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 December 29, 2019

☐ **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 $.05 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 31, 2020
Common Stock, par value $.05 per share	10,648,940

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)

	December 29, 2019	March 31, 2019
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 7,265	$ 9,199
Trade receivables — less allowance for doubtful accounts:		
$677 as of December 29, 2019 and $620 as of March 31, 2019	56,046	63,966
Inventories	57,542	60,482
Income taxes receivable	609	527
Prepaid expenses and other current assets	5,587	5,235
Total current assets	127,049	139,409
PROPERTY, PLANT, AND EQUIPMENT:	262,194	244,861
Less accumulated depreciation	136,832	126,233
Net property, plant, and equipment	125,362	118,628
OTHER ASSETS:		
Right-of-use assets	9,495	—
Goodwill	58,440	58,440
Intangible assets, net	61,921	65,726
Other	4,312	3,396
Total other assets	134,168	127,562
Total assets	$ 386,579	$ 385,599
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable — trade	$ 26,744	$ 29,314
Accrued payroll and employee benefits	10,133	12,483
Current portion of long-term debt	9,907	9,907
Short-term lease liability	1,571	—
Container deposits	1,358	1,299
Other current liabilities	1,568	2,393
Total current liabilities	51,281	55,396
LONG-TERM DEBT, LESS CURRENT PORTION	57,728	74,658
LONG-TERM LEASE LIABILITY	7,972	—
PENSION WITHDRAWAL LIABILITY	5,064	5,316
DEFERRED INCOME TAXES	26,577	26,673
OTHER LONG-TERM LIABILITIES	5,746	5,695
Total liabilities	154,368	167,738
COMMITMENTS AND CONTINGENCIES	—	—
SHAREHOLDERS' EQUITY:		
Common stock; authorized: 30,000,000 shares of $0.05 par value; 10,546,453 and 10,592,450 shares issued and outstanding as of December 29, 2019 and March 31, 2019, respectively	527	530
Additional paid-in capital	50,967	52,609
Retained earnings	180,659	164,405
Accumulated other comprehensive income	58	317
Total shareholders' equity	232,211	217,861
Total liabilities and shareholders' equity	$ 386,579	$ 385,599

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	
	December 29, 2019	December 30, 2018	December 29, 2019	December 30, 2018
Sales	$ 120,406	$ 128,151	$ 407,785	$ 423,275
Cost of sales	(98,928)	(107,118)	(329,516)	(348,013)
Gross profit	21,478	21,033	78,269	75,262
Selling, general and administrative expenses	(14,702)	(14,312)	(44,355)	(44,232)
Operating income	6,776	6,721	33,914	31,030
Interest expense, net	(584)	(807)	(2,013)	(2,552)
Other income (expense)	131	(316)	274	(240)
Income before income taxes	6,323	5,598	32,175	28,238
Income tax expense	(1,776)	(1,468)	(8,571)	(7,576)
Net income	$ 4,547	$ 4,130	$ 23,604	$ 20,662
Weighted average number of shares outstanding - basic	10,546,453	10,667,001	10,575,432	10,663,807
Weighted average number of shares outstanding - diluted	10,605,895	10,712,027	10,656,115	10,727,377
Basic earnings per share	$ 0.43	$ 0.39	$ 2.23	$ 1.94
Diluted earnings per share	$ 0.43	$ 0.39	$ 2.22	$ 1.93
Cash dividends declared per common share	$ 0.23	$ 0.225	$ 0.69	$ 0.45

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	
	December 29, 2019	**December 30, 2018**	**December 29, 2019**	**December 30, 2018**
Net income	$ 4,547	$ 4,130	$ 23,604	$ 20,662
Other comprehensive income, net of tax:				
Unrealized loss on interest rate swap	(11)	(170)	(259)	(158)
Total comprehensive income	$ 4,536	$ 3,960	$ 23,345	$ 20,504

See accompanying notes to condensed consolidated financial statements.

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

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares	Amount				
BALANCE — March 31, 2019	10,592,450	$ 530	$ 52,609	$ 164,405	$ 317	$ 217,861
Cash dividends paid				(2,460)		(2,460)
Share-based compensation expense			509			509
Vesting of restricted stock	27,620	1	(1)			—
Shares surrendered for payroll taxes	(9,160)	(1)	(342)			(343)
Shares repurchased	(47,136)	(2)	(1,801)			(1,803)
Other comprehensive income, net of tax					(179)	(179)
Net income				9,807		9,807
BALANCE — June 30, 2019	10,563,774	$ 528	$ 50,974	$ 171,752	$ 138	$ 223,392
Cash dividends paid				(2,445)		(2,445)
Share-based compensation expense			636			636
Vesting of restricted stock	8,352	—	—			—
ESPP shares issued	18,586	1	660			661
Shares repurchased	(44,259)	(2)	(1,988)			(1,990)
Other comprehensive income, net of tax					(69)	(69)
Net income				9,250		9,250
BALANCE — September 29, 2019	10,546,453	$ 527	$ 50,282	$ 178,557	$ 69	$ 229,435
Cash dividends paid				(2,445)		(2,445)
Share-based compensation expense			685			685
Other comprehensive income, net of tax					(11)	(11)
Net income				4,547		4,547
BALANCE — December 29, 2019	10,546,453	$ 527	$ 50,967	$ 180,659	$ 58	$ 232,211

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares	Amount				
BALANCE — April 1, 2018	10,631,992	$ 532	$ 53,877	$ 147,242	$ 596	$ 202,247
Share-based compensation expense			470			470
Vesting of restricted stock	24,567	1	(1)			—
Shares surrendered for payroll taxes	(8,105)	—	(265)			(265)
ESPP shares issued	22,531	1	676			677
Other comprehensive income, net of tax					27	27
Net income				9,123		9,123
BALANCE — July 1, 2018	10,670,985	$ 534	$ 54,757	$ 156,365	$ 623	$ 212,279
Cash dividends declared				(2,412)		(2,412)
Share-based compensation expense			513			513
Vesting of restricted stock	8,484	—	—			—
Other comprehensive income, net of tax					(15)	(15)
Net income				7,409		7,409
BALANCE — September 30, 2018	10,679,469	$ 534	$ 55,270	$ 161,362	$ 608	$ 217,774
Cash dividends declared				(2,409)		(2,409)
Share-based compensation expense			591			591
Shares repurchased	(59,788)	(3)	(2,383)			(2,386)
Other comprehensive income, net of tax					(170)	(170)
Net income				4,130		4,130
BALANCE — December 30, 2018	10,619,681	$ 531	$ 53,478	$ 163,083	$ 438	$ 217,530

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended	
	December 29, 2019	December 30, 2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 23,604	$ 20,662
Reconciliation to cash flows:		
Depreciation and amortization	16,181	16,398
Operating leases	1,538	—
Amortization of debt issuance costs	70	98
(Gain) loss on deferred compensation assets	(274)	240
Deferred income taxes	—	(82)
Stock compensation expense	1,830	1,574
(Gain) loss from property disposals	(112)	54
Changes in operating accounts providing (using) cash:		
Trade receivables	8,035	2,048
Inventories	2,940	(7,936)
Accounts payable	(2,469)	(4,013)
Accrued liabilities	(3,148)	1,261
Lease liabilities	(1,565)	—
Income taxes	(82)	2,558
Other	(1,557)	(1,832)
Net cash provided by operating activities	44,991	31,030
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant, and equipment	(19,426)	(7,205)
Other	326	167
Net cash used in investing activities	(19,100)	(7,038)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash dividends paid	(7,350)	(9,525)
New shares issued	661	677
Shares surrendered for payroll taxes	(343)	(265)
Shares repurchased	(3,793)	(2,386)
Net payments on revolver borrowings	(17,000)	75,000
Payments on term loan borrowings	—	(85,000)
Payments for debt issuance costs	—	(183)
Net cash used in financing activities	(27,825)	(21,682)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,934)	2,310
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	9,199	4,990
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 7,265	$ 7,300
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for income taxes	$ 8,653	$ 5,100
Cash paid for interest	$ 1,960	$ 2,238
Noncash investing activities - capital expenditures in accounts payable	$ 394	$ 326

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 March 31, 2019, 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 December 29, 2019 are not necessarily indicative of the results that may be expected for the full year.

References to fiscal 2018 refer to the fiscal year ended April 1, 2018, references to fiscal 2019 refer to the fiscal year ended March 31, 2019 and references to fiscal 2020 refer to the fiscal year ending March 29, 2020.

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 March 31, 2019, previously filed with the SEC. With the exception of our accounting policy regarding leases (see below), there has been no significant change in our accounting policies since the end of fiscal 2019.

Leases. The Company determines if an arrangement is a lease at inception. Right-of-use ("ROU") assets include operating leases. Lease liabilities for operating leases are classified in "short-term lease liabilities" and "long-term lease liabilities" in our condensed consolidated balance sheet.

Operating assets and liabilities are recognized at commencement date based on the present value of the lease payments over the lease term. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. We use the implicit rate when readily determinable. Lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

Lease and non-lease components are generally accounted for separately for real estate leases. For non-real estate leases, we account for the lease and non-lease components as a single lease component.

Recently Issued Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2016-13, *Financial Instruments - Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments*. The amendments in this update replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses on instruments within its scope, including trade receivables. This update is intended to provide financial statement users with more decision-useful information about the expected credit losses. This ASU is effective for annual periods and interim periods for those annual periods beginning after December 15, 2019, which for us is our fiscal year beginning March 30, 2020. Entities may early adopt beginning after December 15, 2018. Upon adoption, we expect this ASU to impact our method for calculating and estimating our allowance for doubtful accounts, but do not expect it to have a material impact to our financial position or results of operations.

Recently Adopted Accounting Pronouncements

On April 1, 2019, we adopted ASU 2016-02, *Leases*, which provides new accounting guidance requiring lessees to recognize most leases as assets and liabilities on the balance sheet and disclose key information about leasing arrangements. The new standard establishes a ROU model that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and expense recognition in the income statement. We adopted this ASU using the modified retrospective method. See Note 11 to the condensed consolidated financial statements for further details.

Note 2 - 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 December 29, 2019 and December 30, 2018:

	Three months ended December 29, 2019			
(In thousands)	**Industrial**	**Water Treatment**	**Health and Nutrition**	**Total**
Bulk / Distributed specialty products [1]	$ 11,615	$ 4,280	$ 19,186	$ 35,081
Manufactured, blended or repackaged products [2]	50,547	30,251	3,218	84,016
Other	856	359	94	1,309
Total external customer sales	$ 63,018	$ 34,890	$ 22,498	$ 120,406

	Three months ended December 30, 2018			
(In thousands)	**Industrial**	**Water Treatment**	**Health and Nutrition**	**Total**
Bulk / Distributed specialty products [1]	$ 15,740	$ 5,195	$ 22,933	$ 43,868
Manufactured, blended or repackaged products [2]	52,130	27,189	3,355	82,674
Other	1,156	356	97	1,609
Total external customer sales	$ 69,026	$ 32,740	$ 26,385	$ 128,151

	Nine months ended December 29, 2019			
(In thousands)	**Industrial**	**Water Treatment**	**Health and Nutrition**	**Total**
Bulk / Distributed specialty products [1]	$ 38,405	$ 13,959	$ 66,681	$ 119,045
Manufactured, blended or repackaged products [2]	165,447	108,888	10,551	284,886
Other	2,581	1,163	110	3,854
Total external customer sales	$ 206,433	$ 124,010	$ 77,342	$ 407,785

	Nine months ended December 30, 2018			
(In thousands)	**Industrial**	**Water Treatment**	**Health and Nutrition**	**Total**
Bulk / Distributed specialty products [1]	$ 45,983	$ 16,999	$ 83,234	$ 146,216
Manufactured, blended or repackaged products [2]	163,366	98,153	11,039	272,558
Other	3,097	1,170	234	4,501
Total external customer sales	$ 212,446	$ 116,322	$ 94,507	$ 423,275

(1) For our Industrial and Water Treatment segments, this line includes our bulk 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. For our Health and Nutrition segment, this line includes our non-manufactured distributed specialty products, which may be sold out of one of our facilities or direct shipped to our customers.

(2) 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.

Net sales include products and shipping charges, net of estimates for product returns and any related sales rebates. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring products. All revenue is recognized when we satisfy our performance obligations under the contract. Our criteria for recording revenue is consistent between our operating segments and types of products sold. We recognize revenue upon transfer of control of the promised products to the customer, with revenue recognized at the point in time the customer obtains control of the products. In arrangements where product is shipped directly from the vendor to our customer, we act as the principal in the transaction as we direct the other party to provide the product to our customer on our behalf, take inventory risk, establish the selling price, and are exposed to credit risk for the collection of the invoiced amount. If there were circumstances where we were to manufacture products for customers that were unique to their specifications and we would be prohibited by contract to use the product for any alternate use, we would recognize revenue over time if all criteria were met. We have made a policy election to treat shipping costs for FOB shipping point sales as fulfillment costs. As such, we recognize revenue for all shipping charges, if applicable, at the same time we recognize revenue on the products delivered. We estimate product returns based on historical return rates. Using probability assessments, we estimate sales rebates expected to be paid over the term of the contract. The majority of our contracts have a single performance obligation and are short term in nature. Sales taxes that are collected from customers and remitted to governmental authorities are accounted for on a net basis and therefore are excluded from net sales. We offer certain customers cash discounts and volume rebates as sales incentives. The discounts and volume rebates are recorded as a reduction in sales at the time revenue is recognized in an amount estimated based on historical experience and contractual obligations. We periodically review the assumptions underlying our estimates of discounts and volume rebates and adjust revenues accordingly.

Note 3 – Earnings per Share

Basic earnings per share (“EPS”) are 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	
	December 29, 2019	**December 30, 2018**	**December 29, 2019**	**December 30, 2018**
Weighted-average common shares outstanding—basic	10,546,453	10,667,001	10,575,432	10,663,807
Dilutive impact of performance units and restricted stock	59,442	45,026	80,683	63,570
Weighted-average common shares outstanding—diluted	10,605,895	10,712,027	10,656,115	10,727,377

For each of the three and nine months ended December 29, 2019 and December 30, 2018, there were no shares excluded from the calculation of weighted-average common shares for diluted EPS.

Note 4 – Derivative Instruments

We have 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 $20 million swap agreement will terminate on December 23, 2020. We have designated this swap as a cash flow hedge and have determined that it qualifies for hedge accounting treatment. For so long as the hedge is effective, changes in fair value of the cash flow hedge are recorded in other comprehensive income (net of tax) until income or loss from the cash flows of the hedged item is realized.

For the three months ended December 29, 2019, we recorded a nominal amount in other comprehensive loss related to unrealized losses (net of tax) on the cash flow hedge described above. For the nine months ended December 29, 2019, we recorded $0.3 million in other comprehensive loss related to unrealized losses (net of tax) on the cash flow hedge. For both the three and nine months ended December 30, 2018, we recorded $0.2 million in other comprehensive loss related to unrealized losses (net of tax) on the cash flow hedge. Included in prepaid expenses and other current assets on our condensed consolidated balance sheet was $0.1 million as of December 29, 2019 related to the cash flow hedge. As of March 31, 2019, $0.4 million was included in other long-term assets on our condensed consolidated balance sheet related to the cash flow hedge. Unrealized gains and losses will be reflected in net income when the related cash flows or hedged transactions occur and offset the related performance of the hedged item.

By their nature, derivative instruments are subject to market risk. Derivative instruments are also subject to credit risk associated with counterparties to the derivative contracts. Credit risk associated with derivatives is measured based on the replacement cost should the counterparty with a contract in a gain position to us fail to perform under the terms of the contract. We do not anticipate nonperformance by the counterparty.

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). We classify the inputs used to measure fair value into the following hierarchy:

- Level 1: Quoted prices in active markets for identical assets or liabilities.
- Level 2: Quoted prices in active markets for similar assets or liabilities, or quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable or can be corroborated by observable market data for the asset or liability.
- Level 3: Unobservable inputs for the asset or liability that are supported by little or no market activity. These fair values are determined using pricing models for which the assumptions utilize management's estimates or market participant assumptions.

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. The interest rate swap is classified as prepaid expenses and other current assets on our balance sheet as of December 29, 2019. The deferred compensation retirement plan assets are classified as other 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 other 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 measured at fair value on a recurring basis as of December 29, 2019 and March 31, 2019.

	December 29, 2019		
(In thousands)	**Level 1**	**Level 2**	**Level 3**
Interest rate swap	—	$ 80	—
Deferred compensation plan assets	$ 4,138	—	—

	March 31, 2019		
(In thousands)	**Level 1**	**Level 2**	**Level 3**
Interest rate swap	—	$ 435	—
Deferred compensation plan assets	$ 2,637	—	—

Note 6– Assets Held for Sale

In fiscal 2019, management entered into a plan of action to dispose of an office building in St. Louis, Missouri currently utilized in the administration of our Industrial segment. The amount of office space in this facility is no longer needed due to current staffing levels, and management expects to relocate affected employees to leased space. The building is listed for sale at a price in excess of its current book value, and thus no impairment has been recognized. The $0.9 million net book value of this property is recorded as an asset held for sale within "Prepaid expenses and other current assets" on our balance sheet.

Note 7 – Inventories

Inventories at December 29, 2019 and March 31, 2019 consisted of the following:

(In thousands)	December 29, 2019	March 31, 2019
Inventory (FIFO basis)	$ 61,976	$ 65,526
LIFO reserve	(4,434)	(5,044)
Net inventory	$ 57,542	$ 60,482

The first in, first out ("FIFO") value of inventories accounted for under the last in, first out ("LIFO") method was $43.7 million at December 29, 2019 and $45.2 million at March 31, 2019. The remainder of the inventory was valued and accounted for under the FIFO method.

The LIFO reserve decreased $0.3 million during the three months ended December 29, 2019 and decreased $0.5 million during the three months ended December 30, 2018. During the nine months ended December 29, 2019, the LIFO reserve decreased $0.6 million and decreased nominally during the nine months ended December 30, 2018. The valuation of LIFO inventory for interim periods is based on our estimates of year-end inventory levels and costs.

Note 8 – Goodwill and Intangible Assets

The carrying amount of goodwill was $58.4 million as of December 29, 2019 and March 31, 2019, of which $44.9 million was related to our Health and Nutrition segment, $7.0 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 December 29, 2019 and March 31, 2019 is as follows:

	December 29, 2019			March 31, 2019		
(In thousands)	Gross Amount	Accumulated Amortization	Net	Gross Amount	Accumulated Amortization	Net
Finite-life intangible assets						
Customer relationships	$ 78,383	$ (20,277)	$ 58,106	$ 78,383	$ (16,910)	$ 61,473
Trademarks and trade names	6,045	(3,509)	2,536	6,045	(3,115)	2,930
Other finite-life intangible assets	3,648	(3,596)	52	3,648	(3,552)	96
Total finite-life intangible assets	88,076	(27,382)	60,694	88,076	(23,577)	64,499
Indefinite-life intangible assets	1,227	—	1,227	1,227	—	1,227
Total intangible assets	$ 89,303	$ (27,382)	$ 61,921	$ 89,303	$ (23,577)	$ 65,726

Note 9 – Debt

Debt at December 29, 2019 and March 31, 2019 consisted of the following:

	December 29, 2019	March 31, 2019
(In thousands)		
Senior secured revolving loan	$ 68,000	$ 85,000
Less: unamortized debt issuance costs	(365)	(435)
Total debt, net of debt issuance costs	67,635	84,565
Less: current portion of long-term debt	(9,907)	(9,907)
Total long-term debt	$ 57,728	$ 74,658

Note 10 – 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 April 3, 2016 are closed to examination by the Internal Revenue Service, and with few exceptions, state and local income tax jurisdictions. Our effective tax rate for the nine months ended December 29, 2019 was 26.6% and was 26.8% for the nine months ended December 30, 2018. The effective tax rate is impacted by projected levels of annual taxable income, permanent items, and state taxes.

Note 11 – Leases

Adoption of ASU 2016-02, Leases. On April 1, 2019, we adopted ASU 2016-02 using the modified retrospective method applied to existing leases in place as of April 1, 2019. Leases entered into after April 1, 2019 are presented under the provisions of ASU 2016-02, while prior periods are not adjusted and continue to be reported in accordance with previous accounting guidance. Leases commencing or renewing after the adoption date are evaluated based on the guidance in ASU 2016-02 and may result in more finance leases being recognized even for the renewal of previously classified operating leases.

We elected to adopt the ‘package of practical expedients’, which permitted us not to reassess under the new standard our prior conclusions about lease identification, lease classification and initial direct costs. We elected the short-term lease recognition exemption for all leases that qualified. This means, for those leases that qualified, we did not recognize right-of-use assets or lease liabilities, and this included not recognizing right-of-use assets or lease liabilities for existing short-term leases of those assets in transition. We also elected the practical expedient to not separate lease and non-lease components for all leases other than leases of real estate, and this included not separating lease and non-lease components for all leases other than leases of real estate in transition.

We adopted ASU 2016-02 using the modified retrospective method, recognizing the cumulative effect of application as an adjustment to the opening balance sheet. The standard had a material impact on our condensed consolidated balance sheet, but did not have a material impact on our condensed consolidated statement of income or cash flows. The most significant impact was the recognition of the ROU asset and lease liabilities for operating leases, both of which were approximately $10.4 million upon adoption.

Lease Obligations. As of December 29, 2019, 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 lease terms of 1 year to 25 years, some of which include options to extend the lease for up to 10 years.

As of December 29, 2019, 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 for the three and nine months ended December 29, 2019 was not material. Total lease expense was $0.7 million for the three months ended December 29, 2019 and $2.2 million for the nine months ended December 29, 2019.

Other information related to our operating leases was as follows:

	December 29, 2019
Lease Term and Discount Rate	
Weighted average remaining lease term (years)	8.81
Weighted average discount rate	4.0 %

Maturities of lease liabilities as of December 29, 2019 were as follows:

(In thousands)	Operating Leases
Remaining fiscal 2020	$ 1,830
Fiscal 2021	1,599
Fiscal 2022	1,511
Fiscal 2023	1,120
Fiscal 2024	1,121
Thereafter	4,397
Total	$ 11,578
Less: Interest	(2,035)
Present value of lease liabilities	$ 9,543

As we have not restated prior year information for our adoption of ASC Topic 842, the following represents our future minimum lease payments for operating leases under ASC Topic 840 on March 31, 2019:

(In thousands)	Operating Leases
Fiscal 2020	$ 2,198
Fiscal 2021	1,783
Fiscal 2022	1,407
Fiscal 2023	1,352
Fiscal 2024	1,183
Thereafter	5,473
Total	$ 13,396

Note 12 – 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 2020 and fiscal 2019. 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 69,632 shares in the aggregate for fiscal 2020. 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 December 29, 2019:

	Shares	Weighted-Average Grant Date Fair Value
Unvested at beginning of period	32,883	$ 43.66
Granted	69,252	34.49
Vested	(27,620)	46.01
Unvested at end of period	74,515	$ 34.27

We recorded compensation expense related to performance share units and restricted stock of $0.5 million and $1.3 million for the three and nine months ended December 29, 2019, respectively. We recorded compensation expense related to performance share units and restricted stock of $0.4 million and $1.0 million for the three and nine months ended December 30, 2018, respectively. 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 retainers, each director who is not an executive officer receives an annual grant of restricted stock for their service on our Board. The restricted stock awards are expensed over the requisite vesting period, which is one year from the date of issuance, based on the market value on the date of grant. As of December 29, 2019, there were 8,008 shares of restricted stock with a grant date fair value of $43.67 outstanding under this program. Compensation expense for both the three months ended December 29, 2019 and December 30, 2018 related to restricted stock awards to the Board was $0.1 million. Compensation expense for both the nine months ended December 29, 2019 and December 30, 2018 related to restricted stock awards to the Board was $0.2 million.

Note 13 – Share Repurchase Program

Our Board has authorized the repurchase of up to 800,000 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 December 29, 2019, no shares were repurchased. During the nine months ended December 29, 2019, we repurchased 91,395 shares at an aggregate purchase price of $3.8 million. During the three and nine months ended December 30, 2018, we repurchased 59,788 shares at an aggregate purchase price of $2.4 million. As of December 29, 2019, 412,985 shares remained available to be repurchased under the share repurchase program.

Note 14 – Litigation, Commitments and Contingencies

Litigation. 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. Legal fees associated with such matters are expensed as incurred.

Environmental Remediation. During fiscal 2018, we recorded a liability of $0.6 million related to estimated remediation expenses associated with existing contamination at our Minneapolis facility. The liability is being reduced as we incur costs related to remediation efforts, and was $0.1 million as of December 29, 2019 and $0.4 million as of March 31, 2019. Given the many uncertainties involved in assessing environmental claims, our reserves may prove to be insufficient. While it is possible that additional expenses related to remediation will be incurred in future periods if currently unknown issues arise, we are unable to estimate the extent of any further financial impact at this time.

Note 15 – 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 fiscal 2019 Annual Report on Form 10-K.

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. Other than our Health and Nutrition segment, the segments do not have separate accounting, administration, customer service or purchasing functions. 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 December 29, 2019:				
Sales	$ 63,018	$ 34,890	$ 22,498	$ 120,406
Gross profit	8,418	8,362	4,698	21,478
Selling, general, and administrative expenses	6,050	4,834	3,818	14,702
Operating income	2,368	3,528	880	6,776
Three months ended December 30, 2018:				
Sales	$ 69,026	$ 32,740	$ 26,385	$ 128,151
Gross profit	8,288	7,643	5,102	21,033
Selling, general, and administrative expenses	5,589	4,582	4,141	14,312
Operating income	2,699	3,061	961	6,721
Nine months ended December 29, 2019:				
Sales	$ 206,433	$ 124,010	$ 77,342	$ 407,785
Gross profit	30,007	33,206	15,056	78,269
Selling, general and administrative expenses	18,041	14,956	11,358	44,355
Operating income	11,966	18,250	3,698	33,914
Nine months ended December 30, 2018:				
Sales	$ 212,446	$ 116,322	$ 94,507	$ 423,275
Gross profit	27,059	30,790	17,413	75,262
Selling, general and administrative expenses	16,866	14,738	12,628	44,232
Operating income	10,193	16,052	4,785	31,030

No significant changes to identifiable assets by segment occurred during the nine months ended December 29, 2019.

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 three and nine months ended December 29, 2019 as compared to the similar periods ended December 30, 2018. 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 March 31, 2019 ("fiscal 2019"). References to "fiscal 2020" refer to the fiscal year ending March 29, 2020.

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.

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 FIFO method.

Our Industrial and Water Treatment segments sell bulk commodity products. We disclose the sales of our bulk commodity products as a percentage of total sales dollars within each of those 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. We review our sales reporting on a periodic basis to ensure we are including all products that meet this definition.

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	
	December 29, 2019	**December 30, 2018**	**December 29, 2019**	**December 30, 2018**
Sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales	(82.2)%	(83.6)%	(80.8)%	(82.2)%
Gross profit	17.8 %	16.4 %	19.2 %	17.8 %
Selling, general and administrative expenses	(12.2)%	(11.2)%	(10.9)%	(10.4)%
Operating income	5.6 %	5.2 %	8.3 %	7.4 %
Interest expense, net	(0.5)%	(0.6)%	(0.5)%	(0.6)%
Other income (expense)	0.1 %	(0.2)%	0.1 %	(0.1)%
Income before income taxes	5.2 %	4.4 %	7.9 %	6.7 %
Income tax expense	(1.5)%	(1.1)%	(2.1)%	(1.8)%
Net income	3.7 %	3.3 %	5.8 %	4.9 %

Three Months Ended December 29, 2019 Compared to Three Months Ended December 30, 2018

Sales

Sales decreased $7.8 million, or 6.0%, to $120.4 million for the three months ended December 29, 2019, as compared to $128.2 million for the same period of the prior year.

Industrial Segment. Industrial segment sales decreased $6.0 million, or 8.7%, to $63.0 million for the three months ended December 29, 2019, as compared to $69.0 million for the same period of the prior year. Sales of bulk commodity products in the Industrial segment were approximately 18% of sales dollars for the current quarter and 23% for the same period in the prior year. Sales dollars decreased from the prior year due to lower overall sales volumes, particularly of lower-priced bulk commodities driven by a weak ethanol industry, as well as lower pricing due to lower costs of one of our major commodities.

Water Treatment Segment. Water Treatment segment sales increased $2.2 million, or 6.6%, to $34.9 million for the three months ended December 29, 2019, as compared to $32.7 million for the same period of the prior year. Sales of bulk commodity products in the Water Treatment segment were approximately 12% of sales dollars for the current quarter and 16% of sales dollars for the same period in the prior year. The increase in sales dollars was driven by increased volumes sold of certain manufactured, blended and re-packaged products that carry higher per-unit selling prices, offset somewhat by lower pricing due to lower costs of one of our major commodities.

Health & Nutrition Segment. Health and Nutrition segment sales decreased $3.9 million, or 14.7%, to $22.5 million for the three months ended December 29, 2019, as compared to $26.4 million the same period of the prior year. The decrease in sales was driven by decreased sales of our distributed specialty products.

Gross Profit

Gross profit was $21.5 million, or 17.8% of sales, for the three months ended December 29, 2019, an increase of $0.5 million from $21.0 million, or 16.4% of sales, for the same period of the prior year. During the three months ended December 29, 2019, the LIFO reserve decreased, and gross profit increased, by $0.3 million. In the same period of the prior year, the LIFO reserve decreased, and gross profit increased, by $0.5 million.

Industrial Segment. Gross profit for the Industrial segment increased $0.1 million to $8.4 million, or 13.4% of sales, for the three months ended December 29, 2019, as compared to $8.3 million, or 12.0% of sales, for the same period of the prior year. During the current quarter, the LIFO reserve decreased, and gross profit increased, by $0.2 million. In the same period a year ago, the LIFO reserve decreased, and gross profit increased, by $0.4 million. Total gross profit increased from a year ago despite lower sales dollars due to a favorable product mix shift with increased sales of certain of our higher margin manufactured, blended and re-packaged products.

Water Treatment Segment. Gross profit for the Water Treatment segment increased $0.8 million to $8.4 million, or 24.0% of sales, for the three months ended December 29, 2019, as compared to $7.6 million, or 23.3% of sales, for the same period of the prior year. During the current quarter and the same quarter of the prior year, the LIFO reserve changed nominally and therefore had a minimal impact on gross profit. Gross profit increased as a result of higher sales of our manufactured, blended and repackaged products compared to a year ago, offset somewhat by higher variable operating costs.

Health and Nutrition Segment. Gross profit for our Health and Nutrition segment decreased $0.4 million to $4.7 million, or 20.9% of sales, for the three months ended December 29, 2019, as compared to $5.1 million, or 19.3% of sales, for the same period of the prior year. Gross profit decreased as a result of lower sales, while gross profit as a percentage of sales was up slightly year over year.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses increased $0.4 million to $14.7 million, or 12.2% of sales, for the three months ended December 29, 2019, from $14.3 million, or 11.2% of sales, for the same period of the prior year. The increase was primarily due to a year-over-year unfavorable change in recorded compensation expense of $0.4 million due to higher compensation expense relating to the non-qualified deferred compensation plan liability. This expense was offset by the amount recorded in other income (expense) which represented gains or losses on investments held for our non-qualified deferred compensation plan.

Operating Income

Operating income increased $0.1 million to $6.8 million, or 5.6% of sales, for the three months ended December 29, 2019, from $6.7 million, or 5.2% of sales, for the same period of the prior year due to the combined impact of the factors discussed above.

Interest Expense, Net

Interest expense decreased $0.2 million to $0.6 million for the three months ended December 29, 2019 compared to $0.8 million for the same period of the prior year. Interest expense decreased due to lower outstanding borrowings and lower borrowing rates compared to the prior year.

Other Income (Expense)

Other income (expense) improved by $0.4 million for the three months ended December 29, 2019 compared to the same period a year ago, with $0.1 million of income recorded in the current quarter compared to expense of $0.3 million in the same quarter a year ago. This represents gains or losses recorded on investments held for our non-qualified deferred compensation plan. The amount recorded as a gain or loss was offset by a similar amount recorded as a reduction or increase to compensation expense within SG&A expenses.

Income Tax Provision

Our effective income tax rate was 28.1% for the three months ended December 29, 2019. Our effective tax rate for the three months ended December 30, 2018 was 26.2%. The effective tax rate increased from the prior year due to an increase to the section 162(m) deduction limitation and unfavorable tax provision adjustments recorded in the third quarter of fiscal 2020, whereas tax provision adjustments recorded in the third quarter of fiscal 2019 were favorable. The effective tax rate is impacted by projected levels of annual taxable income, permanent items, and state taxes.

Nine Months Ended December 29, 2019 Compared to Nine Months Ended December 30, 2018

Sales

Sales decreased $15.5 million, or 3.7%, to $407.8 million for the nine months ended December 29, 2019, as compared to $423.3 million for the same period of the prior year.

Industrial Segment. Industrial segment sales were $206.4 million for the nine months ended December 29, 2019, a decrease of $6.0 million, or 2.8%, from sales of $212.4 million for the same period of the prior year. Sales of bulk commodity products in the Industrial segment were approximately 19% of sales dollars for the current period and 22% of sales dollars for the same period in the prior year. The decrease in sales dollars from the prior year was driven by lower pricing due to lower costs of one of our major commodities as well as an overall decrease of volumes sold of our bulk commodity products, particularly of lower-priced bulk commodities driven by a weak ethanol industry, offset somewhat by an increase in volumes sold of our manufactured, blended and re-packaged products that typically carry higher per-unit selling prices.

Water Treatment Segment. Water Treatment segment sales increased $7.7 million, or 6.6%, to $124.0 million for the nine months ended December 29, 2019, as compared to $116.3 million for the same period of the prior year. Sales of bulk commodity products in the Water Treatment segment were approximately 11% of sales dollars for the current period and 15% for the same period in the prior year. The increase in sales dollars was driven by increased volumes sold of certain manufactured, blended and re-packaged products that carry higher per-unit selling prices, offset somewhat by lower volumes sold of our bulk commodity products as well as lower pricing due to lower costs of one of our major commodities.

Health & Nutrition Segment. Health and Nutrition segment sales decreased $17.2 million, or 18.2%, to $77.3 million for the nine months ended December 29, 2019, as compared to $94.5 million the same period of the prior year. The decline in sales was driven by decreased sales of our distributed specialty products, some of which was due to a previously anticipated worldwide supply shortage of a significant product that we experienced in the first two quarters of this fiscal year, and the ramp-up of sales with new partners replacing previous product lines.

Gross Profit

Gross profit increased $3.0 million to $78.3 million, or 19.2% of sales, for the nine months ended December 29, 2019, from $75.3 million, or 17.8% of sales, for the same period of the prior year. During the nine months ended December 29, 2019, the LIFO reserve decreased and gross profit increased by $0.6 million. In the same period of the prior year, the LIFO reserve changed nominally and therefore had a minimal impact on gross profit.

Industrial Segment. Gross profit for the Industrial segment increased $2.9 million to $30.0 million, or 14.5% of sales, for the nine months ended December 29, 2019, as compared to $27.1 million, or 12.7% of sales, for the same period of the prior year. During the nine months ended December 29, 2019, the LIFO reserve decreased and gross profit increased by $0.5 million, while the LIFO reserve decreased and gross profit increased by $0.1 million during the same period in the prior year. Despite lower sales dollars, total gross profit also increased from a year ago due to a favorable product mix shift to more sales of higher margin manufactured, blended and re-packaged products.

Water Treatment Segment. Gross profit for the Water Treatment segment increased $2.4 million to $33.2 million, or 26.8% of sales, for the nine months ended December 29, 2019, as compared to $30.8 million, or 26.5% of sales, for the same period of the prior year. During the nine months ended December 29, 2019 the LIFO reserve decreased and gross profit increased by $0.1 million, while the LIFO reserve increased and gross profit decreased by $0.1 million in the same period a year ago. Gross profit increased as a result of higher sales of certain of our manufactured, blended and repackaged products compared to a year ago, offset somewhat by higher variable operating costs.

Health and Nutrition Segment. Gross profit for our Health and Nutrition segment decreased $2.3 million to $15.1 million, or 19.5% of sales, for the nine months ended December 29, 2019, as compared to $17.4 million, or 18.4% of sales, for the same period of the prior year. Gross profit decreased as a result of lower sales, while gross profit as a percent of sales improved year over year due to increased profitability on certain products as well as lower operational costs.

Selling, General and Administrative Expenses

SG&A expenses increased slightly to $44.4 million, or 10.9% of sales, for the nine months ended December 29, 2019, as compared to $44.2 million, or 10.4% of sales, for the same period of the prior year. The increase was due to a year-over-year unfavorable change in compensation expense recorded of $0.5 million due to higher compensation expense relating to the non-qualified deferred compensation plan liability. This expense was offset by the amount recorded in other income (expense) which represented gains or losses on investments held for our non-qualified deferred compensation plan.

Operating Income

Operating income was $33.9 million, or 8.3% of sales, for the nine months ended December 29, 2019, as compared to $31.0 million, or 7.4% of sales, for the same period of the prior year due to the combined impact of the factors discussed above.

Interest Expense, Net

Interest expense was $2.0 million for the nine months ended December 29, 2019, compared to $2.6 million for the same period of the prior year. Interest expense decreased due to lower outstanding borrowings compared to the prior year, with our total outstanding debt balance at December 29, 2019 being $23.0 million lower than a year ago.

Other Income (Expense)

Other income (expense) improved by $0.5 million for the nine months ended December 29, 2019, with $0.3 million of income recorded in the current year compared to expense of $0.2 million in the same period a year ago. This represents gains or losses recorded on investments held for our non-qualified deferred compensation plan. The amount recorded as a gain or loss was offset by a similar amount recorded as a reduction or increase to compensation expense within SG&A expenses.

Income Tax Provision

Our effective tax rate for the nine months ended December 29, 2019 was 26.6% and was 26.8% for the nine months ended December 30, 2018. The effective tax rate is impacted by projected levels of annual taxable income, permanent items, and state taxes.

Liquidity and Capital Resources

Cash was $7.3 million at December 29, 2019, a decrease of $1.9 million as compared with the $9.2 million available as of March 31, 2019.

Cash provided by operating activities was $45.0 million for the nine months ended December 29, 2019, compared to cash provided by operating activities of $31.0 million for the same period of the prior year. The year-over-year increase in cash provided by operating activities was primarily driven by a reduction in receivables and inventory, along with improvement in net income for the first nine months of fiscal 2020 compared to the same period a year ago. 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. Typically, our cash requirements increase during the period from April through November as caustic soda inventory levels increase because we receive the majority of barges during this period.

Cash used in investing activities was $19.1 million for the nine months ended December 29, 2019, compared to $7.0 million for the same period of the prior year. Capital expenditures were $19.4 million for the nine months ended December 29, 2019, compared to $7.2 million in the same period of the prior year. Included in the capital expenditures for the first nine months of fiscal 2020 was $8.2 million in the aggregate for the purchase of our previously leased corporate headquarters and a previously leased Water Treatment branch facility, as well as the purchase of a facility for a Water Treatment branch expansion. In addition, the increase in capital expenditures primarily related to facility improvements and new and replacement equipment.

Cash used in financing activities was $27.8 million for the nine months ended December 29, 2019, compared to $21.7 million in the same period of the prior year. Included in financing activities in the current year were net debt payments of $17.0 million, dividend payments of $7.4 million and share repurchases of $3.8 million. In the first nine months of the prior year, we made net debt payments of $10.0 million and dividend payments of $9.5 million. The year-over-year change in dividend payments resulted from our change from semi-annual to quarterly dividend payments.

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 800,000 shares of our outstanding common stock, including an increase of 500,000 shares in February 2019. 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 first nine months of fiscal 2020, we repurchased 91,395 shares of common stock with an aggregate purchase price of $3.8 million. In the first nine months of the prior year, we repurchased 59,788 shares of common stock with an aggregate purchase price of $2.4 million. As of December 29, 2019, 412,985 shares remained available for purchase under the program

We are party to an 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 provides us with senior secured revolving credit facilities (the “Revolving Loan Facility”) totaling $150.0 million. The Revolving Loan Facility includes a $5.0 million letter of credit subfacility and $15.0 million swingline subfacility. The Revolving Loan Facility has a five-year maturity date, maturing on November 30, 2023. The Revolving Loan Facility is secured by substantially all of our personal property assets and those of our subsidiaries.

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) LIBOR for an interest period of one, two, 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 LIBOR for U.S. dollars plus 1.0%. The LIBOR margin is between 0.85% - 1.35%, depending on our leverage ratio. The base rate margin is between 0.00% - 0.35%, depending on our leverage ratio. In the event that the ICE Benchmark Administration (or any person that takes over administration of such rate) determines that LIBOR is no longer available, including as a result of the intended phase out of LIBOR by the end of 2021, our Revolving Loan Facility provides for an alternative rate of interest to be jointly determined by us and U.S. Bank, as administrative agent, that gives due consideration to the then prevailing market convention for determining a rate of interest for syndicated loans in the United States. Once such successor rate has been approved by us and U.S. Bank, the Revolving Credit Loan Facility would be amended to use such successor rate without any further action or consent of any other lender, so long as the administrative agent does not receive any objection from any other lender. At December 29, 2019, the effective interest rate on our borrowing was 2.4%.

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% - 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 December 29, 2019, 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 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 December 29, 2019.

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 Revolving Loan Facility.

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 March 31, 2019.

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," "expect," "intend," "plan," "believe," "estimate," "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 March 31, 2019. 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 limited to borrowings under our Revolving Loan Facility. A 25-basis point change in interest rates would potentially increase or decrease our annual interest expense by approximately $0.1 million. We have in place an interest rate swap that converts a portion of our variable-rate debt into a fixed-rate obligation. The swap agreement began September 1, 2017 and will end on December 23, 2020. The notional amount of the swap agreement is currently $20 million through its end date. We have designated this swap as a cash flow hedge and have determined that it qualifies for hedge accounting treatment. Changes in fair value of the cash flow hedge are recorded in other comprehensive loss (net of tax) until income or loss from the cash flows of the hedged item is realized.

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 December 29, 2019. 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 2020 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 March 31, 2019.

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

As previously announced, our Board has authorized the repurchase of up to 800,000 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 December 29, 2019:

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
9/30/2019-10/27/2019	—	$ —	—	412,985
10/28/2019-11/24/2019	—	—	—	412,985
11/25/2019-12/29/2019	—	—	—	412,985
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	Amended and 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 December 29, 2019 filed with the SEC on February 5, 2020 formatted in Inline Extensible Business Reporting Language (iXBRL); (i) the Condensed Consolidated Balance Sheets at December 29, 2019 and March 31, 2019, (ii) the Condensed Consolidated Statements of Income for the three and nine months ended December 29, 2019 and December 30, 2018, (iii) the Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended December 29, 2019 and December 30, 2018, (iv) the Condensed Consolidated Statements of Shareholder's Equity for the three and nine months ended December 29, 2019 and December 30, 2018, (v) the Condensed Consolidated Statements of Cash Flows for the nine months ended December 29, 2019 and December 30, 2018, 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 3.1 to the Company’s Quarterly Report on Form 10-Q for the period ended June 30, 2010, filed on July 29, 2010 (File no. 000-07647).

(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 (File no. 000-07647).

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

Vice President, Chief Financial Officer, and Treasurer

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

Dated: February 5, 2020

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 5, 2020

/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 5, 2020

/s/ Jeffrey P. Oldenkamp

Jeffrey P. Oldenkamp
Vice President, Chief Financial Officer, and Treasurer

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 December 29, 2019, 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 5, 2020

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 December 29, 2019, 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
Vice President, Chief Financial Officer, and Treasurer
February 5, 2020