Global Indemnity Ltd
Form DEF 14A
April 30, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

Filed by the Registrant Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to Rule 14a-12

GLOBAL INDEMNITY LIMITED

(Name of Registrant as Specified in Its Charter)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1. Title of each class of securities to which transaction applies:

2. Aggregate number of securities to which transaction applies:

3. Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

4. Proposed maximum aggregate value of transaction:

5. Total fee paid:

Fee paid previously with preliminary materials:

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1. Amount previously paid:

2. Form, Schedule or Registration Statement No.:

3. Filing Party:

4. Date Filed:

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GLOBAL INDEMNITY LIMITED

NOTICE OF ANNUAL GENERAL MEETING OF SHAREHOLDERS

June 13, 2018

TIME	1:00 P.M. (Bermuda Time) on Wednesday, June 13, 2018.
PLACE	Global Indemnity Reinsurance Company, Ltd., Seon Place, 141 Front Street, Hamilton, HM 19 Bermuda. You will be able to attend the 2018 Annual General Meeting in person by coming to Global Indemnity Reinsurance Company, Ltd. If you plan to attend the 2018 Annual General meeting in person, you will need to bring photo identification and the admission ticket attached to your proxy card. If you hold your shares through a bank, broker or other nominee, in addition to photo identification, please also bring with you a letter from the bank, broker or other nominee confirming your ownership as of the record date (April 3, 2018). You will not be able to vote shares held through a bank, broker or other nominee in person at the 2018 Annual General Meeting unless you obtain a proxy, executed in your favor, from the record holder (i.e. bank, broker or other nominee) giving you the right to vote at the 2018 Annual General Meeting. For directions to the 2018 Annual General Meeting, please call +1 (441) 292-6400.
ITEMS OF BUSINESS	(1) By separate resolutions, to elect as directors the following individuals to the Board of Directors of Global Indemnity Limited:

(a) Saul A. Fox (b) Joseph W. Brown (c) Seth J. Gersch

(d) John H. Howes (e) Jason B. Hurwitz (f) Bruce R. Lederman

(g) Cynthia Y. Valko

(2) To act on various matters concerning Global Indemnity Reinsurance Company, Ltd. and authorization of Global Indemnity Limited to vote, as proxy, on such matters.

(3) To ratify the appointment of Global Indemnity Limited s independent auditors and to authorize our Board of Directors acting through its Audit Committee to determine its fees.

(4) To approve the Global Indemnity Limited 2018 Share Incentive Plan.

(5) To transact such other business as may properly be brought before the 2018 Annual General Meeting or any adjournments or postponements thereof.

The foregoing items, including the votes required in respect of each item, are more fully described and the full text of the proposals are set forth in the proxy statement accompanying this Notice of Annual General Meeting of Shareholders.

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RECORD DATE	The Board of Directors has fixed the close of business (Eastern) on April 3, 2018 as the record date for the 2018 Annual General Meeting. All shareholders of record at that time are entitled to notice of and are entitled to vote in person or by proxy at the 2018 Annual General Meeting or any adjournment or postponement thereof.
VOTING BY PROXY	You may vote your shares in person or by mail, by completing, signing and returning the enclosed proxy card by mail. For shares held through a bank, broker or other nominee, you may vote by submitting voting instructions to your bank, broker or other nominee.

By Order of the Board of Directors

STEPHEN W. RIES

Secretary

April 30, 2018

Registered Office:

27 Hospital Road

George Town, Grand Cayman KY1-9008

Cayman Islands

YOUR VOTE IS IMPORTANT. TO ENSURE YOUR REPRESENTATION AT THE MEETING, PLEASE SUBMIT YOUR PROXY AS PROMPTLY AS POSSIBLE. IF YOU ARE A SHAREHOLDER WHO IS ENTITLED TO ATTEND THE MEETING AND VOTE, THEN YOU ARE ALSO ENTITLED TO APPOINT A PROXY OR PROXIES TO ATTEND AND VOTE ON YOUR BEHALF. THE PROXY IS NOT REQUIRED TO BE A SHAREHOLDER OF THE COMPANY. YOU MAY REVOKE A PREVIOUSLY DELIVERED PROXY AT ANY TIME PRIOR TO THE 2018 ANNUAL GENERAL MEETING BY FOLLOWING THE INSTRUCTIONS IN THE ATTACHED PROXY STATEMENT. IF YOU ATTEND THE MEETING, YOU MAY VOTE IN PERSON BY FOLLOWING THE INSTRUCTIONS IN THE ATTACHED PROXY STATEMENT, EVEN IF YOU HAVE RETURNED A PROXY.

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GLOBAL INDEMNITY LIMITED

27 Hospital Road

George Town, Grand Cayman KY1-9008

Cayman Islands

www.globalindemnity.ky

+1 (345) 949-0100

PROXY STATEMENT

The 2018 Annual General Meeting of Shareholders (the Annual General Meeting) of Global Indemnity Limited will be held at Global Indemnity Reinsurance Company, Ltd., Seon Place, 141 Front Street, Hamilton, HM 19 Bermuda, at 1:00 P.M. (Bermuda Time) on June 13, 2018. On or about April 30, 2018, we mailed you a proxy card, the proxy statement for the Annual General Meeting (the Proxy Statement), and our Annual Report on Form 10-K for the year ended December 31, 2017 (the 10-K) and (collectively, the Proxy Materials.)

Our Board of Directors has fixed the close of business on April 3, 2018 as the record date for the Annual General Meeting. All shareholders of record at that time are entitled to notice of and are entitled to vote in person or by proxy at the Annual General Meeting and any adjournments or postponements thereof.

COMPANY INFORMATION

Global Indemnity Limited was incorporated on February 9, 2016 and its A ordinary shares began trading on the NASDAQ Global Select Market (NASDAQ) under the symbol GBLI on November 7, 2016 as result of a redomestication transaction from Ireland to the Cayman Islands (the Redomestication). Our predecessor companies have been traded on the NASDAQ since 2003. Our website is www.globalindemnity.ky. Information on our website is not incorporated into this Proxy Statement.

References in this Proxy Statement to Global Indemnity, Company, we, us, and our refer to Global Indemnity Limited and our consolid subsidiaries unless the context requires otherwise or, prior to November 7, 2016, to Global Indemnity plc.

VOTING AND REVOCABILITY OF PROXIES

If, at the close of business on April 3, 2018, you were a shareholder of record, you may vote your shares by proxy either by mail or by attending the Annual General Meeting, or any adjournments or postponements thereof. For shares held through a bank, broker or other nominee, you may vote by submitting voting instructions to your bank, broker or other nominee. You may revoke your proxy or proxies at the times and in the manners described below.

If you are a shareholder of record or hold shares through a bank, broker or other nominee and are voting by proxy, in order to be counted your mailed proxy card must be *received* by 11:59 p.m. (Cayman Time) on June 11, 2018.

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To Vote By Proxy:

For Shareholders of Record, By Mail:

When you receive the proxy card, mark your selections on the proxy card.

Date and sign your name exactly as it appears on your proxy card.

Mail the proxy card in the postage-paid envelope that will be provided to you.

If Shares Held Through a Bank, Broker, or Other Nominee:

Follow the instructions provided by your bank, broker or other nominee to submit your voting instructions to your bank, broker or other nominee.

To Vote In Person:

For Shareholders of Record:

Although we encourage you to vote by proxy prior to the Annual General Meeting, you can attend the Annual General Meeting and vote your shares in person. If you vote by proxy and also attend the Annual General Meeting, there is no need to vote again at the Annual General Meeting unless you wish to change your vote. To attend the Annual General Meeting in person, you must bring photo identification along with your admission ticket attached to your proxy card.

If Shares Held Through a Bank, Broker, or Other Nominee:

If you hold your shares through a bank, broker or other nominee, in addition to photo identification, please also bring with you a letter from the bank, broker or other nominee confirming your ownership as of the record date (April 3, 2018). You will not be able to vote such shares in person at the Annual General Meeting unless you obtain a proxy, executed in your favor, from the record holder (i.e. bank, broker or other nominee) giving you the right to vote at the Annual General Meeting.

General:

Failure to bring any of the documentation above may delay your ability to attend, or prevent you from attending, the Annual General Meeting.

No cameras, recording equipment, electronic devices, large bags, briefcases or packages will be permitted in the Annual General Meeting.

For directions to the Annual General Meeting, please call +1 (441) 292-6400.

The following proposals are scheduled to be voted on at the Annual General Meeting:

Proposal One (a) through One (g): By separate resolutions, to elect as directors the following individuals to the Board of Directors of Global Indemnity Limited:

(a) Saul A. Fox	(b) Joseph W. Brown	(c) Seth J. Gersch	(d) John H. Howes
(e) Jason B. Hurwitz	(f) Bruce R. Lederman	(g) Cynthia Y. Valko	

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Proposal Two: To act on various matters concerning Global Indemnity Reinsurance Company, Ltd. and authorization of Global Indemnity Limited to vote, as proxy, on such matters.

Proposal Three: To ratify the appointment of Global Indemnity Limited s independent auditors and to authorize our Board of Directors acting through its Audit Committee to determine its fees.

Proposal Four: To approve the Global Indemnity Limited 2018 Share Incentive Plan.

In addition, if any other matters are properly brought up at the Annual General Meeting (other than the proposals contained in this Proxy Statement) or any adjournments or postponements thereof, then the individuals named in your proxy card will have the authority to vote your shares on those matters in accordance with their discretion and judgment. The Board of Directors currently does not know of any matters to be raised at the Annual General Meeting other than the proposals contained in this Proxy Statement.

On the record date, 10,075,346 A ordinary shares and 4,133,366 B ordinary shares of Global Indemnity were issued and outstanding. On each matter voted on at the Annual General Meeting and any adjournment or postponement thereof, each record holder of A ordinary shares will be entitled to one vote per share and each record holder of B ordinary shares will be entitled to ten votes per share. The holders of A ordinary shares and the holders of B ordinary shares will vote together as a single class.

The required quorum for the Annual General Meeting consists of one or more shareholders present in person or by proxy and entitled to vote that hold in the aggregate at least a majority of the votes entitled to be cast at the Annual General Meeting. For each of the proposals being considered at the Annual General Meeting, approval of the proposal requires the affirmative vote of a simple majority of the votes cast. For Proposal Two, the approval of a matter concerning Global Indemnity Reinsurance Company, Ltd. (Global Indemnity Re), a subsidiary of Global Indemnity, must be submitted for approval by our shareholders pursuant to our Articles of Association, and requires the affirmative vote of a majority of the votes cast by the shareholders entitled to vote and present in person or by proxy at the Annual General Meeting. Our Board of Directors will cause our corporate representative or proxy to vote the shares of Global Indemnity Re at the Global Indemnity Re annual general meeting in the same proportion as the votes received at the Annual General Meeting from our shareholders on this proposal.

If you mark your proxy as Abstain on any matter, or if you give specific instructions that no vote be cast on any specific matter, the shares represented by your proxy will not be voted on that matter and will have no effect on the outcome of such matter, but will be counted in determining whether a quorum is present. Proxies submitted by banks, brokers, or other nominees that do not indicate a vote for one or more of the proposals because the bank, broker, or other nominee does not have discretionary voting authority, but does have discretionary authority to vote on at least one proposal, and has not received instructions as to how to vote on those proposals (so called broker non-votes) are also considered in determining whether a quorum is present, but will not affect the outcome of any vote.

Banks, brokers, or other nominees holding shares in street name for beneficial owners are generally required to vote such shares in the manner directed by the beneficial owner. In the absence of timely directions, your broker, bank or other nominee will have discretion to vote your shares on our sole routine matter, the proposal to ratify Global Indemnity Limited s independent auditors for the fiscal year ending December 31, 2018. Your broker will not have discretion to vote on any other proposals, which are non-routine matters, absent direction from you.

You may vote your shares at the Annual General Meeting in person or by proxy. All valid proxies received before the Annual General Meeting will be voted according to their terms. If you complete your proxy properly, but do not provide instructions as to how to vote your shares, your proxy will be voted as follows at the Annual General Meeting or any adjournments or postponements thereof:

FOR the election of all nominees for director of Global Indemnity Limited named herein.

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FOR the matters concerning Global Indemnity Re, including the election of all nominees for director and alternate directors named herein.

FOR the ratification of the appointment of Global Indemnity Limited s independent auditors and the authorization of our Board of Directors acting through its Audit Committee to set their fees.

FOR the approval of the Global Indemnity Limited 2018 Share Incentive Plan.

Except as discussed under Proposal Two Matter Concerning Global Indemnity Reinsurance Company, Ltd., if any other business is properly brought before the Annual General Meeting, shares subject to proxies will be voted, to the extent permitted by the rules and regulations of the Securities and Exchange Commission (the SEC), in accordance with the discretion of the persons voting such proxies. If you are a shareholder of record, you may change your vote and revoke your proxy by:

Sending a written statement to that effect to our Corporate Secretary c/o Global Indemnity Limited, 27 Hospital Road, George Town, Grand Cayman KY1-9008, Cayman Islands, Attn: Walkers Global, provided such statement is *received* no later than 11:59 p.m. (Cayman Time) on June 11, 2018;

Submitting a properly signed proxy card with a later date that is *received* no later than 11:59 p.m. (Cayman Time) on June 11, 2018; or

Attending the Annual General Meeting and voting in person.

We will bear the cost of preparing and soliciting proxies, including the reasonable charges and expenses of brokerage firms or other nominees for forwarding proxy materials to shareholders. In addition to solicitation by mail, certain of our directors, officers, and employees may solicit proxies personally or by telephone or other electronic means without extra compensation, with the exception of reimbursement for actual expenses incurred in connection with the solicitation. The enclosed proxy is solicited by and on behalf of our Board of Directors.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE

SHAREHOLDER MEETING TO BE HELD ON JUNE 13, 2018

The Proxy Statement and Annual Report on Form 10-K are available on or about

April 30, 2018 at:

https://www.envisionreports.com/GBLI

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PROPOSAL ONE (A) THROUGH ONE (G): ELECTION OF OUR DIRECTORS

Our Articles of Association provide that the size of our Board of Directors shall be determined from time to time by our Board of Directors, but unless such number is so fixed, our Board of Directors will consist of seven directors. Our current directors are Saul A. Fox, Joseph W. Brown, Seth J. Gersch, David J.W. Bruce, Raphael L. de Balmann, John H. Howes, Jason B. Hurwitz, Bruce R. Lederman, Arie Rashkes, and Cynthia Y. Valko. Our Board of Directors has nominated seven persons for election as directors whose terms will expire at the 2019 Annual General Meeting of Shareholders, or when their successors are duly elected and qualified. Our current nominees are Saul A. Fox, Joseph W. Brown, Seth J. Gersch, John H. Howes, Jason B. Hurwitz, Bruce R. Lederman, and Cynthia Y. Valko. If any of the nominees becomes unable to or declines to serve as a director prior to election at the Annual General Meeting, the persons named in the accompanying proxy shall have discretionary authority to vote for a substitute or substitutes as Fox Paine & Company, LLC (Fox Paine & Company) and/or the Board of Directors may nominate.

Under our Articles of Association, Fox Paine & Company, our controlling shareholder, has the right to appoint a number of directors equal in aggregate to the pro rata percentage of the voting shares beneficially held by Fox Paine & Company of Global Indemnity for so long as Fox Paine & Company holds an aggregate of 25% or more of the voting power in Global Indemnity. Fox Paine & Company holds approximately 83% of the voting power of Global Indemnity as of April 3, 2018 and has the right to appoint six of our seven directors. All of the directors and nominees listed herein have been nominated in accordance with such provisions.

See Additional Information Principal Shareholders and Security Ownership of Management.

Nominees for Director Proposals One (a) Through One (g)

Proposal One (a) *Saul A. Fox,* 64, served as a director of Global Indemnity and its predecessor companies since August 2003, as Chairman of the Company since September 2003, as the Company s Chief Executive Officer from February 2007 to June 2007, and as chief executive of Fox Paine & Company, a private equity firm, from its founding in 1996 through to the date hereof. Fox Paine & Company together with its affiliates constitute the Company s largest shareholder.

Fox Paine & Company arranged, on behalf of Global Indemnity, the acquisitions of our predecessor companies, United National, Penn America and American Reliable. Fox Paine & Company also arranged and back stopped Global Indemnity s $100 million Rights Offering in 2009, as well as the Company s 2015 repurchase of 11.7 million Global Indemnity shares (representing 45% of the outstanding shares) for $268 million (including shares subject to repurchase options). Over his 30 year career in private equity, Mr. Fox orchestrated numerous other acquisitions, mergers, divestitures and financing transactions, both in financial services, as well in such areas as energy, independent power generation, medical instruments, and oil and natural gas exploration and production information technology solutions. Prior to founding Fox Paine & Company, Mr. Fox was a general partner of Kohlberg, Kravis & Roberts & Co. (KKR), a global alternative asset manager. During his 13 years at KKR, Mr. Fox led the highly successful acquisitions and divestitures of American Reinsurance, Canadian General Insurance (KKR s first acquisition outside of the United States), and Motel 6. Prior to joining KKR, Mr. Fox was an attorney at Latham & Watkins LLP, specializing in tax and business law.

Mr. Fox received a baccalaureate degree in Communications from Temple University in 1975 (*summa cum laude*) and a Doctor of Jurisprudence degree from the University of Pennsylvania School of Law in 1978 (*cum laude*). Mr. Fox is currently a member of the board of overseers for the University of Pennsylvania Law School as well as a board member of several eleemosynary organizations.

Proposal One (b) *Joseph W. Brown*, 69, has served as a director on our Board of Directors since December 2015. Until December 2017, Mr. Brown served on the board of directors of MBIA, Inc. (NYSE: MBI) and until

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September 2017, Mr. Brown was the Chief Executive Officer of MBIA, Inc. He rejoined MBIA Inc. in February 2008 as Chairman and Chief Executive Officer and served as Chairman until May 7, 2009. He previously served as Executive Chairman from May 6, 2004 and until he retired from that position on May 3, 2007. Until May 2004, he had served as Chairman and Chief Executive Officer. He originally joined the Company as Chief Executive Officer in January 1999, having been a Director since 1986 and became Chairman in May 1999. Prior to joining the Company, Mr. Brown was Chairman of the Board of Talegen Holdings, Inc. from 1992 through 1998. Prior to joining Talegen, Mr. Brown had been with Fireman s Fund Insurance Company as President and Chief Executive Officer. Mr. Brown s experience and skills in the insurance and financial guarantee industries were considered when nominating him to our Board of Directors.

Proposal One (c) *Seth J. Gersch*, 70, has served as a director on our Board of Directors since February 2008. Mr. Gersch is currently on the advisory panel of Fox Paine & Company. He was the chief operating officer of Fox Paine & Company from 2007 through 2009. Prior to joining Fox Paine & Company, Mr. Gersch was the chief operating officer and a member of the executive committee of ThinkEquity Partners, LLC from 2004 through 2007. From 2002 through 2004, Mr. Gersch was president and chief executive officer of Presidio Capital Advisors, LLC. In addition, Mr. Gersch held several positions with Banc of America Securities predecessor organization, Montgomery Securities and founded the BrokerDealer Services Division of Banc of America Securities where he served as president and chief executive officer. Mr. Gersch is a member of the board of directors of Cradle Holdings (Cayman) Ltd. and previously served as a member of the board of directors of Paradigm, Ltd. He also serves as a director of the San Francisco 49ers Foundation, the charitable arm of the San Francisco 49ers football organization. Mr. Gersch received a BBA in accounting and electronic data processing from Pace University. Mr. Gersch s experience and skills acquired through his business and financial background with international companies was considered when nominating him to our Board of Directors.

Proposal One (d) *John H. Howes*, 78, has served as a director on our Board of Directors since July 2012. Most recently, Mr. Howes was chairman of the brokers committee of the Aircraft Builders Council and served on the boards of Alliance RE Co. PLC and Charles Taylor Consulting PLC. In the early 2000s, Mr. Howes ran the Aerospace Division of Benfield (now Aon Benfield, a division of AON plc), after it was acquired from EW Blanch before becoming a consultant to Benfield. He joined EW Blanch in 1999 after it acquired Crawley Warren Group PLC. In the early 1980 s he joined Crawley Warren Group PLC becoming group deputy chairman and served in that position until its acquisition. In 1991 he was instrumental in forming Internal Space Brokers by partnering Crawley Warren Group PLC with Frank Crystal & Co. and Le Blanc de Nicolay. In 1978, prior to joining Crawley Warren Group PLC, Mr. Howes was elected to the board of Minet Holdings and was chairman of the group s worldwide production and marketing division and joint integration group for Minet and Corroon & Black. Mr. Howes began his career with JH Minet & Co., a Lloyds of London Broker, in the late 1960s. Mr. Howes currently serves on the board of directors of Satec srl. Mr. Howes experience and skills acquired through his insurance and reinsurance background with insurance and reinsurance brokers were considered when nominating him to our Board of Directors.

Proposal One (e) *Jason B. Hurwitz*, 45, has served as a director on our Board of Directors since September 2017. As a principal and advisor during his career, Mr. Hurwitz completed 25 corporate acquisitions totaling $5 billion and served on the Boards of Directors of seven of these companies. Since 2004, he has been managing member of Hurwitz Capital LLC, serving as a consultant to various insurance companies and private equity firms and as a private investor. From 2008 to 2010, Mr. Hurwitz was a managing director of Essex Equity Capital Management LLC where he identified and led investments in securities of insurance, reinsurance, energy and retail companies which generated over $100 million of gain. Mr. Hurwitz served as a director at Fox Paine & Company from 1997 to 2003, with responsibilities spanning investment due diligence, execution and monitoring, investor relations, and oversight of the firm s accounting staff. Prior to joining Fox Paine & Company, Mr. Hurwitz was with McCown De Leeuw & Co. and James D. Wolfensohn Incorporated. He received a B.S. in Economics (*summa cum laude*) from The Wharton School, University of Pennsylvania. Mr. Hurwitz s experience and skills acquired through his investing and consulting background were considered when nominating him to our Board of Directors.

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Proposal One (f) *Bruce R. Lederman*, 75, has served as director on our Board of Directors since December 2015. Mr. Lederman is a co-founder of a number of companies, including: the 2012 co-founding of Digital PowerRadio, LLC, a company that develops, patents and markets products that more efficiently transmit and store digital information; the 2009 co-founding of Critical Alert Systems, LLC, a company specializing in providing communication services to hospitals and related medical facilities; the 2008 co-founding of a hedge fund specializing in purchasing the stock of publically traded special purpose acquisition companies; and the co-founder of HD Partners Acquisition Corporation, a special purpose acquisition company (AMEX: HDP) that was dissolved in 2008. He is also the co-founder of a company that built and purchased telecommunications towers and a company that manufactured liquid personal care products. Both companies were sold. From 1969 until his retirement as a senior partner in 2000, Mr. Lederman was an attorney at the law firm Latham & Watkins LLP, where he specialized in business transactions. Prior to joining Latham & Watkins, from 1968 to 1969, he was a law clerk to the Honorable Irving Hill, a U.S. District court Judge for the Central District of California. Mr. Lederman attended the London School of Economics and received a B.S. in Economics (*cum laude*) from the Wharton School University of Pennsylvania. He obtained his law degree (*cum laude*) from the Harvard Law School. Mr. Lederman s legal, financial and entrepreneurial experience and skills were considered when nominating him to our Board of Directors.

Proposal One (g) *Cynthia Y. Valko*, 63, has served as a director on our Board of Directors since September 2011. Since September 2011, Ms. Valko has also served as our Chief Executive Officer. From February 2010 to September 2011, Ms. Valko served as Senior Vice President commercial lines at GMAC Insurance. Ms. Valko served as a management consultant for Cerberus Private Equity directing turnaround/sales transactions for their GMAC Insurance Property and Casualty Business from 2007 through 2010. From 1998 through 2006, Ms. Valko was Chief Operating Officer/Executive Vice President of New York Life International. In this capacity, she was a member of the board of directors of New York Life International, a wholly owned subsidiary of New York Life Insurance Company. She chaired the Mexico subsidiary board of directors of Seguros Monterrey and was a member of the board of directors of HSBC/New York Life Argentina. Prior to joining New York Life International, Ms. Valko held numerous positions of increasing responsibility in the insurance industry beginning in 1976. Ms. Valko received a B.S. in Mathematics from Juniata College. Ms. Valko s over thirty years of experience as an insurance industry executive, including her experience as an executive officer of insurance companies were considered when nominating her to our Board of Directors. In addition, as our Chief Executive Officer, Ms. Valko is in the best position to understand our operations and business.

Required Vote

To be elected as a director, each nominee must receive the affirmative vote of a majority of the votes cast at the Annual General Meeting in person or by proxy. There is no cumulative voting in the election of directors. Under our articles of association, we are required to have at least one director. If no nominee receives a majority of the votes cast at the Annual General Meeting in person or by proxy, then the two nominees with the highest number of votes will be elected to our Board of Directors until his or her successor shall be appointed or elected.

The Board of Directors Recommends Voting For Each of the Directors Nominated for Election in Proposal One (a) through One (g).

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PROPOSAL TWO (A) AND TWO (B): VARIOUS MATTERS CONCERNING GLOBAL INDEMNITY REINSURANCE COMPANY, LTD. AND AUTHORIZATION OF GLOBAL INDEMNITY LIMITED TO VOTE, AS PROXY, ON SUCH MATTERS.

General

Under our Articles of Association, if we are required or entitled to vote at a general meeting of certain of our non-U.S. subsidiaries, our Board of Directors must refer the subject matter of the vote to our shareholders at a general meeting and seek authority from our shareholders for our corporate representative or proxy to vote in favor of the resolutions proposed by these subsidiaries. We are submitting the matter described below concerning our subsidiary, Global Indemnity Re, to our shareholders for their approval at the Annual General Meeting. Our Board of Directors will cause our corporate representative or proxy to vote our shares in Global Indemnity Re in the same proportion as the votes received at the Annual General Meeting from our shareholders on the matters proposed by this subsidiary as described below. The Global Indemnity Re matters require the affirmative vote of a majority of the votes cast by the shareholders entitled to vote and present in person or by proxy at the annual general meeting of Global Indemnity Re.

We are the sole shareholder of Global Indemnity Re. It is proposed that we be authorized to vote in favor of the following matters at the annual general meeting of Global Indemnity Re or any adjournments or postponements thereof.

Proposal Two (a) Election of Directors and Alternate Directors of Global Indemnity Re

The board of directors of Global Indemnity Re has nominated three persons for election as directors and two persons for election as alternate directors whose terms will expire at the 2019 annual general meeting of shareholders of Global Indemnity Re, or when their successors are duly elected and qualified. If any of the nominees becomes unable to or declines to serve prior to the election at the annual general meeting of Global Indemnity Re, the persons named in the accompanying proxy shall have discretionary authority to vote for a substitute or substitutes as the board of directors of Global Indemnity Re may nominate.

Set forth below is biographical information concerning the persons nominated for election as directors of Global Indemnity Re:

Stephen Green, 55, has served on the board of directors and as President of Global Indemnity Re since January 2012. Prior to joining Global Indemnity Re, Mr. Green spent 25 years with KPMG. From September 2009 to November 2010, he was the chief executive officer of KPMG s global captive insurer Park Indemnity. He served as the office managing partner for KPMG in Bermuda from July 2004 to September 2009. From 1998 to July 2004, Mr. Green served as KPMG Bermuda s head of insurance group. Prior to 1998 Mr. Green served in various positions at KPMG Bermuda and Peat, Marwick Mitchell in the United Kingdom. Mr. Green is a fellow of the institute of chartered accountants in England and Wales. Mr. Green graduated with a B.A. (Hons) in accountancy and finance from Northumberland University in 1985.

Terence J. Power, 65, has served on the board of directors of Global Indemnity Re since October 2013. Since 2003, Mr. Power has served as President of Dyna Management Services, Ltd. Mr. Power has over 30 years of experience in the Bermuda insurance and captive management industry. From 1982 through 2002, Mr. Power was the principal, executive vice president and financial controller for International Advisory Services, Ltd. Prior to that, Mr. Power was with KPMG Bermuda/Moore Stephens & Butterfield. Mr. Power is a Fellow of the Institute of Chartered Accountants in Ireland. Mr. Power received a Bachelor of Commerce from the University College Dublin.

Cynthia Y. Valko, 63, has served on the board of directors of Global Indemnity Re since September 2011. For additional information, see the biographical information for Ms. Valko in Proposal One (g).

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Set forth below is biographical information concerning the persons nominated for election as alternate directors of Global Indemnity Re:

Marie-Joelle Chapleau, 39, has served as an alternate director to Stephen Green on the board of directors of Global Indemnity Re and as its Chief Operating Officer since January 2013. Prior to joining Global Indemnity Re, Ms. Chapleau was a senior account manager for JLT Insurance Management (Bermuda) Ltd., where she was responsible for Global Indemnity Re s outsourced accounting functions. Ms. Chapleau is a certified public accountant, chartered property and casualty underwriter, registered professional liability underwriter and an associate in reinsurance. Ms. Chapleau graduated with a B.A. in finance and international business from Concordia University and certificate in science of accounting from the University of Quebec in Montreal.

Grainne Richmond, 41, has served as an alternate director to Terence J. Power on the board of directors of Global Indemnity Re since October 2013 and is Vice-President at Dyna Management Services, Ltd. where she has been employed since May 2011. Ms. Richmond has over 17 years of experience in accounting and assurance, with the last 11 years spent working in captive management in Bermuda. From 2008 to April 2011, Ms. Richmond was the vice president client captive services at Artex Risk Solutions, Inc. and assistant vice president from 2005 to 2008. Prior to that Ms. Richmond worked for International Advisory Services Ltd. in Bermuda, PricewaterhouseCoopers in Dublin and Deloitte Touche. Ms. Richmond is a Fellow of the Institute of Chartered Accountants of Ireland, secretary of the Bermuda Insurance Managers Association and a member of the Association of Anti-Money Laundering Specialists.

Proposal Two (b) Appointment of Independent Auditor

The board of directors of Global Indemnity Re has appointed Ernst & Young, Ltd., Hamilton, Bermuda, (EY Bermuda) as the independent auditor of Global Indemnity Re for the fiscal year ending December 31, 2018. At the annual general meeting of Global Indemnity Re or any adjournments or postponements thereof, shareholders will be asked to ratify this appointment. Representatives of EY Bermuda are not expected to be present at the meeting.

Other Matters

In addition to the matter set forth above for which we are soliciting your proxy, we expect that the financial statements of Global Indemnity Re for the year ended December 31, 2017, together with the report of the independent auditors in respect of these financial statements, will be presented for approval at the annual general meeting of Global Indemnity Re in accordance with Bermuda law. We will refer this matter to our shareholders present in person and entitled to vote at the annual general meeting of Global Indemnity Re. **We are not asking you for a proxy with respect to this matter and you are requested not to send us a proxy with respect to this matter.**

We know of no other specific matter to be brought before the annual general meeting of Global Indemnity Re that is not referred to in this Proxy Statement. If any other matter properly comes before the annual general meeting of Global Indemnity Re, our corporate representative or proxy will vote in accordance with his or her judgment on such matter.

Required Vote

Proposal Two requires the affirmative vote of a majority of the votes cast at the Annual General Meeting in order to ensure passage of the above proposal related to Global Indemnity Re. Our Board of Directors will cause our corporate representative or proxy to vote the shares in Global Indemnity Re in the same proportion as the votes received at the Annual General Meeting or any adjournments or postponements thereof from our shareholders on the above proposal.

The Board of Directors Recommends voting For All of the Directors of Global Indemnity Re Nominated for Election in Proposal Two (a) and For Proposal Two (b).

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PROPOSAL THREE: RATIFICATION OF APPOINTMENT OF GLOBAL INDEMNITY LIMITED S INDEPENDENT AUDITOR AND AUTHORIZATION OF THE BOARD OF DIRECTORS TO DETERMINE ITS FEES

General

The appointment of an independent auditor is made annually by the Audit Committee. The Audit Committee reviews both the audit scope and estimated fees for professional services for the coming year. Ernst & Young Global Limited (EY) is our independent auditor for the fiscal year ending December 31, 2018. As a matter of good corporate governance, the Audit Committee submits its selection of the independent auditors to our shareholders for ratification in a non-binding vote at the Annual General Meeting. In addition, shareholders will be asked to authorize our Board of Directors acting through its Audit Committee to set the fees for EY. If the shareholders do not ratify the appointment of EY, the selection of our independent registered public accounting firm may be reconsidered by the Audit Committee. Even if the selection is ratified, the Audit Committee in its discretion may select a different independent auditor at any time during the year if it determines that such a change is in the best interests of the Company and its shareholders.

A representative of EY is expected to be available telephonically to respond to appropriate questions from shareholders at the Annual General Meeting. The representative will also have the opportunity to make a statement if he or she desires.

Information Regarding Our Independent Auditors

The following table shows the fees that were billed to us by EY for professional services rendered for the fiscal years ended December 31, 2017 and December 31, 2016.

Fee Category	**2017**	**2016**
Audit Fees	$ 1,606,826	$ 1,749,00
Audit-Related Fees	70,000	7,625
Tax Fees	529,650	519,660
All Other Fees	1,930	37,207
Total Fees	$ 2,208,406	$ 2,313,492

Audit Fees

This category includes fees for the audit of our annual financial statements and review of interim quarterly financial statements included on our quarterly reports on Form 10-Q and services that are normally provided by EY in connection with statutory and regulatory filings or engagements.

Audit-Related Fees

This category includes fees for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements and are not included above under Audit Fees. For 2017, we paid EY $70,000 for comfort letters related to our March 2017 debt offering. For 2016, we paid EY $7,625 for consent letters related to the Company s November 2016 Form S-3 and Form S-8 filings.

Tax Fees

This category includes fees for tax compliance, tax advice, and tax planning. The services provided included tax advice and assistance with tax compliance and reporting to federal, state and foreign taxing authorities as well as transfer pricing services. In addition, we paid EY $337,383 in 2017 for tax fees related to consultations on international tax structures and the Redomestication and $428,766 in 2016 for tax fees related to consulting on the Redomestication.

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All Other Fees

This category includes fees for products and services provided by EY that are not included in the categories described above. For 2017, we paid EY $1,930 in fees for on-line accounting research services. For 2016, we paid EY $1,995 in fees for on-line accounting research services, $19,212 for services related to the Redomestication, and $16,000 for services related to Global Indemnity plc s filings in Ireland.

The Audit Committee considered whether providing the non-audit services shown in the table above was compatible with maintaining EY independence and concluded that it was.

Pre-Approval of Services

To ensure that our independent auditor maintains the highest level of independence and pursuant to the Audit Committee Pre-Approval Policy, the Audit Committee is required to pre-approve the audit and permitted non-audit services performed by our independent auditors. The Audit Committee pre-approved 100% of the fees for audit and non-audit services performed by EY during the year ended December 31, 2017. To ensure that the provision of these services does not impair the independence of our independent auditor, unless a type of service to be provided by our independent auditor and the associated fees have been pre-approved in accordance with the Audit Committee Pre-Approval Policy, the Audit Committee s separate pre-approval of any proposed services and the associated fees is required. The Audit Committee Pre-Approval Policy only applies to services provided to us by our independent auditor; it does not apply to similar services performed by persons other than our independent auditor. The term of any pre-approval is 12 months from the date of pre-approval, unless the Audit Committee specifically provides for a different period. The Audit Committee will periodically, or more often as it deems necessary in its judgment, reassess and revise the Audit Committee Pre-Approval Policy. The Audit Committee most recently reassessed and approved its Audit Committee Pre-Approval Policy in November 2016.

Required Vote

The affirmative vote of a majority of the votes cast at the Annual General Meeting will be required for the ratification of the appointment of EY as our independent auditor for the fiscal year ending December 31, 2018 and the authorization of our Board of Directors acting through its Audit Committee to set fees for EY.

The Board of Directors Recommends voting For Proposal Three.

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PROPOSAL FOUR: APPROVAL OF THE GLOBAL INDEMNITY LIMITED 2018 SHARE INCENTIVE PLAN

On March 4, 2018, our Board of Directors adopted, subject to shareholder approval, the Global Indemnity Limited 2018 Share Incentive Plan (the 2018 Share Incentive Plan). If the 2018 Share Incentive Plan is approved by our shareholders, all officer, employee, consultant and non-employee director equity grants after the Annual General Meeting will be from the 2018 Share Incentive Plan. The Global Indemnity Limited Share Incentive Plan, effective since February 2014, is set to expire pursuant to its terms on February 9, 2019 (the 2014 Plan).

The primary purpose of the 2018 Share Incentive Plan is to provide Global Indemnity a competitive advantage in attracting, retaining and motivating officers, employees, consultants and non-employee directors, and to provide Global Indemnity with a share plan providing incentives linked to the financial results of the Company s business and increases in shareholder value. The 2018 Share Incentive Plan provides for the issuance of stock options, restricted shares and other share-based awards (collectively the Awards).

If shareholders approve the 2018 Share Incentive Plan, we will terminate the 2014 Plan and not make any new grants under the 2014 Plan. As of April 3, 2018, approximately 1,431,800 shares remained available for grant under the 2014 Plan. As of the same date, 600,000 shares were subject to awards outstanding under the 2014 Plan all of which were options. The options (as of the same date) had a weighted average remaining term of 8.3 years and a weighted average exercise price of $44.22 per share. In addition, as of the same date, 300,000 shares were subject to awards outstanding under the 2003 Plan, all of which were options with a weighted average remaining term of 3.5 years and a weighted average exercise price of $17.87 per share. Assuming that the 2018 Share Incentive Plan is approved by shareholders, the shares that remain in the 2014 Plan as of the date of the Annual Meeting never will be granted. Any awards previously granted under the 2014 Plan will remain outstanding in accordance with their terms. Any shares subject to outstanding 2014 Plan awards that are forfeited or otherwise expire will not be returned to the 2014 Plan or to the 2018 Share Incentive Plan. We are asking shareholders to approve the 2018 Share Incentive Plan so that we may continue to use an equity incentive plan to help us achieve our goals, notwithstanding the anticipated expiration of the 2014 Plan.

A total of 2,500,000 A ordinary shares are reserved for issuance under the 2018 Share Incentive Plan. No Awards have been granted under the 2018 Share Incentive Plan, but the total number of shares issuable under awards we have granted under the 2014 Plan, as a percentage of our annual weighted average A ordinary Shares outstanding (the burn rate) has been on average 1.6% over the last three completed fiscal years, which is below the Institutional Shareholder Services, Inc. industry benchmark for Non-Russell 3000 companies of 5.7%. This calculation is based on the number of shares issuable at the target level of performance under awards as of the dates they were granted. Assuming all 2,500,000 A ordinary shares of the Company are to be available under the 2018 Share Incentive Plan pursuant to this proposal were fully dilutive as of April 3, 2018, the dilutive effect on all outstanding A ordinary shares would be approximately 15%. We currently expect that the initial 2,500,000 A ordinary shares under the 2018 Share Incentive Plan will be sufficient to meet our needs for approximately five years and that we will not need to ask shareholders for additional shares until the 2022 Annual Meeting. However, future business conditions or other circumstances may cause us to ask for additional shares sooner or later than that projected date.

The following is a summary of the material terms of the 2018 Share Incentive Plan, and does not include all of the provisions of the 2018 Share Incentive Plan. For further information about the 2018 Share Incentive Plan, we refer you to a complete copy of the 2018 Share Incentive Plan, which is attached as Exhibit A to this Proxy Statement.

Administration

The 2018 Share Incentive Plan provides that it will be administered by the Compensation Committee of our Board, or another committee of the Board constituted so as to permit awards under the 2018 Share Incentive Plan

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to comply with the non-employee director provisions of Rule 16b-3 under the Exchange Act, or, absent a committee to administer the 2018 Share Incentive Plan, the Board. The administrator is empowered to select who may participate in the 2018 Share Incentive Plan; determine whether and to what extent Awards are granted; determine the number of A ordinary shares covered by each Award; determine the terms and conditions of any Award, including exercise price and vesting; subject to the terms of the 2018 Share Incentive Plan, modify, amend or adjust the terms and conditions of any Award, including to reduce or increase the exercise price of an outstanding stock option or other share-based award or to cancel and replace stock options with a below Fair Market Value exercise price, or institute a program under which outstanding Awards are surrendered or cancelled in exchange for awards of the same type, awards of a different type, and/or cash, or under which participants would have the opportunity to transfer outstanding Awards to a financial institution or other person or entity selected by the administrator; determine to what extent and under what circumstances awards or payments thereunder shall be deferred; adopt, alter and repeal administrative rules for the 2018 Share Incentive Plan; interpret the terms and provisions of the 2018 Share Incentive Plan and any Award issued; adopt any sub-plans as deemed necessary or appropriate; and otherwise supervise and administer the 2018 Share Incentive Plan.

A Ordinary Shares Subject to the 2018 Share Incentive Plan; Equity Restructuring Transactions and Acquisition Events

11,946

Effect of exchange rate changes on cash and cash equivalents

360 (230)

Net change in cash

(142) 2,650

Cash at beginning of period

	3,623	3,931
Cash at end of period	**$3,481**	**$6,581**

See accompanying notes to condensed consolidated financial statements.

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ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY AND MEZZANINE EQUITY

(Unaudited)

id-In apital	Common Stock in Treasury Shares	Common Stock in Treasury Amount	Accumulated Other Comprehensive Loss	Retained Earnings (Deficit)	Total ADS Stockholders Equity	Non-controlling Interest in Subsidiaries	Total Stockholders Equity	Redeemable Common Stock Shares	Redeemable Common Stock Amount	Redeemab Convertib Preferred St Shares	Am
12,438	**100,810**	**$ (448,439)**	**$ (6,830)**	**$ (2,412)**	**$ (433,286)**	**$ 18,584**	**$ (414,702)**	**38,320**	**$ 549,119**	**26,129**	**$ 29**
				25,410	25,410	3,028	28,438				
			(2,525)		(2,525)	(907)	(3,432)				
						(1,007)	(1,007)				
(1,339)					(1,339)		(1,339)				
174	(78)	349			523		523				
93	7	(93)									
1,778					1,778		1,778				
1,489	(114)	509			1,998		1,998				
72,245					72,298		72,298				
1,522					1,522		1,522				
13,077)				2,023	(11,054)		(11,054)				3
				(65,921)	(65,921)		(65,921)		65,921		

14,657					615,040		615,040	(38,320)	(615,040)		
89,980	**100,625**	**$ (447,674)**	**$ (9,355)**	**$ (40,900)**	**$ 204,444**	**$ 19,698**	**$ 224,142**		**$**	**26,129**	**$ 32**
00,977	100,038	$ (445,065)	$ (15,521)	$ (62,621)	$ 190,163	$ 16,413	$ 206,576		$	25,639	$ 32
				21,609	21,609	4,559	26,168				
			(8,162)		(8,162)	(2,308)	(10,470)				
				(657)	(657)		(657)				
				(5,386)	(5,386)		(5,386)				
						(2,130)	(2,130)				
2,707					2,707		2,707				
435	(77)	390			825		825				
887					887		887				
271	(66)	291			562		562				
5,222	(442)	1,966			7,188		7,188			(575)	(
(158)					(158)		(158)				
10,341	**99,453**	**$ (442,418)**	**$ (23,683)**	**$ (47,055)**	**$ 209,578**	**$ 16,534**	**$ 226,112**		**$**	**25,064**	**$ 31**

See accompanying notes to condensed consolidated financial statements.

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ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(Amounts in thousands, except per share data)

1. BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

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

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

Historically, sales of the Company s 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.

2014 Initial Public Offering (IPO)

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

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

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

2014 Secondary Public Offering

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

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

Basis of Presentation

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

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Principles of Consolidation

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

Recent Accounting Pronouncements

Stock-Based Compensation In March 2016, the Financial Accounting Standards Board issued an accounting standards update which is intended to simplify certain aspects of the accounting for stock-based compensation. This amendment contains changes to the accounting for excess tax benefits, whereby excess tax benefits will be recognized in the income statement rather than in additional paid-in capital on the balance sheet. The amendment also contains potential changes to the accounting for forfeitures, whereby entities can elect to either continue to apply the current GAAP requirement to estimate forfeitures when determining compensation expense, or to alternatively reverse the compensation expense of forfeited awards when they occur. This update is effective for fiscal years beginning after December 15, 2016, including interim periods within those years, and early adoption is permitted. We expect to adopt this standard effective April 1, 2017. We are currently evaluating the impact of this standard on our consolidated financial statements.

With the exception of the pronouncement described above, there have been no new accounting pronouncements issued since the filing of our Fiscal 2015 Form 10-K that have significance, or potential significance, to our consolidated financial statements.

2. ACQUISITIONS

On July 17, 2015, ADS Ventures, Inc. (ADS/V), a wholly-owned subsidiary of the Company, acquired an additional 10% of the issued and outstanding membership interests in BaySaver, increasing the Company s total ownership interest in BaySaver to 65%, for a purchase price of $3,200, plus contingent consideration with an initial estimated fair value of $750. Concurrent with our purchase of the additional membership investment, the BaySaver joint venture agreement was amended to modify the voting rights from an equal vote for each member to a vote based upon the ownership interest. We have accounted for this transaction as a business combination with BaySaver being consolidated into our financial statements after July 17, 2015.

As we had accounted for our investment in BaySaver prior to the purchase of the additional 10% membership interest under the equity method of accounting, we accounted for this transaction as a step acquisition and recognized a loss of $490 on remeasurement to fair value of our previously held investment. The loss is included in Derivative losses (gains) and other expense (income), net in our Condensed Consolidated Statements of Operations. The fair value of our BaySaver investment immediately before the July 17, 2015 acquisition was measured based on a combination of the discounted cash flow and guideline public company valuation methods and involves significant unobservable inputs (Level 3). These inputs include projected sales, margin, required rate of return and tax rate for the discounted cash flow method, as well as implied pricing multiples, and guideline public company group for the guideline public company method.

The purchase price was determined as follows:

(Amounts in thousands)	
Acquisition-date fair value of our prior equity interest	$ 4,220
Acquisition-date fair value of noncontrolling interest	6,330
Cash paid at acquisition date	3,200
Fair value of contingent consideration	750
Total purchase price	**$ 14,500**

The preliminary purchase price has been allocated to the estimated fair values of acquired tangible and intangible assets, assumed liabilities and goodwill. The preliminary fair value of identifiable intangible assets has been determined primarily using the income approach, which involves significant unobservable inputs (Level 3 inputs). These inputs include projected sales, margin, required rate of return and tax rate, as well as an estimated royalty rate in the cases of the developed technology and trade name and trademark intangibles. The developed technology and trade name and trademark intangibles are valued using a relief-from-royalty method.

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Redeemable noncontrolling interest in subsidiaries is classified as mezzanine equity in our Condensed Consolidated Balance Sheets due to a put option held by the joint venture partner which may be exercised on or after April 1, 2017. The redeemable noncontrolling interest balance will be accreted to the redemption value using the effective interest method until April 1, 2017.

The excess of the preliminary purchase price over the fair value of the net assets acquired of $2,495 was allocated to goodwill, assigned to the Domestic segment, and consists primarily of the acquired workforce and sales and cost synergies the two companies anticipate realizing as a combined company. None of the goodwill is deductible for tax purposes.

Certain estimated values for the acquisition, including intangible assets, goodwill and deferred taxes are not yet finalized. The preliminary purchase price allocation is as follows:

(Amounts in thousands)	
Cash	$ 12
Other current assets	2,262
Property, plant and equipment	164
Goodwill	2,495
Intangible assets	10,800
Other assets	152
Current liabilities	(1,385)
Total purchase price	**$ 14,500**

The acquired identifiable intangible assets represent customer relationships of $5,400, developed technology of $4,000 and trade name and trademark of $1,400, each of which have an estimated 10-year useful life. Transaction costs were immaterial.

The net sales and income before income taxes of BaySaver since the acquisition date included in our Condensed Consolidated Statements of Operations were $3,456 and $316, respectively.

The following table contains unaudited pro forma Consolidated Statements of Operations information assuming the acquisition occurred on April 1, 2014 and includes adjustments for amortization of intangibles, and interest expense and our prior equity method accounting for BaySaver. This pro forma information is presented for illustrative purposes only and is not indicative of what actual results would have been if the acquisitions had taken place on April 1, 2014 or of future results. The unaudited pro forma consolidated results are not projections of future results of operations of the combined company nor do they reflect the expected realization of any cost savings or synergies associated with the acquisition.

	Six months ended September 30,	
(Amounts in thousands)	**2015**	**2014**
Net sales	$ 736,052	$ 698,937
Net income attributable to ADS	$ 21,647	$ 25,437

Unaudited pro forma net income attributable to ADS has been calculated after adjusting the combined results of the Company to reflect additional intangible asset amortization expense, net of related income taxes and amounts related to the noncontrolling interest, of $94 and $167, additional interest expense, net of related income taxes and amounts related to the noncontrolling interest, of $10 and $17, and the impact of our prior equity method accounting, net of related income tax, of $109 and $286 for the six months ended September 30, 2015 and 2014, respectively.

3. INVENTORIES

Inventories as of September 30, 2015 and March 31, 2015 consisted of the following:

(Amounts in thousands)	**September 30, 2015**	**March 31, 2015**
Raw materials	$ 48,010	$ 50,198
Finished goods	172,247	219,644
Total inventories	**$ 220,257**	**$ 269,842**

We had no work-in-process inventories as of September 30, 2015 and March 31, 2015.

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4. GOODWILL AND INTANGIBLE ASSETS

Goodwill

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

(Amounts in thousands)	Domestic	International	Total
Balance at March 31, 2015	$ 87,507	$ 11,172	$ 98,679
Acquisition	2,495		2,495
Currency translation		(691)	(691)
Balance at September 30, 2015	**$ 90,002**	**$ 10,481**	**$ 100,483**

Intangible Assets

Intangible assets as of September 30, 2015 and March 31, 2015 consisted of the following:

	September 30, 2015			March 31, 2015		
(Amounts in thousands)	Gross Intangible	Accumulated Amortization	Net Intangible	Gross Intangible	Accumulated Amortization	Net Intangible
Definite-lived intangible assets						
Developed technology	$ 44,579	$ (28,113)	$ 16,466	$ 40,579	$ (26,405)	$ 14,174
Customer relationships	40,601	(20,576)	20,025	43,167	(26,113)	17,054
Patents	6,847	(3,858)	2,989	6,547	(3,550)	2,997
Non-compete and other contractual agreements	1,237	(710)	527	1,365	(691)	674
Trademarks and tradenames	15,477	(3,607)	11,870	14,248	(3,051)	11,197
Total definite-lived intangible assets	108,741	(56,864)	51,877	105,906	(59,810)	46,096
Indefinite-lived intangible assets						
Trademarks	11,934		11,934	11,959		11,959
Total intangible assets	**$ 120,675**	**$ (56,864)**	**$ 63,811**	**$ 117,865**	**$ (59,810)**	**$ 58,055**

5. FAIR VALUE MEASUREMENT

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

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

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

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

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

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

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Recurring Fair Value Measurements

The assets and liabilities carried at fair value as of September 30, 2015 and March 31, 2015 were as follows:

	September 30, 2015			
(Amounts in thousands)	**Total**	**Level 1**	**Level 2**	**Level 3**
Liabilities:				
Derivative liability - interest rate swaps	$ 622	$	$ 622	$
Derivative liability - diesel fuel contracts	2,930		2,930	
Derivative liability - propylene swaps	14,702		14,702	
Contingent consideration for acquisitions	2,869			2,869
Total liabilities at fair value on a recurring basis	**$ 21,123**	**$**	**$ 18,254**	**$ 2,869**

	March 31, 2015			
(Amounts in thousands)	**Total**	**Level 1**	**Level 2**	**Level 3**
Assets:				
Derivative assets - currency forward contracts	$ 28	$	$ 28	$
Total assets at fair value on a recurring basis	**$ 28**	**$**	**$ 28**	**$**
Liabilities:				
Derivative liability - interest rate swaps	$ 765	$	$ 765	$
Derivative liability - diesel fuel contracts	2,841		2,841	
Derivative liability - propylene swaps	5,142		5,142	
Contingent consideration for acquisitions	2,444			2,444
Total liabilities at fair value on a recurring basis	**$ 11,192**	**$**	**$ 8,748**	**$ 2,444**

Changes in the fair value of recurring fair value measurements using significant unobservable inputs (Level 3) for the three and six months ended September 30, 2015 and 2014 were as follows:

(amounts in thousands)	**Three Months Ended September 30, 2015 Contingent consideration**
Balance at June 30, 2015	**$ 2,285**
Acquisition	750
Change in fair value	45
Payments of contingent consideration liability	(211)

Balance at September 30, 2015	**$**	**2,869**

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

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(amounts in thousands)	Six Months Ended September 30, 2015 Contingent consideration
Balance at March 31, 2015	**$ 2,444**
Acquisition	750
Change in fair value	100
Payments of contingent consideration liability	(425)
Balance at September 30, 2015	**$ 2,869**

	Six Months Ended September 30, 2014				
(amounts in thousands)	Contingent consideration	Redeemable common stock	Redeemable convertible preferred stock	Deferred compensation - unearned ESOP shares	Total
Balance at March 31, 2014	**$ 2,898**	**$ 549,119**	**$ 291,720**	**$ (197,888)**	**$ 645,849**
Allocation of ESOP shares to participants				4,391	4,391
Change in fair value	2	65,921	34,903	(23,849)	76,977
Payments of contingent consideration liability	(374)				(374)
Transfer from Level 3		(615,040)	(326,623)	217,346	(724,317)
Balance at September 30, 2014	**$ 2,526**	**$**	**$**	**$**	**$ 2,526**

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

Valuation of our Contingent Consideration for Acquisitions

The fair values of the contingent consideration payables for prior period acquisitions were calculated with reference to the estimated future value of the Inserta Tee and FleXstorm businesses, which are based on a discounted cash flow model. The undiscounted value is discounted to the present value using a market discount rate. The fair value of the contingent consideration liability related to the BaySaver acquisition was calculated based on a discounted cash flow model, whereby the probability-weighted estimated future payment value is discounted to the present value using a market discount rate. The categorization of the framework used to price these liabilities is considered a Level 3, due to the subjective nature of the unobservable inputs used to determine the fair value.

Valuation of our Redeemable Common Stock

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

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

Nonrecurring Fair Value Measurements

Valuation of our Redeemable Convertible Preferred Stock

The Trustee of the Company s ESOP has the ability to put the shares of our Redeemable convertible preferred stock to the Company. Prior to July 2014, our Redeemable convertible preferred stock was recorded at its fair value in the mezzanine equity section of our Condensed Consolidated Balance Sheets and changes in fair value were recorded in Retained earnings. Accordingly, we estimated the fair value of the Redeemable Convertible Preferred Stock through estimating the fair value of the Company s common stock and applying certain adjustments including for the fair value of the total dividends to be received and assuming conversion of the Redeemable convertible preferred stock to common stock at the stated conversion ratio per our Certificate of Incorporation. The categorization of the framework used to price this temporary equity was considered a Level 3, due to the subjective nature of the unobservable inputs used to determine the fair value.

Upon the effective date of the IPO, the redemption feature of our Redeemable convertible preferred stock allowing the Trustee of the Company s ESOP to put shares to us for cash was no longer applicable. However, if our common stock, which our Redeemable convertible preferred stock may convert to, is no longer a registration-type class of security (e.g., in the event of a delisting), the option held by the Trustee, which granted it the ability to put the shares of our Redeemable convertible preferred stock to us, would then become applicable. Preferred securities that become redeemable upon a contingent event that is not solely within the control of the Company should be classified outside of permanent equity. As of September 30, 2015, the Company has determined that it is not probable that the redemption feature will become applicable. Since the Redeemable convertible preferred stock is not currently redeemable and it is not probable that the instrument will become redeemable, subsequent adjustment to fair value is not required. As such, the Redeemable convertible preferred stock was recorded to fair value at the effective date of the IPO on July 25, 2014 and will remain in mezzanine equity without further adjustment to carrying value unless it becomes probable that the redemption feature will become applicable. See Note 1. Background and Summary of Significant Accounting Policies for more information on the IPO.

Valuation of our Goodwill and Indefinite Lived Intangible Assets

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

6. RELATED PARTY TRANSACTIONS

ADS Mexicana

ADS conducts business in Mexico and Central America through its joint venture ADS Mexicana. ADS owns 51% of the outstanding stock of ADS Mexicana and consolidates ADS Mexicana for financial reporting purposes. During the three and six months ended September 30, 2015 and 2014, ADS Mexicana compensated certain owners and former owners of Grupo Altima, the joint venture partner of ADS Mexicana, for consulting services related to the operations of the business. These cash payments totaled $37 and $100 for the three and six months ended September 30, 2015, respectively, and $94 and $169 for the three and six months ended September 30, 2014, respectively.

Occasionally, ADS and ADS Mexicana jointly enter into agreements for pipe sales with their related parties which totaled $0 and $0 for the three and six months ended September 30, 2015, respectively, and $1,027 and $2,339 for the three and six months ended September 30, 2014, respectively. Outstanding receivables related to these sales were $516 and $1,005 as of September 30, 2015 and March 31, 2015, respectively.

In April 2015, ADS Mexicana borrowed $3,000 under a revolving credit facility arrangement with Scotia Bank and loaned that amount to ADS, and such loan was repaid in May 2015. In June 2015, ADS Mexicana borrowed $3,854 under the Scotia Bank credit facility and loaned it to an entity owned by a Grupo Altima owner, and such loan was repaid in July 2015. ADS does not guarantee the borrowings from this facility and therefore, does not anticipate any required contributions related to the balance of this credit facility.

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

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South American Joint Venture

The Tuberias Tigre ADS Limitada joint venture (South American Joint Venture) manufactures and sells HDPE corrugated pipe in the South American market. We are the guarantor for 50% of the South American Joint Venture s credit facility, and the debt guarantee is shared equally with the joint venture partner. Our maximum potential obligation under this guarantee totals $6,700 as of September 30, 2015. The maximum borrowings permitted under the South American Joint Venture s credit facility are $19,000. This credit facility allows borrowings in either Chilean pesos or US dollars at a fixed interest rate determined at inception of each draw on the facility. The guarantee of South American Joint Venture s debt is for the life of the credit facility which matures on February 5, 2017. ADS does not anticipate any required contributions related to the balance of this credit facility. As of September 30, 2015 and March 31, 2015, the outstanding principal balance of the credit facility including letters of credit was $13,500 and $13,600, respectively. The weighted average interest rate as of September 30, 2015 was 3.25% on U.S. dollar denominated loans and 6.56% on Chilean peso denominated loans.

ADS and the South American Joint Venture have entered into shared services arrangements in order to execute the joint venture services. Included within these arrangements are the lease of an office and plant location used to conduct business and operating expenses related to these leased facilities. Occasionally, ADS and South American Joint Venture jointly enter into agreements for pipe sales with their related parties which totaled $182 and $881 for the three and six months ended September 30, 2015, respectively, and $146 and $463 for the three and six months ended September 30, 2014, respectively.

BaySaver

BaySaver is a joint venture that was established to produce and distribute water quality filters and separators used in the removal of sediment and pollution from storm water. ADS owns 65% of the outstanding membership interests of BaySaver and consolidates BaySaver.

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

7. DEBT

Long-term debt as of September 30, 2015 and March 31, 2015 consisted of the following:

(amounts in thousands)	September 30, 2015	March 31, 2015
Bank Term Loans:		
Revolving Credit Facility - ADS	$ 234,900	$ 205,100
Term Note	87,500	91,250
Senior Notes payable	100,000	100,000
Industrial revenue bonds	3,135	3,545

Total		425,535		399,895
Current maturities		(35,850)		(9,580)
Long-term debt obligations	$	389,685	$	390,315

ADS Mexicana Scotia Bank Revolving Credit Facility

On December 11, 2014, our joint venture, ADS Mexicana, entered into a credit agreement with Scotia Bank. The credit agreement provides for revolving loans up to a maximum aggregate principal amount of $5,000. The proceeds of the revolving credit facility have primarily been used for short term investments and are available for working capital needs. The interest rates of the revolving credit facilities are determined by LIBOR rates, Tasa de Interes Interbancaria de Equilibrio (TIIE) or the Costos de Captacion rates, plus an applicable margin. The Scotia Bank revolving credit facility matures on December 11, 2017. The obligations under the revolving credit facility are not guaranteed by ADS. As of September 30, 2015, there was no outstanding principal drawn on the Scotia Bank revolving credit facility with $5,000 available to be drawn.

8. DERIVATIVE TRANSACTIONS

The Company uses interest rate swaps, commodity options in the form of collars and swaps, and foreign currency forward contracts to manage its various exposures to interest rate, commodity price, and exchange rate fluctuations. For interest rate swaps, the difference between the spot rate and applicable base rate is recorded in interest expense. For collars, commodity swaps and foreign currency forward contracts, contract settlement gains and losses and gains and losses related to the mark-to-market adjustments for changes in fair value of the derivative contracts are recorded in the Condensed Consolidated Statements of Operations as Derivative losses (gains) and other expense (income), net. The Company recognized losses on mark-to-market adjustments for changes in fair value on derivative contracts of $5,773 and $67 for the three months ended September 30, 2015 and 2014, respectively, and $9,534 and $163 for the six months ended September 30, 2015 and 2014, respectively.

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The fair value of the derivatives are included in the Condensed Consolidated Balance Sheets at September 30, 2015 and March 31, 2015 as follows:

	September 30, 2015	
	Liabilities	
(Amounts in thousands)	Other accrued liabilities	Other liabilities
Interest rate swaps	$ (622)	$
Diesel fuel option collars and swaps	(2,093)	(837)
Propylene swaps	(11,934)	(2,768)

	March 31, 2015			
	Assets		Liabilities	
(Amounts in thousands)	Receivables	Other assets	Other accrued liabilities	Other liabilities
Interest rate swaps	$	$	$ (150)	$ (615)
Foreign exchange forward contracts	28			
Diesel fuel option collars and swaps			(1,883)	(958)
Propylene swaps			(4,412)	(730)

9. COMMITMENTS AND CONTINGENCIES

Purchase Commitments

We will, from time to time, secure supplies of resin raw material by agreeing to purchase quantities during a future given period at a fixed price. These purchase contracts are short term in nature and occur in the ordinary course of business. Under such purchase contracts, we have agreed to purchase resin over the period October 2015 through December 2016 at a committed purchase cost of $37,530.

Litigation

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

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

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

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10. ACCUMULATED OTHER COMPREHENSIVE LOSS

The following table presents the changes in the balance of Accumulated other comprehensive loss (AOCL) for the period ending September 30, which consists entirely of foreign currency translation gains (losses):

(Amounts in thousands)	Accumulated Other Comprehensive Loss	
Balance at April 1, 2014	$	(6,830)
Other comprehensive loss		(2,525)
Balance at September 30, 2014	**$**	**(9,355)**
Balance at April 1, 2015		(15,521)
Other comprehensive loss		(8,162)
Balance at September 30, 2015	**$**	**(23,683)**

11. INCOME TAXES

The Company s effective tax rate will vary based on a variety of factors, including overall profitability, the geographical mix of income before taxes and related tax rates in jurisdictions where it operates, as well as discrete events. For the six months ended September 30, 2015 and 2014, the Company utilized an effective tax rate of 30.9% and 36.6%, respectively, to calculate its provision for income taxes. These rates differ from the federal statutory rate of 35% due to state and local taxes, offset by foreign income taxed at lower rates as well as uncertain tax position relief as a result of the lapse of statute of limitations.

12. NET INCOME PER SHARE

Basic net income per share is calculated by dividing the Net income attributable to common stockholders by the weighted-average number of common shares outstanding during the period, without consideration for common stock equivalents. Diluted net income per share is computed by dividing the Net income attributable to common stockholders by the weighted-average number of common share equivalents outstanding for the period.

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

The dilutive effect of stock options and unvested restricted stock is based on the more dilutive of the treasury stock method or the diluted two-class method. In computing diluted net income per share, income available to common shareholders used in the basic net income per share calculation (numerator) is adjusted, subject to sequencing rules, for certain adjustments that would result from the assumed issuance of potential common shares. Diluted net income per share assumes the Redeemable convertible preferred stock would be cash settled through the effective date of the IPO on July 25, 2014, as we have the choice of settling in cash or shares and we have demonstrated past practice and intent of cash settlement. Therefore these shares are excluded from the calculation through the effective date of the IPO. After the effective date of the IPO, Management s intent is to share settle; therefore, these shares are included in the calculation from July 26, 2014 through September 30, 2015, if dilutive. For purposes of the calculation of diluted net income per share, stock options and unvested restricted stock are considered to be potential common stock and are only included in the calculations when their effect is dilutive.

Prior to the effective date of the IPO, the Company s Redeemable common stock was included in the weighted-average number of common shares outstanding for calculating basic and diluted net income (loss) per share.

The following table presents information necessary to calculate net income per share for the three and six months ended September 30, 2015 and 2014, as well as potentially dilutive securities excluded from the weighted average number of diluted common shares outstanding because their inclusion would have been anti-dilutive:

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(Amounts in thousands, except per share data)	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Six Months Ended September 30, 2015	Six Months Ended September 30, 2014
Net income per share Basic				
Net income attributable to ADS	$ 10,899	$ 16,844	$ 21,609	$ 25,410
Adjustment for:				
Accretion of redeemable noncontrolling interest	(257)		(257)	
Change in fair value of redeemable convertible preferred stock		7,319		(11,054)
Dividends to redeemable convertible preferred stock	(362)	(37)	(733)	(75)
Dividends paid to unvested restricted stockholders	(6)		(12)	
Net income available to common stockholders and participating securities	10,274	24,126	20,607	14,281
Undistributed income allocated to participating securities	(822)	(2,768)	(1,680)	(1,702)
Net income available to common stockholders - Basic	9,452	21,358	18,927	12,579
Weighted average number of common shares outstanding - Basic	53,882	51,518	53,753	49,538
Net income per common share - Basic	**$ 0.18**	**$ 0.41**	**$ 0.35**	**$ 0.25**
Net income per share Diluted				
Net income available to common stockholders - Basic	$ 9,452	$ 21,358	$ 18,927	$ 12,579
Undistributed income allocated to participating securities		1,952		601
Amount allocated to participating preferred stockholders			1,646	
Preferred stock dividends, net of tax			477	
Tax benefit on an as if converted common dividend			109	
Additional compensation for leverage ESOP			(275)	
Net income available to common stockholders - Diluted	9,452	23,310	20,884	13,180
Weighted average number of common shares outstanding - Basic	53,882	51,518	53,753	49,538
Assumed exercise of preferred stock		4,714	6,531	2,382
Assumed exercise of stock options	400	231	410	278
Weighted average number of common shares outstanding - Diluted	54,282	56,463	60,694	52,198
Net income per common share - Diluted	**$ 0.17**	**$ 0.41**	**$ 0.34**	**$ 0.25**
Potentially dilutive securities excluded as anti-dilutive	6,466	22	2	57

13. BUSINESS SEGMENTS INFORMATION

We operate our business in two distinct operating and reportable segments based on the markets we serve: Domestic and International . The Chief Operating Decision Maker (CODM) evaluates segment reporting based on net sales and Segment Adjusted EBITDA (a non-GAAP measure). We calculate Segment Adjusted EBITDA as net income or loss before interest, income taxes, depreciation and amortization, stock-based compensation expense, non-cash charges and certain other expenses.

Domestic - Our Domestic segment manufactures and markets products throughout the United States. We maintain and serve these markets through strong product distribution relationships with many of the largest national and independent waterworks distributors, major national retailers as well as an extensive network of hundreds of small to medium-sized distributors across the U.S. We also sell through a broad variety of buying groups and co-ops in the United States. Products include single wall pipe, N-12 HDPE pipe sold into the Storm sewer and Infrastructure markets, High Performance PP pipe sold into the Storm sewer and sanitary sewer markets, and our broad line of Allied Products including StormTech, Nyloplast, Arc Septic Chambers, Inserta Tee, BaySaver filters and water quality structures, Fittings, and FleXstorm. Our Domestic segment sales are diversified across all regions of the country.

International Our International segment manufactures and markets products in regions outside of the United States, with a growth strategy focused on our owned facilities in Canada and through our joint-ventures, with local partners in Mexico, Central America and South America. Our joint venture strategy provides us with local and regional access to new markets such as Brazil, Chile, Argentina, Peru and Colombia. Our Mexican joint venture through ADS Mexicana primarily serves the Mexican markets, while our South American joint venture is our primary channel to serve the South American markets. Our product line includes single wall pipe, N-12 HDPE pipe, and High Performance PP pipe. The Canadian market also sells our broad line of Allied Products, while sales in Latin America are currently concentrated in fittings and Nyloplast.

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The following table sets forth reportable segment information with respect to the amount of net sales contributed by each class of similar products of our consolidated gross profit for the three and six months ended September 30, 2015 and 2014, respectively:

	Three Months Ended September 30,		Six Months Ended September 30,	
(Amounts in thousands)	**2015**	**2014**	**2015**	**2014**
Domestic				
Pipe	$ 238,291	$ 241,713	$ 458,826	$ 457,749
Allied Products	89,009	78,063	166,640	151,652
Total domestic	**327,300**	**319,776**	**625,466**	**609,401**
International				
Pipe	44,542	38,218	86,917	68,149
Allied Products	11,487	8,720	20,070	15,598
Total international	**56,029**	**46,938**	**106,987**	**83,747**
Total net sales	**$ 383,329**	**$ 366,714**	**$ 732,453**	**$ 693,148**

The following sets forth certain additional financial information attributable to our reportable segments for the three and six months ended September 30, 2015, and 2014, respectively:

	Three Months Ended September 30,		Six Months Ended September 30,	
(Amounts in thousands)	**2015**	**2014**	**2015**	**2014**
Net sales				
Domestic	$ 327,300	$ 319,776	$ 625,466	$ 609,401
International	56,029	46,938	106,987	83,747
Total	**$ 383,329**	**$ 366,714**	**$ 732,453**	**$ 693,148**
Gross profit				
Domestic	$ 73,475	$ 65,574	$ 133,134	$ 119,641
International	10,260	4,189	23,187	10,980
Total	**$ 83,735**	**$ 69,763**	**$ 156,321**	**$ 130,621**
Segment Adjusted EBITDA				
Domestic	$ 56,677	$ 53,904	$ 97,955	94,896
International	4,266	1,296	14,799	5,432
Total	**$ 60,943**	**$ 55,200**	**$ 112,754**	**$ 100,328**

Interest expense, net								
Domestic	$	4,901	$	5,020	$	8,938	$	10,062
International		46		24		295		33
Total	**$**	**4,947**	**$**	**5,044**	**$**	**9,233**	**$**	**10,095**
Depreciation and amortization								
Domestic	$	15,243	$	14,937	$	31,659	$	29,595
International		2,124		1,437		4,346		2,805
Total	**$**	**17,367**	**$**	**16,374**	**$**	**36,005**	**$**	**32,400**
Equity in net (loss) income of unconsolidated affiliates								
Domestic	$	(12)	$	251	$	324	$	404
International		(360)		(313)		(342)		(1,128)
Total	**$**	**(372)**	**$**	**(62)**	**$**	**(18)**	**$**	**(724)**
Capital expenditures								
Domestic	$	7,631	$	7,869	$	16,475	$	14,788
International		1,971		295		3,722		808
Total	**$**	**9,602**	**$**	**8,164**	**$**	**20,197**	**$**	**15,596**

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The following sets forth certain additional financial information attributable to our reporting segments as of September 30, 2015, and March 31, 2015, respectively:

	September 30, 2015	March 31, 2015
Investment in unconsolidated affiliates		
Domestic	$ 3,075	$ 7,957
International	14,626	17,081
Total	**$ 17,701**	**$ 25,038**
Total identifiable assets		
Domestic	$ 1,010,171	$ 942,267
International	162,876	168,624
Eliminations	(66,412)	(69,193)
Total	**$ 1,106,635**	**$ 1,041,699**

Reconciliation of Segment Adjusted EBITDA to Net Income

	Three Months Ended September 30,			
	2015		2014	
(Amounts in thousands)	**Domestic**	**International**	**Domestic**	**International**
Net income	**$ 11,222**	**$ 3,259**	**$ 17,603**	**$ 1,394**
Depreciation and amortization	15,243	2,124	14,937	1,437
Interest expense	4,901	46	5,020	24
Income tax expense (benefit)	5,884	(1,516)	10,897	(1,971)
Segment EBITDA	37,250	3,913	48,457	884
Derivative fair value adjustment	5,784	(11)	67	
Foreign currency transaction gains		(151)		(205)
Loss on disposal of assets or businesses	289	6	251	30
Unconsolidated affiliates interest, tax, depreciation and amortization [(a)]	260	509	291	587
Contingent consideration remeasurement	45		20	
Stock-based compensation	724		2,131	
ESOP deferred compensation	3,125		2,687	
Loss on BaySaver step acquisition	490			
Restatement costs [(b)]	8,710			
Segment Adjusted EBITDA	**$ 56,677**	**$ 4,266**	**$ 53,904**	**$ 1,296**

(a) Includes our proportional share of interest, income taxes, depreciation and amortization related to our South American Joint Venture and our Tigre-ADS USA Joint Venture, which are accounted for under the equity method of accounting. In addition, these amounts include our proportional share of interest, income taxes, depreciation and amortization related to our BaySaver Joint Venture prior to our acquisition of BaySaver on July 17, 2015, which was previously accounted for under the equity method of accounting.

(b) Represents expenses recorded related to legal, accounting and other professional fees incurred in connection with the restatement of our prior period financial statements as reflected in the Fiscal 2015 Form 10-K.

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Reconciliation of Segment Adjusted EBITDA to Net Income

	Six Months Ended September 30,			
	2015		2014	
(Amounts in thousands)	Domestic	International	Domestic	International
Net income	**$ 16,764**	**$ 9,515**	**$ 25,446**	**$ 2,992**
Depreciation and amortization	31,659	4,346	29,595	2,805
Interest expense	8,938	295	10,062	33
Income tax expense (benefit)	12,202	(463)	18,311	(1,492)
Segment EBITDA	69,563	13,693	83,414	4,338
Derivative fair value adjustment	9,506	28	163	
Foreign currency transaction losses (gains)		166		(75)
Loss (gain) on disposal of assets or businesses	1,341	(180)	311	34
Unconsolidated affiliates interest, tax, depreciation and amortization [(a)]	546	1,092	540	1,135
Contingent consideration remeasurement	100		2	
Stock-based compensation	1,449		4,377	
ESOP deferred compensation	6,250		5,374	
Loss on BaySaver step acquisition	490			
Restatement costs [(b)]	8,710			
Transaction costs [(c)]			715	
Segment Adjusted EBITDA	**$ 97,955**	**$ 14,799**	**$ 94,896**	**$ 5,432**

(a) Includes our proportional share of interest, income taxes, depreciation and amortization related to our South American Joint Venture and our Tigre-ADS USA Joint Venture, which are accounted for under the equity method of accounting. In addition, these amounts include our proportional share of interest, income taxes, depreciation and amortization related to our BaySaver Joint Venture prior to our acquisition of BaySaver on July 17, 2015, which was previously accounted for under the equity method of accounting.

(b) Represents expenses recorded related to legal, accounting and other professional fees incurred in connection with the restatement of our prior period financial statements as reflected in the Fiscal 2015 Form 10-K.

(c) Represents expenses recorded related to legal, accounting and other professional fees incurred in connection with the completion of the IPO in Fiscal 2015.

14. SUPPLEMENTAL CASH FLOW INFORMATION

During the six months ended September 30, 2015 and 2014, ADS acquired Property, plant and equipment under capital lease and incurred lease obligations of $25,598 and $20,158, respectively.

15. SUBSEQUENT EVENTS

Subsequent Events Related to the Bank Term Loans and Senior Notes

Our long-term debt primarily consists of amounts outstanding under a Revolving Credit Facility with borrowing capacity of $325,000 for ADS, Inc., a Revolving Credit Facility for ADS-Mexicana with borrowing capacity of $12,000, and a $100,000 term note (collectively, the Bank Term Loans), and the $100,000 of outstanding senior promissory notes (Senior Notes). The amendments and consents described below that occurred between July 2015 and February 2016 related to the delay in the filing of the Fiscal 2015 Form 10-K, and the restatement of the Company s previously issued financial statements (the Restatement) as reflected in the Fiscal 2015 Form 10-K, which was filed with the SEC on March 29, 2016.

From July 2015 through September 2015, the Company obtained various consents from the lenders and amended the Bank Term Loans and Senior Notes. These consents and the additional amendments had the effect of: (i) extending the time for delivery of our fiscal 2015 audited financial statements and the first and second quarter fiscal 2016 quarterly financial statements to September 30, 2016, whereby an event of default was waived as long as those financial statements were delivered within the thirty day grace period after that date, (ii) modified certain definitions applicable to the Company s affirmative and negative financial covenants, including the negative covenant on indebtedness, to accommodate the Company s treatment of its

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transportation and equipment leases as capital leases rather than operating leases and to accommodate the treatment of the costs related to the Company s restatement, and (iii) permitted the Company s payment of quarterly dividends on common shares in June, August and December 2015.

In October 2015, the Company obtained additional consents from the requisite holders of its Bank Term Loans and its Senior Notes to further extend the time for delivery of its fiscal 2015 audited financial statements and the first quarter fiscal 2016 quarterly financial statements, as well as to extend the time for delivery of its second quarter fiscal 2016 quarterly financial statements. The consents extended the time for delivery of the fiscal 2015 audited financial statements and the first quarter fiscal 2016 quarterly financial statements to November 30, 2015, as well as extended the time for delivery of the second quarter fiscal 2016 quarterly financial statements to December 31, 2015, whereby an event of default was waived as long as those financial statements were delivered within the thirty day grace period after those dates.

In December 2015, the Company entered into additional amended agreements related to the Bank Term Loans and Senior Notes that further extend the time for delivery of its fiscal 2015 audited financial statements and the first and second quarter fiscal 2016 quarterly financial statements. The December 2015 amended agreements extended the time for delivery of the fiscal 2015 audited financial statements and the first and second quarter fiscal 2016 quarterly financial statements to January 31, 2016, whereby an event of default was waived as long as those financial statements were delivered within the thirty day grace period after that date. The December 2015 amended agreements also modify certain definitions applicable to the Company s affirmative and negative financial covenants, including with respect to the treatment of the costs related to the Company s restatement for purposes of the calculation of the minimum fixed charge coverage ratio and the maximum leverage ratio. As part of the December 2015 amended agreements, the lenders also consented to the Company s payment of a $0.05 per share common stock dividend in December 2015.

In February 2016, the Company entered into additional amended agreements related to the Bank Term Loans and Senior Notes that further extend the time for delivery of its fiscal 2015 audited financial statements and the first and second quarter fiscal 2016 quarterly financial statements, as well as to extend the time for delivery of its third quarter fiscal 2016 quarterly financial statements. The February 2016 amended agreements extended the time for delivery of the fiscal 2015 audited financial statements and the first, second and third quarter fiscal 2016 quarterly financial statements to April 1, 2016, whereby an event of default was waived as long as those financial statements were delivered by that date without regard to any grace period. As part of the February 2016 amended agreements, the lenders also consented to the Company s payment of the previously declared annual dividend of $0.0195 per share to be paid on shares of preferred stock in March 2016.

Subsequent Event Related to the ADS Mexicana Scotia Bank Revolving Credit Facility

On May 27, 2016, ADS Mexicana obtained a waiver on a covenant from Scotia Bank relating to ADS Mexicana failing to notify Scotia Bank of changes in legal organizational structure and payment of dividends.

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

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

The following discussion and analysis of the financial condition and results of our operations should be read in conjunction with our condensed consolidated financial statements and related footnotes included elsewhere in this report and with our audited consolidated financial statements included in our Fiscal 2015 Form 10-K. In addition to historical condensed consolidated financial information, the following discussion contains forward-looking statements that reflect our plans, estimates, and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. This discussion contains forward-looking statements that are based on the beliefs of our management, as well as assumptions made by, and information currently available to, our management. Our actual results could differ materially from those discussed in the forward-looking statements. For more information, see the section below entitled Forward Looking Statements.

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

Overview

We are the leading manufacturer of high performance thermoplastic corrugated pipe, providing a comprehensive suite of water management products and superior drainage solutions for use in the construction and infrastructure marketplace. Our innovative products are used across a broad range of end markets and applications, including non-residential, residential, agriculture and infrastructure applications. We have established a leading position in many of these end markets by leveraging our national sales and distribution platform, our overall product breadth and scale and our manufacturing excellence. In North America, our national footprint combined with our strong local presence and broad product offering makes us the leader in an otherwise highly fragmented sector comprised of many smaller competitors. We believe the markets we serve in the United States represent approximately $10.5 billion of annual revenue opportunity. In addition, we believe the increasing acceptance of thermoplastic pipe products in international markets represents an attractive growth opportunity.

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

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

Recent Developments

2014 Initial Public Offering (IPO)

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

On July 25, 2014, we completed the IPO of our common stock, which resulted in the sale by the Company of 5,289,474 shares of common stock. We received total proceeds from the IPO of $79.1 million after excluding underwriter discounts and commissions of $5.5 million, based upon the price to the public of $16.00 per share. After deducting other offering expenses of $6.9 million, we used the net proceeds of $72.2 million to reduce the outstanding indebtedness under the revolving portion of our credit facility. The common stock is listed on the NYSE under the symbol WMS.

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

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2014 Secondary Public Offering (Secondary Public Offering)

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

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

Acquisition of Ideal Pipe

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

Acquisition of BaySaver

On July 17, 2015, ADS Ventures, Inc. (ADS/V), a wholly-owned subsidiary of the Company, acquired an additional 10% of the issued and outstanding membership interests in BaySaver, for a purchase price of $3.2 million, subject to certain post-closing purchase price payments, which was financed through our existing line of credit facility. The BaySaver joint venture was established in July 2013 to design, engineer, manufacture, market and sell water quality filters and separators used in the removal of sediment and pollution from storm water anywhere in the world except New Zealand, Australia and South Africa. The Company originally contributed $3.5 million in cash, $1.3 million in inventory, and intangible assets with no carrying value, in exchange for a 55% equity interest and a 50% voting interest in BaySaver. Concurrent with the additional investment in July 2015, we also entered into an amendment to the BaySaver joint venture agreement to modify the voting rights for the joint venture from an equal vote for each member to a vote based upon the ownership interest. As a result, the Company increased its ownership interest in BaySaver to 65% and obtained the majority of the voting rights.

While we had previously accounted for our investment in BaySaver under the equity method of accounting, we have concluded that the additional investment results in a step acquisition of BaySaver that will be treated as a business combination. As a result, our condensed consolidated financial statements include the consolidation of BaySaver s financial statements beginning on July 17, 2015. The accounting for the step acquisition resulted in the Company recognizing a loss of $0.5 million in the period of acquisition due to the remeasurement to fair value of our prior equity interest, which is included in Derivative losses (gains) and other expense (income), net in our Condensed Consolidated Statements of Operations.

Results of Operations

Three Months Ended September 30, 2015 Compared With Three Months Ended September 30, 2014

The following tables summarize certain financial information relating to our operating results that have been derived from our condensed consolidated financial statements for the three months ended September 30, 2015 and 2014. Also included is certain information relating to the operating results as a percentage of net sales. We believe this presentation is useful to investors in comparing historical results.

(Amounts in thousands, except per share data)	Three Months Ended September 30, 2015	% of Net Sales	Three Months Ended September 30, 2014	% of Net Sales	% Variance
Consolidated Statements of Operations data:					
Net sales	$ 383,329	100.0%	$ 366,714	100.0%	4.5%
Cost of goods sold	299,594	78.2%	296,951	81.0%	0.9%
Gross profit	83,735	21.8%	69,763	19.0%	20.0%
Selling expenses	22,594	5.9%	20,240	5.5%	11.6%

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(Amounts in thousands, except per share data)		Three Months Ended September 30, 2015	% of Net Sales		Three Months Ended September 30, 2014	% of Net Sales	% Variance
General and administrative expenses		25,145	6.6%		13,843	3.8%	81.6%
Loss on disposal of assets or businesses		295	0.1%		281	0.1%	5.0%
Intangible amortization		2,341	0.6%		2,610	0.7%	(10.3%)
Income from operations		33,360	8.7%		32,789	8.9%	1.7%
Interest expense		4,947	1.3%		5,044	1.4%	(1.9%)
Derivative losses (gains) and other expense (income), net		9,192	2.4%		(240)	(0.1%)	*
Income before income taxes		19,221	5.0%		27,985	7.6%	(31.3%)
Income tax expense		4,368	1.1%		8,926	2.4%	(51.1%)
Equity in net loss of unconsolidated affiliates		372	0.1%		62	%	500.0%
Net income		14,481	3.8%		18,997	5.2%	(23.8%)
Less net income attributable to noncontrolling interest		3,582	0.9%		2,153	0.6%	66.4%
Net income attributable to ADS	$	10,899	2.8%	$	16,844	4.6%	(35.3%)
Other financial data:							
Adjusted EBITDA [(a)]	$	60,943	15.9%	$	55,200	15.1%	10.4%
System-Wide Net Sales [(a)]	$	401,337	104.7%	$	390,610	106.5%	2.7%
Adjusted Earnings Per Fully Converted Share [(a)]	$	0.19		$	0.27		(29.8%)

(a) See section entitled Non-GAAP Financial Measures for further information.
* not meaningful

Net sales

(Amounts in thousands)	Three Months Ended September 30, 2015	2014	% Variance
Domestic			
Pipe	$ 238,291	$ 241,713	(1.4%)
Allied Products	89,009	78,063	14.0%
Total domestic	**327,300**	**319,776**	**2.4%**
International			
Pipe	44,542	38,218	16.5%

Allied Products	11,487	8,720	31.7%
Total international	**56,029**	**46,938**	**19.4%**
Total net sales	**$ 383,329**	**$ 366,714**	**4.5%**

Net sales for the second quarter ended September 30, 2015 totaled $383.3 million, increasing $16.6 million, or 4.5%, over the comparable prior year period.

Domestic net sales increased $7.5 million, or 2.4%, for the second quarter ended September 30, 2015, as compared to the prior year period. The sales growth was primarily attributed to a 14.0% increase in Allied Products sales, which increased $10.9 million for the three months ended September 30, 2015 and included the addition of $3.5 million of Allied Products sales from the BaySaver acquisition in addition to growth in the StormTech, Nyloplast, and Fittings product lines. Pipe sales decreased $3.4 million, or 1.4%, due to lower agricultural single wall sales which offset growth in the domestic construction markets. Pipe selling prices increased 1.0% compared to the prior year, but were offset by a 2.4% decline in the volume of pipe sold compared to the prior year.

International net sales for the second quarter ended September 30, 2015 increased $9.1 million, or 19.4%, over the comparable fiscal year 2015 period. The growth was primarily due to increased sales in Canada of $12.0 million offset by decreased sales in Mexico of $0.9 million. The acquisition of Ideal Pipe in Canada contributed $13.1 million to the increase in Canadian sales. In addition, the Canadian dollar was approximately 17% weaker against the U.S. dollar in the three month period ended September 30, 2015, compared to the three month period ended September 30, 2014, which had a negative impact on Net sales for Canada of $7.0 million during the three month period ended September 30, 2015.

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System-Wide Net Sales for the second quarter ended September 30, 2015 were $401.3 million, an increase of $10.7 million, or 2.7%, over System-Wide Net Sales of $390.6 million for the second quarter ended September 30, 2014. Net sales at our South American Joint Venture operation were negatively impacted by continued softness in the mining markets and an overall construction slowdown due to a declining economic environment and reduced public spending and declined $3.3 million or 19.6% compared to the prior year period. Net sales growth at our domestic joint ventures, Tigre-ADS USA and BaySaver (prior to the July 17, 2015 step acquisition of BaySaver) provided a combined decrease of $2.6 million in net sales for the unconsolidated joint ventures for the three months ended September 30 2015, as compared to the prior year period. During the three months ended September 30, 2015, the Company acquired a controlling interest in BaySaver on July 17, 2015 and revenues from that point forward have been included in the domestic net sales total.

Cost of goods sold and Gross profit

Cost of goods sold increased $2.6 million or 0.9% to $299.6 million for the three months ended September 30, 2015 compared to $297.0 million over the comparable fiscal year 2015 period.

Gross profit for the three months ended September 30, 2015 increased $13.9 million, or 20.0%, over the comparable fiscal year 2015 period. Gross profit as a percentage of net sales totaled 21.8% and 19.0% for the three months ended September 30, 2015 and 2014, respectively.

Domestic gross profit increased $7.9 million, or 12.0%, to $73.5 million for the three months ended September 30, 2015 as compared to $65.6 million during the prior fiscal year 2015 period. In addition to the impact of the 2.4% increase in domestic net sales over the comparable fiscal year 2015 period, the increase in domestic gross profit was also due to sales growth in higher margin Allied Products which provided an improved profitability mix for the quarter compared to the comparable prior year period, as well as lower raw material costs for pipe. Raw material prices decreased 8.5% due to moderating virgin and non-virgin resin prices for the second quarter of fiscal year 2016 as compared to the prior year comparable period. In addition, freight costs stayed relatively flat as a percentage of domestic net sales, increasing from 8.9% for the fiscal year 2015 period to 9.3% for the three months ended September 30, 2015. This was the result of increased depreciation expense associated with new delivery fleet units being partially offset by the impact of a decrease in diesel fuel prices of approximately 33%.

International gross profit increased $6.1 million, or 145.2%, for the three months ended September 30, 2015 over the comparable fiscal year 2015 period. Besides the impact of the 19.4% increase in international net sales over the comparable 2015 period, the increase in international gross profit was also helped by the addition of Ideal Pipe activity in Canada, which comprised the majority of the gross profit increase during the quarter. Conversely, international gross profit was negatively impacted by the continued devaluation of the Canadian dollar versus the U.S. dollar, but benefited from lower raw material prices (which are primarily purchased in U.S. dollars) compared to the prior fiscal year 2015 period.

Selling expenses

Selling expenses consist of field selling and customer service for personnel engaged in sales and sales support functions. Field selling and customer service expenditures primarily 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.

Selling expenses for the three months ended September 30, 2015 increased $2.4 million, or 11.6%, over the comparable fiscal year 2015 period, higher than the 4.5% increase in net sales over the same period. The increase was primarily the result of increases in variable selling expenses due to higher sales volume and investments in additional sales coverage and growth initiatives. As a percentage of net sales, selling expenses increased to 5.9% for the second quarter of fiscal year 2016 as compared to 5.5% for the prior fiscal year 2015 period.

General and administrative expenses

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

General and administrative expenses for the three months ended September 30, 2015 increased $11.3 million, or 81.6%, over the comparable fiscal year 2015 period.

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The significant increase in general and administrative expenses was primarily the result of audit, tax, legal and other professional fees of $8.7 million incurred during the three months ended September 30, 2015 related to the restatement of our previously filed financial statements as part of the preparation of our Fiscal 2015 Form 10-K. There were no such amounts in the comparable fiscal 2015 period. In addition, international general and administrative expenses increased approximately $0.4 million primarily due to the addition of $0.3 million of costs associated with Ideal Pipe. The remaining increase related to higher corporate overhead expenses which were generally associated with the increased cost of being a public company.

Loss on disposal of assets or businesses

Loss on disposal of assets or businesses remained flat at $0.3 million for the three months ended September 30, 2015 and 2014.

Intangible amortization

Intangible amortization for the three months ended September 30, 2015 decreased $0.3 million compared to the three months ended September 30, 2014 as a result of intangible assets of $7.8 million becoming fully amortized during fiscal 2015 offset by the amortization of the Ideal Pipe intangible assets acquired in the fourth quarter of fiscal year 2015 and the BaySaver intangible assets acquired in the second quarter of fiscal year 2016.

Interest expense

Interest expense for the three months ended September 30, 2015 was essentially flat compared to the three months ended September 30, 2014.

Derivative losses (gains) and other expense (income), net

Derivative losses (gains) and other expense (income), net reflects a loss of $9.2 million for the three months ended September 30, 2015 compared to $0.2 million of income for the comparable fiscal year 2015 period. The increase in the net expense was primarily due to unfavorable mark-to-market adjustments of $5.8 million for changes in fair value of derivative contracts (diesel fuel hedges and raw material derivatives), cash settlement losses of $3.8 million on these same hedging arrangements, and a loss of $0.5 million recognized for the fair value remeasurement of the Company s original investment in BaySaver at the time the Company acquired a controlling interest in July 2015, offset by miscellaneous other income.

Income tax expense

The Company s effective tax rate will vary based on a variety of factors, including overall profitability, the geographical mix of income before taxes and related tax rates in jurisdictions where it operates and other one-time charges, as well as discrete events. For the three months ended September 30, 2015 and 2014, the Company recorded an income tax provision of $4.4 million and $8.9 million, respectively. Income tax expense for the three months ended September 30, 2015 was 22.7% of Income before income taxes compared to 31.8% for the three months ended September 30, 2014. The decrease in the effective tax rate was due primarily to the benefit recorded upon the reversal of reserves for uncertain tax positions as the statute of limitations lapsed.

Equity in net loss of unconsolidated affiliates

Equity in net loss of unconsolidated affiliates increased $0.3 million to $0.4 million for the three months ended September 30, 2014 compared to $0.1 million for the three months ended September 30, 2014.

Net income attributable to noncontrolling interest

Net income attributable to noncontrolling interest increased $1.4 million from $2.2 million during the three months ended September 30, 2014 to $3.6 million during the three months ended September 30, 2015. The increase resulted from improved operating results for ADS Mexicana and the inclusion of BaySaver noncontrolling interest subsequent to July 17, 2015.

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Net income attributable to ADS and Net income per share

Second quarter net income attributable to ADS for fiscal year 2016 of $10.9 million decreased $5.9 million or 35.3% from the preceding fiscal year s net income attributable to ADS for the quarter of $16.8 million, as influenced by the factors noted above. Net income per share for the second quarter fiscal year 2016 totaled $0.18 per basic and $0.17 per diluted share, as compared to $0.41 per basic and diluted share recorded in the comparable prior year period.

Adjusted EBITDA (a)

	Three Months Ended September 30,		
(Amounts in thousands)	**2015**	**2014**	**% Variance**
Domestic	$ 56,677	$ 53,904	5.1%
International	4,266	1,296	229.1%
Total adjusted EBITDA	**$ 60,943**	**$ 55,200**	**10.4%**
As a percentage of net sales	15.9%	15.1%	

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

Six Months Ended September 30, 2015 Compared With Six Months Ended September 30, 2014

The following tables summarize certain financial information relating to our operating results that have been derived from our condensed consolidated financial statements for the six months ended September 30, 2015 and 2014. Also included is certain information relating to the operating results as a percentage of net sales. We believe this presentation is useful to investors in comparing historical results.

(Amounts in thousands, except per share data)	**Six Months Ended September 30, 2015**	**% of Net Sales**	**Six Months Ended September 30, 2014**	**% of Net Sales**	**% Variance**
Consolidated Statements of Operations Data:					
Net Sales	$ 732,453	100.0%	$ 693,148	100.0%	5.7%
Cost of goods sold	576,132	78.7%	562,527	81.2%	2.4%
Gross Profit	156,321	21.3%	130,621	18.8%	19.7%
Selling expenses	43,821	6.0%	39,792	5.7%	10.1%
General and administrative expenses	43,431	5.9%	29,641	4.3%	46.5%
Loss on disposal of assets or businesses	1,161	0.2%	345	%	236.5%
Intangible amortization	4,867	0.7%	5,223	0.8%	(6.8%)
Income from operations	63,041	8.6%	55,620	8.0%	13.3%
Interest expense	9,233	1.3%	10,095	1.5%	(8.5%)
Derivative losses (gains) and other expense (income), net	15,772	2.2%	(456)	(0.1%)	*

Income before income taxes	38,036	5.2%	45,981	6.6%	(17.3%)
Income tax expense	11,739	1.6%	16,819	2.4%	(30.2%)
Equity in net loss of unconsolidated affiliates	18	%	724	0.1%	(97.5%)
Net income	26,279	3.6%	28,438	4.1%	(7.6%)
Less net income attributable to noncontrolling interest	4,670	0.6%	3,028	0.4%	54.2%
Net income attributable to ADS	$ 21,609	3.0%	$ 25,410	3.7%	(15.0%)
Other financial data:					
Adjusted EBITDA [(a)]	$ 112,754	15.4%	$ 100,328	14.5%	12.4%
System-Wide Net Sales [(a)]	$ 772,470	105.5%	$ 736,834	106.3%	4.8%
Adjusted Earnings per Fully Converted Share [(a)]	$ 0.38		$ 0.44		(13.9%)

(a) See section entitled Non-GAAP Financial Measures for further information.
* not meaningful

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Net sales

(Amounts in thousands)	Six Months Ended September 30, 2015	2014	% Variance
Domestic			
Pipe	$ 458,826	$ 457,749	0.2%
Allied Products	166,640	151,652	9.9%
Total domestic	**625,466**	**609,401**	**2.6%**
International			
Pipe	86,917	68,149	27.5%
Allied Products	20,070	15,598	28.7%
Total international	**106,987**	**83,747**	**27.8%**
Total net sales	**$ 732,453**	**$ 693,148**	**5.7%**

Net sales totaled $732.5 million for the six months ended September 30, 2015, increasing $39.4 million, or 5.7%, over the comparable fiscal year 2015 period.

Domestic net sales increased $16.1 million, or 2.6%, for the six months ended September 30, 2015, as compared to the prior fiscal year period. The increase in domestic net sales was due to continued sales growth in the non-residential, infrastructure, and residential markets, offsetting a decline in agricultural sales. The sales growth is broken down between our Pipe and Allied Products, which increased $1.1 million and $14.9 million, respectively, for the six months ended September 30, 2015 compared to the comparable period in fiscal 2015. The Pipe increase reflects growth in our domestic construction markets, offsetting lower agricultural sales. The increase in Allied Product sales was led by volume gains primarily in the non-residential and residential markets. In addition, approximately $3.5 million of the Allied Products sales increase related to the BaySaver acquisition which closed in July 2015. Pipe selling prices increased 5.1% compared to the prior year.

International net sales increased $23.3 million, or 27.8%, for the six months ended September 30, 2015 over the comparable fiscal year 2015 period. The growth was primarily due to increased sales in Canada of $23.1 million helped significantly by the acquisition of Ideal Pipe, which contributed $25.3 million in incremental sales. Pipe sales increased $18.8 million or 27.5% while international Allied Products grew $4.5 million or 28.7%. In addition, the Canadian dollar was approximately 14% weaker against the U.S. dollar in the six month period ended September 30, 2015, compared to the six month period ended September 30, 2014, which had a negative impact on Net sales for Canada of $10.6 million during the six month period ended September 30, 2015.

System-Wide Net Sales were $772.5 million for the first six months of fiscal year 2016, an increase of $35.7 million, or 4.8%, over System-Wide Net Sales of $736.8 million for the first six months of fiscal year 2015. Net sales at our South American Joint Venture operation declined $2.9 million or 9.4% for the six months ending September 30, 2015 compared to the prior period and were negatively impacted by continued softness in Brazil as well as the mining markets and an overall construction slowdown due to a declining economic environment and reduced public spending. Net sales at our domestic joint ventures, Tigre-ADS USA and BaySaver (prior to the step acquisition in July 2015) are relatively flat compared to the prior year, although the fiscal year 2015 period included BaySaver sales for the entire six month period and the fiscal year 2016 period only includes BaySaver sales from April 1, 2015 through July 17, 2015. Including the post-consolidation sales, the net sales at our domestic joint ventures increased $2.7 million for the six months ended September 30, 2015 compared to the prior year period.

Cost of goods sold and Gross profit

Cost of goods sold increased $13.6 million or 2.4% to $576.1 million for the six months ended September 30, 2015 compared to $562.5 million for the comparable prior fiscal year period.

Gross profit for the six months ended September 30, 2015 increased $25.7 million, or 19.7%, over the comparable prior year period. Gross profit as a percentage of net sales totaled 21.3% for the six months ended September 30, 2015 as compared to 18.8% for the prior year.

Domestic gross profit increased $13.5 million, or 11.3%, to $133.1 million for the six months ended September 30, 2015 as compared to $119.6 million for the comparable fiscal year 2015 period. The 2.6% increase in domestic net sales included sales growth in higher margin N-12 HDPE pipe and High Performance PP pipe products as well as Allied Products which realized increases in most of the product lines. Raw material prices started to moderate at the end of the first quarter and have decreased approximately 4.6% during the first six months of fiscal year 2016 as compared to the prior period. In addition, freight costs stayed relatively flat as a percentage of domestic net sales, increasing from 9.3% for the six months ended September 30, 2014 to 9.5% for the comparable fiscal 2016 period. This was the result of increased depreciation expense associated with new delivery fleet units being partially offset by the impact of a decrease in diesel fuel prices of approximately 31% for the six month period ended September 30, 2015 compared to the prior year comparable period.

International gross profit increased $12.2 million, or 110.9%, for the first six months of fiscal year 2016 over the comparable fiscal year 2015 period. The increase is due to the impact of the 27.8% increase in international net sales which included incremental contribution from Ideal Pipe in Canada and improved performance in Mexico. These increases offset the unfavorable impact of the continued devaluation of the Canadian dollar versus the U.S. dollar. Raw material prices moderated and moved lower for the international segment as well, improving pipe gross profit for the six months ended September 30, 2015.

Selling expenses

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

Selling expenses for the six months ended September 30, 2015 increased $4.0 million, or 10.1%, over the comparable fiscal year 2015 period. The increase was primarily the result of increases in variable selling expenses due to higher sales volume and investments in additional sales coverage and growth initiatives. Nearly all of the increase in selling expense was incurred in the domestic area. As a percentage of net sales, selling expenses increased to 6.0% for the first six months of fiscal year 2016 as compared to 5.7% in the prior year.

General and administrative expenses

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

General and administrative expenses for the six months ended September 30, 2015 increased $13.8 million, or 46.5%, over the comparable fiscal year 2015 period. The increase was primarily the result of significant increases in professional fees for accounting; audit, legal and other professional fees incurred in connection with the restatement of our previously filed financial statements as part of the preparation of our Fiscal 2015 Form 10-K. These fees amounted to approximately $8.7 million for the six months ended September 30, 2015. There are no such amounts in the comparable fiscal 2015 period. An additional $0.8 million of general and administrative expenses were added by the Ideal Pipe and BaySaver acquisitions. There was also an increase in salary and compensation expenses of $0.8 million. The remaining increase related to higher corporate overhead including higher depreciation expense as well as increased legal and administrative costs generally associated with the increased costs of being a public company.

Loss on disposal of assets or businesses

Loss on the disposal of assets or businesses for the six months ended September 30, 2015 and 2014 was $1.2 million and $0.3 million, respectively.

Intangible amortization

Intangible amortization for the six months ended September 30, 2015 decreased by $0.3 when compared with the same period in the prior year to $4.9 million from $5.2 million and resulted from the impact of intangible assets of $7.8 million becoming fully amortized during fiscal year 2015 being offset by the amortization of intangible assets acquired in the Ideal Pipe acquisition in the fourth quarter of fiscal 2015 and the amortization of intangible assets acquired in the BaySaver acquisition in July 2015.

Interest expense

Interest expense for the six months ended September 30, 2015 decreased $0.9 million, or 8.5%, over the comparable prior year period. The decrease was due to lower average interest rates primarily on our Revolving Credit Facility while the average outstanding for the six months ended September 30, 2015 remained relatively flat.

Derivative losses (gains) and other expense (income), net

Derivative losses (gains) and other expense (income), net amounted to a net expense of $15.8 million during the six months ended September 30, 2015 compared to income of $0.5 million for the comparable prior fiscal year period. Unfavorable mark-to-market adjustments for changes in fair value of derivative contracts amounted to $9.5 million and cash settlement losses on diesel fuel and propylene hedge arrangements amounted to $6.5 million and are significantly higher than the $0.1 million of similar losses incurred during the prior year period. Additionally, we incurred a $0.5 million loss upon completing the step acquisition of BaySaver in July 2015 as a result of remeasuring our original investment. See Note 2. Acquisitions.

Income tax expense

For the six months ended September 30, 2015 and 2014, the Company recorded income tax provisions of $11.7 million and $16.8 million, respectively, which represents an effective tax rate of 30.9% and 36.6%, respectively. The current year rate is lower than the federal statutory rate of 35% due principally to foreign income taxed at lower rates and uncertain tax position relief as a result of the lapse of statute of limitations, partially offset by state and local income taxes.

Equity in net loss of unconsolidated affiliates

Equity in net loss of unconsolidated affiliates represent our proportionate share of net loss attributed to the unconsolidated joint ventures in which we have significant influence, but not control, over operations. Equity in net loss of unconsolidated affiliates for the six months ended September 30, 2015 decreased $0.7 million over the comparable prior year period. Operating performance improved and resulted in smaller net losses compared to the prior year offset by a decrease in our share of BaySaver net earnings as it is included in this category only through July 17, 2015 when the Company gained control of the entity and began to consolidate the operations.

Net income attributable to noncontrolling interest

Net income attributable to noncontrolling interest for the six months ended September 30, 2015 increased $1.7 million or 54.2% over the comparable prior year period. Improved sales and operating margins for ADS Mexicana are responsible for approximately $1.6 million of the increase. Effective July 17, 2015 the Company acquired a controlling interest in BaySaver. The noncontrolling interest s portion of the BaySaver joint venture s activity has been included in net income attributable to noncontrolling interest since the effective date of the acquisition. See Note 2. Acquisitions.

Net income attributable to ADS and Net income (loss) per share

Net income attributable to ADS of approximately $21.6 million decreased from the preceding fiscal year s net income attributable to ADS of $25.4 million, as influenced by the factors noted above. Net income per share for the first six months of fiscal year 2016 totaled $0.35 per basic and $0.34 per diluted share as compared to $0.25 per basic and diluted share recorded in the comparable prior year period. The income per share for the six months ended

September 30, 2014 was impacted by changes in fair value appreciation on Redeemable convertible preferred stock classified in mezzanine equity which reduced income available to common stockholders by $11.1 million, or $0.22 and $0.21 per basic and diluted share, respectively, for common stockholders.

Adjusted EBITDA [(a)]

	Six Months Ended September 30,		
(Amounts in thousands)	**2015**	**2014**	**% Variance**
Domestic	$ 97,955	$ 94,896	3.2%
International	14,799	5,432	172.4%
Total adjusted EBITDA	**$ 112,754**	**$ 100,328**	**12.4%**
As a percentage of net sales	15.4%	14.5%	

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

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Non-GAAP Financial Measures

In addition to financial results reported in accordance with GAAP, we have provided the following non-GAAP financial measures: Adjusted EBITDA, System-Wide Net Sales and Adjusted Earnings per Fully Converted Share. These non-GAAP financial measures are used in addition to and in conjunction with results presented in accordance with GAAP. However, these measures are not intended to be a substitute for those reported in accordance with GAAP. These measures may be different from non-GAAP financial measures used by other companies, even when similar terms are used to identify such measures.

Adjusted EBITDA. Adjusted EBITDA is a non-GAAP financial measure that comprises net income before interest, income taxes, depreciation and amortization, stock-based compensation, non-cash charges and certain other expenses. Our definition of Adjusted EBITDA may differ from similar measures used by other companies, even when similar terms are used to identify such measures. Adjusted EBITDA is a key metric used by management and our board of directors to assess our financial performance and evaluate the effectiveness of our business strategies. Accordingly, we believe that Adjusted EBITDA provides useful information to investors and others in understanding and evaluating our operating results in the same manner as our management and Board of Directors.

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

	Three Months Ended September 30,		Six Months Ended September 30,	
(Amounts in thousands)	**2015**	**2014**	**2015**	**2014**
Net income	**$ 14,481**	**$ 18,997**	**$ 26,279**	**$ 28,438**
Depreciation and amortization	17,367	16,374	36,005	32,400
Interest expense	4,947	5,044	9,233	10,095
Income tax expense	4,368	8,926	11,739	16,819
EBITDA	41,163	49,341	83,256	87,752
Derivative fair value adjustments	5,773	67	9,534	163
Foreign currency transaction (gains) losses	(151)	(205)	166	(75)
Loss on disposal of assets or businesses	295	281	1,161	345
Unconsolidated affiliates interest, tax, depreciation and amortization [(a)]	769	878	1,638	1,675
Contingent consideration remeasurement	45	20	100	2
Stock-based compensation	724	2,131	1,449	4,377
ESOP deferred stock-based compensation	3,125	2,687	6,250	5,374
Loss on BaySaver step acquisition	490		490	
Restatement costs[(b)]	8,710		8,710	
Transaction costs [(c)]				715
Adjusted EBITDA	**$ 60,943**	**$ 55,200**	**$ 112,754**	**$ 100,328**

(a) Includes our proportional share of interest, income taxes, depreciation and amortization related to our South American Joint Venture and our Tigre-ADS USA Joint Venture, which are accounted for under the equity method of accounting. In addition, these amounts include our proportional share of interest, income taxes, depreciation and amortization related to our BaySaver Joint Venture prior to our acquisition of BaySaver on July 17, 2015, which was previously accounted for under the equity method of accounting.

(b) Represents legal, accounting and other professional fees incurred in connection with the restatement of our prior period financial statements in fiscal year 2016.
(c) Represents expenses recorded related to legal, accounting and other professional fees incurred in connection with the IPO in fiscal year 2015.

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

Reconciliation of Segment Adjusted EBITDA to Net Income

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

	Three Months Ended September 30,			
	2015		2014	
(Amounts in thousands)	**Domestic**	**International**	**Domestic**	**International**
Net income	**$ 11,222**	**$ 3,259**	**$ 17,603**	**$ 1,394**
Depreciation and amortization	15,243	2,124	14,937	1,437
Interest expense	4,901	46	5,020	24
Income tax expense (benefit)	5,884	(1,516)	10,897	(1,971)
Segment EBITDA	37,250	3,913	48,457	884
Derivative fair value adjustments	5,784	(11)	67	
Foreign currency transaction gains		(151)		(205)
Loss on sale of assets or businesses	289	6	251	30
Unconsolidated affiliates interest, tax, depreciation and amortization [(a)]	260	509	291	587
Contingent consideration remeasurement	45		20	
Stock-based compensation	724		2,131	
ESOP deferred stock-based compensation	3,125		2,687	
Loss on BaySaver step acquisition	490			
Restatement costs [(b)]	8,710			
Segment Adjusted EBITDA	**$ 56,677**	**$ 4,266**	**$ 53,904**	**$ 1,296**

(a) Includes our proportional share of interest, income taxes, depreciation and amortization related to our South American Joint Venture and our Tigre-ADS USA Joint Venture, which are accounted for under the equity method of accounting. In addition, these amounts include our proportional share of interest, income taxes, depreciation and amortization related to our BaySaver Joint Venture prior to our acquisition of BaySaver on July 17, 2015, which was previously accounted for under the equity method of accounting.
(b) Represents legal, accounting and other professional fees incurred in connection with the restatement of our prior period financial statements in fiscal year 2016.

Six Months Ended September 30,

	2015		2014	
(Amounts in thousands)	**Domestic**	**International**	**Domestic**	**International**
Net income	**$ 16,764**	**$ 9,515**	**$ 25,446**	**$ 2,992**
Depreciation and amortization	31,659	4,346	29,595	2,805
Interest expense	8,938	295	10,062	33
Income tax expense (benefit)	12,202	(463)	18,311	(1,492)
Segment EBITDA	69,563	13,693	83,414	4,338
Derivative fair value adjustments	9,506	28	163	
Foreign currency transaction gains		166		(75)

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	Six Months Ended September 30,			
	2015		2014	
(Amounts in thousands)	**Domestic**	**International**	**Domestic**	**International**
Loss (gain) on disposal of assets or businesses	1,341	(180)	311	34
Unconsolidated affiliates interest, tax, depreciation and amortization [(a)]	546	1,092	540	1,135
Contingent consideration remeasurement	100		2	
Stock-based compensation	1,449		4,377	
ESOP deferred stock-based compensation	6,250		5,374	
Loss on BaySaver step acquisition	490			
Restatement costs [(b)]	8,710			
Transaction costs [(c)]			715	
Segment Adjusted EBITDA	**$ 97,955**	**$ 14,799**	**$ 94,896**	**$ 5,432**

(a) Includes our proportional share of interest, income taxes, depreciation and amortization related to our South American Joint Venture and our Tigre-ADS USA Joint Venture, which are accounted for under the equity method of accounting. In addition, these amounts include our proportional share of interest, income taxes, depreciation and amortization related to our BaySaver Joint Venture prior to our acquisition of BaySaver on July 17, 2015, which was previously accounted for under the equity method of accounting.

(b) Represents legal, accounting and other professional fees incurred in connection with the restatement of our prior period financial statements in fiscal year 2016.

(c) Represents expenses recorded related to legal, accounting and other professional fees incurred in connection with the IPO in fiscal year 2015.

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. We participated in three unconsolidated joint ventures during the six months ended September 30, 2015 and 2014, respectively, the South American Joint Venture; Tigre-ADS USA, Inc. (Tigre-ADS USA), which is 49% owned by our wholly-owned subsidiary ADS/V; and BaySaver prior to July 17, 2015. We use this metric to measure the overall performance of our business across all of our geographies and markets we serve.

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

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

	Three Months Ended September 30,		Six Months Ended September 30,	
(Amounts in thousands)	**2015**	**2014**	**2015**	**2014**
Net sales	**$ 383,329**	**$ 366,714**	**$ 732,453**	**$ 693,148**

Net sales associated with our unconsolidated affiliates				
South American Joint Venture[(a)]	13,492	16,776	27,769	30,696
BaySaver joint venture[(b)]	485	3,423	3,611	5,760
Tigre-ADS USA joint venture[(c)]	4,031	3,697	8,637	7,230
System-Wide Net Sales	$ 401,337	$ 390,610	$ 772,470	$ 736,834

(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. As of July 17, 2015, we increased our ownership to 65%, and have consolidated BaySaver since that date. As such, Net Sales from our BaySaver joint venture prior to July 17, 2015 are included in this line item.

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

Adjusted Earnings per Fully Converted Share. Adjusted Earnings per Fully Converted Share, which is a non-GAAP measure, is a supplemental measure of financial performance that is not required by, or presented in accordance with GAAP. We calculate Adjusted Earnings per Fully Converted Share (Non-GAAP) by adjusting our Net income per share Basic and Weighted average common shares outstanding Basic, the most comparable GAAP measures.

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To effect this adjustment, we have (1) removed the accretion of redeemable noncontrolling interest in subsidiaries, (2) removed the adjustment for the change in fair value of Redeemable convertible preferred stock classified as mezzanine equity from the numerator of the Net income per share Basic computation, (3) added back the dividends to Redeemable convertible preferred stockholders and dividends paid to unvested restricted stockholders, (4) made corresponding adjustments to the amount allocated to participating securities under the two-class earnings per share computation method, and (5) added back ESOP deferred compensation attributable to the shares of Redeemable convertible preferred stock allocated to employee ESOP accounts during the applicable period, which is a non-cash charge to our earnings and not deductible for income tax purposes.

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

Adjusted Earnings Per Fully Converted Share (Non-GAAP) is included in this report because it is a key metric used by management and our board of directors to assess our financial performance. Adjusted Earnings Per Fully Converted Share (Non-GAAP) is not necessarily comparable to other similarly titled captions of other companies due to different methods of calculation.

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

	Three Months Ended September 30,		**Six Months Ended September 30,**	
	2015	**2014**	**2015**	**2014**
Net income available to common stockholders	**$ 9,452**	**$ 21,358**	**$ 18,927**	**$ 12,579**
Adjustments to net income available to common stockholders:				
Accretion of redeemable noncontrolling interest	257		257	
Change in fair value of Redeemable convertible preferred stock		(7,319)		11,054
Dividends to Redeemable convertible preferred stockholders	362	37	733	75
Dividends paid to unvested restricted stockholders	6		12	
Undistributed income allocated to participating securities	822	2,768	1,680	1,702
Total adjustments to net income available to common stockholders	1,447	(4,514)	2,682	12,831
Net income attributable to ADS	10,899	16,844	21,609	25,410
Fair Value of ESOP compensation related to Redeemable convertible preferred stock	3,125	2,687	6,250	5,374
Adjusted net income - (Non-GAAP)	**$ 14,024**	**$ 19,531**	**$ 27,859**	**$ 30,784**

Weighted Average Common Shares Outstanding	Basic	53,882	51,518	53,753	49,538
Unvested restricted shares		117	237	132	235
Redeemable convertible preferred shares		19,504	20,099	19,598	20,099
Total Weighted Average Common Shares Outstanding - Fully Converted (Non-GAAP)		73,503	71,854	73,483	69,872
Adjusted Earnings Per Fully Converted Share (Non-GAAP)		**$ 0.19**	**$ 0.27**	**$ 0.38**	**$ 0.44**

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 September 30, 2015, we had $3.2 million in cash that was held by our foreign subsidiaries. Our intent is to 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.

Working Capital and Cash Flows

During the six months ended September 30, 2015, our net decrease in cash was $0.1 million compared to a net increase of $2.7 million for the six months ended September 30, 2014. During the six months ended September 30, 2015, our source of funds was primarily driven by higher operating earnings, decreased inventories ($49.5 million), non-cash charges (depreciation, amortization, compensation expense and shared based compensation expense) and net borrowings of $26.0 million of Long Term Debt. For the same period ending September 30, 2015, our use of cash was primarily driven by increased accounts receivable balances (up $100.3 million), and spending for capital expenditures ($20.2 million). During the six months ended September 30, 2014, our source of funds was primarily driven by higher operating earnings, proceeds of $79.1 million from shares sold during our IPO, decreased inventories ($27.6 million) and non-cash charges (depreciation, amortization, compensation expense and shared based compensation expense). For the six months ended September 30, 2014, our use of cash was primarily driven by increased accounts receivable balances (up $97.8 million), spending for capital expenditures (15.6 million), repayment of $95.3 million of Long Term Debt in second quarter fiscal 2015 and investments in joint ventures ($7.6 million).

As of September 30, 2015, we had $98.3 million in liquidity, including $3.5 million of cash and cash equivalents and $94.8 million in borrowings available under our Revolving Credit Facilities, 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.

As of September 30, 2015, we had total consolidated indebtedness of approximately $425.5 million, up $25.6 million compared to March 31, 2015. We had net borrowings on our revolving line of credit of $29.8 million, offset by $3.8 million of repayments on the term loan during the six months ended September 30, 2015.

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

	Six Months Ended September 30,	
(Amounts in thousands)	**2015**	**2014**
Statement of Cash Flows data:		
Net cash from operating activities	$ 16,924	$ 14,906
Net cash used in investing activities	(25,100)	(23,972)
Net cash from financing activities	7,674	11,946

Operating Cash Flows

During the six months ended September 30, 2015, cash provided by operating activities was $16.9 million as compared with $14.9 million for the six months ended September 30, 2014. Cash flow from operating activities during the six months ended September 30, 2015 was impacted by an increase in depreciation and amortization ($3.6 million), an increase in mark to market adjustments on derivatives ($9.8 million), and a reduction in deferred income taxes ($5.9 million), offset by a larger reduction of working capital ($14.2 million) and lower stock-based compensation ($2.1 million).

Investing Cash Flows

During the six months ended September 30, 2015, cash used for investing activities was $25.1 million, primarily due to $20.2 million for capital expenditures in support of operations, $3.2 million for the purchase of an additional 10% of the membership interests in BaySaver, and $1.3 million for the purchase of capitalized software to support the business. During the six months ended September 30, 2014, cash used for investing activities was $24.0 million, primarily due to $15.6 million for capital expenditures in support of operations, a $3.6 million investment for a 49% interest in a newly created domestic joint venture operation, and a $4.0 million investment in our international joint venture operation to support growth initiatives.

Financing Cash Flows

During the six months ended September 30, 2015, cash provided by financing activities was a net $7.7 million, utilizing primarily borrowings on our Revolving Credit facility to support our typical seasonal demand increase following the winter months and early spring. Revolving Credit borrowings amounted to a net inflow of $29.8 million, offset by net repayments on the Term Loan of $3.8 million. During the six months ended September 30, 2014, cash provided by financing activities was $11.9 million, utilizing primarily borrowings on our Revolving Credit facility to support our typical seasonal demand increase following the winter months and early spring. Revolving Credit borrowings amounted to a net outflow of $52.2 million, offset by net proceeds from the IPO.

Capital Expenditures

Capital expenditures totaled $20.2 million and $15.6 million for the six months ended September 30, 2015 and September 30, 2014, respectively. Our capital expenditures for the six months ended September 30, 2015 were used primarily to support facility expansions, equipment replacements, and our recycled resin initiatives.

We currently anticipate that we will make capital expenditures of approximately $45 million in fiscal year 2016. Such capital expenditures are expected to be financed using funds generated by operations. As of September 30, 2015, there were no material contractual obligations or commitments related to these planned capital expenditures.

Financing Transactions

Bank Term Loans

On September 24, 2010, we entered into a credit agreement with PNC Bank, National Association, or PNC, as administrative agent, and lender parties thereto. The credit agreement, as amended and restated on June 12, 2013 and subsequently further amended, provides for our Bank Term Loans 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, (ii) the Term Loan Facility providing for the Term Loans in an aggregate original principal amount of $100 million, and (iii) the ADS Mexicana Revolving Credit Facility, described below. The Bank Term Loans 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 Bank Term Loans are determined by certain base rates or LIBOR rates, plus an applicable margin. The obligations under the Bank Term Loans are guaranteed by certain of our subsidiaries and secured by substantially all of our personal property assets. On December 20, 2013, we amended the Revolving Credit Facility to, among other terms, make certain amendments in order to permit the payment of a cash dividend. For further information about the Bank Term Loans, see Note 12. Debt to the Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data of our Fiscal 2015 Form 10-K. As of September 30, 2015, the outstanding principal drawn on the Revolving Credit Facility was $234.9 million, with $82.8 million available to be drawn. As of September 30, 2015, the outstanding principal balance of the Term Loan was $87.5 million.

For the prior year fiscal quarter ending September 30, 2015, we used the net proceeds from the initial public offering ($79.1 million), which closed on July 25, 2014, to repay a portion of our outstanding indebtedness under the Revolving Credit Facility.

As a result of the Restatement and delay in the filing of the Fiscal 2015 Form 10-K, the Revolving Credit Facility was amended to extend the reporting deadlines for financial statements and debt covenant calculations until April 1, 2016. The Company has satisfied the amended reporting requirements.

ADS Mexicana Revolving Credit Facility

On September 24, 2010, our joint venture ADS Mexicana entered into a credit agreement with PNC, as administrative agent, and lender 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 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 Mexicana Revolving Credit Facilities, see Note 12. Debt to the financial statements included in Item 8. Financial and Supplementary Data of our Fiscal 2015 Form 10-K. As of September 30, 2015, there was no outstanding principal drawn on the revolving credit facility with the entire $12.0 million available to be drawn. As a result of the Restatement and delay in the filing of the Fiscal 2015 Form 10-K, the ADS Mexicana Revolving Credit Facility was amended to extend the reporting deadlines for financial statements and debt covenant calculations until April 1, 2016. The Company has satisfied the amended reporting requirements.

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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 million. Pursuant to the private shelf agreement, on September 27, 2010, we issued $75 million in aggregate principal amount of the 5.60% Senior Series A Notes 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 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. On December 20, 2013, we amended the private shelf agreement to, among other terms, make certain amendments in order to permit the payment of a cash dividend. For further information about the Senior Notes, see Note 12. Debt to the financial statements included in Item 8. Financial and Supplementary Data of our Fiscal 2015 Form 10-K. We have no further amount available for issuance of senior notes under the private shelf agreement. At September 30, 2015 the outstanding principal balance on these notes was $100.0 million. As a result of the Restatement and delay in the filing of the Fiscal 2015 Form 10-K, the Senior Notes were amended to extend the reporting deadlines for financial statements and debt covenant calculations until April 1, 2016. The amendments also temporarily modified the Fixed Coverage Charge and Leverage Ratios through September 30, 2015. The Company has satisfied the amended reporting requirements.

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. 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 Note 12. Debt to the financial statements included in Item 8. Financial and Supplementary Data of our Fiscal 2015 Form 10-K. We were in compliance with our debt covenants as of September 30, 2015.

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 6. Related Party Transactions of our Notes to Condensed Consolidated Financial Statements. As of September 30, 2015, our South American Joint Venture had approximately $13.5 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

There have been no changes in critical accounting policies from those disclosed in Management s Discussion and Analysis of Financial Condition and Results of Operations in our Fiscal 2015 Form 10-K.

Forward-Looking Statements

This Quarterly Report on Form 10-Q includes forward-looking statements. Some of the forward-looking statements can be identified by the use of terms such as believes, expects, may, will, would, should, could, seeks, potential, continue, intends, plans, projects, estimates, anticipates or other comparable terms. These forwa 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 report 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 report. 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 report, those results or

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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 report under the headings Risk Factors, and Management s Discussion and Analysis of Financial Condition and Results of Operations. 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;
- 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;
- the risk that additional information may arise that would require the Company to make additional adjustments or revisions or to restate further the financial statements and other financial data for certain prior periods and any future periods;
- any further delay in the filing of any filings with the SEC;
- the review of potential weaknesses or deficiencies in the Company s disclosure controls and procedures, and discovering further weaknesses of which we are not currently aware or which have not been detected; and
- additional uncertainties related to accounting issues generally.

All forward-looking statements are made only as of the date of this report 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.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are subject to various market risks, primarily related to changes in interest rates, credit risk, 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

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Interest Rate Risk

We are subject to interest rate risk associated with our bank 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 1.0% increase in interest rates on our variable-rate debt would increase our annual forecasted interest expense by approximately $2.3 million based on our borrowings as of September 30, 2015. Assuming the Revolving Credit Facility is fully drawn, each 1.0% increase or decrease in the applicable interest rate would change our interest expense by approximately $3.2 million per year. To mitigate the impact of interest rate volatility, we had two interest rate swaps in effect as of September 30, 2015. The first swap is at $50.0 million notional value at a fixed LIBOR rate of 0.86%, and expires September 1, 2016. The other swap is a $50 million notional value swap which took effect on September 2, 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 maintain 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 resin for HDPE pipe and polypropylene resin for PP pipe. 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.

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.

Inflation Risk

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.

Foreign Currency Exchange Rate Risk

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.

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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 Condensed Consolidated Statement of Operations.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company s reports under the Securities Exchange Act of 1934, as amended (the Exchange Act), is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to management, including the Company s Chief Executive Officer (CEO) and Chief Financial Officer (CFO), as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As previously disclosed in our Fiscal 2015 Form 10-K, we concluded that our internal control over financial reporting was not effective based upon certain material weaknesses identified as of March 31, 2015. See Item 9A Controls and Procedures in our Fiscal 2015 Form 10-K. Although we are not required to comply with the internal control reporting requirements mandated by Section 404 of the Sarbanes-Oxley Act of 2002 for the fiscal quarter ended September 30, 2015 (the Evaluation Date) due to the transition period established by rules of the SEC for newly-public companies, our internal control over financial reporting is an integral part of our disclosure controls and procedures. Our CEO and CFO have concluded that those material weaknesses previously identified in the Fiscal 2015 Form 10-K were still present as of the Evaluation Date. Based on those material weaknesses, and the evaluation of our disclosure controls and procedures, our CEO and CFO concluded that the Company s disclosure controls and procedures were not effective as of the Evaluation Date.

Changes in Internal Control over Financial Reporting

Our remediation efforts were ongoing during the three months ended September 30, 2015, and, other than those remediation efforts described in Remediation Process in Item 9A of our Fiscal 2015 Form 10-K, there were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that occurred during the three months ended September 30, 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

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

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

Item 1A. Risk Factors

Important risk factors that could affect our operations and financial performance, or that could cause results or events to differ from current expectations, are described in Part I, Item 1A Risk Factors of our Fiscal 2015 Form 10-K. These factors are further supplemented by those discussed in Part II, Item 7A Quantitative and Qualitative Disclosures about Market Risk of our Fiscal 2015 Form 10-K and in Part I, Item 3 Quantitative and Qualitative Disclosures about Market Risk and Part II, Item 1 Legal Proceedings of this Quarterly Report on Form 10-Q.

Item 2. Unregistered Sale of Equity Securities

Not applicable.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

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Item 6. Exhibits

The exhibits listed in the Exhibit Index are incorporated herein by reference.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: May 31, 2016

ADVANCED DRAINAGE SYSTEMS, INC.

By: /s/ Joseph A. Chlapaty
Joseph A. Chlapaty
President and Chief Executive Officer
(Principal Executive Officer)

By: /s/ Scott A. Cottrill
Scott A. Cottrill
Executive Vice President, Chief Financial Officer, Secretary and Treasurer
(Principal Financial Officer)

By: /s/ Tim A. Makowski
Tim A. Makowski
Vice President, Controller, and Chief Accounting Officer

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EXHIBIT INDEX

Exhibit Number	Exhibit Description
10.1	Sale and Assignment of Ownership Interests dated as of July 17, 2015 by and among ADS Ventures, Inc., BaySaver Technologies, Inc. and Mid-Atlantic Storm Water Research Center, Inc. (incorporated by reference to Exhibit 10.1 to the Registrant s Current Report on Form 8-K (File No. 001-36557) filed with the Securities and Exchange Commission on July 20, 2015).
10.2	Amendment No. 1 to BaySaver Technologies, LLC Limited Liability Company Agreement dated as of July 17, 2015 by and among ADS Ventures, Inc., BaySaver Technologies, Inc. and Mid-Atlantic Storm Water Research Center, Inc. (incorporated by reference to Exhibit 10.2 to the Registrant s Current Report on Form 8-K (File No. 001-36557) filed with the Securities and Exchange Commission on July 20, 2015).
10.3	Second Amendment to Amended and Restated Credit Agreement, dated as of August 21, 2015, by and among Advanced Drainage Systems, Inc., the Guarantors (as defined therein), the Lenders (as defined therein) party thereto, and PNC Bank, National Association (incorporated by reference to Exhibit 10.1 to the Registrant s Current Report on Form 8-K (File No. 001-36557) filed with the Securities and Exchange Commission on August 26, 2015).
10.4	Second Amendment to Second Amended and Restated Credit Agreement, dated as of August 21, 2015, by and among ADS Mexicana, S.A. de C.V., the Guarantors (as defined therein), the Lenders (as defined therein) party thereto, and PNC Bank, National Association (incorporated by reference to Exhibit 10.2 to the Registrant s Current Report on Form 8-K (File No. 001-36557) filed with the Securities and Exchange Commission on August 26, 2015).
10.5	Amendment No. 8 and Limited Waiver to Amended and Restated Private Shelf Agreement, dated as of August 21, 2015, by and among Advanced Drainage Systems, Inc., Prudential Investment Management, Inc. and each other Prudential Affiliate (as therein defined) and the Guarantors (as defined therein) (incorporated by reference to Exhibit 10.3 to the Registrant s Current Report on Form 8-K (File No. 001-36557) filed with the Securities and Exchange Commission on August 26, 2015).
31.1	Certification of President and Chief Executive Officer of Advanced Drainage Systems, Inc. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Executive Vice President and Chief Financial Officer of Advanced Drainage Systems, Inc. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer of Advanced Drainage Systems, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Principal Financial Officer of Advanced Drainage Systems, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Interactive data files pursuant to Rule 405 of Regulation S-T.