UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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 December 31, 2020

OR

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

Commission file number: 001-36557

ADVANCED DRAINAGE SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

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

4640 Trueman Boulevard, Hilliard, Ohio 43026
(Address of Principal Executive Offices, Including Zip Code)

(614) 658-0050
(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.01 par value per share	WMS	New York Stock Exchange

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 every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

Large Accelerated Filer	☒	Accelerated Filer	☐
Non-Accelerated Filer	☐	Smaller Reporting Company	☐
Emerging Growth Company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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 January 29, 2021, the registrant had 70,877,367 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 January 29, 2021, 383,207 shares of unvested restricted common stock were outstanding and 19,957,962 shares of ESOP, preferred stock, convertible into 15,351,664 shares of common stock, were outstanding. As of January 29, 2021, 86,612,238 shares of common stock were outstanding, inclusive of outstanding shares of unvested restricted common stock and on an as-converted basis with respect to the outstanding shares of ESOP preferred stock.

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PART I. FINANCIAL INFORMATION

PART I. FINANCIAL INFORMATION

ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited) (In thousands, except par value)

	December 31, 2020	March 31, 2020
ASSETS		
Current assets:		
Cash	$ 223,996	$ 174,233
Receivables (less allowance for doubtful accounts of $6,206 and $5,035, respectively)	188,744	200,028
Inventories	238,860	282,398
Other current assets	11,934	9,552
Total current assets	663,534	666,211
Property, plant and equipment, net	496,052	481,380
Other assets:		
Goodwill	598,957	597,819
Intangible assets, net	501,812	555,338
Other assets	82,081	69,140
Total assets	**$ 2,342,436**	**$ 2,369,888**
LIABILITIES, MEZZANINE EQUITY AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of debt obligations	$ 7,000	$ 7,955
Current maturities of finance lease obligations	18,957	20,382
Accounts payable	108,368	106,710
Other accrued liabilities	119,956	101,116
Accrued income taxes	23,278	2,050
Total current liabilities	277,559	238,213
Long-term debt obligations (less unamortized debt issuance costs of $2,126 and $2,419, respectively)	783,874	1,089,368
Long-term finance lease obligations	34,007	44,501
Deferred tax liabilities	167,645	175,616
Other liabilities	52,453	37,608
Total liabilities	1,315,538	1,585,306
Commitments and contingencies (see Note 12)		
Mezzanine equity:		
Redeemable convertible preferred stock: $0.01 par value; 47,070 shares authorized; 44,170 shares issued; 20,439 and 21,562 shares outstanding, respectively	255,491	269,529
Deferred compensation – unearned ESOP shares	(13,952)	(22,432)
Total mezzanine equity	241,539	247,097
Stockholders' equity:		
Common stock; $0.01 par value: 1,000,000 shares authorized; 70,989 and 69,810 shares issued, respectively; 70,488 and 69,319 shares outstanding, respectively	11,567	11,555
Paid-in capital	882,843	827,573
Common stock in treasury, at cost	(10,949)	(10,461)
Accumulated other comprehensive loss	(24,353)	(35,325)
Retained deficit	(86,903)	(267,619)
Total ADS stockholders' equity	772,205	525,723
Noncontrolling interest in subsidiaries	13,154	11,762
Total stockholders' equity	785,359	537,485
Total liabilities, mezzanine equity and stockholders' equity	**$ 2,342,436**	**$ 2,369,888**

See accompanying Notes to Condensed Consolidated Financial Statements.

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ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited) (In thousands, except per share data)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2020	**2019**	**2020**	**2019**
Net sales	$ 486,145	$ 393,424	$ 1,538,971	$ 1,303,037
Cost of goods sold	317,640	270,066	976,106	926,703
Cost of goods sold - ESOP special dividend compensation	—	—	—	168,610
Gross profit	168,505	123,358	562,865	207,724
Operating expenses:				
Selling	30,537	29,967	89,283	86,303
General and administrative	36,069	37,023	104,800	116,486
Selling, general and administrative - ESOP special dividend compensation	—	—	—	78,142
Loss on disposal of assets and costs from exit and disposal activities	980	1,755	3,254	4,466
Intangible amortization	17,956	13,593	53,893	24,435
Income (loss) from operations	82,963	41,020	311,635	(102,108)
Other expense:				
Interest expense	8,433	13,191	27,763	70,787
Derivative (loss) gains and other (expense) income, net	(165)	39	(883)	118
Income (loss) before income taxes	74,695	27,790	284,755	(173,013)
Income tax expense	20,264	4,032	79,291	22,855
Equity in net loss (income) of unconsolidated affiliates	390	99	150	(538)
Net income (loss)	54,041	23,659	205,314	(195,330)
Less: net income attributable to noncontrolling interest	267	371	838	149
Net income (loss) attributable to ADS	53,774	23,288	204,476	(195,479)
Weighted average common shares outstanding:				
Basic	70,450	68,508	69,893	62,119
Diluted	71,586	69,298	70,853	62,119
Net income (loss) per share:				
Basic	$ 0.63	$ 0.28	$ 2.42	$ (3.31)
Diluted	$ 0.62	$ 0.28	$ 2.38	$ (3.31)

See accompanying Notes to Condensed Consolidated Financial Statements.

ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited) (In thousands)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2020	**2019**	**2020**	**2019**
Net income (loss)	$ 54,041	$ 23,659	$ 205,314	$ (195,330)
Currency translation gain	7,440	2,062	12,996	1,316
Comprehensive income (loss)	61,481	25,721	218,310	(194,014)
Less: other comprehensive income attributable to noncontrolling interest	1,367	604	2,024	418
Less: net income attributable to noncontrolling interest	267	371	838	149
Total comprehensive income (loss) attributable to ADS	**$ 59,847**	**$ 24,746**	**$ 215,448**	**$ (194,581)**

See accompanying Notes to Condensed Consolidated Financial Statements.

ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited) (In thousands)

	Nine Months Ended December 31, 2020	Nine Months Ended December 31, 2019
Cash Flows from Operating Activities		
Net income (loss)	$ 205,314	$ (195,330)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	107,321	74,432
Deferred income taxes	(8,032)	(1,098)
Loss on disposal of assets and costs from exit and disposal activities	3,254	4,466
ESOP and stock-based compensation	45,413	27,365
ESOP special dividend compensation	—	246,752
Amortization of deferred financing charges	293	34,380
Inventory step up related to Infiltrator Water Technologies acquisition	—	7,880
Fair market value adjustments to derivatives	(2,537)	903
Equity in net income (loss) of unconsolidated affiliates	150	(538)
Other operating activities	6,162	(6,013)
Changes in working capital:		
Receivables	12,502	50,865
Inventories	46,809	43,317
Prepaid expenses and other current assets	(2,288)	(1,417)
Accounts payable, accrued expenses, and other liabilities	34,415	10,354
Net cash provided by operating activities	448,776	296,318
Cash Flows from Investing Activities		
Capital expenditures	(57,675)	(46,293)
Acquisition of Infiltrator Water Technologies, net of cash acquired	—	(1,089,322)
Other investing activities	516	(247)
Net cash used in investing activities	(57,159)	(1,135,862)
Cash Flows from Financing Activities		
Proceeds from Term Loan Facility	—	1,300,000
Payments on Term Loan Facility	—	(1,300,000)
Proceeds from syndication of Term Loan Facility	—	700,000
Payments on syndicated Term Loan Facility	(205,250)	(50,000)
Proceeds from Senior Notes	—	350,000
Proceeds from Revolving Credit Agreement	—	177,900
Payments on Revolving Credit Agreement	(100,000)	(177,900)
Debt issuance costs	—	(34,606)
Proceeds from PNC Credit Agreement	—	253,900
Payments on PNC Credit Agreement	—	(388,300)
Payments on Prudential Senior Notes	—	(100,000)
Payments on finance lease obligations	(15,859)	(18,424)
Proceeds from common stock offering, net of offering costs	—	293,648
Cash dividends paid	(24,507)	(83,846)
Proceeds from exercise of stock options	3,989	6,280
Other financing activities	(1,489)	(236)
Net cash (used in) provided by financing activities	(343,116)	928,416
Effect of exchange rate changes on cash	1,262	549
Net change in cash	49,763	89,421
Cash at beginning of period	174,233	8,891
Cash at end of period	**$ 223,996**	**$ 98,312**
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for income taxes	$ 64,344	$ 9,450
Cash paid for interest	25,305	23,992
Non-cash operating, investing and financing activities:		
Acquisition of property, plant and equipment under finance lease and incurred lease obligations	4,299	3,238
Balance in accounts payable for the acquisition of property, plant and equipment	3,443	4,129

See accompanying Notes to Condensed Consolidated Financial Statements.

ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND MEZZANINE EQUITY
(Unaudited) (In thousands)

	Common Stock		Paid -In	Common Stock in Treasury		Accumulated Other Compre-hensive	Retained (Deficit)	Total ADS Stockholders'	Non-controlling Interest in	Total Stock-holders'	Redeemable Convertible Preferred Stock		Deferred Compensation Unearned ESOP Shares		Total Mezzanine
	Shares	Amount	Capital	Shares	Amount	Loss	Earnings	Equity	Subsidiaries	Equity	Shares	Amount	Shares	Amount	Equity
Balance at October 1, 2019	68,746	$ 11,545	$ 800,947	484	$ (10,162)	$ (26,427)	$ (277,725)	$ 498,178	$ 13,578	$ 511,756	22,383	$ 279,785	2,312	$ (28,565)	$ 251,220
Net income	—	—	—	—	—	—	23,288	23,288	371	23,659	—	—	—	—	—
Other comprehensive income	—	—	—	—	—	1,458	—	1,458	604	2,062	—	—	—	—	—
Redeemable convertible preferred stock dividends	—	—	—	—	—	—	(1,335)	(1,335)	—	(1,335)	—	—	—	—	—
Common stock dividends ($.09 per share)	—	—	—	—	—	—	(6,214)	(6,214)	—	(6,214)	—	—	—	—	—
Allocation of ESOP shares to participants for compensation	—	—	4,317	—	—	—	—	4,317	—	4,317	—	—	(248)	3,094	3,094
Exercise of common stock options	273	2	3,850	—	—	—	—	3,852	—	3,852	—	—	—	—	—
Restricted stock awards	2	—	—	1	(38)	—	—	(38)	—	(38)	—	—	—	—	—
Stock-based compensation expense	—	—	3,872	—	—	—	—	3,872	—	3,872	—	—	—	—	—
ESOP distribution in common stock	239	2	3,887	—	—	—	—	3,889	—	3,889	(311)	(3,889)	—	—	(3,889)
Other	—	—	155	—	—	—	—	155	—	155	—	—	—	—	—
Balance at December 31, 2019	69,260	$ 11,549	$ 817,028	485	$ (10,200)	$ (24,969)	$ (261,986)	$ 531,422	$ 14,553	$ 545,975	22,072	$ 275,896	2,064	$ (25,471)	$ 250,425
Balance at April 1, 2019	57,964	$ 11,436	$ 391,039	474	$ (9,863)	$ (25,867)	$ 17,582	$ 384,327	$ 13,986	$ 398,313	22,611	$ 282,638	14,452	$ (180,316)	$ 102,322
Net loss	—	—	—	—	—	—	(195,479)	(195,479)	149	(195,330)	—	—	—	—	—
Other comprehensive income	—	—	—	—	—	898	—	898	418	1,316	—	—	—	—	—
Redeemable convertible preferred stock dividends	—	—	—	—	—	—	(9,530)	(9,530)	—	(9,530)	—	—	—	—	—
Common stock dividends ($1.27 per share)	—	—	—	—	—	—	(74,559)	(74,559)	—	(74,559)	—	—	—	—	—
Allocation of ESOP shares to participants for compensation	—	—	9,199	—	—	—	—	9,199	—	9,199	—	—	(743)	9,282	9,282
'ESOP special dividend compensation			101,189					101,189		101,189			(11,645)	145,563	145,563
Exercise of common stock options	441	4	6,280	7	(207)	—	—	6,077	—	6,077	—	—	—	—	—
Restricted stock awards	90	1	—	4	(130)	—	—	(129)	—	(129)	—	—	—	—	—
Stock-based compensation expense	—	—	8,884	—	—	—	—	8,884	—	8,884	—	—	—	—	—
ESOP distribution in common stock	415	4	6,738	—	—	—	—	6,742	—	6,742	(539)	(6,742)	—	—	(6,742)
Common Stock Offering	10,350	104	293,544	—	—	—	—	293,648	—	293,648	—	—	—	—	—
Other	—	—	155	—	—	—	—	155	—	155	—	—	—	—	—
Balance at December 31, 2019	69,260	11,549	817,028	485	(10,200)	(24,969)	(261,986)	531,422	14,553	545,975	22,072	$ 275,896	2,064	$ (25,471)	$ 250,425

See accompanying Notes to Condensed Consolidated Financial Statements.

ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND MEZZANINE EQUITY (CONTINUED)
(Unaudited) (In thousands)

	Common Stock		Paid -In	Common Stock in Treasury		Accumulated Other Compre- hensive	Retained (Deficit)	Total ADS Stockholders'	Non- controlling Interest in	Total Stock- holders'	Redeemable Convertible Preferred Stock		Deferred Compensation Unearned ESOP Shares		Total Mezzanine
	Shares	Amount	Capital	Shares	Amount	Loss	Earnings	Equity	Subsidiaries	Equity	Shares	Amount	Shares	Amount	Equity
Balance at October 1, 2020	70,502	$ 11,562	$ 859,254	500	$ (10,859)	$ (30,426)	$ (133,011)	$ 696,520	$ 12,990	$ 709,510	21,030	$ 262,872	1,398	$ (16,779)	$ 246,093
Net income	—	—	—	—	—	—	53,774	53,774	267	54,041	—	—	—	—	—
Other comprehensive income	—	—	—	—	—	6,073	—	6,073	1,367	7,440	—	—	—	—	—
Redeemable convertible preferred stock dividends	—	—	—	—	—	—	(1,288)	(1,288)	—	(1,288)	—	—	—	—	—
Common stock dividends ($0.09 per share)	—	—	—	—	—	—	(6,378)	(6,378)	—	(6,378)	—	—	—	—	—
Dividend paid to noncontrolling interest holder	—	—	—	—	—	—	—	—	(1,470)	(1,470)					
Allocation of ESOP shares to participants for compensation	—	—	10,686	—	—	—	—	10,686	—	10,686	—	—	(226)	2,827	2,827
Exercise of common stock options	29	—	714	—	—	—	—	714	—	714	—	—	—	—	—
Restricted stock awards	4	—	—	1	(90)	—	—	(90)	—	(90)	—	—	—	—	—
Stock-based compensation expense	—	—	4,813	—	—	—	—	4,813	—	4,813	—	—	—	—	—
ESOP distribution in common stock	454	5	7,376	—	—	—	—	7,381	—	7,381	(591)	(7,381)	—	—	(7,381)
Balance at December 31, 2020	**70,989**	**$ 11,567**	**$ 882,843**	**501**	**$ (10,949)**	**$ (24,353)**	**$ (86,903)**	**$ 772,205**	**$ 13,154**	**$ 785,359**	**20,439**	**255,491**	**1,172**	**(13,952)**	**$ 241,539**
Balance at April 1, 2020	69,810	$ 11,555	$ 827,573	491	$ (10,461)	$ (35,325)	$ (267,619)	$ 525,723	$ 11,762	$ 537,485	21,562	$ 269,529	1,850	$ (22,432)	$ 247,097
Adoption of ASU 2016-13	—	—	—	—	—	—	(779)	(779)	—	(779)	—	—	—	—	—
Net income	—	—	—	—	—	—	204,476	204,476	838	205,314	—	—	—	—	—
Other comprehensive income	—	—	—	—	—	10,972	—	10,972	2,024	12,996	—	—	—	—	—
Redeemable convertible preferred stock dividends	—	—	—	—	—	—	(3,983)	(3,983)	—	(3,983)	—	—	—	—	—
Common stock dividends ($0.27 per share)	—	—	—	—	—	—	(18,998)	(18,998)	—	(18,998)	—	—	—	—	—
Dividend paid to noncontrolling interest holder	—	—	—	—	—	—	—	—	(1,470)	(1,470)					
Allocation of ESOP shares to participants for compensation	—	—	21,026	—	—	—	—	21,026	—	21,026	—	—	(678)	8,480	8,480
Exercise of common stock options	181	2	3,989	—	—	—	—	3,991	—	3,991	—	—	—	—	—
Restricted stock awards	134	1	—	10	(488)	—	—	(487)	—	(487)	—	—	—	—	—
Stock-based compensation expense	—	—	15,908	—	—	—	—	15,908	—	15,908	—	—	—	—	—
ESOP distribution in common stock	864	9	14,029	—	—	—	—	14,038	—	14,038	(1,123)	(14,038)	—	—	(14,038)
Other	—	—	318	—	—	—	—	318	—	318	—	—	—	—	—
Balance at December 31, 2020	**70,989**	**$ 11,567**	**$ 882,843**	**501**	**$ (10,949)**	**$ (24,353)**	**$ (86,903)**	**$ 772,205**	**$ 13,154**	**$ 785,359**	**20,439**	**$ 255,491**	**1,172**	**$ (13,952)**	**$ 241,539**

See accompanying Notes to Condensed Consolidated Financial Statements.

ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business - Advanced Drainage Systems, Inc. and subsidiaries (collectively referred to as "ADS" or the "Company"), incorporated in Delaware, designs, manufactures and markets innovative water management solutions in the stormwater and on-site septic waste water industries, providing superior drainage solutions for use in the construction and agriculture marketplace. ADS's products are used across a broad range of end markets and applications, including non-residential, infrastructure and agriculture applications.

On July 31, 2019, the Company completed the Acquisition of Infiltrator Water Technologies. Infiltrator Water Technologies is a leading national provider of plastic leach field chambers and systems, septic tanks and accessories, primarily for use in residential applications. Infiltrator Water Technologies' products are used in on-site septic wastewater treatment systems in the United States and Canada. See "Note 3. Acquisitions" for additional information on the Acquisition.

The Company is managed and reports results of operations in three reportable segments: Pipe, Infiltrator Water Technologies and International. The Company also reports the results of its Allied Products and all other business segments as Allied Products and Other.

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.

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, 2020 was derived from audited financial statements included in the Annual Report on Form 10-K for the year ended March 31, 2020 ("Fiscal 2020 Form 10-K"). The accompanying unaudited Condensed Consolidated Financial Statements contain all adjustments, of a normal recurring nature, necessary to present fairly its financial position as of December 31, 2020 and the results of operations for the three and nine months ended December 31, 2020 and cash flows for the nine months ended December 31, 2020. The interim Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements, including the notes thereto, filed in the Company's Fiscal 2020 Form 10-K.

Principles of Consolidation - The Condensed Consolidated Financial Statements include the Company, its wholly-owned subsidiaries, its majority-owned subsidiaries and variable interest entities ("VIEs") of which the Company is the primary beneficiary. The Company uses the equity method of accounting for equity investments where it exercises significant influence but does not hold a controlling financial interest. Such investments are recorded in Other assets in the Condensed Consolidated Balance Sheets and the related equity earnings from these investments are included in Equity in net income of unconsolidated affiliates in the Condensed Consolidated Statements of Operations. All intercompany balances and transactions have been eliminated in consolidation.

Recent Accounting Guidance

Recently Adopted Accounting Guidance

Standard	*Adoption*
Accounting Standards Update 2016-13 –	In June 2016, the Financial Accounting Standards Board (the "FASB") issued an Accounting Standards Update ("ASU") which provides amended guidance on the

Financial Instruments-Credit Losses (ASU 2016-13)	measurement of credit losses on financial instruments, including trade receivables. This standard requires the use of an impairment model referred to as the current expected credit loss model. The Company adopted this standard effective April 1, 2020 using a modified retrospective approach through a cumulative-effect adjustment to Retained deficit as of the beginning of the first reporting period in which the guidance is effective. The Company recorded a $0.8 million adjustment to Retained deficit at the date of adoption. ***Accounting Policy* -** The Company extends credit to customers based on an evaluation of their financial condition and collateral is generally not required. The Company records an allowance for credit losses at the time accounts receivable are recorded based on the Company's historical write-off activity, an evaluation of the current economic environment and the Company's expectations of future economic conditions.

Recent Accounting Guidance Not Yet Adopted

Standard	*Description*	*Effective Date*	*Effect on financial statements or other significant matters*
ASU 2020-06, FASB Simplifies Issuer's Accounting for Convertible Instruments and Contracts on an Entity's Own Equity	In August 2020, the FASB issued an ASU which simplifies the accounting for certain financial instruments with characteristics of liabilities and equity, including convertible instruments and contracts on an entity's own equity.	The amendments are effective after December 15, 2023 and an entity may elect to early adopt beginning after December 15, 2020.	The Company is currently evaluating the impact of this standard on the Consolidated Financial Statements.
ASU 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Statements	In March 2020, the FASB issued an ASU that provides optional expedients and exceptions related to financial reporting impacts related to the expected market transition from LIBOR to another reference rates.	The amendments are effective on March 12, 2020, and an entity may elect to adopt prospectively through December 31, 2022.	The Company is currently evaluating the impact of this standard on the Consolidated Financial Statements.
ASU 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes	In December 2019, the FASB issued an ASU to simplify the accounting for income taxes by removing certain exceptions to the general principles in ASC 740, *Income Taxes* and improve the comparability of financial statements.	The amendments in this ASU are effective for fiscal years beginning after December 15, 2020, and early adoption is permitted.	The Company is currently evaluating the impact of this standard on the Consolidated Financial Statements.

Except for the pronouncements described above, there have been no new accounting pronouncements issued or adopted since the filing of the Fiscal 2020 Form 10-K that have significance, or potential significance, to the Condensed Consolidated Financial Statements.

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2. LOSS ON DISPOSAL OF ASSETS AND COSTS FROM EXIT AND DISPOSAL ACTIVITIES

In fiscal 2021, the Company undertook certain restructuring activities (the "2021 Restructuring Plan"), which followed the Company's initiation of a restructuring plan in fiscal 2018 (the "2018 Restructuring Plan"). Actions taken under the 2021 Restructuring Plan included reducing headcount and eliminating nonessential costs designed to improve the Company's cost structure. The Company does not currently have an estimate of additional costs or an expected end date for the restructuring actions. The following table summarizes the activity included in Loss on disposal of assets and costs from exit and disposal activities recorded during the periods presented.

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2020	2019	2020	2019
	(In thousands)		(In thousands)	
Headcount reduction	$ 300	$ —	$ 1,901	$ —
Total 2021 Restructuring Plan activities	**$ 300**	**$ —**	**$ 1,901**	**$ —**
Loss on other disposals and partial disposals of property, plant and equipment	680	894	1,353	2,045
Acquisition related severance and other costs	—	861	—	2,421
Total loss on disposal of assets and costs from exit and disposal activities	**$ 980**	**$ 1,755**	**$ 3,254**	**$ 4,466**

The restructuring activities are classified as operating expenses and not allocated to a segment.

A reconciliation of the beginning and ending amounts of restructuring liability related to the 2021 and 2018 Restructuring Plans as of the December 31, 2020 and 2019 is as follows:

	Nine Months Ended December 31,	
	2020	2019
	(In thousands)	
Balance at the beginning of the period	$ 574	$ 1,696
Expenses	1,901	—
Payments	(1,501)	(1,008)
Balance at the end of the period	$ 974	$ 688

As of December 31, 2020, the Company had $0.1 million of long-term severance liability related to the restructuring activities recorded in other liabilities in the Condensed Consolidated Balance Sheet. The current portion of the restructuring liability is recorded in Other accrued liabilities in the Condensed Consolidated Balance Sheet.

3. ACQUISITIONS

Acquisition of Infiltrator Water Technologies - On July 31, 2019 (the "Closing Date"), the Company completed its Acquisition of Infiltrator Water Technologies pursuant to an Agreement and Plan of Merger (the "Merger Agreement") dated July 31, 2019. Infiltrator Water Technologies manufactures and sells wastewater systems for homes and provides drainage chambers for septic and storm water management. The total fair value of consideration transferred was $1,147.2 million.

The following table summarizes the consideration transferred and the purchase price allocation of the assets acquired and liabilities assumed. The Company finalized the valuations of assets acquired and liabilities assumed during the second quarter of fiscal 2021.

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(Amounts in thousands)	Initial Amount	Adjustments to Purchase Price	Adjustments to Property, Plant and Equipment	Adjustments to Right-of-use Assets	Adjustments to Intangible Assets	Tax Adjustments	Updated Amount
Cash	$ 57,375	$ —	$ —	$ —	$ —	$ —	$ 57,375
Total current asset, excluding cash	75,847	—	—	—	—	—	75,847
Property, plant and equipment, net	98,860	—	(6,575)	—	—	—	92,285
Goodwill	567,034	704	6,575	—	(100,000)	21,528	495,841
Intangible assets, net	475,000	—	—	—	100,000	—	575,000
Other assets	14,366	—	—	2,909	—	—	17,275
Total current liabilities	(22,756)	—	—	(213)	—	931	(22,038)
Deferred tax liabilities	(109,926)	—	—	—	—	(22,459)	(132,385)
Other liabilities	(9,274)	—	—	(2,696)	—	—	(11,970)
Total fair value of consideration transferred	**$1,146,526**	$ 704	$ —	$ —	$ —	$ —	**$1,147,230**

The fair value of consideration transferred includes $6.0 million of Infiltrator Water Technologies payable to the Company and $6.6 million of Infiltrator Water Technologies receivable due from the Company.

The goodwill of $495.8 million represents the excess of consideration transferred over the fair value of assets acquired and liabilities assumed and is attributable to expected revenue synergies, as well as operating efficiencies and cost savings. The goodwill is not deductible for tax purposes and is assigned to the Infiltrator Water Technologies segment.

Of the $132.4 million of the purchase price allocated to deferred tax liabilities, $82.3 million related to the step up of GAAP basis for fair market valuations, while the remaining $50.1 million were acquired deferred tax liabilities. Of the total $82.3 million, $80.2 million was attributed to intangible assets. See "Note 13. Income Taxes" for additional information.

The purchase price excludes transaction costs. During the fiscal year ended March 31, 2020, the Company incurred $22.9 million of transaction costs related to the Acquisition such as legal, accounting, valuation and other professional services. The Company did not incur any transaction costs during the three and nine months ended December 31, 2020. For tax purposes, $7.1 million of transaction costs are not deductible. These costs are included in general and administrative expenses in the Condensed Consolidated Statements of Operations and Condensed Consolidated Statements of Comprehensive Income.

The identifiable intangible assets recorded in connection with the closing of the Acquisition are based on valuations including customer relationships, patents and developed technology, and tradename and trademarks totaling $575.0 million. Customer relationships are amortized using an accelerated method over an estimated useful life of 20 years. Patents and developed technology and tradename and trademarks are on a straight-line basis over the respective useful lives of 10 and 20 years.

(Amounts in thousands)	Fair value	Estimated useful lives
Customer relationships	$ 360,000	20 years
Patents and developed technology	150,000	10 years
Tradename and trademarks	65,000	20 years
Total identifiable intangible assets	**$ 575,000**	

The unaudited pro forma information for the three and nine months ended December 31, 2019 presented below includes the effects of the Acquisition as if it had been consummated as of April 1, 2018, with adjustments to give effect to pro forma events that are directly attributable to the Acquisition. Adjustments include those related to the amortization of acquired intangible assets, increases in interest expense due to additional borrowings incurred to finance the Acquisition, transaction costs, the elimination of transactions between the Company and Infiltrator Water Technologies and the estimated tax impacts thereof. The unaudited pro forma information does not reflect any operating efficiency or potential cost savings that could result from the consolidation of Infiltrator Water Technologies. Accordingly, the unaudited pro forma information is presented for informational purposes only and is not necessarily indicative of the actual results of the combined company if the Acquisition had occurred at the beginning of the period presented, nor is it indicative of the future results of operations.

	Three Months Ended	Nine Months Ended
(Amounts in thousands)	**December 31, 2019**	**December 31, 2019**
Net sales	$ 393,424	$ 1,389,440
Net income (loss) attributable to ADS	24,630	(146,147)

4. REVENUE RECOGNITION

Revenue Disaggregation - The Company disaggregates net sales by Domestic, International and Infiltrator Water Technologies and further disaggregates Domestic and International by product type, consistent with its reportable segment disclosure. This disaggregation level best depicts how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. Refer to “Note 15. Business Segments Information” for the Company’s disaggregation of Net sales by reportable segment.

***Contract Balances* -** The Company recognizes a contract asset representing the Company’s right to recover products upon the receipt of returned products and a contract liability for the customer refund. The following table presents the balance of the Company’s contract asset and liability as of the periods presented:

	December 31, 2020	March 31, 2020
	(In thousands)	
Contract asset - product returns	$ 874	$ 594
Refund liability	2,340	1,458

5. LEASES

***Nature of the Company’s Leases* -** The Company has operating and finance leases for plants, yards, corporate offices, tractors, trailers and other equipment. The Company’s leases have remaining terms of less than one year to 30 years. A portion of the Company’s yard leases include an option to extend the leases for up to five years. The Company has included renewal options which are reasonably certain to be exercised in its right-of-use assets and lease liabilities.

The Company’s lease payments are generally fixed. Certain equipment leases contain residual value guarantees that create a contingent obligation on the part of the Company to compensate the lessor if the leased asset cannot be sold for an amount in excess of a specified minimum value at the conclusion of the lease term. The calculation is based on the original cost of the transportation equipment, less lease payments made, compared to a percentage of the transportation equipment’s fair market value at the time of sale. All leased units covered by this guarantee have been classified as finance leases and a corresponding finance lease obligation was recorded. Therefore, no contingent obligation is needed.

The Company records at the lease commencement date, a lease liability, which is the lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The Company will utilize its collateralized incremental borrowing rate commensurate to the lease term as the discount rate for its leases, unless the Company can specifically determine the lessor's implicit rate. The incremental borrowing rate for each lease is determined based on the Company's credit rating, adjusted for the impacts of collateral, and the lease term.

6. INVENTORIES

Inventories as of the periods presented consisted of the following:

	December 31, 2020	March 31, 2020
	(In thousands)	
Raw materials	$ 63,569	$ 66,524
Finished goods	175,291	215,874
Total inventories	**$ 238,860**	**$ 282,398**

There were no work-in-process inventories as of the periods presented.

7. FAIR VALUE MEASUREMENT

When applying fair value principles in the valuation of assets and liabilities, the Company is 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 fiscal periods presented. The fair value estimates take into consideration the credit risk of both the Company and its counterparties.

When active market quotes are not available for financial assets and liabilities, the Company uses 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.

Recurring Fair Value Measurements - The assets and liabilities carried at fair value as of the periods presented were as follows:

	December 31, 2020			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Assets:				
Derivative assets – diesel fuel contracts	$ 535	$ —	$ 535	$ —
Total assets at fair value on a recurring basis	**$ 535**	**$ —**	**$ 535**	**$ —**
Liabilities:				
Derivative liabilities – diesel fuel contracts	$ 188	$ —	$ 188	$ —
Total liabilities at fair value on a recurring basis	**$ 188**	**$ —**	**$ 188**	**$ —**

	March 31, 2020			
	Total	Level 1	Level 2	Level 3
	(In thousands)			
Assets:				
Derivative assets – diesel fuel contracts	$ 36	$ —	$ 36	$ —
Total assets at fair value on a recurring basis	**$ 36**	**$ —**	**$ 36**	**$ —**
Liabilities:				
Derivative liabilities - diesel fuel contracts	$ 2,228	$ —	$ 2,228	$ —
Total liabilities at fair value on a recurring basis	**$ 2,228**	**$ —**	**$ 2,228**	**$ —**

For the nine months ended December 31, 2020 and 2019, there were no transfers in or out of Levels 1, 2 or 3.

Valuation of Debt - The carrying amounts of current financial assets and liabilities approximate fair value because of the immediate or short-term maturity of these items, or in the case of derivative instruments, because they are recorded at fair value. The following table presents the carrying and fair value of the Company's Senior Notes (as defined below and further discussed in "Note 11. Debt") for the periods presented:

	December 31, 2020		March 31, 2020	
	Fair Value	Carrying Value	Fair Value	Carrying Value
	(In thousands)		(In thousands)	
Senior Notes	$ 370,010	$ 350,000	$ 314,951	$ 350,000

The fair value of the Senior Notes was determined based on a quoted market data for the Company's Senior Notes. The categorization of the framework used to evaluate the Senior Notes is considered Level 2. The Company believes the carrying amount on the remaining long-term debt, including the Term Loan Facility and Revolving Credit Facility, is not materially different from its fair value as the interest rates and terms of the borrowings are similar to currently available borrowings.

8. DERIVATIVE TRANSACTIONS

The Company uses commodity options in the form of collars and swaps and has previously used interest rate swaps and foreign currency forward contracts to manage its various exposures to interest rate, commodity price fluctuations and foreign currency exchange rate fluctuations. Interest rate swap gains and losses resulting from the difference between the spot rate and applicable base rate is recorded in the Condensed Consolidated Statements of Operations in Interest expense. Contract settlement gains and losses for collars, commodity swaps and foreign currency forward contracts are recorded in the Condensed Consolidated Statements of Operations in Derivative gains and other income, net. Gains and losses related to mark-to-market adjustments for changes in fair value of the derivative contracts are also recorded in the Condensed Consolidated Statements of Operations in Derivative gains and other income, net.

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The Company recorded net (gains) and net losses on mark-to-market adjustments for changes in the fair value of derivatives contracts as well as net (gains) and net losses on the settlement of derivative contracts as follows:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2020	2019	2020	2019
	(In thousands)		(In thousands)	
Diesel fuel option collars	$ (1,082)	$ (93)	$ (2,537)	$ (17)
Interest rate swaps	—	—	—	1,726
Foreign exchange forward contracts	—	—	—	(7)
Total net unrealized mark-to-market (gains) loss	**$ (1,082)**	**$ (93)**	**$ (2,537)**	**$ 1,702**
Diesel fuel option collars	261	—	1,578	157
Foreign exchange forward contracts	—	—	—	102
Interest rate swaps	—	—	—	544
Total net realized loss	**$ 261**	**$ —**	**$ 1,578**	**$ 803**

A summary of the fair value of derivatives is included in “Note 7. Fair Value Measurement.”

9. NET INCOME PER SHARE AND STOCKHOLDERS’ EQUITY

The Company is required 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 following table presents information necessary to calculate net income per share for the periods presented, 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 December 31,		Nine Months Ended December 31,	
(In thousands, except per share data)	2020	2019	2020	2019
NET INCOME PER SHARE—BASIC:				
Net income (loss) attributable to ADS	$ 53,774	$ 23,288	$ 204,476	$ (195,479)
Adjustments for:				
Dividends to redeemable convertible preferred stockholders	(1,288)	(1,334)	(3,983)	(9,530)
Dividends paid to unvested restricted stockholders	—	(3)	(2)	(335)
Net income (loss) available to common stockholders and participating securities	52,486	21,951	200,491	(205,344)
Undistributed income allocated to participating securities	(7,798)	(2,822)	(31,699)	—
Net income (loss) available to common stockholders – Basic	$ 44,688	$ 19,129	$ 168,792	$ (205,344)
Weighted average number of common shares outstanding – Basic	70,450	68,508	69,893	62,119
Net income (loss) per common share – Basic	$ 0.63	$ 0.28	$ 2.42	$ (3.31)
NET INCOME PER SHARE—DILUTED:				
Net income (loss) available to common stockholders – Diluted	$ 44,688	$ 19,129	$ 168,792	$ (205,344)
Weighted average number of common shares outstanding – Basic	70,450	68,508	69,893	62,119
Assumed exercise of stock options	886	641	745	—
Restricted stock	250	149	215	—
Weighted average number of common shares outstanding – Diluted	71,586	69,298	70,853	62,119
Net income (loss) per common share – Diluted	$ 0.62	$ 0.28	$ 2.38	$ (3.31)
Potentially dilutive securities excluded as anti-dilutive	14,347	14,915	14,807	14,084

Special Dividend and the Employees Stock Ownership Plan (“ESOP”) - During the three months ended June 30, 2019, the Board of Directors approved a special cash dividend of $1.00 per share and quarterly dividends of $0.09 per share. The special and quarterly dividend were paid to all stockholders on June 14, 2019 to stockholders of record at the close of business on June 3, 2019. The total dividend payment was $81.6 million. The dividends received by the unallocated redeemable convertible preferred stock held in the ESOP trust was used to pay $12.0 million of the ESOP loan back to the Company resulting in approximately 11.6 million shares of the Company’s redeemable convertible preferred stock being allocated to ESOP participants. The Company recognized $246.8 million in stock-based compensation expense based on the fair value on the date the Board of Directors approved the special dividend. The Board of Director’s approval committed the ESOP to use those proceeds to pay down the ESOP loan. The special dividend compensation expense was recognized in Cost of goods sold - ESOP special dividend compensation and Selling, general and administrative expenses - ESOP special dividend compensation on the Company’s Condensed Consolidated Statements of Operations. The Company’s ESOP is further described in “Note 16. Employee Benefit Plans” to the Company’s audited financial statements included in the Fiscal 2020 Form 10-K.

10. RELATED PARTY TRANSACTIONS

ADS Mexicana - ADS conducts business in Mexico and Central America through its joint venture ADS Mexicana, S.A. de C.V. (together with its affiliate ADS Corporativo, S.A. de C.V., “ADS Mexicana”). ADS owns 51% of the outstanding stock of ADS Mexicana and consolidates ADS Mexicana for financial reporting purposes.

On June 22, 2018, the Company and ADS Mexicana entered into an Intercompany Revolving Credit Promissory Note (the “Intercompany Note”) with a borrowing capacity of $12.0 million. The Intercompany Note matures on June 22, 2022. The Intercompany Note indemnifies the ADS Mexicana joint venture partner for 49% of any unpaid borrowing. The interest rates under the Intercompany Note are determined by certain base rates or London Interbank Offered Rate (“LIBOR”) plus an applicable margin based on the Leverage Ratio. As of December 31, 2020 and March 31, 2020, there were no borrowings outstanding under the Intercompany Note.

South American Joint Venture - The Tuberias Tigre - ADS Limitada joint venture (the “South American Joint Venture”) manufactures and sells HDPE corrugated pipe in certain South American markets. ADS owns 50% of the South American Joint Venture. The Company has concluded that it is appropriate to account for this investment using the equity method, whereby the Company’s share of the income or loss of the joint venture is reported in the Condensed Consolidated Statements of Operations under Equity in net loss (income) of unconsolidated affiliates and the Company’s investment in the joint venture is included in Other assets in the Condensed Consolidated Balance Sheets. ADS is the guarantor of 50% of the South American Joint Venture’s credit arrangement, and the debt guarantee is shared equally with the joint venture partner. The debt guarantee was renewed in the nine months ended December 31, 2020. The Company’s maximum potential obligation under this guarantee is $11.0 million as of December 31, 2020. The maximum borrowings permitted under the South American Joint Venture’s credit arrangement are $22.0 million. This credit arrangement allows borrowings in either Chilean pesos or US dollars at a fixed interest rate determined at inception of each draw. The guarantee of the South American Joint Venture’s debt expires on December 31, 2023. ADS does not anticipate any required contributions related to the balance of this credit arrangment. As of December 31, 2020 and March 31, 2020, the outstanding principal balances of the credit arrangement including letters of credit were $10.1 million and $9.3 million, respectively. As of December 31, 2020, there were no U.S. dollar denominated loans. The weighted average interest rate as of December 31, 2020 was 3.5% on Chilean peso denominated loans.

ADS and the South American Joint Venture have shared services arrangements in order to execute the joint venture services. In addition, the South American Joint Venture has entered into agreements for pipe and other product sales to ADS and its other related parties. ADS also sells pipe products to the South American Joint Venture.

Tigre USA - Tigre USA was a joint venture that ADS no longer has an ownership interest in, but the owner is the partner for the South American Joint Venture. ADS purchases Tigre USA manufactured products for use in the production of ADS products.

The following tables summarizes the purchases by ADS from related parties and sales by ADS to related parties for the periods presented:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2020	2019	2020	2019
	(In thousands)		(In thousands)	
Purchases from South American Joint Venture	$ 212	$ 76	$ 480	$ 584
Sales to South American Joint Venture	134	373	413	767
Purchases from Tigre USA	499	440	1,534	1,611

11. DEBT

Long-term debt as of the periods presented consisted of the following:

	December 31, 2020	March 31, 2020
	(In thousands)	
Term Loan Facility	$ 443,000	$ 648,250
Senior Notes	350,000	350,000
Revolving Credit Facility	—	100,000
Equipment financing	—	1,492
Total	793,000	1,099,742
Unamortized debt issuance costs	(2,126)	(2,419)
Current maturities	(7,000)	(7,955)
Long-term debt obligation	**$ 783,874**	**$ 1,089,368**

Senior Secured Credit Facilities – In July 2019, the Company entered into the credit agreement (the "Base Credit Agreement") by and among the Company, as borrower, Barclays Bank PLC, as administrative agent, the several lenders from time to time party thereto. In September 2019, the Company amended the Base Credit Agreement (as amended the "Senior Secured Credit Facility"). The Senior Secured Credit Facility provides for a term loan facility in an initial aggregate principal amount of $700 million (the "Term Loan Facility"), a revolving credit facility in an initial aggregate principal amount of up to $350 million (the "Revolving Credit Facility"), a letter of credit sub-facility in the initial aggregate available amount of up to $50 million, as a sublimit of such Revolving Credit Facility (the "L/C Facility") and a swing line sub-facility in the aggregate available amount of up to $50 million, as a sublimit of the Revolving Credit Facility (together with the Term Loan Facility, the Revolving Credit Facility and the L/C Facility, the "Senior Secured Credit Facility").

During the nine months ended December 31, 2020, the Company repaid $205.3 million of the Term Loan Facility and repaid $100.0 million of the Revolving Credit Facility. Letters of credit outstanding at December 31, 2020 and March 31, 2020 amount to $11.0 million and $8.5 million, respectively, and reduced the availability of the Revolving Credit Facility.

Senior Notes – On September 23, 2019, the Company issued $350.0 million aggregate principal amount of 5.0% senior notes due 2027 (the "Senior Notes") pursuant to an Indenture, dated September 23, 2019 (the "Indenture"), among the Company, the guarantors party thereto (the "Guarantors") and U.S. Bank National Association, as Trustee (the "Trustee"). The Senior Notes are guaranteed by each of the Company's present and future direct and indirect wholly owned domestic subsidiaries that is a guarantor under the Company's Senior Secured Credit Facility. The Senior Notes were offered and sold either to persons reasonably believed to be "qualified institutional buyers" pursuant to Rule 144A under the Securities Act of 1933 (the "Securities Act") or to persons outside the United States under Regulation S of the Securities Act.

12. COMMITMENTS AND CONTINGENCIES

Purchase Commitments – The Company has historically secured supplies of resin raw material by agreeing to purchase quantities during a future given period at a fixed price. These purchase contracts typically ranged from 1 to 12 months and occur in the ordinary course of business. The Company also enters into equipment purchase contracts with manufacturers. The Company does not have any outstanding purchase commitments as of December 31, 2020.

Litigation and Other Proceedings – The Company is involved from time to time in various legal proceedings that arise in the ordinary course of 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. The Company does not believe that such litigation, claims, and administrative proceedings will have a material adverse impact on the Company's financial position or results of operations. The Company records a liability when a loss is considered probable, and the amount can be reasonably estimated.

Other Commitments and Contingencies – In March 2019, the Company initiated an internal investigation process, under the guidelines of the Company's Code of Business Conduct and Ethics, into its consolidated joint venture affiliate ADS Mexicana's senior management's ethical and business conduct, as well as compliance of certain products with, along with considerations into, Mexican laws and regulations over the previous 12 months. The Company has recorded an accrual for the current estimate of probable losses resulting from the investigation, which is not material to the Condensed Consolidated Financial Statements. However, due to the inherent uncertainties in determining the use, installation application and location of ADS Mexicana products sold, along with the consideration of Mexican laws and regulations related to warranty and product liability obligations, the Company is unable to determine the maximum potential future losses that may occur, which could be material to the Condensed Consolidated Financial Statements.

13. 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 and other one-time charges, as well as the occurrence of discrete events. For the three months ended December 31, 2020 and 2019, the Company utilized an effective tax rate of 27.1% and 14.5%, respectively, to calculate its provision for income taxes. State and local income taxes and the Company's Employee Stock Ownership Plan ("ESOP") increased the effective rate for the three months ended December 31, 2020 and 2019. Discrete income tax benefits related to the release of tax reserves due to the lapse of statute of limitations decreased the rate for the three months ended December 31, 2019.

For the nine months ended December 31, 2020 and 2019, the Company utilized an effective tax rate of 27.8% and (13.2%), respectively, to calculate its provision for income taxes. State and local income taxes and the Company's ESOP increased the effective rate for the nine months ended December 31, 2020 and 2019. The special dividend paid on June 14, 2019 and the transaction costs related to the Acquisition resulted in large pre-tax losses for the nine months ended December 31, 2019, that did not occur in the comparison period. The effective tax rate for the nine months ended December 31, 2019 differed from the federal statutory rate primarily due to a $60.7 million discrete income tax expense. This discrete event related to the 11.6 million shares allocated from the ESOP as a result of the special dividend and the Company recognizing approximately $246.8 million in additional stock-based compensation expense. Of the total stock-based compensation expense and dividends paid, approximately $242.9 million related to non-deductible stock appreciation and deductible dividends. This discrete event reduced the effective tax rate by 35.1%. Additionally, the Company recognized tax expense of approximately $1.8 million related to nondeductible transaction costs related to the acquisition of Infiltrator Water Technologies.

As discussed in "Note 3. Acquisitions", the Company acquired Infiltrator Water Technologies on July 31, 2019. As part of the purchase price, approximately $132.4 million was attributed to deferred tax liabilities. Of the $132.4 million, $82.3 million related to the step up of GAAP basis for fair market valuations, while the remaining $50.1 million were acquired deferred tax liabilities. Of the total $82.3 million, $80.2 million was attributed to intangibles. The Company also acquired a federal net operating loss of $24.0 million.

14. STOCK-BASED COMPENSATION

ADS has several programs for stock-based payments to employees and non-employee members of its Board of Directors, including stock options and restricted stock. Equity-classified restricted stock awards are measured based on the grant-date estimated fair value of each award. The fair value of restricted stock is based on the fair value of the Company's common stock. Compensation expense is recognized on a straight-line basis over the employee's requisite service period, which is generally the vesting period of the grant. The Company accounts for all restricted stock granted to Directors as equity-classified awards. The Company recognized stock-based compensation expense in the following line items of the Condensed Consolidated Statements of Operations for the periods presented:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2020	2019	2020	2019
	(In thousands)		(In thousands)	
Component of income before income taxes:				
Cost of goods sold	$ 510	$ 319	$ 1,476	$ 620
Selling expenses	265	49	756	284
General and administrative expenses	4,038	3,504	13,676	7,980
Total stock-based compensation expense	**$ 4,813**	**$ 3,872**	**$ 15,908**	**$ 8,884**

The following table summarizes stock-based compensation expense by award type for the periods presented:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2020	2019	2020	2019
	(In thousands)		(In thousands)	
Stock-based compensation expense:				
Equity-classified Stock Options	$ 623	$ 701	$ 2,254	$ 1,952
Restricted Stock	1,214	1,075	3,975	2,674
Performance Units	2,622	1,776	8,676	3,349
Non-Employee Directors	354	320	1,003	909
Total stock-based compensation expense	**$ 4,813**	**$ 3,872**	**$ 15,908**	**$ 8,884**

2017 Omnibus Plan

On May 24, 2017, the Board of Directors approved the 2017 Omnibus Incentive Plan (the "2017 Incentive Plan") which was approved by the Company's stockholders on July 17, 2017. The 2017 Incentive Plan provides for the issuance of a maximum of 3.5 million shares of the Company's common stock for awards made thereunder, which awards may consist of stock options, restricted stock, restricted stock units, stock appreciation rights, phantom stock, cash-based awards, performance awards (which may take the form of performance cash, performance units or performance shares) or other stock-based awards.

Restricted Stock - During the three and nine months ended December 31, 2020, the Company granted 0.1 million shares and 0.1 million shares of restricted stock with a grant date fair value of $0.1 million and $5.8 million, respectively.

Performance Units –During the three and nine months ended December 31, 2020, the Company granted 0.1 million shares and 0.1 million shares at a grant date fair value of $0.1 million and $5.3 million, respectively.

Options - During the three and nine months ended December 31, 2020, the Company granted less than 0.1 million and 0.3 million nonqualified stock options under the 2017 Incentive Plan. The grant date fair value of the nonqualified stock options was $0.1 million and $3.4 million, respectively. The Company estimates the fair value of stock options using a Black-Scholes option-pricing model. The following table summarizes the assumptions used to estimate the fair value of stock-options during the periods presented:

	Nine Months Ended December 31, 2020
Common stock price	$41.97 - $71.55
Expected stock price volatility	35.5% - 36.3%
Risk-free interest rate	0.4% - 0.6%
Weighted-average expected option life (years)	6.0
Dividend yield	0.5% - 0.9%

15. BUSINESS SEGMENTS INFORMATION

The Company operates its business in three distinct reportable segments: “Pipe”, “International” and “Infiltrator Water Technologies.” “Allied Products & Other” represents the Company’s Allied Products and all other business segments. The Chief Operating Decision Maker (the “CODM”) evaluates segment reporting based on Net Sales and Segment Adjusted Gross Profit. The Company calculated Segment Adjusted Gross Profit as net sales less costs of goods sold, depreciation and amortization, stock-based compensation and non-cash charges. A measure of assets is not applicable, as segment assets are not regularly reviewed by the CODM for evaluating performance or allocating resources.

Pipe – The Pipe segment manufactures and markets high performance thermoplastic corrugated pipe throughout the United States. The Company maintains and serves these markets through product distribution relationships with many of the largest national and independent waterworks distributors, buying groups and co-ops, major national retailers as well as an extensive network of hundreds of small to medium-sized distributors across the United States.

Products include single wall pipe, N-12 HDPE pipe sold into the Storm sewer, Infrastructure and Agriculture markets, High Performance polypropylene pipe sold into the Storm sewer, Infrastructure and sanitary sewer markets. Products are designed primarily for storm water management in the construction and infrastructure marketplace across a broad range of end markets and applications, including non-residential, residential, agriculture and infrastructure. Products are manufactured using HDPE and polypropylene plastic material.

Infiltrator Water Technologies – Infiltrator Water Technologies is a leading national provider of plastic leach field chambers and systems, septic tanks and accessories, primarily for use in residential applications. Infiltrator Water Technologies products are used in on-site septic wastewater treatment systems in the United States and Canada.

International – The International segment manufactures and markets pipe and allied products in certain regions outside of the United States, including Company owned facilities in Canada, subsidiaries that distribute to Europe and the Middle East, exports and through the Company’s joint ventures with local partners in Mexico and South America. The Company’s Mexican joint venture, ADS Mexicana, primarily serves the Mexican and Central American markets, while its South American Joint Venture, Tigre-ADS, is the primary channel to serve the South American markets. The Company’s International product lines include single wall pipe, N-12 HDPE pipe, high performance PP pipe and certain geographies also sell our broad line of Allied Products.

Allied Products & Other –Allied Products and Other manufactures and markets products throughout the United States. Products include StormTech, Nyloplast, ARC Septic Chambers, Inserta Tee, BaySaver filters and water quality structures, Fittings, and FleXstorm. The Company maintains and serves these markets through 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 United States. The Company also sells through a broad variety of buying groups and co-ops in the United States. The Company aggregates operating segments within the Allied Products & Other segment disclosure. None of the operating segments within the Allied Products & Other businesses segment disclosure exceeds the quantitative thresholds for separate segment reporting.

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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 for the periods presented:

	Three Months Ended					
	December 31, 2020			December 31, 2019		
	Net Sales	Intersegment Net Sales	Net Sales from External Customers	Net Sales	Intersegment Net Sales	Net Sales from External Customers
Pipe	$ 254,209	$ (1,311)	$ 252,898	$ 207,897	$ (342)	$ 207,555
Infiltrator Water Technologies	98,409	(17,188)	81,221	72,083	(13,549)	58,534
International						
International - Pipe	33,729	(2,970)	30,759	28,340	—	28,340
International - Allied Products & Other	11,648	—	11,648	10,114	—	10,114
Total International	45,377	(2,970)	42,407	38,454	—	38,454
Allied Products & Other	109,619	—	109,619	88,881	—	88,881
Intersegment Eliminations	(21,469)	21,469	—	(13,891)	13,891	—
Total Consolidated	**$ 486,145**	**$ —**	**$ 486,145**	**$ 393,424**	**$ —**	**$ 393,424**

	Nine Months Ended					
	December 31, 2020			December 31, 2019		
	Net Sales	Intersegment Net Sales	Net Sales from External Customers	Net Sales	Intersegment Net Sales	Net Sales from External Customers
Pipe	$ 819,994	$ (4,793)	$ 815,201	$ 751,483	$ (684)	$ 750,799
Infiltrator Water Technologies	306,548	(53,948)	252,600	136,972	(25,738)	111,234
International						
International - Pipe	96,271	(3,866)	92,405	92,242	—	92,242
International - Allied Products & Other	34,233	—	34,233	33,330	—	33,330
Total International	130,504	(3,866)	126,638	125,572	—	125,572
Allied Products & Other	344,532	—	344,532	315,432	—	315,432
Intersegment Eliminations	(62,607)	62,607	—	(26,422)	26,422	—
Total Consolidated	**$1,538,971**	**$ —**	**$1,538,971**	**$1,303,037**	**$ —**	**$1,303,037**

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The following sets forth certain financial information attributable to the reportable segments for the periods presented:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2020	2019	2020	2019
	(In thousands)		(In thousands)	
Segment adjusted gross profit				
Pipe	$ 78,651	$ 61,025	$ 269,746	$ 192,764
Infiltrator Water Technologies	48,518	34,735	149,551	64,879
International	12,986	9,066	38,976	29,134
Allied Products & Other	55,158	42,818	176,006	157,626
Intersegment Eliminations	(932)	(881)	(918)	(1,859)
Total	**$ 194,381**	**$ 146,763**	**$ 633,361**	**$ 442,544**
Depreciation and amortization				
Pipe	$ 11,298	$ 11,522	$ 34,201	$ 34,626
Infiltrator Water Technologies	3,132	2,563	9,270	4,422
International	1,402	1,462	4,002	4,559
Allied Products & Other[a]	19,930	15,625	59,848	30,825
Total	**$ 35,762**	**$ 31,172**	**$ 107,321**	**$ 74,432**
Capital expenditures				
Pipe	$ 4,095	$ 7,790	$ 12,237	$ 24,147
Infiltrator Water Technologies	22,651	12,499	40,630	16,382
International	556	191	1,303	2,068
Allied Products & Other[a]	1,414	191	3,505	3,696
Total	**$ 28,716**	**$ 20,671**	**$ 57,675**	**$ 46,293**

(a) Includes depreciation, amortization and capital expenditures not allocated to a reportable segment. The amortization expense of Infiltrator Water Technologies intangible assets acquired is included in Allied Products & Other.

Reconciliation of Gross Profit to Segment Adjusted Gross profit

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2020	2019	2020	2019
	(In thousands)		(In thousands)	
Reconciliation of Segment Adjusted Gross Profit:				
Total Gross Profit	$ 168,505	$ 123,358	$ 562,865	$ 207,724
Depreciation and amortization	16,432	16,025	49,318	45,417
ESOP and stock-based compensation expense	9,444	5,273	20,981	12,913
ESOP special dividend compensation	—	—	—	168,610
COVID-19 related costs[a]	—	—	197	—
Inventory step up related to Infiltrator Water Technologies acquisition	—	2,107	—	7,880
Total Segment Adjusted Gross Profit	**$ 194,381**	**$ 146,763**	**$ 633,361**	**$ 442,544**

(a) Includes expenses directly related to our response to the COVID-19 pandemic, including adjustments to our pandemic pay program and expenses associated with our third-party crisis management vendor.

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16. SUBSEQUENT EVENTS

Common Stock Dividend - During the fourth quarter of fiscal 2021, the Company declared a quarterly cash dividend of $0.09 per share of common stock. The dividend is payable on March 15, 2021 to stockholders of record at the close of business on March 1, 2021.

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

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

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, 2021 refers to fiscal 2021, which is the period from April 1, 2020 to March 31, 2021.

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 Quarterly Report on Form 10-Q and with the audited Consolidated Financial Statements included in our Fiscal 2020 Form 10-K, as filed with the Securities and Exchange Commission (the "SEC") on June 1, 2020. 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 our joint ventures for purposes of GAAP, except for our South American Joint Venture.

Overview

We are the leading global manufacturer of water management products and solutions for non-residential, residential, infrastructure and agricultural applications. With the acquisition of Infiltrator Water Technologies in the second quarter of fiscal 2020, we are now a leading provider of plastic leach field chambers, septic tanks and accessories, for use primarily in residential applications.

Impact of COVID-19

In March 2020, the World Health Organization categorized the novel coronavirus ("COVID-19") as a pandemic, and it continues to spread throughout the United States and globally. The COVID-19 pandemic has resulted, and is likely to continue to result, in significant economic disruptions and may have an adverse effect on our business. Significant uncertainty exists concerning the magnitude of the impact and duration of the COVID-19 pandemic. While our production facilities are operating as essential businesses, the Company continues to assess the potential effects and may experience future impacts such as reduced operations or temporarily closing facilities.

Executive Summary

Third Quarter Fiscal 2021 Results

- Net sales increased 23.6% to $486.1 million
- Net income increased 128.4% to $54.0 million
- Adjusted EBITDA, a non-GAAP measure, increased 52.1% to $138.9 million

Net sales increased $92.7 million, or 23.6%, to $486.1 million, as compared to $393.4 million in the prior year. Domestic pipe sales increased $46.3 million, or 22.3%, to $254.2 million. Domestic allied products & other sales increased $20.7 million, or 23.3%, to $109.6 million. Infiltrator Water Technologies sales increased $26.3 million, or 36.5%, to $98.4 million. These increases were driven by sales growth in both the U.S. construction and agriculture end markets.

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Gross profit increased $45.1 million, or 36.6%, to $168.5 million as compared to $123.4 million in the prior year. The increase is primarily due an increase in sales volume of both pipe and allied products, favorable pricing and material cost and operational improvements offsetting inflationary costs.

Adjusted EBITDA, a non-GAAP measure, increased $47.5 million, or 52.1%, to $138.9 million, as compared to $91.3 million in the prior year. The increase is primarily due to the factors mentioned above. As a percentage of net sales, Adjusted EBITDA was 28.6% as compared to 23.2% in the prior year.

Year-to-Date Fiscal 2021 Results

- Net sales increased 18.1% to $1.5 billion
- Net income increased to $205.3 million, compared to a net loss of $195.3 million in the prior year
- Adjusted EBITDA, a non-GAAP measure, increased 63.0% to $472.4 million
- Cash provided by operating activities increased 51.5% to $448.8 million
- Free cash flow, a non-GAAP measure, increased 56.4% to $391.1 million

Net sales increased $235.9 million, or 18.1%, to $1.539 billion, as compared to $1.303 billion in the prior year. Domestic pipe sales increased $68.5 million, or 9.1%, to $820.0 million. Domestic allied products & other sales increased $29.1 million, or 9.2%, to $344.5 million. These increases were driven by growth in both the U.S. construction and agriculture end markets. Infiltrator Water Technologies sales increased $169.6 million, or 123.8%, to $306.5 million, as compared to $137.0 million in the prior year.

Gross profit increased $355.1 million to $562.9 million as compared to $207.7 million in the prior year. The prior year gross profit includes $168.6 million of ESOP special dividend compensation expense. In addition, the year-to-date gross profit includes an incremental benefit from a full year of results from the Infiltrator Water Technologies business, as compared to five months of results in the prior year due to the timing of the acquisition. The remaining increase in gross profit is favorable material cost, increases in both pipe and allied product sales and an increase in operational efficiency.

Adjusted EBITDA, a non-GAAP measure, increased $182.6 million, or 63.0%, to $472.4 million, as compared to $289.8 million in the prior year. The increase is primarily due to the factors mentioned above. As a percentage of net sales, Adjusted EBITDA was 30.7% as compared to 22.2% in the prior year.

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Results of Operations

Comparison of the Three Months ended December 31, 2020 to the Three Months ended December 30, 2019

The following table summarizes our operating results as a percentage of net sales that have been derived from our Condensed Consolidated Financial Statements for the periods presented. We believe this presentation is useful to investors in comparing historical results.

	For the Three Months Ended December 31, 2020 (In thousands)		2019 (In thousands)	
Consolidated Statements of Operations data:				
Net sales	$ 486,145	100.0%	$ 393,424	100.0%
Cost of goods sold	317,640	65.3	270,066	68.6
Gross profit	168,505	34.7	123,358	31.4
Selling expenses	30,537	6.3	29,967	7.6
General and administrative expenses	36,069	7.4	37,023	9.4
Loss on disposal of assets and costs from exit and disposal activities	980	0.2	1,755	0.4
Intangible amortization	17,956	3.7	13,593	3.5
Income (loss) from operations	82,963	17.1	41,020	10.4
Interest expense	8,433	1.7	13,191	3.4
Derivative (loss) gains and other (expense) income, net	(165)	—	39	—
Income (loss) before income taxes	74,695	15.4	27,790	7.1
Income tax expense	20,264	4.2	4,032	1.0
Equity in net loss (income) of unconsolidated affiliates	390	0.1	99	—
Net income (loss)	54,041	11.1	23,659	6.0
Less: net income attributable to noncontrolling interest	267	0.1	371	0.1
Net income (loss) attributable to ADS	$ 53,774	11.1%	$ 23,288	5.9%

Net sales - Net sales increased by $92.7 million, or 23.6%, for the three months ended December 31, 2020 compared to the three months ended December 31, 2019.

	Three Months Ended					
	December 31, 2020			**December 31, 2019**		
	Net Sales	Intersegment Net Sales	Net Sales from External Customers	Net Sales	Intersegment Net Sales	Net Sales from External Customers
Pipe	$ 254,209	$ (1,311)	$ 252,898	$ 207,897	$ (342)	$ 207,555
Infiltrator Water Technologies	98,409	(17,188)	81,221	72,083	(13,549)	58,534
International						
International - Pipe	33,729	(2,970)	30,759	28,340	—	28,340
International - Allied Products & Other	11,648	—	11,648	10,114	—	10,114
Total International	45,377	(2,970)	42,407	38,454	—	38,454
Allied Products & Other	109,619	—	109,619	88,881	—	88,881
Intersegment Eliminations	(21,469)	21,469	—	(13,891)	13,891	—
Total Consolidated	**$ 486,145**	**$ —**	**$ 486,145**	**$ 393,424**	**$ —**	**$ 393,424**

- Pipe net sales to all customers for the three months ended December 31, 2020 increased by $46.3 million, or 22.3%, compared to the three months ended December 31, 2019. The increase was due to an increase in pipe volume resulting in a $40.6 million increase in sales and a $3.7 million increase as a result of price and product mix.

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- Infiltrator Water Technologies net sales to all customers increased $26.3 million for the three months ended December 31, 2020 compared to the three months ended December 31, 2019. The increase was primarily due to increased sales volume.

- International net sales for the three months ended December 31, 2020 increased by $6.9 million, or 18.0%, compared to the three months ended December 31, 2019. The increase was primarily attributable to a $5.4 million increase in International Pipe Sales and a $1.5 million increase in International Allied Product sales.

- Allied Products & Other net sales for the three months ended December 31, 2020 increased by $20.7 million, or 23.3%, compared to the three months ended December 31, 2019. The increase was due to price and product mix and an increase in sales volume.

Cost of goods sold and Gross profit - Cost of goods sold increased by $47.6 million, or 17.6%, and gross profit increased by $45.1 million, or 36.6%, in the three months ended December 31, 2020 over the comparable period in the previous year. Gross profit excluding Infiltrator Water Technologies, referred to as Legacy ADS gross profit, a Non-GAAP measure, increased 31.8%.

	For the Three Months Ended December 31,			
	2020	2019	$ Variance	% Variance
Gross profit data:	(In thousands)			
Pipe	$ 58,679	$ 44,651	$ 14,028	31.4%
International	11,581	7,599	3,982	52.4
Allied Products & Other	53,913	41,983	11,930	28.4
Legacy ADS gross profit	124,173	94,233	29,940	31.8
Infiltrator Water Technologies	45,264	30,006	15,258	50.8
Intersegment eliminations	(932)	(881)	(51)	5.8
Total gross profit	$ 168,505	$ 123,358	$ 45,147	36.6%

- Pipe gross profit increased primarily due to lower costs in material, labor and overhead. The increase was also attributable to the increase in volume sold discussed above.

- Infiltrator Water Technologies gross profit increased due to the increased sales volume discussed above.

- International gross profit increased primarily due to the increased sales discussed above and lower costs of materials.

- Allied Products & Other gross profit increased primarily due to the increase in net sales discussed above and lower labor and overhead costs.

Operating expenses

	Three Months Ended December 31,	
	2020	2019
Selling expenses	6.3%	7.6%
General and administrative expenses	7.4%	9.4%
Selling, general and administrative expenses	13.7%	17.0%

Selling expenses - As a percentage of net sales, selling expenses decreased to 6.3% in the three months ended December 31, 2020 compared to 7.6% in the three months ended December 31, 2019. The decrease as a percentage of net sales is the result of the Company’s cost mitigation steps.

General and administrative expenses - General and administrative expenses for the three months ended December 31, 2020 decreased $1.0 million from the prior year period. The decrease was primarily due to a $1.7 million decrease in transaction costs due to the Infiltrator Water Technologies acquisition.

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Loss on disposal of assets and costs from exit and disposal activities - The decrease in Loss on disposal of assets and costs from exit and disposal activities is primarily due to asset disposals in fiscal 2020. See “Note 2. Loss on Disposal of Assets and Costs from Exit and Disposal Activities” for additional discussion.

Intangible amortization - Intangible amortization increased $4.4 million due to an increase in the Acquisition related identifiable intangible assets recorded in the fourth quarter of fiscal 2020 as we finalized the purchase price allocation.

Interest expense - Interest expense decreased $4.8 million in the three months ended December 31, 2020 compared to the same period in the previous fiscal year. The decrease was primarily due to decreased debt levels.

Derivative (loss) gain and other (expense) income, net - Derivative (loss) gains and other (expense) income decreased by $0.2 million for the three months ended December 31, 2020 compared to the same period in the previous fiscal year.

Income tax expense - The following table presents the effective tax rates for the three months ended December 31, 2020 and 2019.

	Three Months Ended December 31,	
	2020	**2019**
Effective tax rate	27.1%	14.5%

The change in the effective tax rate was primarily due to a discrete income tax event related to the release of tax reserves. See “Note 13. Income Taxes” for additional information.

Equity in net loss (income) of unconsolidated affiliates - Equity in net loss (income) of unconsolidated affiliates represents our proportionate share of income or loss attributed to our unconsolidated joint venture in which we have significant influence, but not control, over operations. The Equity in net (income) loss of unconsolidated affiliates increased for the three months ended December 31, 2020 as compared to the same period in the previous fiscal year due to an increase in the current period loss at our South American Joint Venture.

Net income (loss) attributable to noncontrolling interest - Net income (loss) attributable to noncontrolling interest decreased for three months ended December 31, 2020 due to an increase in net income at our ADS Mexicana joint venture.

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Comparison of the Nine Months ended December 31, 2020 to the Nine Months ended December 31, 2019

The following table summarizes our operating results as a percentage of net sales that have been derived from our Condensed Consolidated Financial Statements for the periods presented. We believe this presentation is useful to investors in comparing historical results.

	For the Nine Months Ended December 31, 2020		2019	
Consolidated Statements of Operations data:	(In thousands)		(In thousands)	
Net sales	$ 1,538,971	100.0%	$ 1,303,037	100.0%
Cost of goods sold	976,106	63.4	926,703	71.1
Cost of goods sold - ESOP special dividend compensation	—	—	168,610	12.9
Gross profit	562,865	36.6	207,724	15.9
Selling	89,283	5.8	86,303	6.6
General and administrative	104,800	6.8	116,486	8.9
Selling, general and administrative - ESOP special dividend compensation	—	—	78,142	6.0
Loss on disposal of assets and costs from exit and disposal activities	3,254	0.2	4,466	0.3
Intangible amortization	53,893	3.5	24,435	1.9
Income (loss) from operations	311,635	20.2	(102,108)	(7.8)
Interest expense	27,763	1.8	70,787	5.4
Derivative (loss) gains and other (expense) income, net	(883)	(0.1)	118	—
Income (loss) before income taxes	284,755	18.5	(173,013)	(13.3)
Income tax expense	79,291	5.2	22,855	1.8
Equity in net loss (income) of unconsolidated affiliates	150	—	(538)	—
Net income (loss)	205,314	13.3	(195,330)	(15.0)
Less: net income attributable to noncontrolling interest	838	0.1	149	—
Net income (loss) attributable to ADS	$ 204,476	13.3%	$ (195,479)	(15.0)%

Net sales - Net sales increased by $235.9 million, or 18.1%, for the nine months ended December 31, 2020 compared to the nine months ended December 31, 2019.

	Nine Months Ended					
	December 31, 2020			December 31, 2019		
	Net Sales	Intersegment Net Sales	Net Sales from External Customers	Net Sales	Intersegment Net Sales	Net Sales from External Customers
Pipe	$ 819,994	$ (4,793)	$ 815,201	$ 751,483	$ (684)	$ 750,799
Infiltrator Water Technologies	306,548	(53,948)	252,600	136,972	(25,738)	111,234
International						
International - Pipe	96,271	(3,866)	92,405	92,242	—	92,242
International - Allied Products & Other	34,233	—	34,233	33,330	—	33,330
Total International	130,504	(3,866)	126,638	125,572	—	125,572
Allied Products & Other	344,532	—	344,532	315,432	—	315,432
Intersegment Eliminations	(62,607)	62,607	—	(26,422)	26,422	—
Total Consolidated	**$ 1,538,971**	**$ —**	**$ 1,538,971**	**$ 1,303,037**	**$ —**	**$ 1,303,037**

- Pipe net sales to all customers for the nine months ended December 31, 2020 increased by $68.5 million, or 9.1%, compared to the nine months ended December 31, 2019. The increase was due to an increase in pipe volume resulting in a $68.3 million increase in sales partially offset by a $2.0 million decrease as a result of price and product mix.

- Infiltrator Water Technologies net sales to all customers for the nine months ended December 31, 2020 increased by $169.6 million compared to the nine months ended December 31, 2019. The Company acquired Infiltrator Water Technologies on July 31, 2019 and therefore did not report any Infiltrator Water Technologies sales prior to August 2019.

- International net sales for the nine months ended December 31, 2020 increased by $4.9 million, or 3.9%, compared to the nine months ended December 31, 2019. The increase was primarily attributable to a $4.0 million increase in International Pipe Sales and a $0.9 million increase in International Allied Product sales.

- Allied Products & Other net sales for the nine months ended December 31, 2020 increased by $29.1 million, or 9.2%, compared to the nine months ended December 31, 2019. The increase was due to price and product mix and an increase in sales volume.

Cost of goods sold and Gross profit - Cost of goods sold increased by $49.4 million, or 5.3%, and gross profit increased by $355.1 million, or 171.0%, in the nine months ended December 31, 2020 over the comparable period in the previous year. The increase in gross profit was primarily due to the ESOP special dividend compensation expense from the special dividend in fiscal 2020 of $168.6 million allocated to Cost of goods sold. Gross profit excluding Infiltrator Water Technologies and Cost of goods sold – ESOP special dividend compensation, referred to as Legacy ADS gross profit, a Non-GAAP measure, increased 30.1%.

	For the Nine Months Ended December 31,			
	2020	2019	$ Variance	% Variance
Gross profit data:	(In thousands)			
Pipe	$ 216,318	$ 146,212	$ 70,106	47.9%
International	34,948	24,562	10,386	42.3
Allied Products & Other	172,576	154,914	17,662	11.4
Legacy ADS gross profit	423,842	325,688	98,154	30.1
Infiltrator Water Technologies	139,941	52,505	87,436	166.5
Cost of goods sold - ESOP special dividend compensation	—	(168,610)	168,610	100.0
Intersegment eliminations	(918)	(1,859)	941	(50.6)
Total gross profit	$ 562,865	$ 207,724	$ 355,141	171.0%

- Pipe gross profit increased primarily due to lower costs in material, labor and overhead. The increase was also attributable to the increase in volume sold, offset by the decrease in the price and product mix of net sales discussed above.

- The Company acquired Infiltrator Water Technologies on July 31, 2019 and therefore did not report any Infiltrator Water Technologies gross profit prior to August 2019.

- International gross profit increased primarily due to lower cost of materials and the increased sales discussed above.

- Allied Products & Other gross profit increased primarily due to the increase in net sales discussed above and lower labor and overhead costs.

Operating expenses

	For the Nine Months Ended December 31,	
	2020	2019
Selling expenses	5.8%	6.6%
General and administrative expenses	6.8%	8.9%
Selling, general and administrative expenses	12.6%	15.6%

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Selling expenses - As a percentage of net sales, selling expenses decreased to 5.8% in the nine months ended December 31, 2020 compared to 6.6% in the nine months ended December 31, 2019. The decrease as a percentage of net sales is the result of the Company's cost mitigation steps.

General and administrative expenses - General and administrative expenses for the nine months ended December 31, 2020 decreased $11.7 million from the prior year period. The decrease was primarily due to a $21.2 million decrease in transaction costs. The decrease was offset by a $7.5 million increase in general and administrative expenses, including stock-based compensation, reported at Infiltrator Water Technologies.

Selling, general and administrative – ESOP special dividend compensation – In fiscal 2019, ESOP special dividend compensation expense of $78.1 million was allocated to selling, general and administrative expenses.

Loss on disposal of assets and costs from exit and disposal activities - The decrease in Loss on disposal of assets and costs from exit and disposal activities is primarily due to asset disposals in fiscal 2020. See "Note 2. Loss on Disposal of Assets and Costs from Exit and Disposal Activities" for additional discussion.

Intangible amortization - Intangible amortization increased primarily due to the addition of intangible assets related to the acquisition of Infiltrator Water Technologies.

Interest expense - Interest expense decreased $43.0 million in the nine months ended December 31, 2020 compared to the same period in the previous fiscal year. The decrease was primarily due to $33.2 million of the write-off of deferred financing costs and $4.2 million prepayment penalty related to the extinguishment of debt instruments in the nine months ended December 31, 2019. The remainder of the decrease is due to decreased debt levels.

Derivative (loss) gain and other (expense) income, net – Derivative (loss) gain and other (expense) income increased by $1.0 million for the nine months ended December 31, 2020 compared to the same period in the previous fiscal year.

Income tax expense – The following table presents the effective tax rates for the nine months ended December 31, 2020 and 2019.

	For the Nine Months Ended December 31,	
	2020	2019
Effective tax rate	27.8%	(13.2)%

The change in the effective tax rate was primarily due to a discrete income tax event related to stock appreciation from the additional ESOP shares allocated and the Acquisition. See "Note 13. Income Taxes" for additional information.

Equity in net (income) loss of unconsolidated affiliates - Equity in net (income) loss of unconsolidated affiliates represents our proportionate share of income or loss attributed to our unconsolidated joint venture in which we have significant influence, but not control, over operations. The Equity in net (income) loss of unconsolidated affiliates decreased for the nine months ended December 31, 2020 as compared to the same period in the previous fiscal year due to a decrease in the current period income at our South American Joint Venture.

Net income attributable to noncontrolling interest - Net income attributable to noncontrolling interest increased for the nine months ended December 31, 2020 due to an increase in net income at our ADS Mexicana joint venture.

A***djusted EBITDA and Adjusted EBITDA Margin*** - Adjusted EBITDA and Adjusted EBITDA Margin, which are non-GAAP financial measures, have been presented in this Quarterly Report on Form 10-Q as supplemental measures of financial performance that are not required by, or presented in accordance with GAAP and should not be considered as alternatives to net income as measures of financial performance or cash flows from operations or any other performance measure derived in accordance with GAAP. We calculate Adjusted EBITDA as net income (loss) before interest, income taxes, depreciation and amortization, stock-based compensation expense, non-cash charges and certain other expenses. We calculate Adjusted EBITDA Margin as Adjusted EBITDA divided by net sales.

Adjusted EBITDA and Adjusted EBITDA Margin are included in this Form 10-Q because they are key metrics used by management and our board of directors to assess our consolidated financial performance. These non-GAAP financial measures are frequently used by analysts, investors and other interested parties to evaluate companies in our industry. In addition to covenant compliance and executive performance evaluations, we use these non-GAAP financial measures to supplement GAAP measures of performance to evaluate the effectiveness of our consolidated business strategies, to make budgeting decisions and to compare our performance against that of other peer companies using similar measures. We use Adjusted EBITDA Margin to evaluate our ability to generate profitable sales.

Adjusted EBITDA and Adjusted EBITDA Margin contain certain other limitations, including the failure to reflect our cash expenditures, cash requirements for working capital needs, cash expenditures to replace assets being depreciated and amortized and interest expense, or the cash requirements necessary to service interest on principal payments on our indebtedness. In evaluating Adjusted EBITDA and Adjusted EBITDA Margin, you should be aware that in the future we will incur expenses that are the same as or similar to some of the adjustments in this presentation, such as stock-based compensation expense, derivative fair value adjustments, and foreign currency transaction losses. Management compensates for these limitations by relying on our GAAP results and using non-GAAP measures on a supplemental basis.

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2020	2019	2020	2019
	(In thousands)		(In thousands)	
Net income (loss)	**$ 54,041**	**$ 23,659**	**$ 205,314**	**$ (195,330)**
Depreciation and amortization	35,762	31,172	107,321	74,432
Interest expense	8,433	13,191	27,763	70,787
Income tax expense	20,264	4,032	79,291	22,855
EBITDA	118,500	72,054	419,689	(27,256)
Loss on disposal of assets and costs from exit and disposal activities	980	1,755	3,254	4,466
ESOP and stock-based compensation expense	18,325	11,283	45,413	27,365
ESOP special dividend compensation[(a)]	—	—	—	246,752
Transaction costs[(b)]	54	1,814	1,428	22,649
Inventory step up related to the Acquisition	—	2,107	—	7,880
Strategic growth and operational improvement initiatives[(c)]	573	1,735	2,689	4,631
COVID-19 related costs[(d)]	—	—	806	—
Other adjustments[(e)]	431	566	(872)	3,287
Adjusted EBITDA	**$ 138,863**	**$ 91,314**	**$ 472,407**	**$ 289,774**
Adjusted EBITDA Margin	28.6%	23.2%	30.7%	22.2%

(a) In the first quarter of fiscal 2020, the Company paid a special dividend of $1.00 per share. The dividend was used to pay back a portion of the ESOP loan resulting in $246.8 million in additional stock-based compensation. See "Note 9. Net Income Per Share and Stockholders' Equity" for additional information.

(b) Represents expenses recorded related to legal, accounting and other professional fees incurred in connection with business or asset acquisitions and dispositions.

(c) Represents professional fees incurred in connection with our strategic growth and operational improvement initiatives, which include various market feasibility assessments and acquisition strategies, along with our operational improvement initiatives, which include evaluation of our manufacturing network and improvement initiatives.

(d) Includes expenses directly related to our response to the COVID-19 pandemic, including adjustments to our pandemic pay program and expenses associated with our third party crisis management vendor.

(e) Includes derivative fair value adjustments, foreign currency transaction (gains) losses, the proportionate share of interest, income taxes, depreciation and amortization related to the South American Joint Venture, which is accounted for under the equity method of accounting and executive retirement expense. The other adjustments in fiscal 2020 also includes expenses related to the ADS Mexicana's investigation.

The following table presents our Adjusted EBITDA for the Company prior to the Acquisition ("Legacy ADS"), which consists of the combination of the Segment Adjusted Gross Profit for Pipe, Allied Products & Other, and International plus the portion of corporate and selling expenses which impacts Adjusted EBITDA and Infiltrator Water Technologies after the Acquisition ("Legacy Infiltrator Water Technologies"), which consists of the combination of the Segment Adjusted Gross Profit for Infiltrator Water Technologies plus the portion of corporate and selling expenses which impacts Adjusted EBITDA.

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2020	**2019**	**2020**	**2019**
	(In thousands)		(In thousands)	
Legacy ADS Adjusted EBITDA				
Pipe Adjusted Gross Profit	$ 78,651	$ 61,025	$ 269,746	$ 192,764
International Adjusted Gross Profit	12,986	9,066	38,976	29,134
Allied Products & Other Adjusted Gross Profit	55,158	42,818	176,006	157,626
Unallocated corporate and selling expenses	(48,726)	(47,257)	(141,819)	(139,489)
Legacy ADS Adjusted EBITDA	$ 98,069	$ 65,652	$ 342,909	$ 240,035
Legacy Infiltrator Water Technologies Adjusted EBITDA				
Infiltrator Water Technologies Adjusted Gross Profit	48,518	34,735	149,551	64,879
Unallocated corporate and selling expenses	(6,994)	(8,192)	(19,525)	(13,281)
Legacy Infiltrator Water Technologies Adjusted EBITDA	$ 41,524	$ 26,543	$ 130,026	$ 51,598
Intersegment eliminations	(730)	(881)	(528)	(1,859)
Consolidated Adjusted EBITDA	$ 138,863	$ 91,314	$ 472,407	$ 289,774

Liquidity and Capital Resources

Historically we have funded our operations through internally generated cash flow supplemented by debt financings, equity issuance and finance and operating leases. These sources have been sufficient historically to fund our primary liquidity requirements, including working capital, capital expenditures, debt service and dividend payments for our convertible preferred stock and common stock. 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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The following table presents key liquidity metrics utilized by management. The table includes the Non-GAAP measure, Free Cash Flow, which is further discussed and defined below, and Leverage ratio which is calculated as the trailing twelve months Adjusted EBITDA divided by net debt.

	Nine Months Ended December 31,	
(Amounts in thousands)	**2020**	**2019**
Net cash provided by operating activities	$ 448,776	$ 296,318
Capital expenditures	(57,675)	(46,293)
Free Cash Flow	391,101	250,025
Total debt (debt and finance lease obligations)	843,838	
Cash	223,996	
Net debt (total debt less cash)	619,842	
Leverage Ratio	1.1	

Free Cash Flow - Free cash flow is a non-GAAP financial measure that comprises cash flow from operations less capital expenditures. Free cash flow is a measure used by management and our Board of Directors to assess our ability to generate cash. Accordingly, free cash flow has been presented in this Quarterly Report on Form 10-Q as a supplemental measure of liquidity that is not required by, or presented in accordance with GAAP, because management believes that free cash flow provides useful information to investors and others in understanding and evaluating our ability to generate cash flow from operations after capital expenditures.

Free cash flow is not a GAAP measure of our liquidity and should not be considered as an alternative to cash flow from operating activities as a measure of liquidity or any other liquidity measure derived in accordance with GAAP. Our measure of free cash flow is not necessarily comparable to other similarly titled captions of other companies due to different methods of calculation.

Net cash provided by operating activities increased $152.5 million to $448.8 million, as compared to $296.3 million in the prior year, primarily due to improvements in profitability and lower cash transaction costs for the Infiltrator Water Technologies acquisition. Free cash flow (Non-GAAP) increased $141.1 million to $391.1 million, as compared to $250.0 million in the prior year. Net debt (total debt and finance lease obligations net of cash) was $619.8 million as of December 31, 2020.

The following table summarizes our available liquidity for the periods presented .

(Amounts in thousands)	**December 31, 2020**
Revolver capacity	$ 350,000
Less: outstanding borrowings	—
Less: letters of credit	11,005
Revolver available liquidity	**$ 338,995**

In addition to the available liquidity above, we have the ability to borrow up to $1.3 billion under our Term Loan Facility, subject to leverage ratio restrictions.

Working Capital and Cash Flows

As of December 31, 2020, we had $563.0 million in liquidity, including $224.0 million of cash, $339.0 million in borrowings available under our Revolving Credit Agreement, net of $11.0 million of outstanding letters of credit. We believe that our cash on hand, together with the availability of borrowings under our new Credit Agreement and other financing arrangements and cash generated from operations, will be sufficient to meet our working capital requirements, anticipated capital expenditures, scheduled principal and interest payments on our indebtedness and the dividend payment requirement for our convertible preferred stock for at least the next twelve months.

Working Capital - Working capital decreased to $386.0 million as of December 31, 2020, from $428.0 million as of March 31, 2020. The decrease in working capital is primarily due to decreased inventory as a result of increased sales demand and accounts receivable and increased accounts payable and other current liabilities. These decreases were offset by increased cash.

	Nine Months Ended December 31,	
(Amounts in thousands)	**2020**	**2019**
Net cash provided by operating activities	$ 448,776	$ 296,318
Net cash used in investing activities	(57,159)	(1,135,862)
Net cash (used in) provided by financing activities	(343,116)	928,416

Operating Cash Flows – Cash flows from operating activities during the nine months ended December 31, 2020 was primarily impacted by improved profitability and lower cash transaction costs for the Infiltrator Water Technologies acquisition.

Investing Cash Flows - Capital expenditures during the nine months ended December 31, 2020 increased by $11.4 million compared to the same period in fiscal 2020. The net cash used in investing activities were primarily due to the acquisition of Infiltrator Water Technologies in fiscal 2020.

Capital expenditures totaled $57.7 million and $46.3 million for the nine months ended December 31, 2020 and 2019, respectively. Infiltrator Water Technologies capital expenditures for the nine months ended December 31, 2020 was $40.6 million of our total capital expenditures. Our capital expenditures for the nine months ended December 31, 2020 were used primarily to support facility expansions, equipment replacements, our recycled resin and technology improvement initiatives.

We currently anticipate that we will make capital expenditures of approximately $80 to $90 million in fiscal year 2021. Such capital expenditures are expected to be financed using funds generated by operations. As of December 31, 2020, there were no material contractual obligations or commitments related to these planned capital expenditures.

Financing Cash Flows - During the nine months ended December 31, 2020, cash used in financing activities included the repayment of $205.3 million on the Term Loan Facility, the repayment of $100.0 million on the Revolving Credit Facility, dividend payments of $24.5 million and payments on our finance lease obligations of $15.9 million.

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During the nine months ended December 31, 2019, cash provided by financing activities was $928.4 million due to the new Term Loan Facility, Senior Notes and common stock offering. These cash inflows were offset by the repayment of the PNC Credit Agreement and Prudential Senior Notes, the special and quarterly dividend payments of $83.8 million and payments on our finance lease obligations of $18.4 million. The table below summarizes the cash flows from the Acquisition, and the related debt and equity transactions:

(Amounts in thousands)	Sources	Uses
Bridge Loan Facility	$ 1,300,000	$ —
Bridge Revolver	145,000	—
PNC Credit Agreement draw	104,429	—
Prudential Senior Notes payoff	—	(104,429)
PNC Credit Agreement payoff	—	(239,240)
Acquisition of Infiltrator Water Technologies, fair value of consideration transferred	—	(1,146,526)
Common stock offering, net of offering costs	293,648	—
Bridge Loan Facility - payment	—	(300,000)
Proceeds from Senior Notes Issuance	350,000	—
Bridge Loan Facility - payment	—	(300,000)
Term Loan Facility	700,000	—
Bridge Loan Facility - payment	—	(700,000)
Debt issuance costs	—	(34,606)
Cash to Balance Sheet	—	(68,276)
Total	$ 2,893,077	$ (2,893,077)

Cash held by Foreign Subsidiaries - As of December 31, 2020, we had $31.5 million in cash that was held by our foreign subsidiaries. We continue to evaluate our strategy regarding foreign cash, but our earnings in foreign subsidiaries still remain indefinitely reinvested.

Employee Stock Ownership Plan ("ESOP")

The Company established the Advanced Drainage Systems, Inc. ESOP (the "ESOP" or the "Plan") effective April 1, 1993 to enable eligible employees to acquire stock ownership in ADS in the form of redeemable convertible preferred shares. The Plan was funded by an existing tax-qualified profit-sharing retirement plan, as well as a 30-year term loan from ADS. Within 30 days following the repayment of the ESOP loan, which will occur no later than March 2023, the ESOP committee can direct the shares of redeemable convertible preferred stock owned by the ESOP to be converted into shares of the Company's common stock.

The Company is obligated to make contributions to the Plan, which, when aggregated with the Plan's dividends, equal the amount necessary to enable the Plan to make its regularly scheduled payments of principal and interest due on its term loan to ADS. Compensation expense is recognized based upon the average annual fair value of the shares during the period which ADS receives payments on the term loan, and the number of ESOP shares allocated to participant accounts.

As disclosed in "Note 16. Employee Benefit Plans" to the Consolidated Financial Statements included in "Item 8. Financial Statements and Supplementary Data" of our Fiscal 2020 Form 10-K, redeemable convertible preferred stock can convert to common stock upon retirement, disability, death, or vested terminations over the life of the Plan. As stated above, within 30 days following the repayment of the ESOP loan, all redeemable convertible preferred stock will be converted to common stock, which will be no later than March 2023.

The ESOP's conversion of redeemable convertible preferred stock into common stock will have a meaningful impact on the Company's net income, net income per share and common shares outstanding. The outstanding shares of common stock would be 24% greater after conversion.

Impact on Net Income - Following the repayment of the ESOP loan discussed above, the Company will no longer be required to apply the two-class method to determine Net income per share. In addition, the Company would not be required to recognize the fair value of ESOP deferred compensation attributable to the shares of redeemable convertible preferred shares allocated.

The impact of the ESOP on net income includes the fair value of 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.

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2020	2019	2020	2019
	(In thousands)		(In thousands)	
Net income (loss) attributable to ADS	$ 53,774	$ 23,288	$ 204,476	$ (195,479)
ESOP special dividend compensation	—	—	—	246,752
ESOP deferred stock-based compensation	13,513	7,411	29,506	18,481

Impact on Common Stock Outstanding - The repayment of the ESOP loan and related conversion of redeemable convertible preferred shares will have an impact on the number of common shares outstanding. As shares are converted, the number of common shares outstanding will increase.

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2020	2019	2020	2019
	(Shares in millions)		(Shares in millions)	
Weighted average common shares outstanding	70.5	68.5	69.9	62.1
Conversion of redeemable convertible shares	15.8	17.1	16.2	17.3

Financing Transactions

New Senior Secured Credit Facility - In July 2019, the Company entered into the Base Credit Agreement by and among the Company, as borrower, Barclays Bank PLC, as administrative agent, the several lenders from time to time party thereto. In September 2019, the Company amended the Base Credit Agreement. The Senior Secured Credit Facility provides the Term Loan Facility in an initial aggregate principal amount of $700 million, the Revolving Credit Facility in an initial aggregate principal amount of up to $350 million, the L/C Facility in the initial aggregate available amount of up to $50 million, as a sublimit of such Revolving Credit Facility and a swing line sub-facility in the aggregate available amount of up to $50 million, as a sublimit of the Revolving Credit Facility. As of December 31, 2020, the outstanding principal drawn on Term Loan Facility was $443.0 million and the no outstanding principal on the Revolving Credit Facility. The Company had $339.0 million available to be drawn on the Revolving Credit Facility, net of $11.0 million of outstanding letters of credit.

ADS Mexicana Revolving Credit Facility - The Company and ADS Mexicana entered into an Intercompany Revolving Credit Promissory Note (the “Intercompany Note”) with a capacity of $12.0 million on June 22, 2018. The Intercompany Note matures on June 22, 2022. The Intercompany Note indemnifies the ADS Mexicana joint venture partner for 49% of any unpaid borrowing. The interest rates under the Intercompany Note are determined by certain base rates or LIBOR rates plus an applicable margin based on the Leverage Ratio. As of December 31, 2020 and March 31, 2020, there were no borrowings under the Intercompany Note.

Issuance of Senior Notes due 2027 - On September 23, 2019, the Company issued $350.0 million aggregate principal amount of its Senior Notes, pursuant to the Indenture among the Company, the Guarantors and the Trustee. The Senior Notes are guaranteed by each of the Company’s present and future direct and indirect wholly owned domestic subsidiaries that is a guarantor under the Company's Senior Secured Credit Facility. The Senior Notes were offered and sold either to persons reasonably believed to be “qualified institutional buyers” pursuant to Rule 144A under the Securities Act or to persons outside the United States under Regulation S of the Securities Act.

Interest on the Senior Notes will be payable semi-annually in cash in arrears on March 31 and September 30 of each year, commencing on March 31, 2020, at a rate of 5.000% per annum. The Senior Notes will mature on September 30, 2027. The Company used the majority of the net proceeds from the offering of the Senior Notes for the repayment of $300.0 million of its outstanding borrowings under the Company’s Base Credit Agreement.

The Company may redeem the Senior Notes, in whole or in part, at any time on or after September 30, 2022 at established redemption prices. At any time prior to September 30, 2022, the Company may also redeem up to 40% of the Senior Notes with net cash proceeds of certain equity offerings at a redemption price equal to 105.000% of the principal amount of the Senior Notes to be redeemed, plus accrued and unpaid interest, if any, to, but excluding, the redemption date. In addition, at any time prior to September 30, 2022, the Company may redeem the Senior Notes, in whole or in part, at a redemption price equal to 100% of the principal amount of the Senior Notes to be redeemed, plus accrued and unpaid interest, if any, to, but excluding, the redemption date plus an applicable “make-whole” premium.

The Indenture contains customary events of default, including, among other things, payment default, failure to comply with covenants or agreements contained in the Indenture or the Senior Notes and certain provisions related to bankruptcy events. The Indenture also contains customary negative covenants.

Covenant Compliance - The Senior Secured Credit Facility requires, if the aggregate amount of outstanding exposure under the Revolving Facility exceeds $122.5 million at the end of any fiscal quarter, the Company maintain a consolidated senior secured net leverage ratio (commencing with the fiscal quarter ending March 31, 2020) not to exceed 4.25 to 1.00 for any four consecutive fiscal quarter periods.

The Senior Secured Credit Facility also includes other covenants, including negative covenants that, subject to certain exceptions, limit the Company’s and its restricted subsidiaries’ (as defined in the Credit Agreement) ability to, among other things: (i) incur additional debt, including guarantees; (ii) create liens upon any of their property; (iii) enter into any merger, consolidation or amalgamation, liquidate, wind up or dissolve, or dispose of all or substantially all of their property or business; (iv) dispose of assets; (v) pay subordinated debt; (vi) make certain investments; (vii) enter into swap agreements; (viii) engage in transactions with affiliates; (ix) engage in new lines of business; (x) modify certain material contractual obligations, organizational documents, accounting policies or fiscal year; or (xi) create or permit restrictions on the ability of any subsidiary of any Loan Party (as defined in the Senior Secured Credit Facility) to pay dividends or make distributions to the Company or any of its subsidiaries.

The Senior Secured Credit Facility also contains customary provisions requiring the following mandatory prepayments (subject to certain exceptions and limitations): (i) annual prepayments (beginning with the fiscal year ending March 31, 2021) with a percentage of excess cash flow (as defined in the Senior Secured Credit Facility); (ii) 100% of the net cash proceeds from any non-ordinary course sale of assets and certain casualty or condemnation events; and (iii) 100% of the net cash proceeds of indebtedness not permitted to be incurred under the Senior Secured Credit Facility.

For further information, see “Note 11. Debt” to the Consolidated Financial Statements in our Fiscal 2020 Form 10-K. We are in compliance with our debt covenants as of December 31, 2020.

Off-Balance Sheet Arrangements

Excluding the guarantees of 50% of certain debt of our unconsolidated South American Joint Venture as further discussed in “Note 10. Related Party Transactions” to the Condensed Consolidated Financial Statements, we do not have any other off-balance sheet arrangements. As of December 31, 2020, our South American Joint Venture had approximately $10.1 million of outstanding debt subject to our guarantees. 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 2020 Form 10-K, except as disclosed in Note 1. Background and Summary of Significant Accounting Policies.

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Forward-Looking Statements

This Quarterly Report on Form 10-Q ("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," "predict," "potential," "continue," "intends," "plans," "projects," "estimates," "anticipates" or other comparable terms. These forward-looking statements include all matters that are not related to present facts or current conditions or that are not historical facts. They appear in a number of places throughout this Form 10-Q and include statements regarding our intentions, beliefs or current expectations concerning, among other things, our consolidated results of operations, financial condition, liquidity, prospects, growth strategies, and the industries in which we operate and include, without limitation, statements relating to our future performance.

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

- 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 the adverse impact on the U.S. and global economy of the COVID-19 global pandemic, and the impact of COVID-19 in the near, medium and long-term on our business, results of operations, financial position, liquidity or cash flows, and other 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;
- uncertainties surrounding the integration of acquisitions and similar transactions, including the acquisition and integration of Infiltrator Water Technologies;
- our ability to realize the anticipated benefits from the acquisition of Infiltrator Water Technologies;
- risks that the acquisition of Infiltrator Water Technologies and related transactions may involve unexpected costs, liabilities or delays;
- our ability to continue to convert current demand for concrete, steel and polyvinyl chloride ("PVC") pipe products into demand for our high performance thermoplastic corrugated pipe and Allied Products;
- the effect of any claims, litigation, investigations or proceedings, including those described below under "Part II. Other Information Item 1. Legal Proceedings" of this Quarterly Report;
- the effect of weather or seasonality;
- the loss of any of our significant customers;
- the risks of doing business internationally;

- our ability to remediate the material weakness in our internal control over financial reporting, including remediation of the control environment for our joint venture affiliate ADS Mexicana, S.A. de C.V. as described in “Item 9A. Controls and Procedures” of our Fiscal 2020 Form 10-K;
- the risks of conducting a portion of our operations through joint ventures;
- our ability to expand into new geographic or product markets, including risks associated with new markets and products associated with our recent acquisition of Infiltrator Water Technologies; 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, including borrowings under our new Credit Agreement and outstanding indebtedness under our Senior Notes;
- the nature, cost and outcome of any future litigation and other legal proceedings, including any such proceedings related to our acquisition of Infiltrator Water Technologies as may be instituted against the Company and others;
- fluctuations in our effective tax rate, including from the Tax Cuts and Jobs Act of 2017;
- our ability to meet future capital requirements and fund our liquidity needs;
- the risk that information may arise that would require the Company to make adjustments or revisions or to restate further the financial statements and other financial data for certain prior periods and any future periods;
- any 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, 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. Our exposure to market risk has not materially changed from what we previously disclosed in Part II. Item 7A. "Quantitative and Qualitative Disclosures about Market Risk" of our Annual Report on Form 10-K for the fiscal year ended March 31, 2020, except as disclosed below.

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 and the Term Note, notes bear variable interest rates. The Revolving Credit Facility and Term Note bear interest either at LIBOR or the Prime Rate, at our option, 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 $6.0 million based on our borrowings as of December 31, 2020. 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 $9.5 million, for the twelve months ended December 31, 2020.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") are responsible for evaluating the effectiveness of our disclosure controls and procedures as defined in the Securities Exchange Act of 1934, as amended (the "Exchange Act"), rules 13a-15(e) and 15d-15(e). The Company's disclosure controls and procedures are designed to provide reasonable assurance that the 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 CEO and 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 2020 Form 10-K, we concluded that our internal control over financial reporting was not effective based upon the material weakness identified as of March 31, 2020. See "Item 9A - Controls and Procedures" in our Fiscal 2019 Form 10-K. Our CEO and CFO have concluded that the material weakness previously identified in the Fiscal 2019 Form 10-K was still present as of December 31, 2020 (the "Evaluation Date"). Based on the material weakness, 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

There were no changes in the Company's 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 December 31, 2020 that has materially affected, or is reasonably likely to materially affect, internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company is involved from time to time in various legal proceedings that arise in the ordinary course of 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. The Company does not believe that such litigation, claims, and administrative proceedings will have a material adverse impact on the Company's financial position or results of operations.

Please see "Note 12. Commitments and Contingencies," of the Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q for more information regarding legal proceedings.

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 2020 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 2020 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 and Use of Proceeds

In February 2017, our Board of Directors authorized the repurchase of up to $50 million of our common stock. Repurchases of common stock will be made in accordance with applicable securities laws. We did not repurchase any shares of common stock during the three months ended December 31, 2020. As of December 31, 2020, approximately $42.1 million of common stock may be repurchased under the authorization. The stock repurchase program does not obligate us to acquire any particular amount of common stock and may be suspended or terminated at any time at our discretion.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Advanced Drainage Systems, Inc.

Item 6. Exhibits

The following exhibits are filed herewith or incorporated herein by reference.

Exhibit Number	Exhibit Description
3.1	Amended and Restated Certificate of Incorporation of Advanced Drainage Systems, Inc. (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K (File No. 001-36557) filed with the Securities and Exchange Commission on July 30, 2014).
3.2	Certificate of Amendment to Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K (File No. 001-36557) filed with the Securities and Exchange Commission on July 24, 2020).
3.3	Second Amended and Restated Bylaws of Advanced Drainage Systems, Inc. (incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K (File No. 001-36557) filed with the Securities and Exchange Commission on July 30, 2014).
3.4	First Amendment to Bylaws (incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K (File No. 001-36557) filed with the Securities and Exchange Commission on July 24, 2020).
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.INS*	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH*	Inline XBRL Taxonomy Extension Schema.
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase.
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase.
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase.
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase.
104	The cover page for the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2020, has been formatted in Inline XBRL.

* Filed herewith

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Advanced Drainage Systems, Inc.

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: February 4, 2021

ADVANCED DRAINAGE SYSTEMS, INC.

By: /s/ D. Scott Barbour
D. Scott Barbour
President and Chief Executive Officer
(Principal Executive Officer)

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

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