ADVANCED DRAINAGE SYSTEMS, INC.
Form 10-Q/A
January 10, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

(Amendment No. 1 to Form 10-Q)

(Mark One)

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

For the quarterly period ended September 30, 2015

OR

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

Commission file number: 001-36557

Advanced Drainage Systems, Inc.

(Exact name of registrant as specified in its charter)

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

4640 Trueman Boulevard, Hilliard, Ohio 43026

(Address of Principal Executive Offices, Including Zip Code)

(614) 658-0050

(Registrant s Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

As of April 29, 2016, the registrant had 54,446,402 shares of common stock outstanding. The shares of common stock trade on the New York Stock Exchange under the ticker symbol WMS . In addition, as of April 29, 2016, 102,223 shares of unvested restricted common stock were outstanding and 24,819,105 shares of ESOP, preferred stock, convertible into 19,090,856 shares of common stock, were outstanding. As of April 29, 2016, 73,639,481 shares of common stock were outstanding, inclusive of outstanding shares of unvested restricted common stock and on an as-converted basis with respect to the outstanding shares of ESOP preferred stock.

Table of Contents

TABLE OF CONTENTS

Table of Contents

EXPLANATORY NOTE

Subsequent to the issuance of the Company s consolidated financial statements for the fiscal year ended March 31, 2016, Advanced Drainage Systems, Inc. identified errors in its historical consolidated financial statements related primarily to the accounting for stock-based compensation, as well as the compensation expense associated with certain executive employment agreements. As a result, Advanced Drainage Systems, Inc. is filing this Amendment No. 1 on Form 10-Q/A to amend and restate in their entirety the following items of its Quarterly Report on Form 10-Q for the three and six months ended September 30, 2015 as originally filed with the Securities and Exchange Commission on May 31, 2016 (the Original Form 10-Q): (i) Item 1 of Part I, Condensed Consolidated Financial Statements, (ii) Item 2 of Part I, Management s Discussion and Analysis of Financial Condition and Results of Operations, (iii) Item 4 of Part I, Controls and Procedures, and (iv) Item 1A of Part II, Risk Factors . The Company has also updated the signature page, the certifications of the Chief Executive Officer and Chief Financial Officer in Exhibits 31.1, 31.2, 32.1 and 32.2, respectively, and the consolidated financial statements formatted in Extensible Business Reporting Language (XBRL) in Exhibit 101. While no other sections were affected, for the convenience of the reader, all sections included in the Original Form 10-Q are presented herein. This report on Form 10-Q/A is presented as of the filing date of the Original Form 10-Q and does not reflect events occurring after that date, or modify or update disclosures, other than as required to reflect the restatement and to provide updated information regarding debt covenant waivers.

For further information about the restatement (the Stock-Based Compensation Restatement), see Note 16. Restatement of Previously Issued Financial Statements to our unaudited condensed consolidated financial statements included in Part I. Financial Information of this Form 10-Q/A. This Form 10-Q/A is being filed concurrently with the Company s Form 10-K/A for the year ended March 31, 2016 and Forms 10-Q/A for the periods ended June 30, 2015 and December 31, 2015.

Table of Contents

PART I. FINANCIAL INFORMATION

ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited, as restated)[(1)]

(Amounts in thousands, except par value)	As of September 30, 2015	March 31, 2015
ASSETS		
Current assets:		
Cash	$ 3,481	$ 3,623
Receivables (less allowance for doubtful accounts of $4,540 and $5,423, respectively)	254,583	154,294
Inventories	214,396	260,550
Deferred income taxes and other current assets	29,509	25,943
Total current assets	501,969	444,410
Property, plant and equipment, net	389,826	375,813
Other assets:		
Goodwill	100,483	98,679
Intangible assets, net	63,811	58,055
Other assets	51,656	61,167
Total assets	**$ 1,107,745**	**$ 1,038,124**
LIABILITIES, MEZZANINE EQUITY AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current maturities of debt obligations	$ 35,850	$ 9,580
Current maturities of capital lease obligations	19,292	15,731
Accounts payable	87,020	111,893
Current portion of liability-classified stock-based awards	19,143	17,611
Other accrued liabilities	80,690	54,349
Accrued income taxes	8,907	6,299
Total current liabilities	250,902	215,463
Long-term debt obligation	389,685	390,315
Long-term capital lease obligations	57,586	45,503
Deferred tax liabilities	57,871	62,832
Other liabilities	40,883	38,865
Total liabilities	796,927	752,978
Commitments and contingencies (see Note 9)		

Mezzanine equity:		
Redeemable convertible preferred stock: $0.01 par value; 47,070 shares authorized; 44,170 shares issued; 25,064 and 25,639 shares outstanding, respectively	313,302	320,490
Deferred compensation unearned ESOP shares	(208,926)	(212,469)
Redeemable noncontrolling interest in subsidiaries	6,698	
Total mezzanine equity	111,074	108,021
Stockholders equity:		
Common stock: $0.01 par value; 1,000,000 shares authorized; 153,560 shares issued; 54,107 and 53,522 shares outstanding, respectively	12,393	12,393
Paid-in capital	733,511	723,495
Common stock in treasury, at cost	(442,418)	(445,065)
Accumulated other comprehensive loss	(23,683)	(15,521)
Retained deficit	(96,593)	(114,590)
Total ADS stockholders equity	183,210	160,712
Noncontrolling interest in subsidiaries	16,534	16,413
Total stockholders equity	199,744	177,125
Total liabilities, mezzanine equity and stockholders equity	**$ 1,107,745**	**$ 1,038,124**

(1) See Note 16. Restatement of Previously Issued Financial Statements

See accompanying notes to condensed consolidated financial statements.

Table of Contents

ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited, as restated)[1]

(Amounts in thousands, except per share data)	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Six Months Ended September 30, 2015	Six Months Ended September 30, 2014
Net sales	$ 383,329	$ 366,714	$ 732,453	$ 693,148
Cost of goods sold	296,800	296,577	571,447	561,706
Gross profit	86,529	70,137	161,006	131,442
Operating expenses:				
Selling	22,594	20,740	43,821	40,492
General and administrative	25,673	16,200	44,358	35,168
Loss on disposal of assets or businesses	295	281	1,161	345
Intangible amortization	2,341	2,610	4,867	5,223
Income from operations	35,626	30,306	66,799	50,214
Other expense:				
Interest expense	4,947	5,044	9,233	10,095
Derivative losses (gains) and other expense (income), net	9,192	(240)	15,772	(456)
Income before income taxes	21,487	25,502	41,794	40,575
Income tax expense	5,187	7,359	13,066	15,369
Equity in net loss of unconsolidated affiliates	372	62	18	724
Net income	15,928	18,081	28,710	24,482
Less net income attributable to noncontrolling interest	3,582	2,153	4,670	3,028
Net income attributable to ADS	12,346	15,928	24,040	21,454
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)	
Net income available to common stockholders and participating securities	11,721	23,210	23,038	10,325
Undistributed income allocated to participating securities	(980)	(2,657)	(1,949)	(1,229)
Net income available to common stockholders	**$ 10,741**	**$ 20,553**	**$ 21,089**	**$ 9,096**
Weighted average common shares outstanding:				
Basic	53,882	51,518	53,753	49,538

Diluted		55,194		56,477		55,093		52,141
Net income per share:								
Basic	$	0.20	$	0.40	$	0.39	$	0.18
Diluted	$	0.19	$	0.40	$	0.38	$	0.18
Cash dividends declared per share	$	0.05	$		$	0.10	$	

(1) See Note 16. Restatement of Previously Issued Financial Statements

See accompanying notes to condensed consolidated financial statements.

Table of Contents

ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited, as restated)[1]

(Amounts in thousands)	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	$ 15,928	$ 18,081	$ 28,710	$ 24,482
Other comprehensive loss:				
Currency translation	(10,979)	(3,591)	(10,470)	(3,432)
Total other comprehensive loss	(10,979)	(3,591)	(10,470)	(3,432)
Comprehensive income	4,949	14,490	18,240	21,050
Less other comprehensive loss attributable to noncontrolling interest, net of tax	(1,726)	(761)	(2,308)	(907)
Less net income attributable to noncontrolling interest	3,582	2,153	4,670	3,028
Total comprehensive income attributable to ADS	$ 3,093	$ 13,098	$ 15,878	$ 18,929

(1) See Note 16. Restatement of Previously Issued Financial Statements

See accompanying notes to condensed consolidated financial statements.

Table of Contents

ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, as restated)[(1)]

	Six Months Ended September 30,	
(Amounts in thousands)	**2015**	**2014**
Cash Flows from Operating Activities	$ 16,924	$ 14,906
Cash Flows from Investing Activities		
Capital expenditures	(20,197)	(15,596)
Proceeds from disposition of assets or businesses		156
Cash paid for acquisitions, net of cash acquired	(3,188)	
Investment in unconsolidated affiliates		(7,566)
Additions of capitalized software	(1,337)	(441)
Proceeds from note receivable to related party	3,854	
Issuance of note receivable to related party	(3,854)	
Other investing activities	(378)	(525)
Net cash used in investing activities	(25,100)	(23,972)
Cash Flows from Financing Activities		
Proceeds from Revolving Credit Facility	252,800	174,760
Payments on Revolving Credit Facility	(223,000)	(227,000)
Payments on term loan	(3,750)	(2,500)
Proceeds from notes, mortgages and other debt	6,682	
Payments of notes, mortgages, and other debt	(7,092)	(1,665)
Payments on capital lease obligations	(10,247)	(5,467)
Payments for deferred initial public offering costs		(4,458)
Proceeds from initial public offering of common stock, net of underwriter discounts and commissions		79,131
Cash dividends paid	(8,173)	(1,007)
Other financing activities	454	152
Net cash provided by financing activities	7,674	11,946
Effect of exchange rate changes on cash	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**

(1) See Note 16. Restatement of Previously Issued Financial Statements

See accompanying notes to condensed consolidated financial statements.

Table of Contents

ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY AND MEZZANINE EQUITY

(Unaudited, as restated)[1]

	Common Stock in Treasury		Accumulated Other Comprehensive	Retained	Total ADS Stockholders (Deficit)	Non-controlling Interest in	Total Stockholders (Deficit)	Redeemable Common Stock		Redeemable Convertible Preferred Stock	
	Shares	Amount	Loss	Deficit	Equity	Subsidiaries	Equity	Shares	Amount	Shares	Amount
8	100,810	$ (448,439)	$ (6,830)	$ (2,412)	$ (433,286)	$ 18,584	$ (414,702)	38,320	$ 549,119	26,129	$ 291,720
9)				(34,268)	(38,337)		(38,337)	17	240		
9	100,810	(448,439)	(6,830)	(36,680)	(471,623)	18,584	(453,039)	38,337	549,359	26,129	291,720
				21,454	21,454	3,028	24,482				
			(2,525)		(2,525)	(907)	(3,432)				
						(1,007)	(1,007)				
9)					(1,339)		(1,339)				
5	(78)	349			5,274		5,274				
3	7	(93)									

1	(114)	509			5,010		5,010				
5					72,298		72,298				
7)				2,023	(11,054)		(11,054)				34,90
				(65,921)	(65,921)		(65,921)		65,921		
7					615,040		615,040	(38,320)	(615,040)		
0				(1,254)	18,256		18,256	(17)	(240)		
4	**100,625**	**$ (447,674)**	**$ (9,355)**	**$ (80,378)**	**$ 184,870**	**$ 19,698**	**$ 204,568**		**$**	**26,129**	**$ 326,62**
7	100,038	(445,065)	(15,521)	(62,621)	190,163	16,413	206,576			25,639	320,49
8				(51,969)	(29,451)		(29,451)				
5	100,038	(445,065)	(15,521)	(114,590)	160,712	16,413	177,125			25,639	320,49
				24,040	24,040	4,559	28,599				
			(8,162)		(8,162)	(2,308)	(10,470)				

				(657)	(657)		(657)			
				(5,386)	(5,386)		(5,386)			
						(2,130)	(2,130)			
7					2,707		2,707			
7	(77)	390			2,427		2,427			
9	(66)	291			500		500			
2	(442)	1,966			7,188		7,188		(575)	(7,18
9)					(159)		(159)			
1	**99,453**	**$ (442,418)**	**$ (23,683)**	**$ (96,593)**	**$ 183,210**	**$ 16,534**	**$ 199,744**	**$**	**25,064**	**$ 313,30**

(1) See Note 16. Restatement of Previously Issued Financial Statements

See accompanying notes to condensed consolidated financial statements.

6

Table of Contents

ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED, AS RESTATED)

(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, in addition to the restatement adjustments described in Note 16. Restatement of Previously Issued Financial Statements, 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/A for the year ended March 31, 2016 (Fiscal 2016 Form 10-K), filed concurrently with this form 10-Q/A.

Table of Contents

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. In addition, the amendment also modifies the net-share settlement liability classification exception for statutory income tax withholdings, whereby the new guidance allows an employer with a statutory income tax withholding obligation to withhold shares with a fair value up to the maximum statutory tax rate in the employee s applicable jurisdiction. 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 Annual Report on Form 10-K for the year ended March 31, 2015 (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

Table of Contents

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.

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.

(Amounts in thousands)	Six months ended September 30, 2015	Six months ended September 30, 2014
Net sales	$ 736,052	$ 698,937
Net income attributable to ADS	$ 24,078	$ 21,481

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.

Table of Contents

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	166,386	210,352
Total inventories	**$ 214,396**	**$ 260,550**

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

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.

Table of Contents

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

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

Recurring Fair Value Measurements

The assets and liabilities carried at fair value as of September 30, 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**

11

Table of Contents

(amounts in thousands)	Three Months Ended September 30, 2014 Contingent consideration	Executive stock repurchase agreements	Redeemable common stock	Redeemable convertible preferred stock	Deferred compensation unearned ESOP shares	Total
Balance at June 30, 2014	**$ 2,697**	**$ 18,993**	**$ 661,484**	**$ 348,898**	**$ (233,106)**	**$ 798,966**
Allocation of ESOP shares to participants					804	804
Change in fair value	20	(757)	(46,204)	(22,275)	14,956	(54,260)
Payments of contingent consideration liability	(191)					(191)
Transfer from Level 3		(18,236)	(615,280)	(326,623)	217,346	(742,793)
Balance at September 30, 2014	**$ 2,526**	**$**	**$**	**$**	**$**	**$ 2,526**

(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**

(amounts in thousands)	Six Months Ended September 30, 2014 Contingent consideration	Executive stock repurchase agreements	Redeemable common stock	Redeemable convertible preferred stock	Deferred compensation unearned ESOP shares	Total
Balance at March 31, 2014	**$ 2,898**	**$ 16,934**	**$ 549,359**	**$ 291,720**	**$ (197,888)**	**$ 663,023**
Allocation of ESOP shares to participants					4,391	4,391
Change in fair value	2	1,302	65,921	34,903	(23,849)	78,279
Payments of contingent consideration liability	(374)					(374)
Transfer from Level 3		(18,236)	(615,280)	(326,623)	217,346	(742,793)
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. The liability associated with the executive stock repurchase agreements also transferred out of Level 3, as the underlying 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

Table of Contents

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 and Executive Stock Repurchase Agreements Obligations

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.

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.

The liability associated with the executive stock repurchase agreements was valued on the same basis as the Redeemable common stock, and as such is also considered a Level 3 measurement. The executive stock repurchase agreements were terminated upon the IPO. As a result, the liability was recorded at fair value through the effective date of the IPO and was subsequently reclassified at that fair value to stockholders equity.

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.

Table of Contents

Nonrecurring Fair Value Measurements

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 and a noncompete arrangement, respectively. 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.

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 its interest in 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.

Table of Contents

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 obligation	**$ 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 are primarily used to cover short-term investment and 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.

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)

Table of Contents

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.

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)**

Table of Contents

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 31.3% and 37.9%, 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:

	Three Months Ended September 30,		Six Months Ended September 30,	
(Amounts in thousands, except per share data)	**2015**	**2014**	**2015**	**2014**

Net income per share Basic				
Net income attributable to ADS	$ 12,346	$ 15,928	$ 24,040	$ 21,454
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	11,721	23,210	23,038	10,325
Undistributed income allocated to participating securities	(980)	(2,657)	(1,949)	(1,229)
Net income available to common stockholders - Basic	10,741	20,553	21,089	9,096
Weighted average number of common shares outstanding - Basic	53,882	51,518	53,753	49,538
Net income per common share - Basic	**$ 0.20**	**$ 0.40**	**$ 0.39**	**$ 0.18**

(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 Diluted				
Net income available to common stockholders - Basic	$ 10,741	$ 20,553	$ 21,089	$ 9,096
Amount allocated to participating preferred stockholders		1,878		435
Preferred stock dividends, net of tax		18		18
Additional compensation for leverage ESOP		(18)		(18)
Net income available to common stockholders - Diluted	10,741	22,431	21,089	9,531
Weighted average number of common shares outstanding - Basic	53,882	51,518	53,753	49,538
Assumed exercise of preferred stock		4,714		2,382
Assumed exercise of stock options	1,312	245	1,340	221
Weighted average number of common shares outstanding - Diluted	55,194	56,477	55,093	52,141
Net income per common share - Diluted	**$ 0.19**	**$ 0.40**	**$ 0.38**	**$ 0.18**
Potentially dilutive securities excluded as anti-dilutive	6,476	4,714	6,583	3

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.

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**

Table of Contents

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:

(Amounts in thousands)	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 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	$ 76,131	$ 65,839	$ 137,820	$ 120,255
International	10,398	4,298	23,186	11,187
Total	**$ 86,529**	**$ 70,137**	**$ 161,006**	**$ 131,442**
Segment Adjusted EBITDA				
Domestic	$ 55,443	$ 54,469	$ 96,412	96,210
International	8,294	1,405	19,773	5,639
Total	**$ 63,737**	**$ 55,874**	**$ 116,185**	**$ 101,849**
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	$ 30,405	$ 29,595
International	2,124	1,437	4,346	2,805
Total	**$ 17,367**	**$ 16,374**	**$ 34,751**	**$ 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**

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	$ 1,011,586	$ 938,996
International	162,571	168,320
Eliminations	(66,412)	(69,192)
Total	**$ 1,107,745**	**$ 1,038,124**

19

Table of Contents

Reconciliation of Segment Adjusted EBITDA to Net Income

	Three Months Ended September 30,			
	2015		2014	
(Amounts in thousands)	**Domestic**	**International**	**Domestic**	**International**
Net income	**$ 8,641**	**$ 7,287**	**$ 16,578**	**$ 1,503**
Depreciation and amortization	15,243	2,124	14,937	1,437
Interest expense	4,901	46	5,020	24
Income tax expense (benefit)	6,703	(1,516)	9,330	(1,971)
Segment EBITDA	35,488	7,941	45,865	993
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 expense	1,170		5,964	
ESOP deferred compensation	3,125		2,687	
Expense related to executive termination payments	82		82	
Benefit related to executive stock repurchase agreements			(758)	
Loss on BaySaver step acquisition	490			
Restatement costs[(b)]	8,710			
Segment Adjusted EBITDA	**$ 55,443**	**$ 8,294**	**$ 54,469**	**$ 1,405**

(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.

Reconciliation of Segment Adjusted EBITDA to Net Income

	Six Months Ended September 30,			
	2015		2014	
(Amounts in thousands)	**Domestic**	**International**	**Domestic**	**International**
Net income	**$ 14,221**	**$ 14,489**	**$ 21,283**	**$ 3,199**
Depreciation and amortization	30,405	4,346	29,595	2,805

Interest expense	8,938	295	10,062	33
Income tax expense (benefit)	13,529	(463)	16,861	(1,492)
Segment EBITDA	67,093	18,667	77,801	4,545
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 expense	2,212		10,129	
ESOP deferred compensation	6,250		5,374	
Expense related to executive termination payments	164		164	
Expense related to executive stock repurchase agreements			1,011	
Loss on BaySaver step acquisition	490			
Restatement costs [(b)]	8,710			
Transaction costs [(c)]			715	
Segment Adjusted EBITDA	**$ 96,412**	**$ 19,773**	**$ 96,210**	**$ 5,639**

(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. During the six months ended September 30, 2014, the Company reclassified $19,729 related to the executive stock repurchase agreements from liability and mezzanine equity to Paid-in capital after the termination of the agreements upon the IPO in July 2014.

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 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.

16. RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS

Revisions Reported in the Fiscal Year 2016 Form 10-K

Prior to the filing of the our Annual Report on Form 10-K for the year ended March 31, 2016 (Fiscal 2016 Form 10-K), the Company identified certain out of period adjustments related to immaterial errors in its previously issued condensed consolidated financial statements for the fiscal years ended March 31, 2015 and prior, as well as in the previously issued unaudited condensed consolidated financial statements for the quarters ended June 30, September 30, and December 31, 2015 and 2014. The prior period errors related primarily to the Company s accounting for inventory, specifically relating to the capitalization of production variances into inventory, as well as miscellaneous immaterial errors related to property, plant and equipment and the associated impact on income taxes. While these prior period errors did not, individually or in the aggregate, result in a material misstatement of the Company s previously issued consolidated financial statements, correcting these pri