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

FORM 10-Q

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

For the quarterly period ended January 1, 2023

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

Commission file number 0-7647

HAWKINS, INC.
(Exact name of registrant as specified in its charter)

Minnesota	41-0771293
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2381 Rosegate, Roseville, Minnesota	**55113**
(Address of principal executive offices)	(Zip code)

(612) 331-6910
(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, par value $.01 per share	HWKN	Nasdaq Stock Market LLC

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.

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 ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

CLASS	Shares Outstanding at January 27, 2023
Common Stock, par value $.01 per share	21,052,277

HAWKINS, INC.
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HAWKINS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(In thousands, except share data)

	January 1, 2023	April 3, 2022
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 6,146	$ 3,496
Trade accounts receivables, net	125,471	122,826
Inventories	101,581	94,985
Prepaid expenses and other current assets	7,050	6,431
Total current assets	240,248	227,738
PROPERTY, PLANT, AND EQUIPMENT:	333,781	304,055
Less accumulated depreciation	155,406	142,209
Net property, plant, and equipment	178,375	161,846
OTHER ASSETS:		
Right-of-use assets	10,551	10,606
Goodwill	77,401	77,401
Intangible assets, net of accumulated amortization	74,946	80,193
Deferred compensation plan asset	6,987	6,783
Other	5,496	2,761
Total other assets	175,381	177,744
Total assets	$ 594,004	$ 567,328
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable — trade	$ 50,573	$ 66,693
Accrued payroll and employee benefits	16,320	19,034
Income tax payable	1,801	39
Current portion of long-term debt	9,913	9,913
Short-term lease liability	1,689	1,657
Other current liabilities	4,584	4,130
Total current liabilities	84,880	101,466
LONG-TERM DEBT, LESS CURRENT PORTION	120,710	115,644
LONG-TERM LEASE LIABILITY	9,082	9,143
PENSION WITHDRAWAL LIABILITY	4,004	4,276
DEFERRED INCOME TAXES	24,297	23,422
DEFERRED COMPENSATION LIABILITY	8,384	8,402
OTHER LONG-TERM LIABILITIES	1,487	2,374
Total liabilities	252,844	264,727
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Common stock; authorized: 60,000,000 shares of $0.01 par value; 20,850,454 and 20,889,777 shares issued and outstanding as of January 1, 2023 and April 3, 2022, respectively	209	209
Additional paid-in capital	43,388	46,717
Retained earnings	293,969	254,384
Accumulated other comprehensive income	3,594	1,291
Total shareholders' equity	341,160	302,601
Total liabilities and shareholders' equity	$ 594,004	$ 567,328

See accompanying notes to condensed consolidated financial statements.

HAWKINS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
(In thousands, except share and per-share data)

	Three Months Ended		Nine Months Ended	
	January 1, 2023	December 26, 2021	January 1, 2023	December 26, 2021
Sales	$ 219,218	$ 187,050	$ 706,953	$ 551,568
Cost of sales	(182,947)	(153,110)	(577,559)	(441,367)
Gross profit	36,271	33,940	129,394	110,201
Selling, general and administrative expenses	(21,004)	(19,681)	(59,727)	(54,216)
Operating income	15,267	14,259	69,667	55,985
Interest expense, net	(1,546)	(317)	(3,858)	(995)
Other income (expense)	465	132	(744)	548
Income before income taxes	14,186	14,074	65,065	55,538
Income tax expense	(3,453)	(3,870)	(16,637)	(14,573)
Net income	$ 10,733	$ 10,204	$ 48,428	$ 40,965
Weighted average number of shares outstanding - basic	20,818,347	20,885,232	20,847,285	20,968,692
Weighted average number of shares outstanding - diluted	20,974,264	21,054,603	21,004,849	21,142,515
Basic earnings per share	$ 0.52	$ 0.49	$ 2.32	$ 1.95
Diluted earnings per share	$ 0.51	$ 0.48	$ 2.31	$ 1.94
Cash dividends declared per common share	$ 0.1400	$ 0.1300	$ 0.4200	$ 0.3825

See accompanying notes to condensed consolidated financial statements.

HAWKINS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
(In thousands)

	Three Months Ended		Nine Months Ended	
	January 1, 2023	December 26, 2021	January 1, 2023	December 26, 2021
Net income	$ 10,733	$ 10,204	$ 48,428	$ 40,965
Other comprehensive income, net of tax:				
Unrealized (loss) gain on interest rate swap	(139)	—	2,303	—
Total comprehensive income	$ 10,594	$ 10,204	$ 50,731	$ 40,965

See accompanying notes to condensed consolidated financial statements.

HAWKINS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (UNAUDITED)
(In thousands, except share data)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares	Amount				
BALANCE — April 3, 2022	20,889,777	$ 209	$ 46,717	$ 254,384	$ 1,291	$ 302,601
Cash dividends declared and paid ($0.14 per share)	—	—	—	(2,958)	—	(2,958)
Share-based compensation expense	—	—	595	—	—	595
Vesting of restricted stock	102,860	1	(1)	—	—	—
Shares surrendered for payroll taxes	(36,410)	—	(1,550)	—	—	(1,550)
ESPP shares issued	32,768	—	986	—	—	986
Shares repurchased	(181,657)	(2)	(6,555)	—	—	(6,557)
Other comprehensive income, net of tax	—	—	—	—	465	465
Net income	—	—	—	19,695	—	19,695
BALANCE — July 3, 2022	20,807,338	$ 208	$ 40,192	$ 271,121	$ 1,756	$ 313,277
Cash dividends declared and paid ($0.14 per share)	—	—	—	(2,942)	—	(2,942)
Share-based compensation expense	—	—	1,085	—	—	1,085
Vesting of restricted stock	10,287	—	—	—	—	—
ESPP shares issued	—	—	17	—	—	17
Other comprehensive income, net of tax	—	—	—	—	1,977	1,977
Net income	—	—	—	18,000	—	18,000
BALANCE — October 2, 2022	20,817,625	$ 208	$ 41,294	$ 286,179	$ 3,733	$ 331,414
Cash dividends declared and paid ($0.14 per share)	—	—	—	(2,943)	—	(2,943)
Share-based compensation expense	—	—	1,084	—	—	1,084
ESPP shares issued	32,829	1	1,010	—	—	1,011
Other comprehensive loss, net of tax	—	—	—	—	(139)	(139)
Net income	—	—	—	10,733	—	10,733
BALANCE — January 1, 2023	20,850,454	$ 209	$ 43,388	$ 293,969	$ 3,594	$ 341,160

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares	Amount				
BALANCE — March 28, 2021	20,969,746	$ 210	$ 51,138	$ 213,898	$ —	$ 265,246
Cash dividends declared and paid ($0.1225 per share)	—	—	—	(2,600)	—	(2,600)
Share-based compensation expense	—	—	799	—	—	799
Vesting of restricted stock	123,002	1	(1)	—	—	—
Shares surrendered for payroll taxes	(45,390)	—	(1,467)	—	—	(1,467)
Shares repurchased	(100,954)	(1)	(3,400)	—	—	(3,401)
Net income	—	—	—	16,628	—	16,628
BALANCE — June 27, 2021	20,946,404	$ 210	$ 47,069	$ 227,926	$ —	$ 275,205
Cash dividends declared and paid ($0.13 per share)	—	—	—	(2,756)	—	(2,756)
Share-based compensation expense	—	—	862	—	—	862
Vesting of restricted stock	11,228	—	—	—	—	—
ESPP shares issued	40,300	—	889	—	—	889
Shares repurchased	(109,009)	(1)	(4,019)	—	—	(4,020)
Net income	—	—	—	14,133	—	14,133
BALANCE — September 26, 2021	20,888,923	$ 209	$ 44,801	$ 239,303	$ —	$ 284,313
Cash dividends declared and paid ($0.13 per share)	—	—	—	(2,745)	—	(2,745)
Share-based compensation expense	—	—	1,046	—	—	1,046
Shares repurchased	(30,538)	—	(1,124)	—	—	(1,124)
Net income	—	—	—	10,204	$ —	10,204
BALANCE — December 26, 2021	20,858,385	$ 209	$ 44,723	$ 246,762	$ —	$ 291,694

See accompanying notes to condensed consolidated financial statements.

HAWKINS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(In thousands)

	Nine Months Ended	
	January 1, 2023	December 26, 2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 48,428	$ 40,965
Reconciliation to cash flows:		
Depreciation and amortization	20,373	17,859
Operating leases	1,442	1,416
Loss (Gain) on deferred compensation assets	744	(548)
Stock compensation expense	2,764	2,707
Other	225	379
Changes in operating accounts providing (using) cash:		
Trade receivables	(2,336)	(10,847)
Inventories	(6,596)	(12,311)
Accounts payable	(16,231)	6,094
Accrued liabilities	(3,652)	(1,589)
Lease liabilities	(1,453)	(1,431)
Income taxes	1,762	(635)
Other	(929)	(3,350)
Net cash provided by operating activities	44,541	38,709
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant, and equipment	(32,307)	(15,700)
Acquisitions	—	(2,575)
Other	352	230
Net cash used in investing activities	(31,955)	(18,045)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash dividends declared and paid	(8,843)	(8,101)
New shares issued	2,014	889
Payroll taxes paid in exchange for shares withheld	(1,550)	(1,467)
Shares repurchased	(6,557)	(8,545)
Payments on revolving loan	(40,000)	(15,000)
Proceeds from revolving loan borrowings	45,000	32,000
Net cash used in financing activities	(9,936)	(224)
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,650	20,440
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	3,496	2,998
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 6,146	$ 23,438
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for income taxes	$ 14,847	$ 15,208
Cash paid for interest	$ 3,345	$ 746
Noncash investing activities - capital expenditures in accounts payable	$ 3,844	$ 1,018

See accompanying notes to condensed consolidated financial statements.

HAWKINS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1 – Summary of Significant Accounting Policies

Basis of Presentation. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q and, accordingly, do not include all information and footnotes required by generally accepted accounting principles for complete financial statements. These financial statements should be read in conjunction with the consolidated financial statements and footnotes included in our Annual Report on Form 10-K for the fiscal year ended April 3, 2022, previously filed with the Securities and Exchange Commission ("SEC"). In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary to present fairly our financial position and the results of our operations and cash flows for the periods presented. All adjustments made to the interim condensed consolidated financial statements were of a normal recurring nature. All significant intercompany accounts and transactions have been eliminated in consolidation. The results of operations for the nine months ended January 1, 2023 are not necessarily indicative of the results that may be expected for the full year.

References to fiscal 2022 refer to the fiscal year ended April 3, 2022 and references to fiscal 2023 refer to the fiscal year ending April 2, 2023.

Use of Estimates. The preparation of condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, particularly receivables, inventories, property, plant and equipment, right-of-use assets, goodwill, intangibles, accrued expenses, short-term and long-term lease liability, income taxes and related accounts and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounting Policies. The accounting policies we follow are set forth in Note 1 – Nature of Business and Significant Accounting Policies to our consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended April 3, 2022, previously filed with the SEC. There has been no significant change in our accounting policies since the end of fiscal 2022.

Note 2 — Acquisitions

Acquisition of NAPCO Chemical Company, Inc.: In the fourth quarter of fiscal 2022, we acquired substantially all the assets of NAPCO Chemical Company, Inc. ("NAPCO") for $19.0 million, under the terms of an asset purchase agreement with NAPCO and certain other parties thereto, to further the geographic reach of our Water Treatment segment. NAPCO manufactured and distributed water treatment chemicals from three locations in Texas. The results of operations since the acquisition date, and the assets, including the goodwill associated with this acquisition, are included in our Water Treatment segment. Costs associated with this transaction were not material and were expensed as incurred.

Acquisition of Water and Waste Specialties, Inc.: In the third quarter of fiscal 2022, we acquired substantially all the assets of Water and Waste Specialties, Inc. for $1.4 million, under the terms of a purchase agreement with Water and Waste Specialties and its shareholders. Water and Waste Specialties was a water treatment chemical distribution company operating primarily in Alabama. The results of operations since the acquisition date, and the assets, including the goodwill associated with this acquisition, are included in our Water Treatment segment. Costs associated with this transaction were not material and were expensed as incurred.

Acquisition of Southeast Water Systems LLC: In the second quarter of fiscal 2022, we acquired substantially all the assets of Southeast Water Systems LLC, under the terms of an asset purchase agreement with Southeast Water Systems and its shareholders. We paid $1.2 million at closing for the acquisition and may pay up to an additional $1.0 million over the next three years based on achieving certain goals. Southeast Water Systems supplied and installed water treatment chemical equipment to its customers located primarily in Alabama, southern Georgia and the Florida panhandle. The results of operations since the acquisition date, and the assets, including the goodwill associated with this acquisition, are included in our Water Treatment segment. Costs associated with this transaction were not material and were expensed as incurred.

Note 3 - Revenue

Our revenue arrangements generally consist of a single performance obligation to transfer promised goods or services. We disaggregate revenues from contracts with customers by operating segments as well as types of products sold. Reporting by operating segment is pertinent to understanding our revenues, as it aligns to how we review the financial performance of our operations. Types of products sold within each operating segment help us to further evaluate the financial performance of our segments. The following tables disaggregate external customer net sales by major revenue stream for the three and nine months ended January 1, 2023 and December 26, 2021:

	Three months ended January 1, 2023			
(In thousands)	**Industrial**	**Water Treatment**	**Health and Nutrition**	**Total**
Manufactured, blended or repackaged products [1]	$ 91,658	$ 60,583	$ 11,935	$ 164,176
Distributed specialty products [2]	—	—	23,833	23,833
Bulk products [3]	20,364	6,649	—	27,013
Other	2,414	1,317	465	4,196
Total external customer sales	$ 114,436	$ 68,549	$ 36,233	$ 219,218

	Three months ended December 26, 2021			
(In thousands)	**Industrial**	**Water Treatment**	**Health and Nutrition**	**Total**
Manufactured, blended or repackaged products [1]	$ 82,905	$ 44,241	$ 7,750	$ 134,896
Distributed specialty products [2]	—	—	29,082	29,082
Bulk products [3]	15,659	4,689	—	20,348
Other	1,990	826	(92)	2,724
Total external customer sales	$ 100,554	$ 49,756	$ 36,740	$ 187,050

	Nine months ended January 1, 2023			
(In thousands)	**Industrial**	**Water Treatment**	**Health and Nutrition**	**Total**
Manufactured, blended or repackaged products [1]	$ 286,818	$ 208,112	$ 35,632	$ 530,562
Distributed specialty products [2]	—	—	83,599	83,599
Bulk products [3]	58,951	21,159	—	80,110
Other	7,316	4,256	1,110	12,682
Total external customer sales	$ 353,085	$ 233,527	$ 120,341	$ 706,953

	Nine months ended December 26, 2021			
(In thousands)	**Industrial**	**Water Treatment**	**Health and Nutrition**	**Total**
Manufactured, blended or repackaged products [1]	$ 223,621	$ 151,842	$ 23,684	$ 399,147
Distributed specialty products [2]	—	—	90,086	90,086
Bulk products [3]	41,165	14,484	—	55,649
Other	4,786	1,779	121	6,686
Total external customer sales	$ 269,572	$ 168,105	$ 113,891	$ 551,568

(1) For our Industrial and Water Treatment segments, this line includes our non-bulk specialty products that we either manufacture, blend, repackage, resell in their original form, or direct ship to our customers in smaller quantities, and services we provide for our customers. For our Health and Nutrition segment, this line includes products manufactured, processed or repackaged in our facility and/or with our equipment.

(2) This line includes non-manufactured distributed specialty products in our Health and Nutrition segment, which may be sold out of one of our facilities or direct shipped to our customers.

(3) This line includes bulk products in our Industrial and Water Treatment segments that we do not modify in any way, but receive, store, and ship from our facilities, or direct ship to our customers in large quantities.

Note 4 – Earnings per Share

Basic earnings per share (“EPS”) is computed by dividing net earnings by the weighted-average number of common shares outstanding. Diluted EPS includes the dilutive impact of incremental shares assumed to be issued as performance units and restricted stock.

Basic and diluted EPS were calculated using the following:

	Three Months Ended		Nine Months Ended	
	January 01, 2023	December 26, 2021	January 01, 2023	December 26, 2021
Weighted-average common shares outstanding—basic	20,818,347	20,885,232	20,847,285	20,968,692
Dilutive impact of performance units and restricted stock	155,917	169,371	157,564	173,823
Weighted-average common shares outstanding—diluted	20,974,264	21,054,603	21,004,849	21,142,515

For each of the periods presented, there were no shares excluded from the calculation of weighted-average common shares for diluted EPS.

Note 5 – Fair Value Measurements

Our financial assets and liabilities are measured at fair value at the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The carrying value of cash equivalents, accounts receivable, accounts payable, and accrued expenses approximate fair value because of the short-term nature of these instruments. Because of the variable-rate nature of our debt under our credit facility, our debt also approximates fair value.

Assets and Liabilities Measured at Fair Value on a Recurring Basis. The fair value hierarchy requires the use of observable market data when available. In instances where inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. Our assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset or liability.

Our financial assets that are measured at fair value on a recurring basis are an interest rate swap and assets held in a deferred compensation retirement plan. Both of these assets are classified as long-term assets on our balance sheet, with the portion of the deferred compensation retirement plan assets expected to be paid within twelve months classified as current assets. The fair value of the interest rate swap is determined by the respective counterparties based on interest rate changes. Interest rate swaps are valued based on observable interest rate yield curves for similar instruments. The deferred compensation plan assets relate to contributions made to a non-qualified compensation plan on behalf of certain employees who are classified as “highly compensated employees” as determined by IRS guidelines. The assets are part of a rabbi trust and the funds are held in mutual funds. The fair value of the deferred compensation is based on the quoted market prices for the mutual funds at the end of the period.

The following tables summarize the balances of assets and liabilities measured at fair value on a recurring basis as of January 1, 2023 and April 3, 2022.

(In thousands)		January 1, 2023	April 3, 2022
Assets			
Deferred compensation plan assets	Level 1	$ 7,551	$ 7,038
Interest rate swap	Level 2	$ 4,924	$ 1,769

Note 6 – Inventories

Inventories at January 1, 2023 and April 3, 2022 consisted of the following:

(In thousands)	January 1, 2023	April 3, 2022
Inventory (FIFO basis)	$ 135,618	$ 116,325
LIFO reserve	(34,037)	(21,340)
Net inventory	$ 101,581	$ 94,985

The first in, first out ("FIFO") value of inventories accounted for under the last in, first out ("LIFO") method was $104.7 million at January 1, 2023 and $83.7 million at April 3, 2022. The remainder of the inventory was valued and accounted for under the FIFO method.

Note 7 – Goodwill and Intangible Assets

The carrying amount of goodwill was $77.4 million as of January 1, 2023 and April 3, 2022, of which $44.9 million was related to our Health and Nutrition segment, $26.0 million was related to our Water Treatment segment, and $6.5 million was related to our Industrial segment.

A summary of our intangible assets as of January 1, 2023 and April 3, 2022 is as follows:

	January 1, 2023			April 3, 2022		
(In thousands)	Gross Amount	Accumulated Amortization	Net	Gross Amount	Accumulated Amortization	Net
Finite-life intangible assets						
Customer relationships	$ 109,644	$ (37,128)	$ 72,516	$ 109,644	$ (32,399)	$ 77,245
Trademarks and trade names	6,370	(5,167)	1,203	6,370	(4,746)	1,624
Other finite-life intangible assets	3,904	(3,904)	—	3,904	(3,807)	97
Total finite-life intangible assets	119,918	(46,199)	73,719	119,918	(40,952)	78,966
Indefinite-life intangible assets	1,227	—	1,227	1,227	—	1,227
Total intangible assets	$ 121,145	$ (46,199)	$ 74,946	$ 121,145	$ (40,952)	$ 80,193

Note 8 – Debt

Debt at January 1, 2023 and April 3, 2022 consisted of the following:

	January 1, 2023	April 3, 2022
(In thousands)		
Senior secured revolving loan	$ 131,000	$ 126,000
Less: unamortized debt issuance costs	(377)	(443)
Total debt, net of debt issuance costs	130,623	125,557
Less: current portion of long-term debt	(9,913)	(9,913)
Total long-term debt	$ 120,710	$ 115,644

We were in compliance with all covenants of our credit agreement as of January 1, 2023.

Note 9 – Income Taxes

We are subject to U.S. federal income tax as well as income tax of multiple state jurisdictions. The tax years prior to our fiscal year ended March 31, 2019 are closed to examination by the Internal Revenue Service, and with few exceptions, state and local income tax jurisdictions. Our effective income tax rate was 26% for both the nine months ended January 1, 2023 and the nine months ended December 26, 2021. The effective tax rate is impacted by projected levels of annual taxable income, permanent items, and state taxes.

Note 10 – Leases

Lease Obligations. As of January 1, 2023, we were obligated under operating lease agreements for certain manufacturing facilities, warehouse space, the land on which some of our facilities sit, vehicles and information technology equipment. Our leases have remaining original lease terms of 1 year to 22 years, some of which include options to extend the lease for up to 10 years.

As of January 1, 2023, our operating lease components with initial or remaining terms in excess of one year were classified on the condensed consolidated balance sheet within right of use assets, short-term lease liability and long-term lease liability.

Expense for leases less than 12 months was not material for the three and nine months ended January 1, 2023 and December 26, 2021. Total lease expense was $0.8 million for the three months ended January 1, 2023 and $0.7 million for the three months ended December 26, 2021, and was $2.4 million for the nine months ended January 1, 2023 and $2.1 million for the nine months ended December 26, 2021.

Other information related to our operating leases was as follows:

	January 1, 2023	April 3, 2022
Lease Term and Discount Rate		
Weighted average remaining lease term (years)	8.02	8.91
Weighted average discount rate	2.8 %	2.6 %

Maturities of lease liabilities as of January 1, 2023 were as follows:

(In thousands)	**Operating Leases**
Remaining fiscal 2023	$ 475
Fiscal 2024	1,850
Fiscal 2025	1,742
Fiscal 2026	1,598
Fiscal 2027	1,340
Thereafter	5,145
Total	$ 12,150
Less: Interest	(1,379)
Present value of lease liabilities	$ 10,771

Note 11 – Share-Based Compensation

***Performance-Based Restricted Stock Units**.* Our Board of Directors (the "Board") approved a performance-based equity compensation arrangement for our executive officers during the first quarters of each of fiscal 2023 and fiscal 2022. These performance-based arrangements provide for the grant of performance-based restricted stock units that represent a possible future issuance of restricted shares of our common stock based on a pre-tax income target for the applicable fiscal year. The actual number of restricted shares to be issued to each executive officer is determined when our final financial information becomes available after the applicable fiscal year and will be between zero shares and 76,863 shares in the aggregate for fiscal 2023. The restricted shares issued, if any, will fully vest approximately two years after the last day of the fiscal year on which the performance is based. We are recording the compensation expense for the outstanding performance share units and the converted restricted stock over the life of the awards.

The following table represents the restricted stock activity for the nine months ended January 1, 2023:

	Shares	Weighted-Average Grant Date Fair Value
Unvested at beginning of period	214,478	$ 25.48
Granted	88,524	38.31
Vested	(102,860)	18.69
Forfeited or expired	(10,884)	34.68
Unvested at end of period	189,258	$ 34.64

We recorded compensation expense for both the three months ended January 1, 2023 and December 26, 2021 related to performance share units and restricted stock of $0.8 million. We recorded compensation expense for both the nine months ended January 1, 2023 and December 26, 2021 related to performance share units and restricted stock of $2.0 million. Substantially all of the compensation expense was recorded in selling, general and administrative expenses in the condensed consolidated statements of income.

***Restricted Stock Awards**.* As part of their retainer, our non-employee directors receive restricted stock for their Board services. The restricted stock awards are generally expensed over a one-year vesting period, based on the market value on the date of grant. As of January 1, 2023, there were 12,565 shares of restricted stock with an average grant date fair value of $38.98 outstanding under this program. Compensation expense for the three and nine months ended January 1, 2023 related to restricted stock awards to the Board was $0.1 million and $0.3 million, respectively. Compensation expense for the three and nine months ended December 26, 2021 related to restricted stock awards to the Board was $0.1 million and $0.2 million, respectively.

Note 12 – Share Repurchase Program

On August 4, 2022, our Board increased the number of shares authorized to be purchased from 1.6 million to 2.6 million shares of our outstanding common stock for cash on the open market or in privately negotiated transactions subject to applicable securities laws and regulations. Upon purchase of the shares, we reduce our common stock for the par value of the shares with the excess applied against additional paid-in capital. During the three months ended January 1, 2023, no shares were repurchased, and during the nine months ended January 1, 2023, we repurchased 181,657 shares at an aggregate purchase price of $6.6 million. During the three months ended December 26, 2021, we repurchased 30,538 shares at an aggregate purchase price of $1.1 million, and during the nine months ended December 26, 2021, we repurchased 240,501 shares at an aggregate purchase price of $8.5 million. As of January 1, 2023, 1,129,348 shares remained available to be repurchased under the share repurchase program.

Note 13 – Segment Information

We have three reportable segments: Industrial, Water Treatment, and Health and Nutrition. The accounting policies of the segments are the same as those described in the summary of significant accounting policies in our Annual Report on Form 10-K for the fiscal year ended April 3, 2022.

We evaluate performance based on profit or loss from operations before income taxes not including nonrecurring gains and losses. Reportable segments are defined primarily by product and type of customer. Segments are responsible for the sales, marketing and development of their products and services. We allocate certain corporate expenses to our operating segments. There are no intersegment sales and no operating segments have been aggregated. No single customer's revenues amounted to 10% or more of our total revenue. Sales are primarily within the United States and all assets are located within the United States.

(In thousands)	Industrial	Water Treatment	Health and Nutrition	Total
Three months ended January 1, 2023:				
Sales	$ 114,436	$ 68,549	$ 36,233	$ 219,218
Gross profit	15,994	13,268	7,009	36,271
Selling, general, and administrative expenses	7,978	9,003	4,023	21,004
Operating income	8,016	4,265	2,986	15,267
Three months ended December 26, 2021:				
Sales	$ 100,554	$ 49,756	$ 36,740	$ 187,050
Gross profit	15,303	11,103	7,534	33,940
Selling, general, and administrative expenses	7,367	8,254	4,060	19,681
Operating income	7,936	2,849	3,474	14,259
Nine months ended January 1, 2023:				
Sales	$ 353,085	$ 233,527	$ 120,341	$ 706,953
Gross profit	53,716	52,725	22,953	129,394
Selling, general and administrative expenses	21,254	26,786	11,687	59,727
Operating income	32,462	25,939	11,266	69,667
Nine months ended December 26, 2021:				
Sales	$ 269,572	$ 168,105	$ 113,891	$ 551,568
Gross profit	42,121	44,855	23,225	110,201
Selling, general and administrative expenses	20,064	22,721	11,431	54,216
Operating income	22,057	22,134	11,794	55,985

No significant changes to identifiable assets by segment occurred during the nine months ended January 1, 2023.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion and analysis of our financial condition and results of operations for the nine months ended January 1, 2023 as compared to the similar period ended December 26, 2021. This discussion should be read in conjunction with the condensed consolidated financial statements and notes to condensed consolidated financial statements included in this quarterly report on Form 10-Q and Item 8 of our Annual Report on Form 10-K for the fiscal year ended April 3, 2022.

Overview

We derive substantially all of our revenues from the sale of chemicals and specialty ingredients to our customers in a wide variety of industries. We began our operations primarily as a distributor of bulk chemicals with a strong customer focus. Over the years, we have maintained the strong customer focus and have expanded our business by increasing our sales of value-added chemicals and specialty ingredients, including manufacturing, blending, and repackaging certain products.

Business Acquisitions

In the fourth quarter of fiscal 2022, we acquired substantially all the assets of NAPCO Chemical Company, Inc. and its affiliates ("NAPCO") under the terms of an asset purchase agreement among us, NAPCO and certain other parties thereto. NAPCO manufactured and distributed water treatment chemicals from three locations in Texas. The results of operations since the acquisition date are included in our Water Treatment segment.

In the third quarter of fiscal 2022, we acquired substantially all the assets of Water and Waste Specialties, LLC, under the terms of an asset purchase agreement with Water and Waste Specialties and its shareholders. Water and Waste Specialties was a water treatment chemical distribution company operating primarily in Alabama. The results of operations since the acquisition date are included in our Water Treatment segment.

In the second quarter of fiscal 2022, we acquired substantially all the assets of Southeast Water Systems LLC, under the terms of an asset purchase agreement with Southeast Water Systems and its shareholders. Southeast Water Systems supplied and installed water treatment chemical equipment to its customers located primarily in Alabama, southern Georgia and the Florida panhandle. The results of operations since the acquisition date are included in our Water Treatment segment.

The aggregate annual revenue of the three businesses acquired in fiscal 2022 totaled approximately $17 million, as determined using the applicable twelve-month period preceding each respective acquisition date.

Share Repurchase Program

On August 4, 2022, our Board increased the number of shares authorized to be repurchased under our share repurchase program from 1.6 million to 2.6 million. As of January 1, 2023, 1,129,348 shares remain available to be repurchased under this program.

Financial Results

We focus on total profitability dollars when evaluating our financial results as opposed to profitability as a percentage of sales, as sales dollars tend to fluctuate, particularly in our Industrial and Water Treatment segments, as raw material costs rise and fall. The costs for certain of our raw materials can rise or fall rapidly, causing fluctuations in gross profit as a percentage of sales.

We use the LIFO method for valuing the majority of our inventory in our Industrial and Water Treatment segments, which causes the most recent product costs for those products to be recognized in our income statement. The valuation of LIFO inventory for interim periods is based on our estimates of fiscal year-end inventory levels and costs. The LIFO inventory valuation method and the resulting cost of sales are consistent with our business practices of pricing to current chemical raw material prices. Inventories in the Health and Nutrition segment are valued using the FIFO method.

We disclose the sales of our bulk commodity products as a percentage of total sales dollars for our Industrial and Water Treatment segments. Our definition of bulk commodity products includes products that we do not modify in any way, but receive, store, and ship from our facilities, or direct ship to our customers in large quantities.

Results of Operations

The following table sets forth the percentage relationship of certain items to sales for the period indicated:

	Three Months Ended		Nine Months Ended	
	January 1, 2023	December 26, 2021	January 1, 2023	December 26, 2021
Sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales	(83.5)%	(81.9)%	(81.7)%	(80.0)%
Gross profit	16.5 %	18.1 %	18.3 %	20.0 %
Selling, general and administrative expenses	(9.6)%	(10.5)%	(8.4)%	(9.8)%
Operating income	6.9 %	7.6 %	9.9 %	10.2 %
Interest expense, net	(0.7)%	(0.2)%	(0.5)%	(0.2)%
Other (expense) income	0.2 %	0.1 %	(0.1)%	0.1 %
Income before income taxes	6.4 %	7.5 %	9.3 %	10.1 %
Income tax expense	(1.6)%	(2.1)%	(2.4)%	(2.6)%
Net income	4.8 %	5.4 %	6.9 %	7.5 %

Three Months Ended January 1, 2023 Compared to Three Months Ended December 26, 2021

Sales

Sales were $219.2 million for the three months ended January 1, 2023, an increase of $32.1 million, or 17%, from sales of $187.1 million in the same period a year ago, driven primarily by increased selling prices.

Industrial Segment. Industrial segment sales increased $13.8 million or 14%, to $114.4 million for the three months ended January 1, 2023, from sales of $100.6 million in the same period a year ago. Sales of bulk commodity products in the Industrial segment were approximately 18% of sales dollars in the three months ended January 1, 2023 and 16% in the same period of the prior year. The increase in sales was driven by increased selling prices on many of our products driven by higher costs on many of our raw materials.

Water Treatment Segment. Water Treatment segment sales increased $18.7 million, or 38%, to $68.5 million for the three months ended January 1, 2023, from sales of $49.8 million in the same period a year ago. Sales of bulk commodity products in the Water Treatment segment were approximately 10% of sales dollars in the three months ended January 1, 2023 and 9% in the same period a year ago. Sales increased as a result of increased selling prices on many of our products driven by higher costs on many of our raw materials, added sales from acquired businesses and increased sales of our products.

Health & Nutrition Segment. Health and Nutrition segment sales decreased $0.5 million, or 1%, to $36.2 million for the three months ended January 1, 2023, from sales of $36.7 million in the same period a year ago. Increased sales of our manufactured products were more than offset by a decrease in sales of our specialty distributed products.

Gross Profit

Gross profit increased $2.4 million, or 7%, to $36.3 million, or 17% of sales, for the three months ended January 1, 2023, from $33.9 million, or 18% of sales, in the same period a year ago. During the three months ended January 1, 2023, the LIFO reserve increased, and gross profit decreased, by $3.7 million due primarily to rising raw material costs. In the same quarter a year ago, the LIFO reserve increased, and gross profit decreased, by $2.9 million. Gross profit increased due to increased revenue, partially offset by the unfavorable year-over-year impact of the increased LIFO reserve.

Industrial Segment. Gross profit for the Industrial segment increased $0.7 million, or 5%, to $16.0 million, or 14% of sales, for the three months ended January 1, 2023, from $15.3 million, or 15% of sales, in the same period a year ago. During the three months ended January 1, 2023, the LIFO reserve increased, and gross profit decreased, by $2.0 million, primarily due to rising raw material costs. In the same quarter a year ago, the LIFO reserve increased, and gross profit decreased, by $2.2 million. Gross profit increased as a result of increased sales as well as improved unit margins on many of our products.

Water Treatment Segment. Gross profit for the Water Treatment segment increased $2.2 million, or 20%, to $13.3 million, or 19% of sales, for the three months ended January 1, 2023, from $11.1 million, or 22% of sales, in the same period a year ago. During the three months ended January 1, 2023, the LIFO reserve increased, and gross profit decreased, by $1.7 million due primarily to rising raw material costs. In the same quarter a year ago, the LIFO reserve increased, and gross profit decreased, by $0.6 million. Gross profit increased as a result of increased sales, partially offset by the unfavorable year-over-year impact of the increased LIFO reserve.

Health and Nutrition Segment. Gross profit for our Health and Nutrition segment decreased $0.5 million, or 7.0%, to $7.0 million, or 19% of sales, for the three months ended January 1, 2023, from $7.5 million, or 21% of sales, in the same period a year ago. Gross profit decreased as a result of decreased sales.

Selling, General and Administrative Expenses

Selling, general and administrative (“SG&A”) expenses increased $1.3 million to $21.0 million, or 10% of sales, for the three months ended January 1, 2023, from $19.7 million, or 11% of sales, in the same period a year ago. Expenses increased primarily due to the added costs from the acquired business in our Water Treatment segment.

Operating Income

Operating income increased $1.0 million, or 7%, to $15.3 million, or 7% of sales, for the three months ended January 1, 2023, from $14.3 million, or 8% of sales, in the same period a year ago due to the combined impact of the factors discussed above.

Interest Expense, Net

Interest expense was $1.5 million for the three months ended January 1, 2023 and $0.3 million the same period a year ago. The increase was due to an increase in borrowing interest rates as well as an increase in outstanding borrowings due to increased working capital needs.

Other (Expense) Income

Other income was $0.5 million for the three months ended January 1, 2023 and $0.1 million in the same period a year ago. The income represents gains recorded on investments held for our non-qualified deferred compensation plan. The amounts recorded as a gain were offset by similar amounts recorded as a decrease to compensation expense within SG&A expenses.

Income Tax Provision

Our effective income tax rate was 24% for the three months ended January 1, 2023 and 27% the three months ended December 26, 2021. The effective tax rate decreased from the prior year due to favorable tax provision adjustments recorded in the third quarter of fiscal 2023. The effective tax rate is impacted by projected levels of annual taxable income, permanent items, and state taxes. Our effective tax rate for the full year is currently expected to be approximately 26 to 27%.

Nine Months Ended January 1, 2023 Compared to Nine Months Ended December 26, 2021

Sales

Sales were $707.0 million for the nine months ended January 1, 2023, an increase of $155.4 million, or 28%, from sales of $551.6 million in the same period a year ago, driven primarily by increased selling prices.

Industrial Segment. Industrial segment sales increased $83.5 million, or 31%, to $353.1 million for the nine months ended January 1, 2023, from sales of $269.6 million in the same period a year ago. Sales of bulk commodity products in the Industrial segment were approximately 17% of sales dollars in the nine months ended January 1, 2023 and 15% in the same period of the prior year. Sales increased as a result of increased selling prices on many of our products driven by higher costs on many of our raw materials.

Water Treatment Segment. Water Treatment segment sales increased $65.4 million, or 39%, to $233.5 million for the nine months ended January 1, 2023, from sales of $168.1 million in the same period a year ago. Sales of bulk commodity products in the Water Treatment segment were approximately 9% of sales dollars in both the nine months ended January 1, 2023 and the same period of the prior year. Sales increased as a result of increased selling prices on many of our products driven by higher costs on many of our raw materials, added sales from acquired businesses and increased sales of our products.

Health & Nutrition Segment. Health and Nutrition segment sales increased $6.4 million, or 6%, to $120.3 million for the nine months ended January 1, 2023, from sales of $113.9 million in the same period a year ago. Increased sales of our manufactured products more than offset a decrease in sales of our specialty distributed products.

Gross Profit

Gross profit increased $19.2 million or 17%, to $129.4 million, or 18% of sales, for the nine months ended January 1, 2023, from $110.2 million, or 20% of sales, in the same period a year ago. During the nine months ended January 1, 2023, the LIFO reserve increased, and gross profit decreased, by $12.7 million, due primarily to rising raw material costs. In the same period a year ago, the LIFO reserve increased, and gross profit decreased, by $7.6 million. Gross profit increased due to increased revenue, partially offset by the unfavorable year-over-year impact of the increased LIFO reserve.

Industrial Segment. Gross profit for the Industrial segment increased $11.6 million, or 28%, to $53.7 million, or 15% of sales, for the nine months ended January 1, 2023, from $42.1 million, or 16% of sales, in the same period a year ago. During the nine months ended January 1, 2023, the LIFO reserve increased, and gross profit decreased, by $8.5 million, due primarily to rising raw material costs. In the same period a year ago, the LIFO reserve increased, and gross profit decreased, by $5.9 million. Gross profit increased as a result of increased sales as well as improved unit margins on many of our products, partially offset by the unfavorable year-over-year impact of the increased LIFO reserve.

Water Treatment Segment. Gross profit for the Water Treatment segment increased $7.8 million, or 17%, to $52.7 million, or 23% of sales, for the nine months ended January 1, 2023, from $44.9 million, or 27% of sales, in the same period a year ago. During the nine months ended January 1, 2023, the LIFO reserve increased, and gross profit decreased, by $4.2 million due primarily to rising raw material costs. In the same period a year ago, the LIFO reserve increased and gross profit decreased by $1.7 million. Gross profit increased as a result of increased sales, partially offset by the unfavorable year-over-year impact of the increased LIFO reserve.

Health and Nutrition Segment. Gross profit for our Health and Nutrition segment decreased $0.2 million, to $23.0 million, or 19% of sales, for the nine months ended January 1, 2023, from $23.2 million, or 20% of sales, in the same period a year ago. In spite of an increase in overall sales dollars, gross profit decreased as a result of a product mix shift.

Selling, General and Administrative Expenses

SG&A expenses increased $5.5 million to $59.7 million, or 8% of sales, for the nine months ended January 1, 2023, from $54.2 million, or 10% of sales, in the same period a year ago. Expenses increased primarily due to the added costs from the acquired businesses in our Water Treatment segment and increased wages, partially offset by and a $1.3 million decrease in compensation expense relating to the non-qualified deferred compensation plan liability which is offset in "Other (Expense) Income" as described below.

Operating Income

Operating income increased $13.7 million, or 24%, to $69.7 million, or 10% of sales, for the nine months ended January 1, 2023, from $56.0 million, or 10% of sales, in the same period a year ago due to the combined impact of the factors discussed above.

Interest Expense, Net

Interest expense was $3.9 million for the nine months ended January 1, 2023 and $1.0 million for the same period a year ago. The increase was due to an increase in borrowing interest rates as well as an increase in outstanding borrowings due to increased working capital needs.

Other (Expense) Income

Other expense was $0.7 million for the nine months ended January 1, 2023 compared to other income of $0.5 million in the same period a year ago. The current year expense represents losses recorded on investments held for our non-qualified deferred compensation plan, whereas the income in the prior year represented gains recorded on those investments. The amounts recorded as a gain or loss were offset by similar amounts recorded as a decrease or increase to compensation expense within SG&A expenses.

Income Tax Provision

Our effective income tax rate was 26% for both the nine months ended January 1, 2023 and in the same period a year ago. The effective tax rate is impacted by projected levels of annual taxable income, permanent items, and state taxes. Our effective tax rate for the full year is currently expected to be approximately 26 to 27%.

Liquidity and Capital Resources

Cash was $6.1 million at January 1, 2023, an increase of $2.7 million as compared with the $3.5 million available as of April 3, 2022.

Cash provided by operating activities was $44.5 million for the nine months ended January 1, 2023, compared to cash provided by operating activities of $38.7 million in the same period a year ago. The year-over-year increase in cash provided by operating activities was primarily driven by increased net income. Due to the nature of our operations, which includes purchases of large quantities of bulk chemicals, timing of purchases can result in significant changes in working capital investment and the resulting operating cash flow.

Cash used in investing activities was $32.0 million for the nine months ended January 1, 2023, compared to $18.0 million in the same period a year ago. Capital expenditures were $32.3 million for the nine months ended January 1, 2023, compared to $15.7 million in the same period a year ago. In the first nine months of the current year, we invested nearly $4 million on rail expansion projects at three of our facilities, an additional $1.1 million to complete an expansion of our Illinois manufacturing facility, purchased a previously leased facility for $0.9 million, and had larger investments in trucks, safety equipment and new and replacement equipment compared to the first nine months of the prior year.

Cash provided by financing activities was $9.9 million for the nine months ended January 1, 2023, compared to $0.2 million of cash used in financing activities in the same period a year ago. Included in financing activities in the first nine months of the current year were net debt proceeds of $5.0 million, compared to net debt proceeds of $17.0 million in the first nine months of the prior year. In addition, we repurchased $6.6 million of shares of our common stock in the first nine months of the current fiscal year, compared to $8.5 million of shares repurchased in the same period a year ago.

We expect our cash balances and funds available under our credit facility, discussed below, along with cash flows generated from operations, will be sufficient to fund the cash requirements of our ongoing operations for the foreseeable future.

Our Board has authorized the repurchase of up to 2.6 million shares of our outstanding common stock. The shares may be purchased on the open market or in privately negotiated transactions subject to applicable securities laws and regulations. The primary objective of the share repurchase program is to offset the impact of dilution from issuances relating to employee and director equity grants and our employee stock purchase program. During the nine months ended January 1, 2023, we repurchased 181,657 shares of common stock with an aggregate purchase price of $6.6 million. During the nine months ended December 26, 2021, 240,501 shares were repurchased with an aggregate purchase price of $8.5 million. As of January 1, 2023, 1,129,348 shares remained available to be repurchased under the share repurchase program.

We are party to a second amended and restated credit agreement (the “Credit Agreement”) with U.S. Bank National Association (“U.S. Bank”) as Sole Lead Arranger and Sole Book Runner, and other lenders from time to time party thereto (collectively, the “Lenders”), whereby U.S. Bank is also serving as Administrative Agent. The Credit Agreement refinanced the revolving loan under our previous credit agreement with U.S. Bank and provides us with senior secured revolving credit facilities (the “Revolving Loan Facility”) totaling $250 million. The Revolving Loan Facility includes a $10 million letter of credit subfacility and $25 million swingline subfacility. The Revolving Loan Facility has a five-year maturity date, maturing on April 30, 2027. The Revolving Loan Facility is secured by substantially all of our personal property assets and those of our subsidiaries. We may use the amount available under the Revolving Loan Facility for working capital, capital expenditures, share repurchases, restricted payments and acquisitions permitted under the Credit Agreement, and other general corporate purposes.

Borrowings under the Revolving Loan Facility bear interest at a rate per annum equal to one of the following, plus, in both cases, an applicable margin based upon our leverage ratio: (a) Term SOFR, which includes a credit spread adjustment of 0.10%, for an interest period of one, three or six months as selected by us, reset at the end of the selected interest period, or (b) a base rate determined by reference to the highest of (1) U. S. Bank’s prime rate, (2) the Federal Funds Effective Rate plus 0.5%, or (3) one-month Term SOFR for U.S. dollars plus 1.0%. The Term SOFR margin is between 0.85% and 1.35%, depending on our leverage ratio. The base rate margin is between 0.00% and 0.35%, depending on our leverage ratio. At January 1, 2023, the effective interest rate on our borrowings was 4.2%.

In addition to paying interest on the outstanding principal under the Revolving Loan Facility, we are required to pay a commitment fee on the unutilized commitments thereunder. The commitment fee is between 0.15% and 0.25%, depending on our leverage ratio.

Debt issuance costs paid to the Lenders are being amortized as interest expense over the term of the Credit Agreement. As of January 1, 2023, the unamortized balance of these costs was $0.4 million, and is reflected as a reduction of debt on our balance sheet.

The Credit Agreement requires us to maintain (a) a minimum fixed charge coverage ratio of 1.15 to 1.00 and (b) a maximum total cash flow leverage ratio of 3.0 to 1.0. The Credit Agreement also contains other customary affirmative and negative covenants, including covenants that restrict our ability to incur additional indebtedness, dispose of significant assets, make certain investments, including any acquisitions other than permitted acquisitions, make certain payments, enter into sale and leaseback transactions, grant liens on our assets or enter into rate management transactions, subject to certain limitations. We are permitted to make distributions, pay dividends and repurchase shares so long as no default or event of default exists or would exist as a result thereof. We were in compliance with all covenants of the Credit Agreement as of January 1, 2023 and expect to remain in compliance with all covenants for the next 12 months.

The Credit Agreement contains customary events of default, including failure to comply with covenants in the Credit Agreement and other loan documents, cross default to other material indebtedness, failure by us to pay or discharge material judgments, bankruptcy, and change of control. The occurrence of an event of default would permit the lenders to terminate their commitments and accelerate loans under the Credit Facility.

We have in place an interest rate swap agreement to manage the risk associated with a portion of our variable-rate long-term debt. We do not utilize derivative instruments for speculative purposes. The interest rate swap involves the exchange of fixed-rate and variable-rate payments without the exchange of the underlying notional amount on which the interest payments are calculated. The notional amount of the swap agreement is $60 million and it will terminate on May 1, 2027.

As part of our growth strategy, we have acquired businesses and may pursue acquisitions or other strategic relationships in the future that we believe will complement or expand our existing businesses or increase our customer base. We believe we could borrow additional funds under our current or new credit facilities or sell equity for strategic reasons or to further strengthen our financial position.

Critical Accounting Estimates

There were no material changes in our critical accounting estimates since the filing of our Annual Report on Form 10-K for the fiscal year ended April 3, 2022.

Forward-Looking Statements

The information presented in this Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). These forward-looking statements have been made pursuant to the provisions of the Private Securities Litigation Reform Act of 1995. These statements are not historical facts, but rather are based on our current expectations, estimates and projections, and our beliefs and assumptions. Words such as “anticipate,” “believe,” “estimate,” “expect,” “intend,” “plan,” “will” and similar expressions to identify forward-looking statements. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and other factors, some of which are beyond our control and are difficult to predict. These factors could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements. Additional information concerning potential factors that could affect future financial results is included in our Annual Report on Form 10-K for the fiscal year ended April 3, 2022. We caution you not to place undue reliance on these forward-looking statements, which reflect our management’s view only as of the date of this Quarterly Report on Form 10-Q. We are not obligated to update these statements or publicly release the result of any revisions to them to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q or to reflect the occurrence of unanticipated events.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to the risk inherent in the cyclical nature of commodity chemical prices. However, we do not currently purchase forward contracts or otherwise engage in hedging activities with respect to the purchase of commodity chemicals. We attempt to pass changes in the cost of our materials to our customers. However, there are no assurances that we will be able to pass on the increases in the future.

We are exposed to market risks related to interest rates. Our exposure to changes in interest rates is primarily related to borrowings under our Revolving Loan Facility. We have in place an interest rate swap agreement to manage the risk associated with a portion of our variable-rate long-term debt. The interest rate swap involves the exchange of fixed-rate and variable-rate payments without the exchange of the underlying notional amount on which the interest payments are calculated. The notional amount of the swap agreement is $60.0 million and it will terminate on May 1, 2027. As of January 1, 2023, a 25-basis point change in interest rates on our unhedged variable-rate debt would potentially increase or decrease our annual interest expense by approximately $0.2 million.

Other types of market risk, such as foreign currency risk, do not arise in the normal course of our business activities.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Quarterly Report on Form 10-Q, we conducted an evaluation, under supervision and with the participation of management, including the chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rules 13a-15 and 15d-15 of the Exchange Act. Based upon that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective as of January 1, 2023. Disclosure controls and procedures are defined by Rules 13a-15(e) and 15d-15(e) of the Exchange Act as controls and other procedures that are designed to ensure that information required to be disclosed by us in reports filed with the SEC under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in reports filed under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or person performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control

There was no change in our internal control over financial reporting during the third quarter of fiscal 2023 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There are no material pending legal proceedings, other than ordinary routine litigation incidental to the business, to which we or any of our subsidiaries are a party or of which any of our property is the subject.

ITEM 1A. RISK FACTORS

There have been no material changes to our risk factors from those disclosed in our Annual Report on Form 10-K for the fiscal year ended April 3, 2022.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Our Board has authorized the repurchase of up to 2.6 million shares of our outstanding common stock. The shares may be purchased on the open market or in privately negotiated transactions subject to applicable securities laws and regulations. The following table sets forth information concerning purchases of our common stock for the three months ended January 1, 2023:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of a Publicly Announced Plan or Program	Maximum Number of Shares that May Yet be Purchased under Plans or Programs
10/03/2022-10/30/2022	—	$ —	—	1,129,348
10/31/2022-11/27/2022	—	—	—	1,129,348
11/28/2022-01/01/2023	—	—	—	1,129,348
Total	—		—	

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit	Description	Method of Filing
3.1	Restated Articles of Incorporation. (1)	Incorporated by Reference
3.2	Amended and Restated By-Laws. (2)	Incorporated by Reference
31.1	Certification by Chief Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act.	Filed Electronically
31.2	Certification by Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act.	Filed Electronically
32.1	Section 1350 Certification by Chief Executive Officer.	Filed Electronically
32.2	Section 1350 Certification by Chief Financial Officer.	Filed Electronically
101	Financial statements from the Quarterly Report on Form 10-Q of Hawkins, Inc. for the period ended January 1, 2023 filed with the SEC on February 1, 2023 formatted in Inline Extensible Business Reporting Language (iXBRL); (i) the Condensed Consolidated Balance Sheets at January 1, 2023 and April 3, 2022, (ii) the Condensed Consolidated Statements of Income for the three and nine months ended January 1, 2023 and December 26, 2021, (iii) the Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended January 1, 2023 and December 26, 2021, (iv) the Condensed Consolidated Statements of Shareholder's Equity for the three and nine months ended January 1, 2023 and December 26, 2021, (v) the Condensed Consolidated Statements of Cash Flows for the nine months ended January 1, 2023 and December 26, 2021, and (vi) Notes to Condensed Consolidated Financial Statements.	Filed Electronically
104	Cover Page Interactive Data File (embedded within the inline XBRL document)	Filed Electronically

(1) Incorporated by reference to Exhibit 3.2 to the Company’s Current Report on Form 8-K dated February 26, 2021 and filed March 2, 2021.

(2) Incorporated by reference to Exhibit 3.1 to the Company’s Current Report on Form 8-K dated October 28, 2009 and filed November 3, 2009.

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.

HAWKINS, INC.

By: /s/ Jeffrey P. Oldenkamp

Jeffrey P. Oldenkamp

Executive Vice President and Chief Financial Officer

(On behalf of the registrant and as principal financial and accounting officer)

Dated: February 1, 2023

EXHIBIT 31.1

CERTIFICATION PURSUANT TO
SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

CERTIFICATIONS

I, Patrick H. Hawkins, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Hawkins, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 1, 2023

/s/ Patrick H. Hawkins
Patrick H. Hawkins
Chief Executive Officer and President

EXHIBIT 31.2

**CERTIFICATION PURSUANT TO
SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002**

CERTIFICATIONS

I, Jeffrey P. Oldenkamp, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Hawkins, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 1, 2023

/s/ Jeffrey P. Oldenkamp
Jeffrey P. Oldenkamp
Executive Vice President and Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Hawkins, Inc. (the Company) on Form 10-Q for the period ended January 1, 2023, as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Patrick H. Hawkins, Chief Executive Officer and President of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934;

and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Patrick H. Hawkins

Patrick H. Hawkins
Chief Executive Officer and President
February 1, 2023

EXHIBIT 32.2

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Hawkins, Inc. (the Company) on Form 10-Q for the period ended January 1, 2023, as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Jeffrey P. Oldenkamp, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934;

and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Jeffrey P. Oldenkamp

Jeffrey P. Oldenkamp
Executive Vice President and Chief Financial Officer
February 1, 2023