

HAWKINS INC  
Form 10-Q  
November 02, 2016

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 October 2, 2016  
Commission file number 0-7647

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

MINNESOTA 41-0771293  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)  
2381 ROSEGATE, ROSEVILLE, MINNESOTA 55113  
(Address of principal executive offices, including zip code)  
(612) 331-6910  
(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer

Non-Accelerated Filer  (Do not check if a smaller reporting company) Smaller Reporting Company

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

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 October 28, 2016
Common Stock, par value \$.05 per share	10,612,582



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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## HAWKINS, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(In thousands, except share data)

	October 2, 2016	April 3, 2016
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$16,650	\$20,014
Trade receivables — less allowance for doubtful accounts: \$570 as of October 2, 2016 and \$602 as of April 3, 2016	52,841	59,271
Inventories	54,351	47,719
Income taxes receivable	—	6,062
Prepaid expenses and other current assets	2,518	4,222
Total current assets	126,360	137,288
<b>PROPERTY, PLANT, AND EQUIPMENT:</b>		
Less accumulated depreciation	213,165	204,848
Net property, plant, and equipment	95,280	88,527
<b>OTHER ASSETS:</b>		
Goodwill	97,724	97,724
Intangible assets — less accumulated amortization: \$9,413 as of October 2, 2016 and \$6,370 as of April 3, 2016	79,891	82,934
Other	1,051	2,224
Total other assets	178,666	182,882
Total assets	\$422,911	\$436,491
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable — trade	\$27,708	\$30,121
Dividends payable	4,454	4,226
Accrued payroll and employee benefits	9,153	8,787
Income tax payable	1,261	—
Current portion of long-term debt	6,739	5,489
Due to sellers of acquired business	488	6,829
Container deposits	1,146	1,081
Other current liabilities	2,149	3,232
Total current liabilities	53,098	59,765
LONG-TERM DEBT, LESS CURRENT PORTION	106,934	123,616
PENSION WITHDRAWAL LIABILITY	6,126	6,282
DEFERRED INCOME TAXES	42,164	42,242
OTHER LONG-TERM LIABILITIES	1,763	3,611
Total liabilities	210,085	235,516
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>SHAREHOLDERS' EQUITY:</b>		
Common stock; authorized: 30,000,000 shares of \$0.05 par value; 10,538,328 and 10,512,471 shares issued and outstanding as of October 2, 2016 and April 3, 2016, respectively	527	526
Additional paid-in capital	49,815	48,189
Retained earnings	162,605	152,265
Accumulated other comprehensive loss	(121	) (5 )

Total shareholders' equity	212,826	200,975
Total liabilities and shareholders' equity	\$422,911	\$436,491
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		Six Months Ended	
	October 2, 2016	September 27, 2015	October 2, 2016	September 27, 2015
Sales	\$ 121,250	\$ 94,592	\$ 252,624	\$ 196,088
Cost of sales	(94,218 )	(74,781 )	(197,376 )	(155,542 )
Gross profit	27,032	19,811	55,248	40,546
Selling, general and administrative expenses	(14,871 )	(10,303 )	(29,997 )	(20,194 )
Operating income	12,161	9,508	25,251	20,352
Interest (expense) income, net	(619 )	(15 )	(1,343 )	6
Income before income taxes	11,542	9,493	23,908	20,358
Income tax provision	(4,352 )	(3,815 )	(9,114 )	(7,889 )
Net income	\$ 7,190	\$ 5,678	\$ 14,794	\$ 12,469
Weighted average number of shares outstanding - basic	10,536,309	10,545,992	10,524,724	10,563,267
Weighted average number of shares outstanding - diluted	10,586,939	10,589,824	10,581,253	10,614,484
Basic earnings per share	\$ 0.68	\$ 0.54	\$ 1.41	\$ 1.18
Diluted earnings per share	\$ 0.68	\$ 0.54	\$ 1.40	\$ 1.17
Cash dividends declared per common share	\$ 0.42	\$ 0.40	\$ 0.42	\$ 0.40

See accompanying notes to condensed consolidated financial statements.

## HAWKINS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(In thousands)

	Three Months Ended		Six Months Ended	
	October 2,	September 27,	October 2,	September 27,
	2016	2015	2016	2015
Net income	\$7,190	\$ 5,678	\$14,794	\$ 12,469
Other comprehensive income, net of tax:				
Unrealized (loss) gain on available-for-sale investments	—	(34	) —	21
Unrealized loss on interest rate swap	(116	) —	(116	) —
Total comprehensive income	\$7,074	\$ 5,644	\$14,678	\$ 12,490

See accompanying notes to condensed consolidated financial statements.

## HAWKINS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In thousands)

	Six Months Ended	
	October 2, September 27,	
	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$14,794	\$ 12,469
Reconciliation to cash flows:		
Depreciation and amortization	10,284	6,950
Amortization of debt issuance costs	68	—
Stock compensation expense	1,074	869
(Gain) loss from property disposals	(65	) 4
Changes in operating accounts providing (using) cash:		
Trade receivables	6,430	3,040
Inventories	(6,632	) (4,173
Accounts payable	(1,116	) (121
Accrued liabilities	(1,742	) (1,316
Income taxes	3,182	1,908
Other	1,768	895
Net cash provided by operating activities	28,045	20,525
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property, plant, and equipment	(10,255	) (9,669
Purchases of investments	—	(4,873
Sale and maturities of investments	—	9,330
Acquisitions, net of cash acquired	(2,199	) (4,450
Other	218	(56
Net cash used in investing activities	(12,236	) (9,718
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Cash dividends paid	(4,226	) (4,038
New shares issued	553	530
Shares surrendered for payroll taxes	—	(379
Shares repurchased	—	(4,801
Payments on senior secured revolving credit facility	(13,000	) —
Payments on senior secured term loan	(2,500	) —
Net cash used in financing activities	(19,173	) (8,688
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(3,364	) 2,119
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	20,014	18,639
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$16,650	\$ 20,758

## SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid for income taxes	\$6,014	\$ 5,981
Cash paid for interest	\$1,196	\$ —
Noncash investing activities - capital expenditures in accounts payable	\$588	\$ 1,406
See accompanying notes to condensed consolidated financial statements.		





HAWKINS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1 – 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, 2016, 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 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, 2016, previously filed with the SEC. There has been no significant change in our accounting policies since the end of fiscal 2016.

The results of operations for the six months ended October 2, 2016 are not necessarily indicative of the results that may be expected for the full year.

References to fiscal 2016 refer to the fiscal year ended April 3, 2016 and references to fiscal 2017 refer to the fiscal year ending April 2, 2017. As compared to our normal 52-week fiscal years, fiscal 2016 was a 53-week year, with the extra week recorded in our fourth quarter’s results of operations.

Recently Issued Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-09 which provides accounting guidance intended to improve the accounting for share-based payment transactions. This guidance outlines new provisions intended to simplify various aspects related to accounting for share-based payments and their presentation in the financial statements and will be effective for years beginning after December 15, 2016 (our fiscal year ending April 1, 2018) and interim periods within those years. We are currently evaluating the impact of this accounting pronouncement on our results of operations and financial position.

In March 2016, the FASB issued ASU 2016-02, which provides new accounting guidance requiring lessees to recognize most leases as assets and liabilities on the balance sheet. This guidance will be effective for interim periods beginning after December 15, 2018 (our fiscal year ended March 30, 2020). We are currently evaluating the impact of this accounting pronouncement on our results of operations and financial position.

In January 2016, the FASB issued ASU 2016-01, which provides guidance that addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. This guidance will be effective for annual reporting periods beginning after December 15, 2017 (our fiscal year ending March 31, 2019), and interim periods within those annual periods. Early adoption is not permitted. We are currently evaluating the impact of this accounting pronouncement on our results of operations and financial position.

In July 2015, the FASB issued ASU 2015-11, which requires companies to change the measurement principal for inventory measured using the first-in, first-out (“FIFO”) or average cost method from the lower of cost or market to the lower of cost and net realizable value. Treatment of inventory valued under the last-in, first-out (“LIFO”) method is unchanged by this guidance. The new guidance will be applied prospectively and will be effective for fiscal years beginning after December 15, 2016 (our fiscal year ending April 1, 2018), and interim periods within those years. We are currently evaluating the impact of this accounting pronouncement on our results of operations and financial position.

In May 2014, the FASB issued ASU 2014-09, which provides new accounting requirements for recognition of revenue from contracts with customers. The requirements of the new standard will be effective for annual reporting periods beginning after December 15, 2017 (our fiscal year ending March 31, 2019), and interim periods within those annual periods. We are currently evaluating the impact of this accounting pronouncement on our results of operations and financial position.



### Recently Adopted Accounting Pronouncements

In September 2015, the FASB issued ASU 2015-16, which eliminates the requirement for an acquirer to retrospectively adjust the financial statements for measurement-period adjustments that occur in periods after a business combination is consummated. We adopted this guidance in the first quarter of fiscal 2017.

#### Note 2 – 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 incremental shares assumed to be issued as performance units and restricted stock. Basic and diluted EPS were calculated using the following:

	Three Months Ended		Six Months Ended	
	October 2, 2016	September 27, 2015	October 2, 2016	September 27, 2015
Weighted-average common shares outstanding—basic	10,536,309	10,545,992	10,524,724	10,563,267
Dilutive impact of performance units and restricted stock	50,630	43,832	56,529	51,217
Weighted-average common shares outstanding—diluted	10,586,939	10,589,824	10,581,253	10,614,484

For each of the three and six months ended October 2, 2016 and September 27, 2015, there were no shares excluded from the calculation of weighted-average common shares for diluted EPS.

#### Note 3 – Business Combinations

**Acquisition of Stauber Performance Ingredients:** On December 23, 2015, we acquired Stauber Performance Ingredients (“Stauber”) for \$157.0 million on a cash-free, debt-free basis subject to a customary working capital adjustment. The total consideration for the acquisition was \$158.2 million (\$156.7 million net of cash acquired). We paid \$156.0 million in cash at closing and paid an additional \$2.2 million during the first quarter of fiscal 2017 based upon closing cash, debt and working capital balances. The purchase was funded with \$131.0 million of proceeds from the credit facility described more fully in Note 8 as well as cash on hand.

Stauber operates out of facilities in New York and California and blends and distributes specialty products and ingredients to the nutritional, food, pharmaceutical, cosmetic and pet care industries. The acquisition expanded our portfolio of value-added specialty products within new markets. Stauber had revenues of approximately \$118.0 million for the twelve months ended December 23, 2015, the date of the acquisition. The results of operations since the acquisition date, and the assets, including the goodwill associated with the acquisition, are included in our newly-formed Health and Nutrition operating segment.

The acquisition was accounted for under the acquisition method of accounting. Accordingly, the cost to acquire Stauber was allocated to the underlying net assets in proportion to estimates of their respective fair values.

The fair value of acquired property, plant and equipment of \$11.0 million was valued using a cost approach with consideration given to the continuation of the property in the current operation at the present locations. The fair value of acquired identifiable intangible assets was \$71.5 million. The acquired intangible assets, all of which are finite-lived, have a weighted average useful life of 16.3 years and are being amortized on a straight-line basis. The intangible assets include customer relationships of \$66.0 million (17 year life), trade name of \$4.0 million (10 year life), non-competition agreements of \$1.3 million (3.3 year weighted average life) and order backlog of \$0.1 million.

The fair value of acquired identifiable intangible assets was determined using the income approach. In performing these valuations, the key underlying probability-adjusted assumptions of the discounted cash flows were projected revenues, gross margin expectations and operating cost estimates. The valuations were based on the information that was available as of the acquisition date and expectations and assumptions that have been deemed reasonable by management. There are inherent uncertainties and management judgment required in these determinations. The fair value measurements of the assets acquired were based on valuations involving significant unobservable inputs, or Level 3 in the fair value hierarchy. None of the intangible assets are expected to be deductible for income tax purposes. As a result, a \$28.6 million deferred tax liability was recorded on the opening balance sheet for the amount of non-deductible amortization expense.



The purchase price of Stauber exceeded the acquisition-date amounts of the identifiable assets acquired less the liabilities assumed by \$84.2 million. Cash flows used to determine the purchase price included strategic and synergistic benefits (investment value) specific to our businesses, which resulted in a purchase price in excess of the fair value of identifiable net assets. The purchase price also included the fair values of other assets that were not identifiable, not separately recognizable under accounting rules (e.g., assembled workforce) or of immaterial value in addition to a going-concern element that represents our ability to earn a higher rate of return on the group of assets than would be expected on the separate assets as determined during the valuation process. None of the goodwill is expected to be deductible for income tax purposes.

The allocation of the purchase price to trade receivables and goodwill remains subject to change within the measurement period (up to one year from the acquisition date). The fair value of trade receivables is open pending the collection of certain uncollected balances. Any adjustment to the preliminary allocation of fair value of trade receivables will result in an adjustment to goodwill. The following table summarizes the fair value measurement of the assets acquired and liabilities assumed as of the acquisition date:

(In thousands)	Amount
Cash and cash equivalents (a)	\$1,502
Trade receivables	15,737
Inventories	10,207
Other assets	900
Property, plant, and equipment	10,989
Intangible assets	71,459
Accounts payable	(5,398 )
Accrued expenses and other current liabilities (a)	(2,925 )
Deferred income taxes	(28,445 )
Other non-current liabilities	(79 )
Net assets acquired	73,947
Goodwill	84,229
Total preliminary purchase price	158,176
Less acquired cash	(1,502 )
Preliminary purchase price, net of cash acquired	\$156,674

(a) In addition to these balances, \$7.3 million of cash and current accrued liabilities were recorded that relate to stock and other acquisition-related compensation payments, which were recorded by Stauber as of the acquisition date but were paid subsequent to the acquisition date.

The following pro forma information has been prepared as if the Stauber acquisition and the borrowing to finance the acquisition had occurred as of the beginning of fiscal 2016. The pro forma information is not necessarily indicative of what our consolidated results of operations actually would have been had the acquisition occurred at the beginning of the fiscal year, nor is it indicative of our future operational results. There is no pro forma information presented for the three and six months ended October 2, 2016 as Stauber's results are included for the full periods.

Three Months Ended September 27, 2015			
(In thousands, except per share data)	As Reported	Pro Forma Stauber Adjustments	Combined Pro Forma Results
Pro forma net sales	\$94,592	\$ 29,448	\$ 124,040
Pro forma net income	\$5,678	\$ 374	\$6,052
Pro forma basic earnings per share	\$0.54	\$ 0.03	\$0.57
Pro forma diluted earnings per share	\$0.54	\$ 0.03	\$0.57
Six Months Ended September 27, 2015			
(In thousands, except per share data)	As Reported	Pro Forma Stauber Adjustments	Combined Pro Forma Results
Pro forma net sales	\$ 196,088	\$ 61,702	\$ 257,790
Pro forma net income	\$ 12,469	\$ 1,633	\$ 14,102
Pro forma basic earnings per share	\$ 1.18	\$ 0.16	\$ 1.34
Pro forma diluted earnings per share	\$ 1.17	\$ 0.16	\$ 1.33

Included in pro forma net income for the six months ended September 27, 2015 was a \$0.9 million pre-tax non-operating gain recorded by Stauber, or \$0.05 per share, fully diluted. The unaudited pro forma financial information above is adjusted to reflect the following: (a) interest expense, including amortization of debt issuance costs, related to the \$131.0 million of debt used to fund the acquisition; (b) amortization expense related to the \$71.5 million of identifiable intangible assets recognized in conjunction with the acquisition; (c) elimination of amortization of intangibles and interest expense previously reflected on Stauber's financial statements; and (d) recording income taxes at an estimated statutory rate of 37.5% on the resulting pre-tax income.

Acquisition of Davis Supply, Inc.: On September 18, 2015, we acquired substantially all of the assets of Davis Supply, Inc. ("Davis") under the terms of an asset purchase agreement with Davis and its shareholders. We paid \$4.5 million cash at closing, using available cash on hand to fund the acquisition. Davis was a water treatment chemical distribution company operating in Florida with revenues of approximately \$5.0 million in calendar year 2014. We integrated this business into our existing Florida locations. The results of operations after the date of acquisition and the acquired assets are included in our Water Treatment Segment.

The acquisition has been accounted for under the acquisition method of accounting, under which the total purchase price is allocated to the net tangible and intangible assets acquired based on their estimated fair values. We estimated the fair values of the assets acquired and liabilities assumed using a discounted cash flow analysis (income approach). The following table summarizes the allocation of the purchase price to the fair values assigned to the assets acquired and liabilities assumed as of the acquisition date:

(In thousands)	Amount
Inventories	\$ 145
Property, plant, and equipment	78
Intangible assets	2,532
Net assets acquired	2,755
Goodwill	1,745
Total purchase price	\$ 4,500

Intangible assets recognized in connection with this acquisition consist of \$2.4 million related to customer relationships to be amortized over 20 years, and \$0.1 million related to a non-compete agreement to be amortized over five years. The goodwill recognized as a result of this acquisition is primarily attributable to strategic and synergistic benefits, as well as the assembled workforce. This goodwill is expected to be deductible for tax purposes.

#### Note 4- Derivative Instruments

On September 20, 2016, we entered into 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 new swap agreement will begin September 1, 2017 and will end concurrently with the expiration of our credit facility on December 23, 2020. The notional amount of the swap agreement is \$40 million from September 1, 2017 through August 31, 2018, \$30 million from September 1, 2018 through August 31, 2019 and \$20 million from September 1, 2019 through 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 loss (net of tax) until income or loss from the cash flows of the hedged item is realized.

As of October 2, 2016, we recorded \$0.1 million in other comprehensive loss related to unrealized losses (net of tax) on the cash flow hedge. A long-term liability of \$0.2 million is included in other-long term liabilities on our condensed consolidated balance sheet as of October 2, 2016. No amounts were reflected in other comprehensive income (loss) related to cash flow hedges for the three or six months ended September 27, 2015 or on the condensed consolidated balance sheet as of September 27, 2015 as we did not hold any derivative instruments at that time. 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 as 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.

Quoted prices in active markets for similar assets or liabilities, or quoted prices for identical or similar assets

Level 2: 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.

Unobservable inputs for the asset or liability that are supported by little or no market activity. These fair

Level 3: 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.

The fair value of interest rate swaps 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 following table summarizes the balances of liabilities measured at fair value on a recurring basis as of October 2, 2016. There were no liabilities measured at fair value on a recurring basis as of April 3, 2016.

(In thousands)	Level 1	Level 2	Level 3	Total
Interest rate swap	—	\$ 194	—	\$ 194

#### Note 6 – Inventories

Inventories at October 2, 2016 and April 3, 2016 consisted of the following:

(In thousands)	October 2, 2016	April 3, 2016
Inventory (FIFO basis)	\$ 58,123	\$ 51,857
LIFO reserve	(3,772 )	(4,138 )
Net inventory	\$ 54,351	\$ 47,719

The FIFO value of inventories accounted for under the LIFO method was \$41.7 million at October 2, 2016 and \$36.5 million at April 3, 2016. 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 October 2, 2016 and decreased nominally during the three months ended September 27, 2015. During the six months ended October 2, 2016 the LIFO reserve decreased \$0.4 million and decreased nominally for the six months ended September 27, 2015. The valuation of LIFO inventory for interim periods is based on our estimates of year-end inventory levels and costs.

#### Note 7 – Goodwill and Intangible Assets

The carrying amount of goodwill was \$97.7 million as of October 2, 2016 and April 3, 2016.

A summary of our intangible assets as of October 2, 2016 and April 3, 2016 is as follows:

(In thousands)	October 2, 2016			April 3, 2016		
	Gross Amount	Accumulated Amortization	Net	Gross Amount	Accumulated Amortization	Net
Finite-life intangible assets						
Customer relationships	78,384	(5,548 )	72,836	78,384	(3,289 )	75,095
Trademarks and trade names	6,045	(1,464 )	4,581	6,045	(1,090 )	4,955
Other finite-life intangible assets	3,648	(2,401 )	1,247	3,648	(1,991 )	1,657
Total finite-life intangible assets	88,077	(9,413 )	78,664	88,077	(6,370 )	81,707
Indefinite-life intangible assets	1,227	—	1,227	1,227	—	1,227
Total intangible assets	\$ 89,304	\$ (9,413 )	\$ 79,891	\$ 89,304	\$ (6,370 )	\$ 82,934



## Note 8 – Debt

Debt at October 2, 2016 and April 3, 2016 consisted of the following:

	October 2, 2016	April 3, 2016
(In thousands)		
Senior secured term loan	\$96,250	\$98,750
Senior secured revolver	18,000	31,000
Total debt	114,250	129,750
Less: unamortized debt issuance costs	(577 )	(645 )
Less: current portion of long-term debt	(6,739 )	(5,489 )
Total long-term debt	\$106,934	\$123,616

## 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, 2013 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 six months ended October 2, 2016 was approximately 38.1%, compared to an effective tax rate of 38.8% for the six months ended September 27, 2015. The effective tax rate is impacted by projected levels of annual taxable income, permanent items, and state taxes. Our federal tax return filed for our fiscal year ended March 29, 2015 is currently under examination by the Internal Revenue Service.

During fiscal 2016, we recorded a gross unrecognized tax benefit of \$1.9 million in other long-term liabilities on our consolidated balance sheet as a result of uncertain income tax positions taken by Stauber on its tax returns for periods prior to our acquisition. The Stauber acquisition agreement provides us with indemnification by the prior owners for any tax liabilities relating to pre-acquisition tax returns. Accordingly, we have also recorded an offsetting, long-term receivable for \$1.9 million, and as such any change in the unrecognized tax benefit will not impact our effective tax rate in future periods. We expect these uncertain income tax amounts to decrease as the applicable examination periods by the relevant taxing authorities expire. During the three months ended October 2, 2016 the unrecognized tax benefit and the offsetting receivable were reduced to \$0.8 million due to the expiration of the statute of limitations. As of October 2, 2016 and April 3, 2016, the liability for uncertain tax positions and the corresponding receivable included \$0.1 million and \$0.3 million of interest and penalties, respectively.

## Note 10 – 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 2017 and fiscal 2016. 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 54,028 shares in the aggregate for fiscal 2017. The restricted shares issued will fully vest 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 six months ended October 2, 2016:

	Shares	Weighted-Average Grant Date Fair Value
Unvested at beginning of period	37,309	\$ 40.89
Granted	28,853	43.10
Unvested at end of period	66,162	\$ 41.85

We recorded compensation expense of \$0.4 million and \$0.8 million related to performance share units and restricted stock for the three and six months ended October 2, 2016, respectively. We recorded compensation expense of \$0.3 million and \$0.6 million related to performance share units and restricted stock for the three and six months ended September 27, 2015,

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 retainer, each non-employee director receives an annual grant of restricted stock for their Board of Director services. 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 October 2, 2016, there were 8,092 shares of restricted stock with a weighted averaged grant date fair value of \$43.24 outstanding under this program. Compensation expense for each of the three and six months ended October 2, 2016 and September 27, 2015 related to restricted stock awards to the Board was \$0.1 million.

#### Note 11 – Share Repurchase Program

In fiscal 2015, our Board authorized a share repurchase program of up to 300,000 shares of our outstanding common shares. Under the program, we are authorized to repurchase shares for cash on the open market or in privately negotiated transactions subject to applicable securities laws and regulations. Upon repurchase of the shares, we reduced our common stock for the par value of the shares with the excess applied against additional paid-in capital.

No shares were repurchased during the six months ended October 2, 2016. During the first six months of fiscal 2016, 127,852 shares at an aggregate purchase price of \$4.8 million were repurchased. The remaining balance of shares available to be purchased under the current share repurchase program is 112,546 shares.

#### Note 12 – 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.

#### Note 13 – Segment Information

We have three reportable segments: Industrial, Water Treatment, and Health and Nutrition. Our Health and Nutrition segment was established as a result of our acquisition of Stauber in the third quarter of fiscal 2016. The accounting policies of the segments are the same as those described in the summary of significant accounting policies in our fiscal 2016 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. Shared corporate functions are allocated between the segments that they support. There are no intersegment sales and no operating segments have been aggregated. Given the nature of our business, it is not practical to disclose revenues from external customers for each product or each group of similar products. 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 October 2, 2016:				
Sales	\$55,846	\$ 36,856	\$ 28,548	\$121,250
Gross profit	10,185	11,072	5,775	27,032
Selling, general, and administrative expenses	5,392	4,953	4,526	14,871
Operating income	4,793	6,119	1,249	12,161
Three months ended September 27, 2015:				
Sales	\$58,346	\$ 36,246	\$ —	\$94,592
Gross profit	9,184	10,627	—	19,811
Selling, general, and administrative expenses	5,441	4,862	—	10,303
Operating income	3,743	5,765	—	9,508
Six months ended October 2, 2016:				
Sales	\$119,634	\$ 72,492	\$ 60,498	\$252,624
Gross profit	20,607	21,701	12,940	55,248
Selling, general and administrative expenses	10,787	10,017	9,193	29,997
Operating income	9,820	11,684	3,747	25,251
Six months ended September 27, 2015:				
Sales	\$125,934	\$ 70,154	\$ —	\$196,088
Gross profit	19,898	20,648	—	40,546
Selling, general and administrative expenses	10,640	9,554	—	20,194
Operating income	9,258	11,094	—	20,352

No significant changes to identifiable assets by segment occurred during the six months ended October 2, 2016.

## 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 six months ended October 2, 2016 as compared to the similar periods ended September 27, 2015. 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, 2016 ("fiscal 2016"). References to fiscal 2017 refer to the fiscal year ending April 2, 2017.

### 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 chemical and specialty ingredients, including manufacturing, blending, and repackaging certain products.

### Recent Acquisitions

During the third quarter of fiscal 2016, we acquired Stauber Performance Ingredients ("Stauber") for \$157.0 million on a cash-free, debt-free basis, subject to a customary working capital adjustment. The total consideration for the acquisition was \$158.2 million (\$156.7 million net of cash acquired). Stauber operates out of facilities in New York and California and blends and distributes specialty products and ingredients to the nutritional, food, pharmaceutical, cosmetic and pet care industries. The acquisition expanded our portfolio of value-added specialty products within new markets. The results of operations since the acquisition date, and the assets, including the goodwill associated with the acquisition, are included in our newly-formed Health and Nutrition operating segment, starting with our results for the fourth quarter of fiscal 2016.

On September 18, 2015, we acquired substantially all of the assets of Davis Supply, Inc. ("Davis") for \$4.5 million under the terms of an asset purchase agreement with Davis and its shareholders. We integrated this business into our existing Florida locations. The results of operations after the date of acquisition and the acquired assets are included in our Water Treatment Segment.

### Share Repurchase Program

In the first quarter of fiscal 2015, our Board of Directors authorized a share repurchase program of up to 300,000 shares of our outstanding common stock. The shares may be repurchased 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. No shares were repurchased during the six months ended October 2, 2016. During the first half of fiscal 2016, 127,852 shares at an aggregate purchase price of \$4.8 million were repurchased. The remaining balance of shares available to be purchased under the current share repurchase program is 112,546 shares.

### New Operating Segment

In connection with the Stauber acquisition in fiscal 2016, we established our Health and Nutrition operating segment. This segment specializes in providing ingredient distribution, processing and formulation solutions to manufacturers of nutraceutical, functional food and beverage, personal care, dietary supplement and other nutritional food and health and wellness products. This group offers a diverse product portfolio including minerals, botanicals and herbs, vitamins and amino acids, excipients, joint products, sweeteners and enzymes. This is a new operating segment for us. We have provided comparisons below to prior year pro forma financial data disclosed in Note 3 to our condensed consolidated



interim financial statements.

#### Financial Results

We use the last in, first out (“LIFO”) method for valuing a large portion 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. We recorded a decrease in our LIFO reserve of \$0.3 million for the three months ended October 2, 2016 and \$0.4 million for the six months ended October 2, 2016, both of which increased our reported gross profit

for those periods. We recorded a nominal decrease in our LIFO reserve for both the three and six months ended September 27, 2015. Inventories in the Health and Nutrition segment are valued using the first-in, first-out (“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. The disclosures in this document referring to sales of bulk commodity products have been updated for all periods presented based on the most recent review.

### Results of Operations

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

	Three months ended		Six months ended	
	October	September	October	September
	2, 2016	27, 2015	2, 2016	27, 2015
Sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales	(77.7 )%	(79.1 )%	(78.1 )%	(79.3 )%
Gross profit	22.3 %	20.9 %	21.9 %	20.7 %
Selling, general and administrative expenses	(12.3 )%	(10.9 )%	(11.9 )%	(10.3 )%
Operating income	10.0 %	10.0 %	10.0 %	10.4 %
Interest income, net	(0.5 )%	— %	(0.5 )%	— %
Income before income taxes	9.5 %	10.0 %	9.5 %	10.4 %
Income tax provision	(3.6 )%	(4.0 )%	(3.6 )%	(4.0 )%
Net income	5.9 %	6.0 %	5.9 %	6.4 %

### Three Months Ended October 2, 2016 Compared to Three Months Ended September 27, 2015

#### Sales

Sales increased \$26.7 million, or 28.2%, to \$121.3 million for the three months ended October 2, 2016, as compared to \$94.6 million reported for the same period of the prior year.

**Industrial Segment.** Industrial segment sales were \$55.8 million for the three months ended October 2, 2016, a decrease of \$2.5 million from \$58.3 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 both the current quarter and the same period in the prior year. Lower raw material costs on certain products drove lower selling prices and the decrease in sales dollars.

**Water Treatment Segment.** Water Treatment segment sales increased \$0.6 million, or 1.7%, to \$36.8 million for the three months ended October 2, 2016, as compared to \$36.2 million for the same period of the prior year. Sales of bulk commodity products in the Water Treatment segment were approximately 14% of sales dollars in the current year, compared to 15% in the same quarter a year ago. The increase in sales dollars was largely due to the business we acquired late in the second quarter of fiscal 2016 and increased volumes of specialized products, partially offset by lower per-unit selling prices due to reduced raw material costs on certain products.

**Health & Nutrition Segment.** Sales for our Health and Nutrition segment, which was established in the third quarter of fiscal 2016, were \$28.5 million for the three months ended October 2, 2016. This compares to pro forma sales of \$29.4 million for the same period last year and sales of \$31.9 million in the first quarter of fiscal 2017. The lower sales this quarter were primarily due to fluctuations in the timing of customer orders and certain customers working down inventory on hand.

#### Gross Profit

Gross profit was \$27.0 million, or 22.3% of sales, for the three months ended October 2, 2016, an increase of \$7.2 million from \$19.8 million, or 20.9% of sales, for the same period of the prior year.

Industrial Segment. Gross profit for the Industrial segment increased \$1.0 million to \$10.2 million, or 18.2% of sales, for the three months ended October 2, 2016, as compared to \$9.2 million, or 15.7% of sales, for the same period of the prior year.

While sales volumes were relatively flat in the quarter, our gross profit was improved due to a favorable product mix shift, lower raw material costs for certain products, and operational efficiencies as we increased our on-hand inventories during the quarter. The improvement in gross profit as a percentage of sales was largely due to decreased selling prices resulting from lower raw material costs. The LIFO method of valuing inventory increased gross profit by \$0.3 million in the current year and had a nominal impact on gross profit for the same period of the prior year.

**Water Treatment Segment.** Gross profit for the Water Treatment segment increased \$0.4 million to \$11.1 million, or 30.0% of sales, for the three months ended October 2, 2016, as compared to \$10.6 million, or 29.3% of sales, for the same period of the prior year. The increase in gross profit dollars was primarily driven by increased sales volumes of specialized products that have higher per-unit margins, as well as profits from the business we acquired late in the second quarter of fiscal 2016. The LIFO method of valuing inventory increased gross profit by \$0.1 million for the three months ended October 2, 2016 and had a nominal impact during the same quarter of the prior year.

**Health and Nutrition Segment.** Gross profit for our Health and Nutrition segment was \$5.8 million, or 20.2% of sales, for the second quarter of fiscal 2017. This is a decrease of \$1.4 million from the gross profit reported in the first quarter primarily resulting from lower sales with fixed production overhead costs. Inventories in this segment are valued using the FIFO method.

#### Selling, General and Administrative Expenses

Selling, general and administrative (“SG&A”) expenses were \$14.9 million, or 12.3% of sales, for the three months ended October 2, 2016, an increase of \$4.6 million from \$10.3 million, or 10.9% of sales, for the same period of the prior year. SG&A expenses in our Health and Nutrition segment accounted for \$4.5 million of the increase in the current quarter, and includes \$1.2 million of amortization expense on acquired intangible assets.

#### Operating Income

Operating income was \$12.2 million for the three months ended October 2, 2016, as compared to \$9.5 million for the same period of the prior year. Operating income provided by our new Health and Nutrition segment was \$1.2 million. Operating income in our Industrial segment increased by \$1.1 million and operating income in our Water Treatment segment increased by \$0.4 million driven by higher gross profits in both segments.

#### Interest (Expense) Income, Net

Interest expense increased by \$0.6 million for the second quarter of fiscal 2017, compared to the same period of the prior year, due to the interest costs on the debt added during the third quarter of fiscal 2016 to partially fund the Stauber acquisition.

#### Income Tax Provision

Our effective income tax rate was 37.7% for the three months ended October 2, 2016 compared to 40.2% for the three months ended September 27, 2015. Our tax rate for the quarter ended September 27, 2015 was impacted by \$0.3 million of state income expense related to an audit assessment which covered multiple years. The effective tax rate is impacted by projected levels of annual taxable income, permanent items, and state taxes.

#### Six months ended October 2, 2016 Compared to the Six months ended September 27, 2015

#### Sales

Sales increased \$56.5 million, or 28.8%, to \$252.6 million for the six months ended October 2, 2016, as compared to \$196.1 million for the same period of the prior year.

**Industrial Segment.** Industrial segment sales were \$119.6 million for the six months ended October 2, 2016, a decrease of \$6.3 million from \$125.9 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 six months ended October 2, 2016 compared to 19% for the same period of the previous year. Lower raw material costs on certain products drove lower selling prices and the decrease in sales dollars.

**Water Treatment Segment.** Water Treatment segment sales increased \$2.3 million, or 3.3%, to \$72.5 million for the six months ended October 2, 2016, as compared to \$70.2 million for the same period of the prior year. Sales of bulk commodity products in the Water Treatment segment were approximately 14% of sales dollars in the current year compared to 16% a year ago. The increase in sales dollars was largely due to the business we acquired late in the second quarter of fiscal 2016 and increased volumes of specialized products partially offset by lower volumes of bulk products.



Health & Nutrition Segment. Sales for our Health and Nutrition segment established in the third quarter of fiscal 2016 were \$60.5 million for the six months ended October 2, 2016. This compares to pro forma sales of \$61.7 million for the same period last year.

#### Gross Profit

Gross profit was \$55.2 million, or 21.9% of sales, for the six months ended October 2, 2016, an increase of \$14.7 million from \$40.5 million, or 20.7% of sales, for the same period of the prior year.

Industrial Segment. Gross profit for the Industrial segment increased \$0.7 million to \$20.6 million, or 17.2% of sales, for the six months ended October 2, 2016, as compared to \$19.9 million, or 15.8% of sales, for the same period of the prior year. The LIFO method of valuing inventory increased gross profit in our Industrial segment by \$0.3 million during the first half of fiscal 2017 and had a nominal impact on the same period of the prior year. Gross profit also increased year over year as a result of a product mix shift to products that carry higher per-unit margins. The improvement in gross profit as a percentage of sales was largely due to decreased selling prices resulting from lower raw material costs.

Water Treatment Segment. Gross profit for the Water Treatment segment increased \$1.1 million to \$21.7 million, or 29.9% of sales, for the six months ended October 2, 2016, as compared to \$20.6 million, or 29.4% of sales, for the same period of the prior year. The increase in gross profit dollars was primarily driven by increased sales volumes of specialized products that have higher per-unit margins as well as profits from the business we acquired late in the second quarter of fiscal 2016. The LIFO method of valuing inventory increased gross profits in our Water Treatment segment by \$0.1 million during the first half of fiscal 2017 and had a nominal impact on the same period of the prior year.

Health and Nutrition Segment. Gross profit for our Health and Nutrition segment was \$12.9 million, or 21.4% of sales, for the six months ended October 2, 2016. Inventories in this segment are valued using the FIFO method.

#### Selling, General and Administrative Expenses

SG&A expenses were \$30.0 million, or 11.9% of sales, for the six months ended October 2, 2016, an increase of \$9.8 million from \$20.2 million, or 10.3% of sales, for the same period of the prior year. SG&A expenses in our Health and Nutrition segment were \$9.2 million for the six months ended October 2, 2016, including \$2.4 million of amortization expense on acquired intangible assets. Expenses increased in our Water Treatment and Industrial segments largely as a result of the addition of sales and support personnel.

#### Operating Income

Operating income was \$25.3 million for the six months ended October 2, 2016, as compared to \$20.4 million for the same period of the prior year. Operating income provided by our Health and Nutrition segment was \$3.7 million. Operating income in our Industrial segment increased \$0.6 million and operating income in our Water Treatment segment increased by \$0.6 million, with higher gross profit partially offset by increased SG&A expenses in both segments.

#### Interest (Expense) Income, Net

Interest expense increased by \$1.3 million for the six months ended October 2, 2016, compared to the same period of the prior, year due to the interest costs on the debt added during the third quarter of fiscal 2016 to partially fund the Stauber acquisition.

#### Income Tax Provision

Our effective income tax rate was 38.1% for the six months ended October 2, 2016 compared to 38.8% for the six months ended September 27, 2015. Our tax rate for the six months ended September 27, 2015 was impacted by \$0.3 million of state income expense related to an audit assessment which covered multiple years. The effective tax rate is impacted by projected levels of annual taxable income, permanent items, and state taxes.

#### Liquidity and Capital Resources

Cash provided by operating activities for the six months ended October 2, 2016 was \$28.0 million, compared to \$20.5 million for the same period of the prior year. The increase in cash provided by operating activities was primarily driven by the added operating activity of the Health and Nutrition segment established in the third quarter of fiscal 2016. 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 as the majority of barges are received during this period.

Cash used in investing activities was \$12.2 million for the six months ended October 2, 2016, compared to \$9.7 million for the six months ended September 27, 2015. Capital expenditures were \$10.3 million for the six months ended October 2, 2016, compared to \$9.7 million in the same period of the prior fiscal year. Included in capital expenditures for the first six months of fiscal 2017 was \$4.3 million related to business expansion, inventory storage, and process improvements, including the purchase of one of our previously leased Florida locations, and \$4.0 million related to facility improvements, replacement equipment, new and replacement containers, and Water Treatment trucks. We paid \$2.2 million of additional purchase price for Stauber as closing cash, debt and working capital balances were finalized during the half of fiscal 2017.

Cash used in financing activities was \$19.2 million for the six months ended October 2, 2016, compared to cash used in financing activities of \$8.7 million in the same period of the prior fiscal year. Included in financing activities were debt repayments of \$2.5 million on our Term Loan Facility (as defined below) and \$13.0 million on our Revolving Loan Facility (as defined below) which were made in the six months ended October 2, 2016. In the first six months of the prior fiscal year we used \$4.8 million of cash for our share repurchase program.

Cash was \$16.6 million at October 2, 2016, a decrease of \$3.4 million as compared with the \$20.0 million available as of April 3, 2016. Cash flows generated by operations during the six months ended October 2, 2016 were offset by capital expenditures, cash dividends paid, the Stauber acquisition purchase price adjustment, and debt repayments.

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.

On December 23, 2015, in connection with the Stauber acquisition described more fully in Note 3 to the condensed consolidated financial statements, we entered into a 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 credit facilities (the "Credit Facility") totaling \$165.0 million, consisting of a \$100.0 million senior secured term loan credit facility (the "Term Loan Facility") and a \$65.0 million senior secured revolving loan credit facility (the "Revolving Loan Facility"). The Revolving Loan Facility includes a letter of credit subfacility in the amount of \$5.0 million and a swingline subfacility in the amount of \$8.0 million. The Term Loan facility requires mandatory quarterly repayments, with the balance due at maturity. The Credit Facility is scheduled to terminate on December 23, 2020. The Credit Facility is secured by substantially all of our personal property assets and those of our subsidiaries.

Borrowings under the Credit Facility bear interest at a variable 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 1.125%, 1.25% or 1.5%, depending on our leverage ratio. The base rate margin is either 0.125%, 0.25% or 0.5%, depending on our leverage ratio. At October 2, 2016, the effective interest rate on our borrowings was 1.8%.

On September 20, 2016, we entered into 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 new swap agreement will begin September 1, 2017 and will end concurrently with the expiration of our credit facility on December 23, 2020. The notional amount of the swap agreement is \$40 million from September 1, 2017 through August 31, 2018, \$30 million from September 1, 2018 through August 31, 2019 and \$20 million from September 1, 2019 through 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 loss (net of tax) until income or loss from the cash flows of the hedged item is realized.



We used \$131.0 million of the proceeds from the Credit Facility to fund our acquisition of Stauber. During the first six months of fiscal 2017, we repaid \$13.0 million on the Revolving Loan Facility. Accordingly, as of October 2, 2016 we had \$47.0 million remaining available under the Revolving Loan Facility, which may be used for working capital, capital expenditures, restricted payments and acquisitions permitted under the credit agreement, and other general corporate purposes.

In addition to paying interest on the outstanding principal under the Credit Facility, we are required to pay a commitment fee on the unutilized commitments thereunder. The commitment fee is 0.25% to 0.3%, depending on our leverage ratio.

Debt issuance costs of \$0.7 million paid to lenders are reflected as a reduction of long-term debt and are being amortized as interest expense over the term of the credit facility.

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. As of October 2, 2016, we were in compliance with all required covenants.

The Credit Agreement contains customary events of default, including failure to make payments under the Term Loan Facility, 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.

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 Policies

Our significant accounting policies are set forth in Note 1 to our consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended April 3, 2016. The accounting policies used in preparing our condensed consolidated financial statements for the first quarter of fiscal 2017 are the same as those described in that Annual Report.

#### 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. We intend words such as "anticipate," "expect," "intend," "plan," "believe," "see," "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 April 3, 2016. 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 Credit Facility. A 25 basis point change in interest rates would potentially increase or decrease annual interest expense by approximately \$0.3 million. In the second quarter of fiscal 2017, we entered into an interest

rate swap that will convert a portion of our variable rate debt into a fixed rate obligation. The new swap agreement will begin September 1, 2017 and will end concurrently with the expiration of our Credit Facility on December 23, 2020. The notional amount of the swap agreement is \$40 million from September 1, 2017 through August 31, 2018, \$30 million from September 1, 2018 through August 31, 2019 and \$20 million from September 1, 2019 through December 23, 2020. 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 are effective. 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.

We acquired Stauber Performance Ingredients on December 23, 2015. In the conduct of our assessment of the effectiveness of our disclosure controls and procedures and internal control over financial reporting for the period ended October 2, 2016, we have excluded total assets of \$194.3 million (of which \$152.1 million represents goodwill and intangibles included within the scope of the assessment) and net sales of \$28.5 million and \$60.5 million related to Stauber that are included in our condensed consolidated financial statements as of and for the three and six months ended October 2, 2016. We must include Stauber in the conduct of our assessment of the effectiveness of our disclosure controls and procedures and internal control over financial reporting no later than the third quarter of fiscal 2017.

##### Changes in Internal Control

There was no change in our internal control over financial reporting during the second quarter of fiscal 2017 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, 2016.

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

On May 29, 2014, our Board of Directors authorized a share repurchase program of up to 300,000 shares of our outstanding common stock. The shares may be repurchased on the open market or in privately negotiated transactions subject to applicable securities laws and regulations. We did not sell or repurchase any shares of our common stock during the second quarter of fiscal 2017. As of October 2, 2016, the maximum number of shares available to be repurchased under the share repurchase program was 112,546.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS-

Exhibit Description

- 3.1 Amended and Restated Articles of Incorporation. (1)
- 3.2 Amended and Restated By-Laws. (2)
- 31.1 Certification by Chief Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act.
- 31.2 Certification by Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act.
- 32.1 Section 1350 Certification by Chief Executive Officer.
- 32.2 Section 1350 Certification by Chief Financial Officer.
- 101 Financial statements from the Quarterly Report on Form 10-Q of Hawkins, Inc. for the period ended October 2, 2016 filed with the SEC on November 2, 2016 formatted in Extensible Business Reporting Language (XBRL); (i) the Condensed Consolidated Balance Sheets at October 2, 2016 and April 3, 2016, (ii) the Condensed Consolidated Statements of Income for the Three and Six months ended October 2, 2016 and September 27, 2015, (iii) the Condensed Consolidated Statements of Comprehensive Income for the Three and Six months ended October 2, 2016 and September 27, 2015, (iv) the Condensed Consolidated Statements of Cash Flows for the Six months ended October 2, 2016 and September 27, 2015, and (v) Notes to Condensed Consolidated Financial Statements.
- (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/ Kathleen P. Pepski  
Kathleen P. Pepski  
Vice President, Chief Financial Officer, and Treasurer  
(On behalf of the registrant and as principal financial officer)

Dated: November 2, 2016

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Exhibit Index

Exhibit	Description	Method of Filing
3.1	Amended and Restated Articles of Incorporation.	Incorporated by Reference
3.2	Amended and Restated By-Laws.	Incorporated by Reference
31.1	Certification by Chief Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act.	Filed Electronically
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