs of processing international payments and could adversely affect our business. Changes to payment card networks or bank fees, rules, or practices could harm PayPal's business.

PayPal does not directly access payment card networks, such as Visa and MasterCard, which enable PayPal's acceptance of credit cards and debit cards (including some types of prepaid cards). As a result, PayPal must rely on banks or other payment processors to process transactions, and must pay fees for this service. From time to time, payment card networks have increased, and may increase in the future, the interchange fees and assessments that they charge for each transaction using one of their cards. PayPal's payment card processors have the right to pass any increases in interchange fees and assessments on to PayPal as well as increase their own fees for processing. Changes in interchange fees and assessments could increase PayPal's operating costs and reduce its profit margins. In addition, in some jurisdictions, governments have required Visa and MasterCard to reduce interchange fees, or have opened investigations as to whether Visa or MasterCard's interchange fees and practices violate antitrust law. In the U.S., the Dodd-Frank Wall Street Reform and Consumer Protection Act enacted in 2010 authorizes the Federal Reserve Board to regulate debit card interchange rates and debit card network exclusivity provisions, and in June 2011, the Federal Reserve Board issued a final rule capping debit card interchange fees at significantly lower rates than Visa or MasterCard previously charged. Any material reduction in credit or debit card interchange rates in the U.S. or other markets could jeopardize PayPal's competitive position against traditional credit and debit card processors. While the regulations adopted by the Federal Reserve Board in June 2011 do not treat PayPal as a "payment card network," future

changes to those regulations or to PayPal's business could potentially cause PayPal to be treated as a payment card network, which could subject PayPal to additional regulation and require PayPal to change its business practices, which could reduce PayPal's revenue and adversely affect PayPal's business.

PayPal is required by its processors to comply with payment card network operating rules, and PayPal has agreed to reimburse its processors for any fines they are assessed by payment card networks as a result of any rule violations by PayPal or PayPal's customers. The payment card networks set and interpret the card rules. Payment card networks could adopt new operating rules or re-interpret existing rules that PayPal or its processors might find difficult or even impossible to follow, or costly to implement. As a result, PayPal could lose its ability to give customers the option of using payment cards to fund their payments, or could lose its ability to give customers the choice of currency in which they would like their card to be charged, which would reduce PayPal's revenues from cross-border trade. If PayPal were unable to accept payment cards, its business would be seriously damaged. In addition, the velocity of trade on eBay and websites operated by GSI's clients that accept PayPal as a form of payment could decrease and our business would further suffer.

PayPal is also required to comply with payment card networks' special operating rules for Internet payment services. PayPal and its payment card processors have implemented specific business processes for merchant customers in order to comply with these rules, but any failure to comply could result in fines, the amount of which would be within the payment card networks' discretion.

PayPal also could be subject to fines from payment card networks if it fails to detect that merchants are engaging in activities that are illegal or that are considered "high risk," primarily the sale of certain types of digital content. For "high risk" merchants, PayPal must either prevent such merchants from using PayPal or register such merchants with payment card networks and conduct additional monitoring with respect to such merchants. PayPal has incurred fines from its payment card processors relating to PayPal's failure to detect the use of its service by "high risk" merchants. The amount of these

finances has not been material, but did increase in 2011 compared to prior years. Any additional fines in the future would likely be for larger amounts, could become material and could result in a termination of PayPal's ability to accept payment cards or changes in PayPal's process for registering new customers, which would seriously damage PayPal's business. Similarly, consumers of the websites operated by GSI's clients typically pay for purchases by payment card or similar payment method. Accordingly, our GSI ecommerce services business faces risks similar to the risks described above for PayPal.

Bill Me Later's operations expose us to additional risks.

Risks associated with our reliance on an unaffiliated lender in providing the Bill Me Later service are discussed in more detail under the caption "Bill Me Later's operations depend on lending services provided by an unaffiliated lender" above.

The Bill Me Later service relies on third-party merchant processors and payment gateways to process transactions. For the fiscal year ended December 31, 2011 and the six months ended June 30, 2012, approximately 69% and 63%, respectively, of all transaction volume by dollar amount through the Bill Me Later service was settled through the facilities of a single vendor. Any disruption to these third party payment processing and gateway services would adversely affect the Bill Me Later service.

The Bill Me Later service is offered to a wide range of consumers, and the financial success of this business depends on the ability of the issuing bank of the Bill Me Later credit products to manage credit risk related to those products. The lender extends credit using Bill Me Later's proprietary segmentation and credit scoring algorithms and other analytical techniques designed to analyze the credit risk of specific customers based on their past purchasing and payment history as well as their credit scores. Based on these performance criteria, the lender may extend or increase lines of credit to consumers at the point of sale. These algorithms and techniques may not accurately predict the creditworthiness of a consumer due to inaccurate assumptions about a particular consumer or the economic environment, among other factors. The accuracy of the predictions and the ability of the lender and Bill Me Later to manage credit risk related to the Bill Me Later service may also be

affected by legal or regulatory changes (e.g., bankruptcy laws and minimum payment regulations), competitors' actions, changes in consumer behavior and other factors. The lender may incorrectly interpret the data produced by these algorithms in setting its credit policies, which may impact the financial performance of the Bill Me Later service. In addition, economic and financial conditions in the U.S. may affect consumer confidence levels and reduce consumers' ability or willingness to use credit, including the credit extended by the lender to consumers who use the Bill Me Later service, which could impair the growth and profitability of this business.

We anticipate that the volume of credit extended by WebBank (the financial institution issuing the Bill Me Later credit products) will increase as we continue to enable qualified buyers with a PayPal account to use Bill Me Later as a payment funding option for transactions on eBay.com and on certain merchant websites that accept PayPal. We purchase the receivables relating to these consumer loans extended by the issuing bank, and therefore bear the risk of loss. Like other businesses with

significant exposure to losses from consumer credit, the Bill Me Later service faces the risk that account holders will default on their payment obligations, making the receivables uncollectible and creating the risk of potential charge-offs. The rate at which receivables were charged off as uncollectible, or the net charge-off rate, was approximately 4.46% and 4.59%, respectively, for the fiscal year ended December 31, 2011 and the six months ended June 30, 2012. The nonpayment rate among Bill Me Later users may increase due to, among other things, worsening economic conditions, such as a recession in the U.S., and high unemployment rates. Consumers who miss payments on their obligations often fail to repay them, and consumers who file for protection under the bankruptcy laws generally do not repay their credit.

We currently fund the purchase of receivables related to Bill Me Later accounts through the sale of commercial paper, our cash balances and free cash flow generated from our portfolio of businesses. Effective September 1, 2010, we have funded the purchase of receivables generated through new Bill Me Later accounts using funds from our international subsidiaries, and this funding is facilitated through our Luxembourg-based bank. A downgrade in our credit ratings, particularly our short-term credit ratings, would likely reduce the amount of commercial paper we could issue (or, in certain circumstances, could prevent us from making commercial paper borrowings), increase our commercial paper borrowing costs, or both. If we are unable to fund our purchase of receivables related to the Bill Me Later business adequately or in a cost-effective manner, the growth and profitability of this business would be significantly and adversely affected.

Additionally, in providing the Bill Me Later service, we face other risks similar to those faced by PayPal described elsewhere in these Risk Factors, including under the captions “Government inquiries may lead to charges or penalties” and “If our Payments business is found to be subject to or in violation of any laws or regulations, including those governing money transmission, electronic funds transfer, money laundering, terrorist financing, sanctions, consumer protection, banking and lending, it could be subject to liability, licensure and regulatory approval and may be forced to change its business practices.”

PayPal's retail point of sale solutions expose us to additional risks.

PayPal has recently announced several retail point of sale solutions, including PayPal Here, which enables merchants to use a card reader attached to a mobile device (or to scan cards and checks using the device's embedded camera) to accept payment, as well as in-store pilot programs for new point of sale technologies, which are being rolled out on a limited basis to certain retailers in the U.S. As PayPal expands into point of sale transactions, PayPal will face even greater expectations from offline retailers regarding the reliability and availability of its systems and services and correspondingly lower amounts of downtime.

PayPal's point of sale solutions may also be targeted by fraudsters; given that our fraud models are less developed in this area, we may experience increases in fraud and associated transaction losses as we adjust to fraudulent activity at the point of sale. The manufacturing and sale of a hardware product (the PayPal Here device) exposes us to potential product liability claims for which we could have substantial liability, and could require product recalls or other actions. PayPal's point of sale solutions also may subject us to increased exposure to other laws and regulations (e.g., export control regulations related to the shipment of the PayPal Here reader across national borders). There is significant competition at the retail point of sale, and there can be no assurance that merchants will adopt, or consumers will use, PayPal's retail point of sale solutions.

Retail point of sale transactions also have lower profit margins than PayPal's other payment solutions. Unless we are able to drive adoption of, and significant volume through, our point of sale solutions over time, our business may suffer. Changes in PayPal's funding mix could adversely affect PayPal's results.

PayPal pays significant transaction fees when customers fund payment transactions using credit cards, lower fees when customers fund payments with debit cards, nominal fees when customers fund payment transactions by electronic transfer of funds from bank accounts, and no fees when customers fund payment transactions from an existing PayPal account balance or through the Bill Me Later service, or use buyer credit issued by GE Money Bank. Customers fund a significant portion of PayPal's payment volume using credit and debit cards, and PayPal's financial success will remain



highly sensitive to changes in the rate at which its senders fund payments using credit and debit cards. Customers may prefer funding payment transactions using credit cards or debit cards rather than bank account transfers for a number of reasons, including the ability to dispute and reverse charges directly with their payment card provider if merchandise is not delivered or is not as described, the ability to earn frequent flier miles, cash rebates, or other incentives offered by payment card issuers, the ability to defer payment, or a reluctance to provide bank account information to PayPal. In addition, some of PayPal's offerings, including the ability for buyers to make a limited number of payments without opening a PayPal account, have a higher rate of payment card funding than PayPal's basic product offering. Some of PayPal's plans to lower its funding costs, including both the Bill Me Later service and the ability for buyers to defer payment for a short period of time on some transactions, may increase the risk to PayPal of non-payment by buyers, PayPal's failure to manage customer funds properly could harm its business.

PayPal's ability to manage and account accurately for customer funds requires a high level of internal controls. In some of the markets that PayPal serves and currencies that PayPal offers, PayPal has a limited operating history and limited experience in managing these internal controls. As PayPal's business continues to grow, it must continue to strengthen its internal controls accordingly. PayPal's success requires significant public confidence in its ability to handle large and growing transaction volumes and amounts of customer funds. Any failure to maintain necessary controls or to manage customer funds accurately could severely diminish customer use of PayPal's products.

Systems failures and resulting interruptions in the availability of our websites, applications, products or services could harm our business.

We have experienced system failures from time to time, and any interruption in the availability of our websites, applications, products or services will reduce our current revenues and profits, could harm our future revenues and profits and could subject us to regulatory scrutiny. Our eBay.com website has been interrupted for periods of up to 22 hours. In April 2012, technical systems issues resulted in eBay.com users being unable to checkout on our sites for a period of several hours. Our PayPal website has suffered intermittent unavailability for periods as long as five days, including unavailability for approximately three hours affecting payments primarily on our ebay.co.uk site in May 2011. Other of our websites (e.g., StubHub, Milo and others), as well as websites of GSI clients and hosted services offered by GSI's interactive marketing services business, have experienced intermittent unavailability from time to time. Any unscheduled interruption in our services results in an immediate, and possibly substantial, loss of revenues, as well as potential service credits or other payments by GSI to its clients. Frequent or persistent interruptions in our services could cause current or potential users to believe that our systems are unreliable, leading them to switch to our competitors or to avoid our sites, and could permanently harm our reputation and brands. Reliability is particularly critical for PayPal, which faces increased expectations on the part of users and merchants regarding the full-time availability of PayPal's services as it seeks to expand its Merchant

Services business and gain acceptance of its retail point of sale solutions. Because PayPal is a regulated financial institution, frequent or persistent site interruptions could lead to fines, penalties, or mandatory and costly changes to PayPal's business practices, and ultimately could cause PayPal to lose existing licenses it needs to operate or prevent it from obtaining additional licenses that it needs to expand. Finally, because our customers may use our products for critical transactions, any system failures could result in damage to our customers' businesses. These customers could seek significant compensation from us for their losses. Even if unsuccessful, this type of claim likely would be time-consuming and costly for us to address.

Although our systems have been designed around industry-standard architectures to reduce downtime in the event of outages or catastrophic occurrences, they remain vulnerable to damage or interruption from earthquakes, floods, fires, power loss, telecommunication failures, terrorist attacks, cyber attacks, computer viruses, computer denial-of-service attacks, human error, hardware or software defects or malfunctions (including defects or malfunctions of components of our systems that are supplied by third-party service providers), and similar events or disruptions. Some of our systems, including our Shopping.com website and the systems related to the Bill Me Later business, are not fully redundant, and our disaster recovery planning is not sufficient for all eventualities. Our systems are also subject to break-ins, sabotage, and intentional acts of vandalism. Despite any precautions we may take, the occurrence of a natural disaster, a decision by any of our third-party hosting providers to close a facility we use without adequate notice for financial or other reasons, or other unanticipated problems at our hosting facilities could cause system interruptions and delays, and result in loss of critical data and lengthy interruptions in our services. We do not carry business interruption insurance sufficient to compensate us for losses that may result from interruptions in our service as a result of system failures.

If we are unable to cost-effectively upgrade and expand our websites, services and platforms, our business would suffer.

We must constantly add new hardware, update software and add new engineering personnel to accommodate the increased use of our websites and

platforms, and the new products and features we regularly introduce. As our PayPal business continues to grow and expand both in terms of geographies and product offerings (e.g., PayPal's retail point of sale solutions), we are focused on updating our PayPal platform to provide increased scale, improved performance and additional built-in functionality addressing regulatory compliance matters (e.g., anti-money laundering). This upgrade process is expensive and time-consuming, and the increased complexity of our websites and the need to support multiple platforms as our portfolio of brands grows increases the cost of additional enhancements. Failure to upgrade our technology, features, transaction processing systems, security infrastructure, or network infrastructure in a timely and cost-effective manner to accommodate increased traffic or transaction volume or changes to our site functionality could harm our business. Adverse consequences could include unanticipated system disruptions, slower response times, degradation in levels of customer support, impaired quality of users' experiences of our services, impaired quality of services for third-party application developers using our externally accessible application programming interfaces and delays in reporting accurate financial information, and could result in customer dissatisfaction and the loss of existing users on our websites. We may be unable to effectively upgrade and expand our systems in a timely manner or smoothly integrate any newly developed or purchased technologies or businesses with our existing

systems, and any failure to do so could result in problems on our sites. Further, steps to increase the reliability and redundancy of our systems are expensive, reduce our margins and may not be successful in reducing the frequency or duration of unscheduled downtime.

Risks associated with our ongoing efforts to enhance and unbundle the components of GSI's ecommerce and payments platform and to migrate GSI's existing customers to its new platform are discussed in more detail under the caption "If our GSI business is unable to enhance its platform and migrate clients to its new platform in a timely and cost-effective manner, it would be substantially harmed" above.

There are many risks associated with our international operations.

Our international expansion has been rapid and our international business, especially in Germany, Korea and the U.K., has also become critical to our revenues and profits. Net revenues outside the U.S. accounted for approximately 53% of our net revenues in both the fiscal year ended December 31, 2011 and the six months ended June 30, 2012.

Expansion into international markets, such as our entry into Turkey in May 2011 upon the completion of our acquisition of additional shares in GittiGidiyor and PayPal's entry into emerging markets, are an increasing focus of our business.

Geographical expansion requires significant management attention and resources and requires us to localize our services to conform to local cultures, laws, regulations, standards and policies. The commercial, financial, Internet, and transportation infrastructure in developing countries may make it more difficult for us to replicate our business models. Some of these developing countries may have legal regimes in which the application of laws and regulations in the online or mobile context is subject to greater uncertainty, as well as a higher incidence of corruption and fraudulent or unethical business practices, than countries in which we are historically accustomed to operating. In many countries, we compete with local companies that understand the local market better than we do, and we may not benefit from first-to-market advantages.

We may not be successful in expanding into particular international markets or in generating revenues from foreign operations. For example, in

2002 we withdrew our eBay marketplace offering from the Japanese market, and in 2007 we contributed our business in China to a joint venture with a local Chinese company. Even if we are successful in developing new markets, we often expect the costs of operating new sites to exceed our net revenues from those sites for at least 12 months in most countries.

As we continue to expand our businesses internationally, including through acquisitions, we are increasingly subject to risks of doing business internationally, including the following:

- strong local competitors;
- regulatory requirements, including regulation of Internet and mobile services, auctioneering, professional selling, distance selling, privacy and data protection, banking and money transmitting, that may limit or prevent the offering of our services in some jurisdictions, prevent enforceable agreements between sellers and buyers, prohibit the listing of certain categories of goods, require product changes, require special licensure, subject us to various taxes, penalties or audits, or limit the transfer of information between us and our affiliates;
- customs and duties, including the possibility of significant delays at the border and the possibility that our services may be viewed as facilitating customs fraud;
- greater liability or legal uncertainty regarding our liability for the listings and other content provided by our users, including uncertainty as a result of legal systems that are less developed with respect to the Internet, unique local laws, conflicting court decisions and lack of clear precedent or applicable law;
- risks associated with cross-border transactions, including those described under the risk factor caption "Any factors that reduce cross-border trade could harm our business," above;
- potentially higher incidence of fraud and corruption and higher credit and transaction loss risks;
- cultural ambivalence towards, or non-acceptance of, trading or payments over the Internet or through mobile devices;
- laws and business practices that favor local competitors or prohibit or limit foreign ownership of certain businesses;
- difficulties in integrating with local payment providers, including banks, credit and debit card networks and electronic fund transfer systems;

- differing levels of retail distribution, shipping and Internet and mobile infrastructures;
- different employee/employer relationships and labor laws, and the existence of workers' councils and labor unions;
- difficulties in staffing and managing foreign operations;
- challenges associated with joint venture relationships and minority investments, including dependence on our joint venture partners;
- difficulties in implementing and maintaining adequate internal controls;
- longer payment cycles, different accounting practices and greater problems in collecting accounts receivable;
- potentially adverse tax consequences, including local taxation of our fees or of transactions on our websites;

- higher Internet service provider costs;
- differing intellectual property laws;
- different and more stringent user protection, data protection, privacy and other laws;
- seasonal reductions in business activity;
- expenses associated with localizing our products and services, including offering customers the ability to transact business in the local currency and adapting our products and services to local preferences (e.g., payment methods) with which we may have limited or no experience;
- foreign exchange rate fluctuations;
- our ability to repatriate funds from abroad without adverse tax consequences;
- the possibility that foreign governments may impose currency controls or other restrictions on the repatriation of funds;
- volatility in a specific country's or region's political, economic or military conditions (e.g., in South Korea relating to its disputes with North Korea);
- challenges associated with maintaining relationships with local law enforcement and related agencies.

Some of these factors may cause our international costs of doing business to exceed our comparable domestic costs. As we expand our international operations and have additional portions of our international revenues denominated in foreign currencies, we also could become subject to increased difficulties in collecting accounts receivable and repatriating money without adverse tax consequences, as well as increased risks relating to foreign currency exchange rate fluctuations. The impact of currency exchange rate fluctuations on our business is discussed in more detail under the caption “We are exposed to fluctuations in currency exchange rates and interest rates” above.

Compliance with complex foreign and U.S. laws and regulations that apply to our international operations increases our cost of doing business. These numerous and sometimes conflicting laws and regulations include internal control and disclosure rules, data privacy and filtering requirements, anti-corruption laws, such as the Foreign Corrupt Practices Act, and other local laws prohibiting corrupt payments to governmental officials, and antitrust and competition regulations, among others. Violations of these laws and regulations could result in fines and penalties,



criminal sanctions against us, our officers, or our employees, prohibitions on the conduct of our business and on our ability to offer our products and services in one or more countries, and could also materially affect our brands, our international expansion efforts, our ability to attract and retain employees, our business, and our operating results. Although we have implemented policies and procedures designed to ensure compliance with these laws and regulations, there can be no assurance that our employees, contractors, or agents will not violate our policies.

In addition, we conduct certain functions, including product development, customer support and other operations, in regions outside the U.S., particularly in India and China. We are subject to both U.S. and local laws and regulations applicable to our offshore activities, and any factors which reduce the anticipated benefits associated with providing these functions outside of the U.S., including cost efficiencies and productivity improvements, could adversely affect our business.

We maintain a portion of Shopping.com's research and development facilities and personnel in Israel, and have acquired other Israeli companies. Political, economic and military conditions in Israel affect those operations. Increased hostilities or terrorism within Israel or armed hostilities between Israel and neighboring countries or other entities could make it more difficult for us to continue our operations in Israel, which could increase our costs. In addition, many of our employees in Israel could be required to serve in the military for extended periods of time under emergency circumstances. Our Israeli operations could be disrupted by the absence of employees due to military service, which could adversely affect our business.

Acquisitions, joint ventures and strategic investments could result in operating difficulties, dilution, and other harmful consequences.

We have acquired a significant number of businesses, technologies, services and products, including most recently WHI Solutions, Inc. We expect to continue to evaluate and consider a wide array of potential strategic transactions as part of our overall business strategy, including business combinations, acquisitions and dispositions of businesses, technologies, services, products and other assets, as well as strategic investments and joint ventures. At any given time we may be engaged in discussions or negotiations with respect

to one or more of these types of transactions. Any of these transactions could be material to our financial condition and results of operations.

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These transactions involve significant challenges and risks. Some of the areas where we may face risks or difficulties include:

the need to integrate the operations, systems (including accounting, management, information, human resource and other administrative systems), technologies, products and personnel of each acquired company, which is itself an inherently risky process; the inefficiencies and lack of control that may result if such integration is delayed or not implemented; and unforeseen difficulties and expenditures that may arise in connection with integration;

- diversion of management time, as well as a shift of focus from operating the businesses to issues related to integration and administration, particularly given the number, size and varying scope of our recent acquisitions;
- declining employee morale and retention issues resulting from changes in, or acceleration of, compensation, or changes in management, reporting relationships, future prospects, or the direction of the business;
- the need to implement controls, procedures and policies appropriate for a larger public company at companies that prior to acquisition had lacked such controls, procedures and policies;
- risks associated with our expansion into new international markets and doing business internationally, including those described under the risk factor caption "There are many risks associated with our international operations" above;
- difficulties in entering new markets where we have no or limited direct prior experience or where competitors may have stronger market positions;
- in the case of foreign acquisitions, the need to integrate operations across different cultures and languages and to address the particular economic, currency, political and regulatory risks associated with specific countries;
- the potential loss of key customers, vendors and other business partners of the companies we acquire following and continuing after announcement of our acquisition plans;
- in some cases, the need to transition operations, users and customers onto our existing or new platforms;

liability for activities of the acquired company before the acquisition, including intellectual property and other litigation claims or disputes, violations of laws, rules and regulations, commercial disputes, tax liabilities and other known and unknown liabilities; the acquisition of new customer and employee personal information, in and of itself, may require regulatory approval and or additional controls, policies and procedures and subject us to additional exposure; and for investments in which an investee's financial performance is incorporated into our financial results, either in full or in part, the dependence on the investee's accounting, financial reporting and similar systems, controls and processes.

It may take us longer than expected to fully realize the anticipated benefits, such as increased revenue and enhanced efficiencies, of any or all of our acquisitions, and those benefits may ultimately be smaller than anticipated or may not be realized at all, which could adversely affect our business and operating results. Future acquisitions may also require us to issue additional equity securities, spend our cash, or incur debt (and increased interest expense), liabilities and amortization expenses related to intangible assets or write-offs of goodwill, which could adversely affect our results of operations and dilute the economic and voting rights of our stockholders.

In addition, we have made certain investments, including through joint ventures, in which we have a minority equity interest and lack management and operational control. The controlling joint venture partner in a joint venture investment may have business interests, strategies or goals that are inconsistent with ours, and business decisions or other actions or omissions of the controlling joint venture partner or the joint venture company may result in harm to our reputation or adversely affect the value of our investment in the joint venture. Our strategic investments may expose us to additional risks. For example, GSI's minority interest in Intershop Communications AG is governed by German law, which could subject us to liability for certain disadvantages to Intershop if we were deemed to be in control of Intershop under German law. We have also been sued by craigslist, which has alleged that we improperly misused confidential information from craigslist that we received as a

minority investor. The complaint alleges breach of contract, breach of fiduciary duty, fraud, unfair competition and false advertising and seeks compensatory and punitive damages, rescission and other relief.

Our acquisition of GSI Commerce, Inc. exposes us to additional risks.

Our GSI business faces certain risks and challenges not shared by our other businesses, including those described under the risk factor captions "If our GSI business is unable to enhance its platform and migrate clients to its new platform in a timely and cost-effective manner, it would be substantially harmed" and "Changes in regulations or user concerns regarding privacy and protection of user data could adversely affect our business."

Competition for GSI's existing and potential clients is intense, and our GSI business may not be able to add new clients or keep existing clients on favorable terms, or at all. For example, a change in the management of a GSI client could adversely

affect our relationship with that client. In addition, many of GSI's client contracts contain service level commitments. If our GSI business is unable to meet these commitments, its relationships with its clients could be damaged, and client rights to terminate their contracts with GSI and/or financial penalty provisions payable by GSI may be triggered. If any existing GSI clients were to exit the business we provide services to, be acquired, declare bankruptcy, suffer other financial difficulties, fail to pay amounts owed to GSI and/or terminate or modify their relationships with GSI in a manner unfavorable to us (in particular with respect to the large merchants and brands that GSI serves), our GSI business could be adversely affected.

A portion of GSI's ecommerce services revenue is derived from the value of ecommerce transactions that flow through GSI's ecommerce services business. Accordingly, growth in GSI's ecommerce services revenue depends upon the continued growth of the online businesses of its clients. GSI's ecommerce services business may be substantially impacted by any adverse conditions in the offline businesses of a GSI client that negatively impact that client's online businesses. Any impairment of the offline business of GSI clients, whether due to financial difficulties, impairment of client brands, reduction in marketing efforts, reduction in the number of client retail stores or otherwise, could negatively affect consumer traffic and sales through GSI's clients' websites, which would result in lower revenues generated by our GSI business. Our GSI business also relies on its clients' ability to accurately forecast product demand and select and buy the inventory for their corresponding online businesses. Under such arrangements, the client establishes product prices and pays GSI service fees based either on a fixed or variable percentage of revenues, or on the activity performed. As a result, if GSI's clients fail to accurately forecast product demand or optimize or maintain access to inventory, the client's ecommerce business (and, in turn, GSI's service fees) could be adversely affected.

Our GSI business holds some inventory on behalf of its ecommerce services customers. If GSI is unable to effectively manage and handle this inventory, this may result in unexpected costs that could adversely affect our GSI business. Any theft of such inventory, or damage or interruption to such

inventory, including as a result of earthquakes, floods, fire, power loss, labor disputes, terrorist attacks and similar events and disruptions, could result in losses related to such inventory and disruptions to GSI's customers' businesses, which could in turn adversely affect our GSI business. Our GSI business processes personal information on behalf of its ecommerce services clients. The personal information of customers of certain websites operated by GSI's clients may be regulated under the Gramm-Leach-Bliley Act, the Health Insurance Portability and Accountability Act, the Children's Online Privacy Protection Act, or other privacy laws and regulations. In some cases, GSI's use or disclosure of that information may be restricted by contractual terms, laws and regulations, and any misuse or unpermitted disclosure of that information could negatively impact GSI and its clients.

GSI's interactive marketing services business relies on email marketing to drive consumer traffic to the websites operated by its clients. Email could become a less effective means of communicating with and marketing to consumers for a variety of reasons, including: problems with technology that make GSI's email communications more difficult to deliver and for consumers to read (e.g., the inability of smart phones or similar communication devices to adequately display email); consumers may disregard marketing emails due to the large volume of such emails they receive; the inability of filters to effectively screen for unwanted emails, resulting in increased levels of junk mail, or "SPAM," which may overwhelm consumer's email accounts; increased use of social networking sites, which may result in decreased use of email as a primary means of communication; continued security concerns regarding Internet usage in general from viruses, worms or similar problems; and increased governmental regulation or restrictive policies adopted by Internet service providers that make it more difficult or costly to utilize email for marketing communications. If any of our GSI entities were to end up on SPAM lists or lists of entities that have been involved in sending unwanted, unsolicited emails, their ability to contact customers through email could be significantly restricted. If any of the foregoing were to occur, the demand for GSI's email marketing solutions could decrease and our GSI business could be harmed. GSI's interactive marketing services business also

utilizes mobile messaging as a means of communicating with consumers, which carries risks similar to the risks described above for email marketing.

Our GSI business has relationships with search engines, comparison shopping sites, affiliate marketers, online advertising networks and other websites to provide content, advertising banners and other links to its clients' ecommerce businesses. Our GSI business relies on these relationships as significant sources of traffic to clients' ecommerce businesses. If we are unable to maintain these relationships or enter into new relationships on acceptable terms, our ability to attract new customers could be harmed.

Immediately following our acquisition of GSI, eBay sold 100% of GSI's sports merchandise business and 70% of its RueLaLa and ShopRunner businesses (which we refer to collectively as the divested entities), to Kynetic LLC, which we refer to as Kynetic. Kynetic is primarily owned by GSI's former Chairman, President and Chief Executive Officer, Mr. Michael Rubin. Each of the divested entities was a direct or indirect wholly-owned subsidiary of GSI Commerce. In connection with (and as a result of) the divestiture to Kynetic, our GSI business maintains certain commercial and financial relationships with



the divested entities which expose it to certain risks of the businesses of Kynetic and the divested entities.

As part of the Kynetic divestiture, we loaned Kynetic and the divested entities \$467 million, which is secured by certain assets of the divested entities. Kynetic and the divested entities' ability to repay this obligation is dependent on the financial performance of Kynetic and the divested entities. If Kynetic is unable to repay this obligation, our results of operations and financial condition could be harmed.

Finally, our GSI business is also party to certain acquisition agreements relating to entities purchased by GSI prior to our acquisition, and which relate to businesses owned by the divested entities. Kynetic has agreed to indemnify GSI for certain liabilities incurred by GSI under these acquisition agreements. If such liabilities were realized and Kynetic was not able or willing to meet its indemnification obligations, GSI would be liable for them and its business could be harmed.

Our business and users may be subject to sales tax and other taxes.

The application of indirect taxes (such as sales and use tax, value-added tax (VAT), goods and services tax, business tax and gross receipt tax) to ecommerce businesses such as eBay and to our users is a complex and evolving issue. Many of the fundamental statutes and regulations that impose these taxes were established before the adoption and growth of the Internet and ecommerce. In many cases, it is not clear how existing statutes apply to the Internet or ecommerce. In addition, some jurisdictions have implemented or may implement laws specifically addressing the Internet or some aspect of ecommerce. For example, the State of New York has passed legislation that requires any out-of-state seller of tangible personal property to collect and remit New York use tax if the seller engages affiliates above certain financial thresholds in New York to perform certain business promotion activities. Several ecommerce companies are challenging this new law. In June 2011, California enacted legislation that required certain out-of-state retailers to collect and remit California use tax on taxable sales to California purchasers when the retailer has a relationship with a person in California that refers customers to the retailer. In

September 2011, the California Governor signed into law AB 155, which superseded the prior law and delayed the implementation of such collection and remittance requirements until September 15, 2012 or January 1, 2013. The effective date of the law was dependent on whether or not the U.S. Congress enacted legislation in this area by July 1, 2012. Because federal legislation has not been enacted, the effective date of California's new law will be September 15, 2012. The new law is similar to the law passed in New York, but provides exclusions for certain forms of Internet marketing and is limited to retailers who exceed prescribed sales volume thresholds. However, if our sellers who are not already required to collect California sales or use tax believe that their use of our websites requires them to collect California use tax, they may elect to limit their use of our websites rather than collect the tax, which would harm our business. North Carolina, Rhode Island, Illinois, Arkansas and South Dakota have also enacted similar laws related to affiliates, and a number of other states appear to be considering similar legislation. In addition, the Pennsylvania Department of Revenue has ruled that an out-of-state retailer using Pennsylvania-based affiliates could have nexus in Pennsylvania under existing statutes. Most of these new laws and positions are being challenged and in May 2012, a Cook County Circuit Court judge ruled that the Illinois Internet Affiliate Nexus Law was unconstitutional. The State of Illinois has filed a direct appeal to the Illinois Supreme Court. The adoption of such legislation by states where eBay has significant operations that perform certain business promotion activities could result in a use tax collection responsibility for certain of our sellers. This collection responsibility and the additional costs associated with complex use tax collection, remittance and audit requirements would make selling on our websites less attractive for small business retailers, and would harm our business.

The State of Colorado has enacted legislation that takes a different approach by imposing a set of use tax notice and reporting requirements (but not the actual tax collection responsibility) on certain retailers with no physical presence in Colorado. The law is designed to aid Colorado in collecting use tax from Colorado residents who purchase taxable items from out-of-state retailers. The regulation promulgated by the Colorado Department of

Revenue excludes from these reporting obligations businesses that sell \$100,000 or less into the state in a calendar year, thus limiting the impact on our sellers. The law has been challenged in Federal Court by a number of out-of-state retailers and a Federal District Court has issued an injunction blocking enforcement of the regulations pending a resolution of the case. In March 2012, a federal judge struck down the Colorado law as unconstitutional finding that it discriminated against interstate commerce. It is expected that the State will appeal the decision. Oklahoma has enacted a similar law. While the recent laws in California, New York, North Carolina, Rhode Island, Illinois, Arkansas, South Dakota, Oklahoma and Colorado do not specifically apply to our Marketplaces business, the proliferation of such state legislation, to expand sales and use tax collection on Internet sales, could adversely affect some of our sellers and indirectly harm our business.

In conjunction with the Streamlined Sales Tax Project - an ongoing, multi-year effort by U.S. state, and local governments to require collection and remittance of remote sales tax by out-of-state sellers - S. 1452 and H.R. 2701, U.S. Senate and U.S. House versions of the Main Street Fairness Act, have been introduced in the 112<sup>th</sup> Congress. These measures would allow states that meet certain simplification and other standards to require out-of-state sellers to collect and remit sales taxes on goods

purchased by in-state residents. Sellers meeting an as yet undefined small seller exception would be excluded from the requirements of the Act. Other legislation introduced in the US Congress, including H.R. 3179 and S. 1832, would grant states the authority to require out-of-state retailers to collect and remit sales taxes without requiring the state to join the Streamlined Sales Tax Project. The adoption of remote sales tax collection legislation that lacks a robust small business exemption would result in the imposition of sales taxes and additional costs associated with complex sales tax collection, remittance and audit compliance requirements on a number of our sellers. This would make selling online less attractive for small retailers, and could harm our business.

From time to time, some taxing authorities have notified us that they believe we owe them certain taxes. In May 2008, the City of Chicago notified both eBay and StubHub that they are liable for a city amusement tax on tickets to events in Chicago, irrespective of the location of the buyer or seller, and filed suit to enforce collection of taxes it claims are due. In March 2009, the court ruled that StubHub is not required to collect and remit the city amusement tax. The City of Chicago requested reconsideration of this ruling and StubHub sought clarification of the ruling relative to the remaining counts as well. In August 2009, the court entered a final order dismissing the case against StubHub. In December 2009, the court also dismissed the case against eBay. The City of Chicago appealed both matters to the Seventh Circuit Court of Appeals. The Seventh Circuit has issued an opinion in the StubHub matter rejecting the federal arguments advanced by StubHub and certifying the state law arguments to the Illinois State Supreme Court. In October 2011, the Illinois Supreme Court ruled that state municipalities may not require electronic intermediaries such as StubHub to collect and remit amusement taxes on resold tickets. The City of Chicago has requested a rehearing before the Illinois Supreme Court and the court has not yet ruled on that request. The application of similar existing or future laws could adversely affect our business.

Several proposals have been made at the U.S. state and local level that would impose additional taxes on the sale of goods and services over the Internet.

These proposals, if adopted, could substantially impair the growth of ecommerce and our brands, and could diminish our opportunity to derive financial benefit from our activities. The U.S. federal government's moratorium on state and local taxation of Internet access or multiple or discriminatory taxes on ecommerce has been extended through November 2014. This moratorium does not prohibit federal, state, or local authorities from collecting taxes on our income or from collecting certain taxes that were in effect prior to the enactment of the moratorium and/or one of its extensions.

Similar issues exist outside of the U.S., where the application of VAT or other indirect taxes on ecommerce providers such as eBay is uncertain and evolving. While we attempt to comply in those jurisdictions where it is clear that a tax is due, certain of our subsidiaries have, from time to time, received claims relating to the applicability of indirect taxes to our fees. In April 2012, we received Notices of Reassessments for tax years 2001-2005 from the Canadian Revenue Agency ("CRA") which assert goods and service tax (GST) and harmonized sales tax (HST) on our fees charged to Canadian users. These reassessments of GST/HST were the result of an audit of eBay International AG and are based on the CRA's assertion that we were "doing business" in Canada for GST/HST purposes. We disagree with the reassessments and filed a Notice of Appeal with the Tax Court of Canada in July 2012. Should such taxes become applicable, our business could be harmed. We collect and remit indirect taxes in certain jurisdictions. However, tax authorities may raise questions about our obligation to collect and remit such taxes, as well as the proper calculation of such taxes. For example, the Korean tax authority asserted that certain coupons and incentives available on our sites should not be deducted when computing taxes on our fees. We challenged these assessments and in June 2012 the National Tax Tribunal issued a final ruling in our favor. Should any new taxes become applicable to our fees or if the taxes we pay are found to be deficient, our business could be harmed.

We do not collect taxes on the goods or services sold by users of our services. One or more states or the federal government or foreign countries may seek to impose a tax collection, reporting or record-keeping obligation on companies that engage

in or facilitate ecommerce. Such an obligation could be imposed by legislation intended to improve tax compliance (and legislation to such effect has been contemplated by several states and a number of foreign jurisdictions) or if an eBay company was ever deemed to be the legal agent of the users of our services by a jurisdiction in which eBay operates. In July 2008, the Housing and Economic Recovery Act of 2008 (H.R. 3221) was signed into law. This law contains provisions that require companies that provide payments over electronic means to users to report to the Internal Revenue Service (IRS) information on payments received by certain customers. The legislation, effective for payments received after December 31, 2010, requires PayPal and other electronic payments processors, as well as StubHub and similar companies, to report to the IRS on customers subject to U.S. income tax who receive more than \$20,000 in payments and more than 200 payments in a calendar year, to request tax ID numbers from U.S. taxpayers, track payments by tax ID number and withhold a proportion of payments and forward such withholding to the IRS if customers who receive more than 200 payments do not provide correct and complete information. We have had to modify our software to meet these requirements and expect increased operational costs and changes to our user experience in connection with complying with these reporting obligations. The IRS regulations also require us to collect a certification of non-U.S. taxpayer status from certain international merchants. These requirements may decrease seller activity on our sites and harm our business. Any failure by us to meet these new requirements could result in substantial monetary penalties and other sanctions and could harm our business.

One or more other jurisdictions may also seek to impose tax collection or reporting obligations based on the location of the product or service being sold or provided in an ecommerce transaction, regardless of where the respective users are located.

Imposition of a discriminatory record keeping or tax collecting requirement could decrease seller activity on our sites and would harm our business. Foreign authorities may also require eBay to help ensure compliance by our users with local laws regulating professional sellers, including tax requirements. In addition, we have periodically received requests from tax authorities in many jurisdictions for information regarding the transactions of large classes of sellers on our sites, and in some cases we have been legally obligated to provide this data. The imposition of any requirements on us to disclose transaction records for all or a class of sellers to tax or other regulatory authorities or to file tax forms on behalf of any sellers, especially requirements that are imposed on us but not on alternative means of ecommerce, and any use of those records to investigate, collect taxes from, or prosecute sellers, could decrease seller activity on our sites and harm our business.

We pay input VAT on applicable taxable purchases within the various countries in which we operate. In most cases, we are entitled to reclaim this input VAT from the various countries. However, because of our unique business model, the application of the laws and rules that allow such reclamation is sometimes uncertain. A successful assertion by one or more countries that we are not entitled to reclaim VAT could harm our business.

We continue to work with the relevant tax authorities and legislators to clarify eBay's obligations under new and emerging laws and regulations. Passage of new legislation and the imposition of additional tax or tax-related reporting requirements could harm our users and our business. There have been, and will continue to be, substantial ongoing costs associated with complying with the various indirect tax requirements in the numerous markets in which eBay conducts or will conduct business.

Our tickets business is subject to regulatory, competitive, and other risks that could harm this business.

Our tickets business, which includes our StubHub business, is subject to numerous risks. Many jurisdictions have laws and regulations covering the resale of event tickets. Some jurisdictions prohibit the resale of event tickets at prices above the face value of the tickets or at all, or highly regulate the resale of tickets, and new laws and regulations or changes to existing laws and regulations imposing these or other restrictions may be adopted that could limit or inhibit our ability to operate, or our users' ability to continue to use, our tickets business. For example, in 2012, France passed a law prohibiting the habitual resale of event tickets without permission from the event organizer. In addition, the unauthorized resale of football (soccer) tickets is illegal in the U.K., where a StubHub site was recently launched. Regulatory agencies or courts may claim or hold that we are responsible for ensuring that our users comply with these laws and regulations or that we or our users are either subject to licensure or prohibited from reselling event tickets in their jurisdictions. In October 2007, two plaintiffs filed a purported class action lawsuit in North Carolina Superior Court alleging that StubHub sold (and facilitated and participated in the sale) of concert tickets to plaintiffs with the knowledge that the tickets were resold in violation of North Carolina's maximum ticket resale price law (which has been subsequently amended). In February 2011, the trial court granted plaintiffs' motion for summary judgment, concluding that immunity under the Communications Decency Act did not apply. The trial court further held that StubHub violated the North Carolina unfair and deceptive trade practices statute as it pertained to the two named plaintiffs, and certified its decision for immediate appeal to the North Carolina Court of Appeals. In February 2012, the North Carolina Court of Appeals overturned the lower court's decision. The plaintiffs are appealing the appellate court ruling.

Some event organizers and professional sports teams have expressed concern about the resale of their event tickets on our sites. Suits alleging a variety of causes of actions have in the past, and may in the future, be filed against StubHub and eBay by venue owners, competitors, ticket buyers and unsuccessful ticket buyers. Such litigation could result in damage awards, could require us to change our business practices in ways that may be harmful to our business, or could otherwise



negatively affect our tickets business.

Our tickets business is subject to seasonal fluctuations and the general economic and business conditions that impact the sporting events and live entertainment industries. The economic downturn resulted in a decrease in ticket prices sold on our sites and negatively impacted revenue and profits. In addition, a work stoppage, strike or lockout by a professional sports league (for example, the recent National Basketball Association lockout) that results in the cancellation of all or a portion of the games in a league's season would harm our tickets business. In addition, a portion of the tickets inventory sold by sellers on the StubHub website is processed by StubHub in digital form. Systems failures, security breaches, theft or other disruptions that result in the loss of such sellers' tickets inventory could materially harm our tickets business.

Our tickets business also faces significant competition from a number of sources, including ticketing service companies (such as Live Nation Entertainment/Ticketmaster, AEG, Comcast-Spectacor and Tickets.com), event organizers (such as professional sports teams and leagues), ticket brokers and online and offline ticket resellers, such as TicketsNow (which is owned by Live Nation Entertainment) and RazorGator. In addition, some ticketing service companies and event organizers

have begun to issue event tickets through various forms of electronic ticketing systems that are designed to restrict or prohibit the transferability (and by extension, the resale) of such event tickets. Ticketing service companies have also begun to use market-based pricing strategies or dynamic pricing to charge much higher prices than they historically have for premium tickets. Besides charging higher prices, these ticketing service companies have also imposed additional restrictions on transferability for these types of tickets, such as requiring customers to pick up these tickets at will-call with the purchasing credit card. To the extent that event tickets issued in this manner cannot be resold on our websites, or to the extent that we are otherwise unable to compete with these competitors, our tickets business would be harmed. Pursuant to commercial arrangements with certain of its partners, StubHub provides some of its sellers with the ability to conduct integrated resale transactions, which consumers may prefer due to, among other factors, much quicker delivery and lower fraud concerns. These integrations are largely deal-dependent, and these arrangements may not be renewed on favorable terms, or at all.

We depend on key personnel.

Our future performance depends substantially on the continued services of our senior management and other key personnel and our ability to retain and motivate them. We do not have long-term employment agreements with any of our key personnel and do not maintain any “key person” life insurance policies, and some members of our senior management team have fully vested the vast majority of their in-the-money equity incentives. The loss of the services of any of our executive officers or other key employees could harm our business.

Our businesses all depend on attracting and retaining key personnel. Our future success will depend on our ability to attract, train, retain and motivate highly skilled technical, managerial, marketing and customer support personnel. Competition for these personnel is intense, and we may be unable to successfully attract, integrate, or retain sufficiently qualified personnel. In making employment decisions, particularly in the Internet and high-technology industries, job candidates often consider the value of the equity awards they would

receive in connection with their employment.

Fluctuations in our stock price may make it more difficult to retain and motivate employees.

Problems with or price increases by third parties who provide services to us or to our users could harm our business.

A number of parties provide services to us or to our users that benefit us. Such services include seller tools that automate and manage listings, merchant tools that manage listings and interface with inventory management software, storefronts that help our users list items, caching services that make our sites load faster and shipping providers that deliver goods sold on our platform, among others.

In some cases we have contractual agreements with these companies that give us a direct financial interest in their success, while in other cases we have none. PayPal is dependent on the processing companies and banks that link PayPal to the payment card and bank clearing networks.

Similarly, Bill Me Later relies on an unaffiliated lender in providing the Bill Me Later service and also relies heavily on third parties to operate its services, including merchant processors and payment gateways to process transactions. Financial or regulatory issues, labor issues (e.g., strikes or work stoppages) or other problems that prevent these companies from providing services to us or our users could reduce the number of listings on our websites or make completing transactions or payments on our websites more difficult, thereby harming our business.

Price increases by, or service terminations, disruptions or interruptions at, companies that provide services to our users and clients (such as postal and delivery services, and our recently announced plans for a global shipping solution intended to facilitate cross-border transactions between buyers and sellers) could also reduce the number of listings on our websites or make it more difficult for our sellers to complete transactions or for us to timely fulfill and ship products sold on the websites operated by GSI's clients, thereby harming our business. Some third-parties who provide services to us may have or gain market power and be able to increase their prices to us without competitive constraint. In addition, the U.S. Postal Service has announced that it is considering closing thousands of local post offices and ending Saturday mail delivery. While we continue to work with global carriers to offer our sellers a variety of

shipping options and to enhance our shipping experience, these closures could require certain sellers to utilize alternatives which could be more expensive or inconvenient, which could in turn decrease the velocity of trade on our site, thereby harming our business. Any security breach at a company providing services to our users could also adversely affect our customers and harm our business. We have outsourced certain functions to third-party providers, including some customer support and product development functions, which are critical to our operations. If our service providers do not perform satisfactorily, our operations could be disrupted, which could result in user dissatisfaction and adversely affect our velocity of trade, business, reputation and operating results. Although we generally have been able to renew or extend the terms of contractual arrangements with, or if necessary replace, third parties who provide services to us on acceptable terms, there can be no assurance that we will continue to be able to do so in the future. If any third parties were to stop providing services to us on acceptable terms, including as a result of bankruptcy due to poor economic conditions, we may be unable to procure alternatives from other third parties in a timely and efficient manner and on acceptable terms, or at all. In addition, there can be no assurance that third parties who provide services

directly to our users will continue to do so on acceptable terms, or at all.

Customer complaints or negative publicity about our customer support or anti-fraud measures could diminish use of our services.

Customer complaints or negative publicity about our customer support could severely diminish consumer confidence in and use of our services.

Measures that we sometimes take to combat risks of fraud and breaches of privacy and security have the potential to damage relations with our customers or decrease activity on our sites by making our sites more difficult to use or restricting the activities of certain users. These measures heighten the need for prompt and accurate customer support to resolve irregularities and disputes. Effective customer support requires significant personnel expense, and if not managed properly, this expense could significantly impact our profitability. Failure to manage or train our own or outsourced customer support representatives properly could compromise our ability to handle customer complaints effectively. Negative publicity about, or negative experiences with, customer support for any of our businesses could cause our reputation to suffer or affect consumer confidence in our brands individually or as a whole. Because PayPal is providing a financial service and operating in a more regulated environment, PayPal must provide both telephone and email customer support and resolve certain customer contacts within shorter time frames. As part of PayPal's program to reduce fraud losses and prevent money laundering, PayPal may temporarily restrict the ability of customers to withdraw their funds if those funds or the customer's account activity are identified by PayPal's risk models as suspicious. PayPal has in the past received negative publicity with respect to its customer support and account restrictions, and has been the subject of purported class action lawsuits and state attorney general inquiries alleging, among other things, failure to resolve account restrictions promptly. In the second quarter of 2010, two putative class-action lawsuits (Devinda Fernando and Vadim Tsigel v. PayPal, Inc.; and Moises Zepeda v. PayPal, Inc.) were filed in the U.S. District Court in the Northern District of California. These lawsuits contain allegations that PayPal improperly held users' funds or otherwise

improperly limited user's accounts. These lawsuits seek damages as well as changes to PayPal's practices among other remedies. A determination that there have been violations of laws relating to PayPal's practices could expose PayPal to significant liability. Any changes to PayPal's practices resulting from these lawsuits could require PayPal to incur significant costs and to expend product resources, which could delay other planned product launches or improvements and further harm our business. If PayPal is unable to provide quality customer support operations in a cost-effective manner, PayPal's users may have negative experiences, PayPal may receive additional negative publicity, its ability to attract new customers may be damaged and it could become subject to additional litigation. As a result, current and future revenues could suffer, losses could be incurred and its operating margins may decrease.

Our industries are intensely competitive.

#### Marketplaces

Our Marketplaces businesses currently or potentially compete with a large number of online and offline companies providing particular categories of goods and/or broader ranges of goods. The Internet provides new, rapidly evolving and intensely competitive channels for the sale of all types of goods. We expect competition to intensify in the future. The barriers to entry into these channels can be relatively low, and current offline and new competitors, including small businesses who want to create and promote their own stores, can easily launch online sites at nominal cost using commercially available software or partnering with any one of a number of successful ecommerce companies. Online and offline businesses increasingly are competing with each other, consumers who purchase or sell goods and services through our Marketplaces businesses have more and more alternatives, and merchants have more channels to reach consumers.

Our competitors include the vast majority of traditional department, warehouse, boutique, discount and general merchandise stores (as well as the online operations of these traditional retailers), online retailers, online classified services and other shopping channels such as offline and online home shopping networks. In the U.S., these include Wal-Mart, Target, Sears, Macy's, JC Penney, Costco, Office Depot, Staples, OfficeMax, Sam's Club, Amazon.com (which continues to expand into

new geographies and lines of business), Buy.com (owned by Rakuten), AOL.com, Yahoo! Shopping, MSN, QVC and Home Shopping Network, among others.

A number of companies offer a variety of services that provide channels for buyers to find and buy items from sellers of all sizes, including online aggregation and classifieds websites such as craigslist (in which we own a minority equity stake), Google Merchant Center, Oodle.com and a number of international websites operated by Schibsted ASA. In certain markets, our fixed-price listing and traditional auction-style listing formats are increasingly being challenged by other formats, such as classifieds. Our classifieds websites, including Den Blå Avis, BilBasen, eBay Classifieds (including eBay Anuncios, eBay Kleinanzeigen and eBay Annunci), Gumtree, Kijiji, LoQUo, Marktplaats.nl, mobile.de and Alamaula, offer classifieds listings in the U.S. and a variety of local international markets. In many markets in which they operate, including in the U.S., our classified platforms compete against more established online and offline classifieds platforms.

Our online shopping comparison site, Shopping.com, competes with sites such as Bing Shopping, Buy.com, Google Product Search/Google Shopping, Nextag.com, Pricegrabber.com, Shopzilla and Yahoo! Product Search, which offer shopping search engines that allow consumers to search the Internet for specified products. Recent legal developments may affect the utility of shopping comparison sites if manufacturers limit variation in product pricing. In addition, sellers are increasingly utilizing multiple sales channels, including the acquisition of new customers by paying for search-related advertisements on horizontal search engine sites such as Bing, Google, Yahoo!, Naver and Baidu. We use product search engines and paid search advertising to help users find our sites, but these services also have the potential to divert users to other online shopping destinations. Consumers may choose to search for products and services with a horizontal search engine instead of our sites, and horizontal search engines may send users to other shopping destinations instead of our sites.

We also compete with many local, regional, and national specialty retailers and exchanges in each of the major categories of products offered on our site. For example, category-specific competitors to offerings in our Motors (Parts and Accessories) category include: Advanceautoparts.com, Auto Parts Warehouse, AutoAnything, Autozone, Car Domain, Discount Tire Direct, jcwhitney.com, Motorcycle Superstore, O'Reilly Auto Parts, Rockauto.com, Tirerack.com, newspaper and online classifieds, used car dealers, swap meets, car clubs and vehicle recyclers.

Our international Marketplaces websites compete with similar online and offline channels in each of their vertical categories in most countries. In addition, they compete with general online ecommerce sites such as: Amazon, Rakuten.de, Quelle and Otto in Germany; Leboncoin.fr and PriceMinister (owned by Rakuten) in France; Taobao in China; Tradus (owned by Naspers) in Poland; Yahoo-Kimo in Taiwan; Lotte, Naver and 11th Street in South Korea; Trading Post, OZtion and Aussie Bidder in Australia; and Amazon and Play.com (owned by Rakuten) in the United Kingdom and other countries. In some of these



countries, there are online sites that have much larger customer bases and greater brand recognition than we do, as well as competitors that may have a better understanding of local culture and commerce than we do. As our businesses in developing countries grow, we increasingly may compete with domestic competitors which have advantages we do not possess, such as a greater ability to operate under local regulatory authorities.

The principal competitive factors for Marketplaces include the following:

- ability to attract, retain and engage buyers and sellers;
- volume of transactions and price and selection of goods;
- trust in the seller and the transaction;
- customer service; and
- brand recognition.

With respect to our online competition, additional competitive factors include:

- community cohesion, interaction and size;
- website ease-of-use and accessibility;
- system reliability;
- reliability of delivery and payment;
  - level of service fees;
  - and
- quality of search tools.

We may be unable to compete successfully against current and future competitors. Some current and potential competitors have longer operating histories, larger customer bases and greater brand recognition in other business and Internet sectors than we do. Other online ecommerce sites may be acquired by, receive investments from, or enter into other commercial relationships with well-established and well-financed companies. As a result, some of our competitors with other revenue sources may be able to devote more resources to marketing and promotional campaigns, adopt more aggressive pricing policies and devote substantially more resources to website and systems development than we can. Some of our competitors may offer or continue to offer free shipping, favorable return policies or other transaction-related services which improve the user experience on their sites and which could be impractical or inefficient for eBay sellers to match. Our competitors may be able to innovate faster than we can, and new technologies may further increase the competitive pressures by

enabling our competitors to offer more efficient or lower-cost services. Our competitors may be able to use the advantages of brick-and-mortar stores or other sorts of physical presence.

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In addition, certain established retailers may encourage manufacturers to limit or cease distribution of their products to dealers who sell through online channels such as eBay. Retailers may attempt to use existing or future government regulation to prohibit or limit online commerce in certain categories of goods or services.

Manufacturers may attempt to enforce minimum resale price maintenance or minimum advertised price arrangements to prevent distributors from selling on our websites or on the Internet generally, or at prices that would make our site attractive relative to other alternatives. For example, in June 2012, Adidas Group announced that it intends to restrict its dealers, on a global basis, from listing and selling Adidas and Reebok products on sites including eBay.com. The adoption by manufacturers of policies, or the adoption of new laws or regulations or interpretations of existing laws or regulations by government authorities, in each case discouraging or restricting the sales of goods or services over the Internet, could force eBay users to stop selling certain products on our websites. Increased competition or anti-Internet distribution policies or regulations may result in reduced operating margins, loss of market share and diminished value of our brands. As we respond to changes in the competitive environment, we may, from time to time, make pricing, service or marketing decisions or acquisitions that may be controversial with and lead to dissatisfaction among some of our sellers, which could reduce activity on our websites and harm our profitability.

Although we have established Internet traffic arrangements with several large online services and search engine companies, these arrangements may not be renewed on favorable terms or these companies may decide to promote competitive services. Even if these arrangements are renewed, they may not result in increased usage of our sites. In addition, companies that control user access to transactions through network access, Internet browsers, mobile networks or search engines could promote our competitors, channel current or potential users to their vertically integrated electronic commerce sites or their advertisers' sites, attempt to restrict access to our sites, or charge us substantial fees for inclusion. Search engines are increasingly becoming a starting point for online

shopping, and as the costs of operating an online store continue to decline, online sellers may increasingly sell goods through multiple channels, which could reduce the number and value of transactions these sellers conduct through our sites.

#### PayPal

The markets for PayPal's products and services are intensely competitive and are subject to rapid technological change, including but not limited to: mobile payments, electronic funds transfer networks allowing Internet access, cross-border access to networks, creation of new networks, expansion of prepaid cards and bill pay networks. PayPal faces competition and potential competition from existing online and offline payment methods, including, among others:

- payment card processors that offer their services to online merchants and multi-channel merchants, including American Express, Chase Paymentech, First Data, Wells Fargo, WorldPay, Barclays Merchant Services, Global Payments, Inc., Square and Stripe, and payment gateways, including CyberSource and Authorize.net (both owned by Visa), Braintree and First Data;
- money remitters such as MoneyGram, Western Union, Global Payments, Inc. and Euronet;
- bill payment services, including CheckFree, a subsidiary of Fiserv;
- processors that provide online merchants the ability to offer their customers the option of paying for purchases from their bank account or paying on credit, including ClearXchange (a joint venture among Wells Fargo, Bank of America and JP Morgan Chase), Western Union's WU Pay, Dwolla, Acculynk, TeleCheck (a subsidiary of First Data), iDEAL in the Netherlands, Sofortuberweisung in Germany and the recently-announced MyBank pan-European initiative;
- providers of "digital wallet" services that offer customers the ability to pay online or on mobile devices through a variety of payment methods, including the new V.me announced by Visa, American Express's Serve and Google Wallet;
- providers of traditional payment methods, particularly credit cards, checks, money orders and Automated Clearing House transactions;
- issuers of stored value targeted at online payments, including VisaBuxx, NetSpend, Green Dot,

PayNearMe and UKash;  
mobile payments, including ISIS, Buyster, Mpass,  
O2 Money, Project Oscar, Boku, Venmo and  
Crandy, many of which are owned by or supported  
by major mobile carriers;  
Amazon Payments, which offers merchants the  
ability to accept credit card- and bank-funded  
payments from Amazon's base of online and mobile  
customers on the merchant's own website;  
• Google Checkout, which has been integrated  
into the Google Wallet service and which  
enables the online and mobile payment of  
merchants using credit cards;  
AliPay, an online payment services provider which  
operates primarily in China but has announced  
plans to expand internationally;  
• Other providers of online account-based  
payments, such as Skrill (formerly known  
as MoneyBookers), ClickandBuy (owned  
by Deutsche Telekom), Barclays Pingit  
and Kwixo (primarily in the EU), Paymate  
and Visa PayClick in Australia;  
payment services targeting users of social networks  
and online gaming, including PlaySpan (which Visa  
has

acquired) and Boku; payment services enabling banks to offer their online banking customers the ability to send and receive payments through their bank account, including ZashPay from Fiserv and Popmoney from CashEdge, both of which have announced collaboration agreements with Visa (CashEdge has been acquired by Fiserv); and online shopping services that provide special offers linked to a specific payment provider, such as Visa's RightCliq, MasterCard MarketPlace, TrialPay and Tapjoy.

Some of these competitors have longer operating histories, significantly greater financial, technical, marketing, customer service and other resources, greater brand recognition, or a larger base of customers than PayPal, and may be also be able to leverage other affiliated businesses for competitive advantage. PayPal's competitors may be able to innovate and respond to new or emerging technologies and changes in customer requirements faster and more effectively than PayPal. Some of these competitors may also be subject to less burdensome licensing, anti-money laundering, counter-terrorist financing and other regulatory requirements than PayPal, which is subject to additional regulations based on, among other factors, its licensure as a bank in Luxembourg. They may devote greater resources to the development, promotion, and sale of products and services than PayPal, and they may offer lower prices. For example, Google Checkout (now integrated into Google Wallet) has in the past offered free payments processing on transactions in an amount proportionate to certain advertising spending with Google. Competing services tied to established banks and other financial institutions may offer greater liquidity and engender greater consumer confidence in the safety and efficacy of their services than PayPal. In addition, in certain countries, such as Germany, Netherlands and Australia, electronic funds transfer is a leading method of payment for both online and offline transactions. As in the U.S., established banks and other financial institutions that do not currently offer online payments could quickly and easily develop such a service.

The principal competitive factors for PayPal include the following:

- ability to attract, retain and engage both buyers and sellers with relatively low marketing expense;
- ability to show that sellers will achieve incremental sales by offering PayPal;
- security of transactions and the ability for buyers to use PayPal without sharing their financial information with the seller;
- low fees and simplicity of fee structure;
- ability to develop services across multiple commerce channels, including mobile payments and payments at the physical point of sale;
- trust in PayPal's dispute resolution and buyer and seller protection programs;
- customer service; and
- brand recognition.

With respect to our online competition, additional competitive factors include:

- website and onboarding ease-of-use and accessibility;
- system reliability;
- data security; and
- quality of developer tools such as our Application Programming Interfaces and Software Development Kits.

Some of PayPal's competitors, such as Wells Fargo, First Data, American Express and Royal Bank of Scotland, also provide processing or foreign exchange services to PayPal. If PayPal were to seek to expand the financial products that it offers, either alone or through a commercial alliance or an acquisition, these processing and foreign exchange relationships could be negatively affected, or these competitors and other processors could make it more difficult for PayPal to deliver its services.

#### GSI

Our GSI business segment has two main businesses: ecommerce services and interactive marketing services.

#### Ecommerce Services

The market for the development and operation of ecommerce services that enable companies to operate ecommerce businesses and integrate their ecommerce businesses into their multichannel retail offerings is continuously evolving and intensely competitive. In our ecommerce services business,

we face competition from in-house ecommerce solutions, technology and service providers which supply one or more components of an ecommerce solution, and other providers of integrated ecommerce solutions. Many of our prospective ecommerce services clients evaluate managing all or some aspects of an ecommerce operation with internal resources. As a result, we often compete with in-house solutions promoted and supported by internal information technology staffs, merchandising groups, and other internal corporate constituencies as well

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as with technology and service providers that supply one or more components of an ecommerce solution that allow prospective clients to develop and operate their ecommerce business in-house. This group of providers may include the prospective client itself and companies that offer: Web platforms (e.g., Art Technology Group (which is owned by Oracle), IBM, Demandware and Microsoft); customer care/call center services (e.g., West Communications, Sykes Enterprises, and Convergys); fulfillment and logistics (e.g., PFS Web, Innotrac, DHL, and UPS); and systems integrators and technology providers (e.g., Accenture, EDS, Sapient, Infosys, Oracle and IBM).

We believe that we compete with ecommerce services competitors primarily on the basis of the following:

- offering the choice of a complete integrated solution or a component-based solution;
- promoting the client's brand and business, rather than our own;
- providing scale and operating leverage with an enterprise focus;
- establishing a commitment to invest in and enhance our platform; and
- aligning our financial interests with those of our clients.

#### Interactive Marketing Services

The market for interactive marketing services is continuously evolving and intensely competitive. In our interactive marketing services business, we face competition from other providers of interactive marketing services, other providers of traditional marketing services and in-house marketing departments, as our prospective interactive marketing services clients evaluate managing their marketing services with internal resources as well as through interactive marketing agencies. As a result, we often compete with in-house solutions promoted and supported by internal marketing departments as well as with service providers that supply one or more interactive marketing services. This group of providers may include the prospective client itself and companies that offer: email management and data aggregation (e.g., Experian, Harte-Hanks and Epsilon); online marketing and design services (digital marketing services agencies

such as Omnicom Group, WPP Group, Publicis and the Interpublic Group of Companies); and other interactive marketing services (e.g., Google, LinkShare (owned by Rakuten), TradeDoubler, and ValueClick). Low barriers to entry in the interactive marketing industry could also increase the number of competitors our interactive marketing services business may face.

We believe that we compete with interactive marketing services competitors primarily on the basis of the following:

offering digital marketing solutions that are integrated with our ecommerce services platform,

• which we believe provides a more strategic, cohesive and optimized approach to growing ecommerce businesses; and

• providing services that utilize proprietary technology to promote stronger customer engagement designed to increase clients' return on investment.

Our ecommerce services and interactive marketing services businesses have competitors with longer operating histories, larger customer bases, greater brand recognition and greater financial, marketing and other resources. Those competitors may be able to secure components of their technology and services on more favorable terms and devote more resources to technology development and marketing than our ecommerce services and interactive marketing services business. In addition, as we expand our ecommerce services and interactive marketing services businesses internationally, we will face increased competition from local companies which may have a greater understanding of, and focus on, the local customer.

We are subject to regulatory activity and antitrust litigation under competition laws.

We receive scrutiny from various government agencies under U.S. and foreign competition laws. Some jurisdictions also provide private rights of action for competitors or consumers to assert claims of anti-competitive conduct. Other companies and government agencies have in the past and may in the future allege that our actions violate the antitrust or competition laws of the U.S., individual states, the European Commission, or other countries, or otherwise constitute unfair competition. Contractual agreements with buyers, sellers, or other companies could give rise to regulatory action or antitrust litigation. Also, our unilateral business practices could give rise to regulatory action or antitrust

litigation. Some regulators, particularly those outside of the U.S., may perceive our business to have so much market power that otherwise uncontroversial business practices could be deemed anticompetitive. For example, in the U.S., we have been sued by a plaintiff representing a putative class of sellers who alleges that we have illegally monopolized a market for online auctions. In Korea, the national competition authority has investigated allegations that we have engaged in illegal exclusive conduct and rendered a decision against us in October 2010. The main case was conclusively resolved in our favor, and a related administrative action is on appeal. A further investigation was concluded by the Seoul prosecutor's office, which chose not to bring any charges. The competition authorities in Germany and Australia have conducted investigations (now completed) of various actions taken by our businesses. Such claims and investigations, even if without foundation, typically are very expensive to defend, involve negative publicity and substantial diversion of management time and effort, and could result in significant judgments against us.

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In several jurisdictions, we have taken actions designed to improve the security of transactions and the quality of the user experience on our websites. Beginning in June 2008, we have required users in the U.K. to offer PayPal as a payment alternative on most transactions on our localized U.K. website, and since October 2008, we have required sellers on eBay.com to accept one or more accepted payment methods (currently PayPal, credit or debit cards processed through Internet merchant accounts, ProPay, Skrill (formerly known as Moneybookers) and Paymate) and no longer allow any forms of paper payment, including checks and money orders, to be listed by sellers in the U.S. for most categories of items. While these initiatives are intended to improve and make safer our users' buying experience and/or increase activity on our sites, certain users may be negatively affected by or react negatively to these changes, and may allege that we have (and are abusing) market power. We have faced inquiries from government regulators in various jurisdictions related to such actions. For example, in 2008, both the Australian Competition and Consumer Commission and the Reserve Bank of Australia reviewed our policies requiring sellers to offer PayPal as a payment alternative on most transactions on our localized Australian website and precluding sellers from imposing a surcharge or any other fee for accepting PayPal or other payment methods. We may face similar inquiries from other government regulators in the future. Negative reactions to these changes by our users or government authorities could, among other things, force us to change our operating practices in ways that could harm our business, operating results and profitability.

Our business may be adversely affected by factors that cause our users to spend less time on our websites or mobile applications, including seasonal factors, national events and increased usage of other websites.

Anything that diverts our users from their customary level of usage of our websites or mobile applications could adversely affect our business.

We would therefore be adversely affected by geopolitical events such as war, the threat of war, or terrorist activity, and natural disasters, such as hurricanes or earthquakes. Similarly, our results of operations historically have experienced seasonal

fluctuations because many of our users reduce their activities on our websites with the onset of good weather during the summer months, and on and around national holidays. In particular, our GSI business is highly seasonal, with the fourth quarter holiday season accounting for a disproportionate amount of GSI's net revenues due to consumers increasing their purchases and businesses increasing their advertising to consumers during that period, and any factors that limit or dampen consumer spending during the fourth quarter holiday season could harm our GSI business. In addition, increased usage of social networking or other entertainment websites or mobile applications may decrease the amount of time users spend on our websites or mobile applications, which could adversely affect our financial results.

Our failure to cost-effectively manage certain aspects of our business could harm us.

We have expanded significantly our headcount, facilities and infrastructure in the U.S. and internationally, and anticipate that further expansion in certain areas will be required for some of our businesses. We are also increasing our product and service offerings across our businesses. This expansion has increased (and we expect will continue to increase), the complexity of our businesses and has placed (and we expect will continue to place) a significant strain on our management, operational, and financial resources.

The areas that are put under strain by our growth include the following:

- Customer Account Billing. Our revenues depend on prompt and accurate billing processes. Our failure to grow our transaction-processing capabilities to accommodate the increasing number of transactions that must be billed on our and our subsidiaries' websites would harm our business and our ability to collect revenue.

• Customer Service. We continue to focus on providing better and more efficient customer support to our users. We intend to provide an increased level of support (including an increasing amount of telephone support) in a cost-effective manner. If we are unable to provide customer support in a cost-effective manner, users of our websites may have negative experiences, current and future revenues could suffer, our costs may

increase and our operating margins may decrease.

We must continue to effectively hire, train and manage new employees. If our new hires perform poorly, if we are unsuccessful in hiring, training, managing and integrating new employees, or if we are unsuccessful in retaining our existing employees, our business may be harmed.

Our current and planned personnel, systems, procedures and controls may not be adequate to support our future operations. To effectively manage the expected growth of our operations and personnel, we will need to continue to improve our transaction processing, operational and financial systems, procedures and controls. This is a special challenge as we acquire new operations with different and incompatible systems. Any capital investments that we may make will increase our cost base, which will make it more difficult for us to offset any future revenue shortfalls by expense reductions in the short term. Failure to implement these improvements could limit our ability to manage our growth and adversely affect our operating results.

We may have exposure to greater than anticipated tax liabilities.

The determination of our worldwide provision for income taxes and other tax liabilities requires estimation and significant judgment, and there are many transactions and calculations where the ultimate tax determination is uncertain. Like many other multinational corporations, we are subject to tax in multiple U.S. and foreign tax jurisdictions and have structured our operations to reduce our effective tax rate. Our determination of our tax liability is always subject to audit and review by applicable domestic and foreign tax authorities, and we are currently undergoing a number of investigations, audits and reviews by taxing authorities throughout the world, including with respect to our tax structure. Any adverse outcome of any such audit or review could have a negative effect on our business, operating results and financial condition, and the ultimate tax outcome may differ from the amounts recorded in our financial statements and may materially affect our financial results in the period or periods for which such determination is made. While we have established reserves based on assumptions and estimates that we believe are reasonable to cover such eventualities, these reserves may prove to be insufficient in the event that any taxing authority is successful in asserting tax positions that are contrary to our positions.

In addition, the economic downturn reduced tax revenues for U.S. federal and state governments, and a number of proposals to increase taxes from corporate entities are being considered at various levels of government. Among the options have been a range of proposals included in the tax and budget policies recommended to the U.S. Congress by the U.S. Department of the Treasury to modify the federal tax rules related to the imposition of U.S. federal corporate income taxes for companies operating in multiple U.S. and foreign tax jurisdictions. If such proposals are enacted into law, this could increase our effective tax rate. A number of U.S. states have likewise attempted to increase corporate tax revenues by taking an expansive view of corporate presence to attempt to impose corporate income taxes and other direct business taxes on companies that have no physical presence in their state. Many U.S. states are also altering their apportionment formulas to increase the amount of taxable income/loss attributable to their state from

certain out-of-state businesses. Companies that operate over the Internet, such as eBay, are a target of some of these state efforts. If more states are successful in applying direct taxes to Internet companies that do not have a physical presence in the state, this could increase our effective tax rate. Our integrated X.commerce platform, which is open to third-party developers, subjects us to additional risks.

In 2009, we launched the PayPal Developer Platform to enable third-party developers to access a wide variety of PayPal product and programming code specifications and to connect to select PayPal payment application programming interfaces (APIs). We also began providing a software tool kit for building mobile payments applications, and enabling third-party developers to access certain APIs with respect to our Marketplaces platforms. In June 2011, we launched X.commerce, our integrated open commerce platform initiative, which includes our eBay Developer Program, the PayPal Developer Network and Magento, which provides open source ecommerce platforms and which we acquired in August 2011. There can be no assurance that merchants and third-party developers will develop and maintain applications and services on our open commerce platforms on a timely basis or at all, and a number of factors could cause such third-party developers to curtail or stop development for our platforms. In addition, our business is subject to many regulatory restrictions, which may be contravened by such third party applications. If this were to occur, we could be liable for the regulatory failure and our business could be adversely affected.

There are risks associated with our indebtedness. At June 30, 2012, we had approximately \$12 million in secured indebtedness outstanding, \$550 million of senior unsecured indebtedness outstanding under our \$2.0 billion commercial paper program, and approximately \$1.5 billion of other senior unsecured indebtedness outstanding. We also have a \$3.0 billion revolving credit facility, under which we maintain \$2.0 billion of available borrowing capacity in order to repay commercial paper borrowings in the event we are unable to repay those borrowings from other sources when they come due. As of June 30, 2012, no borrowings or letters of credit were outstanding under this revolving credit facility and, accordingly, \$1.0 billion of borrowing capacity was available for



other purposes permitted by this credit facility.

We may incur additional indebtedness in the future, including under our commercial paper program and revolving credit facility or through public or private offerings of debt securities. Our outstanding indebtedness and any additional indebtedness we incur may have important consequences, including, without limitation, the following:

• we will be required to use cash to pay the principal of and interest on our indebtedness;

• our indebtedness and leverage may increase

- our vulnerability to adverse changes in general economic and industry conditions, as well as to competitive pressure;

• our ability to obtain additional financing for working capital, capital expenditures, acquisitions, share repurchases and other general corporate and other purposes may be limited; and

• our flexibility in planning for, or reacting to, changes in our business and our industry may be limited.

Our ability to make payments of principal of and interest on our indebtedness depends upon our future performance, which will be subject to general economic conditions, industry cycles and financial, business and other factors affecting our consolidated results of operations and financial condition, many of which are beyond our control. If we are unable to generate sufficient cash flow from operations in the future to service our debt, we may be required to, among other things:

- repatriate funds at substantial tax cost;
- seek additional financing in the debt or equity markets;
- refinance or restructure all or a portion of our indebtedness;
- sell selected assets;
- reduce or delay planned capital expenditures; or
- reduce or delay planned operating expenditures.

Such measures might not be sufficient to enable us to service our debt. In addition, any such financing, refinancing or sale of assets might not be available on economically favorable terms or at all.

We depend on the continued growth of online and mobile commerce.

The business of selling goods over the Internet and mobile networks, particularly through online trading, is dynamic and relatively new. Concerns about fraud, privacy and other problems may discourage additional consumers from adopting the Internet or mobile devices as modes of commerce, or may prompt consumers to offline channels. In countries such as the U.S., Germany, Korea and the U.K., where our services and online commerce generally have been available for some time and the level of market penetration of our services is high, acquiring new users for our services may be more difficult and costly than it has been in the past. Moreover, the growth rates of Internet users is slowing in many countries where we have a significant presence. In order to expand our user base, we must appeal to and acquire consumers who historically have used traditional means of commerce to purchase goods and may prefer Internet analogues to such traditional retail means, such as the retailer's own website, to our offerings. If these consumers prove to be less active than our earlier users due to lower levels of willingness to use the Internet or mobile devices for commerce for

any reason, including lack of access to high-speed communications equipment, congestion of traffic on the Internet, Internet or mobile network outages or delays, disruptions or other damage to users' computers or mobile devices, and we are unable to gain efficiencies in our operating costs, including our cost of acquiring new customers, our business could be adversely impacted.

Our businesses depend on continued and unimpeded access to the Internet, as well as access to mobile networks. Internet service providers may be able to block, degrade, or charge us or our users additional fees for our offerings, which could harm our business.

Our customers rely on access to the Internet or mobile networks to use our products and services. In many cases, that access is provided by companies that compete with at least some of our offerings, including incumbent telephone companies, cable companies, mobile communications companies and large Internet service providers. Some of these providers have stated that they may take measures that could degrade, disrupt, or increase the cost of customers' use of our offerings by restricting or prohibiting the use of their infrastructure to support or facilitate our offerings, or by charging increased fees to us or our users to provide our offerings. Mobile operators or operating system providers could block or place onerous restrictions on our ability to offer our mobile applications in their mobile application stores. Internet service providers or mobile networks could attempt to charge us each time our customers use our offerings. Worldwide, a number of companies have announced plans to take such actions or are selling products designed to facilitate such actions. The United States Federal Communications Commission enacted rules in December 2010 (Preserving the Open Internet Broadband Industry Practices [FCC-10-201] ) establishing baseline restrictions that would regulate the ability of Internet access companies to interfere with Internet traffic transported over wired and wireless networks. These FCC rules are expected to be reviewed by the Federal courts in 2012. Pending greater regulatory and judicial clarity, any interference with our offerings or higher charges for access to our offerings, whether paid by us or by our customers, could cause us to lose existing customers, impair our ability to attract new customers and harm our revenue and growth.

Our business depends on the development and maintenance of the Internet infrastructure. The success of our services will depend largely on the development and maintenance of the Internet infrastructure. This includes maintenance of a reliable network backbone with the necessary speed, data capacity, and security, as well as timely development of complementary products, for providing reliable Internet access and services. The Internet has experienced, and is likely to continue to experience, significant growth in the numbers of users and amount of traffic. The Internet infrastructure may be unable to support such demands. In addition, increasing numbers of users, increasing bandwidth requirements, or problems caused by “viruses,” “worms,” malware and similar programs may harm the performance of the Internet. The

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backbone computers of the Internet have been the targets of such programs. From time to time, the Internet has experienced, and is likely to continue to experience, a variety of outages and other delays as a result of damage to portions of its infrastructure. Any such outages and delays could reduce the level of Internet usage generally as well as the level of usage of our services, which could adversely impact our business.

We may be unable to protect or enforce our own intellectual property rights adequately.

We regard the protection of our intellectual property, including our trademarks (particularly those covering the eBay and PayPal names), patents, copyrights, domain names, trade dress and trade secrets as critical to our success. We aggressively protect our intellectual property rights by relying on federal, state and common law rights in the U.S. and internationally, as well as a variety of administrative procedures. We also rely on contractual restrictions to protect our proprietary rights in products and services. We have entered into confidentiality and invention assignment agreements with our employees and contractors and confidentiality agreements with parties with whom we conduct business in order to limit access to and disclosure of our proprietary information. Effective intellectual property protection may not be available in every country in which our products and services are made available, and contractual arrangements and the other steps we have taken to protect our intellectual property may not prevent third parties from infringing or misappropriating our technology or deter independent development of equivalent or superior technologies or other intellectual property rights by others.

We pursue the registration of our domain names, trademarks and service marks in the U.S. and internationally. Additionally, we have filed U.S. and international patent applications covering certain aspects of our proprietary technology. Effective trademark, copyright, patent, domain name, trade dress and trade secret protection is very expensive to maintain and may require litigation. We must protect our intellectual property rights and other proprietary rights in an increasing number of jurisdictions, a process that is expensive and time consuming and may not be successful in every location. We may not be able to discover or

determine the extent of any unauthorized use of our proprietary rights. We have licensed in the past, and expect to license in the future, certain of our proprietary rights, such as trademarks or copyrighted material, to others. These licensees may take actions that diminish the value of our proprietary rights or harm our reputation.

We are subject to the risks of owning real property.

We own real property, including land and buildings related to our operations. We have little experience in managing real property. Ownership of this property subjects us to a number of additional risks, including:

the possibility of environmental contamination and the costs associated with fixing any environmental problems;

- disruptions to our operations resulting from possible natural disasters, interruptions in utilities and similar events;
- adverse changes in the value of these properties due to interest rate changes, changes in the commercial property markets, or other factors;

the possible need for structural improvements in order to comply with zoning, seismic, disability law, or other requirements; and

possible disputes with tenants, neighboring owners, or others.

Some anti-takeover provisions may affect the price of our common stock.

Our Board of Directors has the authority to issue up to 10,000,000 shares of preferred stock and to determine the preferences, rights and privileges of those shares without any further vote or action by the stockholders. The rights of the holders of common stock may be harmed by rights granted to the holders of any preferred stock that may be issued in the future. Some provisions of our certificate of incorporation and bylaws could have the effect of making it more difficult for a potential acquirer to acquire a majority of our outstanding voting stock or take control of our board of directors. These include provisions that provide for a classified board of directors through our annual meeting of stockholders in 2015, prohibit stockholders from taking action by written consent and restrict the ability of stockholders to call special meetings. We are also subject to provisions of Delaware law that prohibit us from engaging in any business combination with any interested

stockholder (as defined by Delaware law) for a period of three years from the date the person became an interested stockholder, unless certain conditions are met. This restriction could have the effect of delaying or preventing a change of control.

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Item 2: Unregistered Sales of Equity Securities and Use of Proceeds

Stock repurchase activity during the three months ended June 30, 2012 was as follows:

Period Ended	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Maximum Dollar Value that May Yet be Purchased Under the Programs (1)
April 30, 2012	1,188,300	\$39.64	1,188,300	\$593,507,940
May 31, 2012	6,404,090	\$39.49	6,404,090	\$340,611,522