

**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 September 29, 2019

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	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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 October 25, 2019
Common Stock, par value \$.05 per share	10,628,976

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HAWKINS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(In thousands, except share data)

	September 29, 2019	March 31, 2019
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 4,056	\$ 9,199
Trade receivables — less allowance for doubtful accounts: \$909 as of September 29, 2019 and \$620 as of March 31, 2019	65,396	63,966
Inventories	60,804	60,482
Income taxes receivable	—	527
Prepaid expenses and other current assets	2,848	5,235
Total current assets	133,104	139,409
PROPERTY, PLANT, AND EQUIPMENT:	257,996	244,861
Less accumulated depreciation	133,578	126,233
Net property, plant, and equipment	124,418	118,628
OTHER ASSETS:		
Right-of-use assets	9,529	—
Goodwill	58,440	58,440
Intangible assets, net	63,189	65,726
Other	4,362	3,396
Total other assets	135,520	127,562
Total assets	\$ 393,042	\$ 385,599
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable — trade	\$ 29,624	\$ 29,314
Accrued payroll and employee benefits	8,862	12,483
Income tax payable	735	—
Current portion of long-term debt	9,907	9,907
Short-term lease liability	1,664	—
Container deposits	1,352	1,299
Other current liabilities	1,709	2,393
Total current liabilities	53,853	55,396
LONG-TERM DEBT, LESS CURRENT PORTION	64,705	74,658
LONG-TERM LEASE LIABILITY	7,873	—
PENSION WITHDRAWAL LIABILITY	5,148	5,316
DEFERRED INCOME TAXES	26,581	26,673
OTHER LONG-TERM LIABILITIES	5,447	5,695
Total liabilities	163,607	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 September 29, 2019 and March 31, 2019, respectively	527	530
Additional paid-in capital	50,282	52,609
Retained earnings	178,557	164,405
Accumulated other comprehensive income	69	317
Total shareholders' equity	229,435	217,861
Total liabilities and shareholders' equity	\$ 393,042	\$ 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		Six Months Ended	
	September 29, 2019	September 30, 2018	September 29, 2019	September 30, 2018
Sales	\$ 140,043	\$ 145,324	\$ 287,379	\$ 295,124
Cost of sales	(112,049)	(119,552)	(230,588)	(240,895)
Gross profit	27,994	25,772	56,791	54,229
Selling, general and administrative expenses	(14,817)	(14,941)	(29,653)	(29,920)
Operating income	13,177	10,831	27,138	24,309
Interest expense, net	(666)	(811)	(1,429)	(1,745)
Other income	26	78	143	76
Income before income taxes	12,537	10,098	25,852	22,640
Income tax expense	(3,287)	(2,689)	(6,795)	(6,108)
Net income	<u>\$ 9,250</u>	<u>\$ 7,409</u>	<u>\$ 19,057</u>	<u>\$ 16,532</u>
Weighted average number of shares outstanding - basic	10,575,538	10,675,833	10,589,922	10,662,210
Weighted average number of shares outstanding - diluted	10,633,117	10,719,059	10,663,864	10,714,381
Basic earnings per share	\$ 0.87	\$ 0.69	\$ 1.80	\$ 1.55
Diluted earnings per share	\$ 0.87	\$ 0.69	\$ 1.79	\$ 1.54
Cash dividends declared per common share	\$ 0.23	\$ 0.225	\$ 0.46	\$ 0.225

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	
	September 29, 2019	September 30, 2018	September 29, 2019	September 30, 2018
Net income	\$ 9,250	\$ 7,409	\$ 19,057	\$ 16,532
Other comprehensive income, net of tax:				
Unrealized (loss) gain on interest rate swap	(69)	(15)	(248)	12
Total comprehensive income	\$ 9,181	\$ 7,394	\$ 18,809	\$ 16,544

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
	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 paid				(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

See accompanying notes to condensed consolidated financial statements.

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

	Six Months Ended	
	September 29, 2019	September 30, 2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 19,057	\$ 16,532
Reconciliation to cash flows:		
Depreciation and amortization	10,739	11,005
Operating leases	106	—
Amortization of debt issuance costs	47	68
Gain on deferred compensation assets	(143)	(76)
Stock compensation expense	1,145	984
(Gain) loss from property disposals	(43)	68
Changes in operating accounts providing (using) cash:		
Trade receivables	(1,409)	(2,891)
Inventories	(323)	(8,035)
Accounts payable	238	2,372
Accrued liabilities	(4,504)	316
Income taxes	1,262	3,351
Other	944	1,161
Net cash provided by operating activities	27,116	24,855
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant, and equipment	(14,088)	(4,211)
Other	209	109
Net cash used in investing activities	(13,879)	(4,102)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash dividends paid	(4,905)	(7,116)
New shares issued	661	677
Shares surrendered for payroll taxes	(343)	(265)
Shares repurchased	(3,793)	—
Net payments on revolver borrowings	(10,000)	(10,000)
Payments on term loan borrowings	—	(5,000)
Net cash used in financing activities	(18,380)	(21,704)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(5,143)	(951)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	9,199	4,990
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 4,056	\$ 4,039
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for income taxes	\$ 5,533	\$ 2,757
Cash paid for interest	\$ 1,419	\$ 1,650
Noncash investing activities - capital expenditures in accounts payable	\$ 567	\$ 154

See accompanying notes to condensed consolidated financial statements.

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 six months ended September 29, 2019 are not necessarily indicative of the results that may be expected for the full year.

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 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 (“FASB”) 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, 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 product 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 six months ended September 29, 2019 and September 30, 2018:

Three months ended September 29, 2019				
(In thousands)	Industrial	Water Treatment	Health and Nutrition	Total
Bulk / Distributed specialty products ⁽¹⁾	\$ 11,700	\$ 4,971	\$ 22,892	\$ 39,563
Manufactured, blended or repackaged products ⁽²⁾	55,506	40,487	3,189	99,182
Other	884	410	4	1,298
Total external customer sales	<u>\$ 68,090</u>	<u>\$ 45,868</u>	<u>\$ 26,085</u>	<u>\$ 140,043</u>

Three months ended September 30, 2018				
(In thousands)	Industrial	Water Treatment	Health and Nutrition	Total
Bulk / Distributed specialty products ⁽¹⁾	\$ 15,307	\$ 5,982	\$ 29,624	\$ 50,913
Manufactured, blended or repackaged products ⁽²⁾	53,204	36,305	3,499	93,008
Other	891	426	86	1,403
Total external customer sales	<u>\$ 69,402</u>	<u>\$ 42,713</u>	<u>\$ 33,209</u>	<u>\$ 145,324</u>

Six months ended September 29, 2019				
(In thousands)	Industrial	Water Treatment	Health and Nutrition	Total
Bulk / Distributed specialty products ⁽¹⁾	\$ 26,790	\$ 9,679	\$ 47,495	\$ 83,964
Manufactured, blended or repackaged products ⁽²⁾	114,900	78,637	7,333	200,870
Other	1,725	804	16	2,545
Total external customer sales	<u>\$ 143,415</u>	<u>\$ 89,120</u>	<u>\$ 54,844</u>	<u>\$ 287,379</u>

Six months ended September 30, 2018				
(In thousands)	Industrial	Water Treatment	Health and Nutrition	Total
Bulk / Distributed specialty products ⁽¹⁾	\$ 30,243	\$ 11,804	\$ 60,301	\$ 102,348
Manufactured, blended or repackaged products ⁽²⁾	111,236	70,964	7,684	189,884
Other	1,941	814	137	2,892
Total external customer sales	<u>\$ 143,420</u>	<u>\$ 83,582</u>	<u>\$ 68,122</u>	<u>\$ 295,124</u>

(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		Six Months Ended	
	September 29, 2019	September 30, 2018	September 29, 2019	September 30, 2018
Weighted-average common shares outstanding—basic	10,575,538	10,675,833	10,589,922	10,662,210
Dilutive impact of performance units and restricted stock	57,579	43,226	73,942	52,171
Weighted-average common shares outstanding—diluted	10,633,117	10,719,059	10,663,864	10,714,381

For each of the three and six months ended September 29, 2019 and September 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 swap agreement will terminate on December 23, 2020. The notional amount of the swap agreement is currently \$20 million 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 income (net of tax) until income or loss from the cash flows of the hedged item is realized.

For the three months ended September 29, 2019, we recorded \$0.1 million in other comprehensive income related to unrealized losses (net of tax) on the cash flow hedge described above. For the six months ended September 29, 2019, we recorded \$0.2 million in other comprehensive loss related to unrealized losses (net of tax) on the cash flow hedge. For both the three and six months ended September 30, 2018, we recorded a nominal amount in other comprehensive income related to unrealized gains (net of tax) on the cash flow hedge. Included in other long-term assets on our condensed consolidated balance sheet was \$0.1 million as of September 29, 2019 and \$0.4 million as of March 31, 2019 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. Both of these 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 reclassified to 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 September 29, 2019 and March 31, 2019.

		September 29, 2019		
(In thousands)		Level 1	Level 2	Level 3
Interest rate swap		—	\$ 95	—
Deferred compensation plan assets		\$ 4,008	—	—

		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 September 29, 2019 and March 31, 2019 consisted of the following:

(In thousands)	September 29, 2019	March 31, 2019
Inventory (FIFO basis)	\$ 65,523	\$ 65,526
LIFO reserve	(4,719)	(5,044)
Net inventory	<u>\$ 60,804</u>	<u>\$ 60,482</u>

The first in, first out (“FIFO”) value of inventories accounted for under the last in, first out (“LIFO”) method was \$47.5 million at September 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 September 29, 2019 and increased \$0.1 million during the three months ended September 30, 2018. During the six months ended September 29, 2019, the LIFO reserve decreased \$0.3 million and increased \$0.5 million during the six months ended September 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 September 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 September 29, 2019 and March 31, 2019 is as follows:

(In thousands)	September 29, 2019			March 31, 2019		
	Gross Amount	Accumulated Amortization	Net	Gross Amount	Accumulated Amortization	Net
Finite-life intangible assets						
Customer relationships	\$ 78,383	\$ (19,155)	\$ 59,228	\$ 78,383	\$ (16,910)	\$ 61,473
Trademarks and trade names	6,045	(3,378)	2,667	6,045	(3,115)	2,930
Other finite-life intangible assets	3,648	(3,581)	67	3,648	(3,552)	96
Total finite-life intangible assets	88,076	(26,114)	61,962	88,076	(23,577)	64,499
Indefinite-life intangible assets	1,227	—	1,227	1,227	—	1,227
Total intangible assets	<u>\$ 89,303</u>	<u>\$ (26,114)</u>	<u>\$ 63,189</u>	<u>\$ 89,303</u>	<u>\$ (23,577)</u>	<u>\$ 65,726</u>

Note 9 – Debt

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

(In thousands)	September 29, 2019	March 31, 2019
Senior secured revolving loan	\$ 75,000	\$ 85,000
Less: unamortized debt issuance costs	(388)	(435)
Total debt, net of debt issuance costs	74,612	84,565
Less: current portion of long-term debt	(9,907)	(9,907)
Total long-term debt	<u>\$ 64,705</u>	<u>\$ 74,658</u>

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 six months ended September 29, 2019 was 26.3% and was 27.0% for the six months ended September 30, 2018. The effective tax rate is impacted by projected levels of annual taxable income, permanent items, and state taxes.

As of March 31, 2019, our balance sheet included a long-term liability for uncertain tax positions of \$0.1 million, which arose from tax positions taken by Stauber Performance Ingredients, Inc. (“Stauber”) on its tax returns for periods prior to our acquisition. Because the Stauber acquisition agreement provides us with indemnification by the prior owners for any tax liabilities relating to pre-acquisition tax returns, we have also recorded an offsetting, long-term receivable of \$0.1 million as of March 31, 2019. As a result, any change in the unrecognized tax benefit will not impact our effective tax rate in future periods. As of September 29, 2019, the long-term liability for uncertain tax positions and the offsetting long-term receivable have been removed from our balance sheet, due to the expiration of examination periods for the relevant taxing authorities.

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 September 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 may include options to extend the lease for up to 10 years.

As of September 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 six months ended September 29, 2019 was not material. Total lease expense for the three and six months ended September 29, 2019 was \$0.7 million and \$1.5 million, respectively.

Other information related to our operating leases was as follows:

(In thousands)	September 29, 2019
Supplemental Cash Flow Information	
Operating cash flows from leases	\$ 106
Lease Term and Discount Rate	
Weighted average remaining lease term (years)	9.07
Weighted average discount rate	4.1%

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

(In thousands)	Operating Leases
Remaining fiscal 2020	\$ 1,921
Fiscal 2021	1,472
Fiscal 2022	1,300
Fiscal 2023	1,148
Fiscal 2024	1,117
Thereafter	4,678
Total	\$ 11,636
Less: Interest	(2,099)
Present value of lease liabilities	\$ 9,537

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 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 September 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 \$0.4 million and \$0.8 million for the three and six months ended September 29, 2019, respectively. We recorded compensation expense related to performance share units and restricted stock of \$0.3 million and \$0.6 million for the three and six months ended September 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 retainer, each non-employee director receives an annual grant of restricted stock for their service on our Board of Directors. 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 September 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 September 29, 2019 and September 30, 2018 related to restricted stock awards to the Board was \$0.1 million. Compensation expense for both the six months ended September 29, 2019 and September 30, 2018 related to restricted stock awards to the Board was \$0.2 million.

Note 13 – Share Repurchase Program

Our Board of Directors 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 September 29, 2019, we repurchased 44,259 shares at an aggregate purchase price of \$2.0 million. During the six months ended September 29, 2019, we repurchased 91,395 shares at an aggregate purchase price of \$3.8 million. No shares were repurchased during the first six months of fiscal 2019. As of September 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 \$0.2 million as of September 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 September 29, 2019:				
Sales	\$ 68,090	\$ 45,868	\$ 26,085	\$ 140,043
Gross profit	10,674	12,753	4,567	27,994
Selling, general, and administrative expenses	5,895	5,134	3,788	14,817
Operating income	4,779	7,619	779	13,177
Three months ended September 30, 2018:				
Sales	\$ 69,402	\$ 42,713	\$ 33,209	\$ 145,324
Gross profit	8,328	11,710	5,734	25,772
Selling, general, and administrative expenses	5,790	5,055	4,096	14,941
Operating income	2,538	6,655	1,638	10,831
Six months ended September 29, 2019:				
Sales	\$ 143,415	\$ 89,120	\$ 54,844	\$ 287,379
Gross profit	21,589	24,844	10,358	56,791
Selling, general and administrative expenses	11,991	10,122	7,540	29,653
Operating income	9,598	14,722	2,818	27,138
Six months ended September 30, 2018:				
Sales	\$ 143,420	\$ 83,582	\$ 68,122	\$ 295,124
Gross profit	18,771	23,147	12,311	54,229
Selling, general and administrative expenses	11,277	10,156	8,487	29,920
Operating income	7,494	12,991	3,824	24,309

No significant changes to identifiable assets by segment occurred during the six months ended September 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 six months ended September 29, 2019 as compared to the similar period ended September 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 chemical 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 last in, first out (“LIFO”) method for valuing the majority of our inventory in our Industrial and Water Treatment segments, which causes the most recent product costs for those products to be recognized in our income statement. The valuation of LIFO inventory for interim periods is based on our estimates of fiscal year-end inventory levels and costs. The LIFO inventory valuation method and the resulting cost of sales are consistent with our business practices of pricing to current chemical raw material prices. Inventories in the Health and Nutrition segment are valued using the 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.

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	
	September 29, 2019	September 30, 2018	September 29, 2019	September 30, 2018
Sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales	(80.0)%	(82.3)%	(80.2)%	(81.6)%
Gross profit	20.0 %	17.7 %	19.8 %	18.4 %
Selling, general and administrative expenses	(10.6)%	(10.3)%	(10.3)%	(10.1)%
Operating income	9.4 %	7.4 %	9.5 %	8.3 %
Interest expense, net	(0.5)%	(0.6)%	(0.5)%	(0.6)%
Other income (expense)	— %	0.1 %	— %	— %
Income before income taxes	8.9 %	6.9 %	9.0 %	7.7 %
Income tax expense	(2.3)%	(1.9)%	(2.4)%	(2.1)%
Net income	6.6 %	5.0 %	6.6 %	5.6 %

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

Sales

Sales decreased \$5.3 million, or 3.6%, to \$140.0 million for the three months ended September 29, 2019, as compared to \$145.3 million for the same period of the prior year.

Industrial Segment. Industrial segment sales decreased \$1.3 million, or 1.9%, to \$68.1 million for the three months ended September 29, 2019, as compared to \$69.4 million for the same period of the prior year. Sales of bulk commodity products in the Industrial segment were approximately 17% of sales dollars for the three months ended September 29, 2019 and 22% for the same period in the prior year. Sales dollars decreased from the prior year due to a decrease of volumes sold of our bulk commodity products as well as lower pricing due to lower costs of one of our major commodities, 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 \$3.2 million, or 7.4%, to \$45.9 million for the three months ended September 29, 2019, as compared to \$42.7 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 three months ended September 29, 2019 and 14% 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 \$7.1 million, or 21.5%, to \$26.1 million for the three months ended September 29, 2019, as compared to \$33.2 million the same period of the prior year. The decrease in sales was driven by decreased sales of our specialty distributed products.

Gross Profit

Gross profit was \$28.0 million, or 20.0% of sales, for the three months ended September 29, 2019, an increase of \$2.2 million from \$25.8 million, or 17.7% of sales, for the same period of the prior year. During the three months ended September 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 increased, and gross profit decreased, by \$0.1 million.

Industrial Segment. Gross profit for the Industrial segment increased \$2.3 million to \$10.7 million, or 15.7% of sales, for the three months ended September 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 \$0.3 million. In the same period a year ago, the LIFO reserve increased, and gross profit decreased, by \$0.1 million. Total gross profit increased from a year ago due to a favorable product mix shift to sales of higher margin manufactured, blended and re-packaged products.

Water Treatment Segment. Gross profit for the Water Treatment segment increased \$1.1 million to \$12.8 million, or 27.8% of sales, for the three months ended September 29, 2019, as compared to \$11.7 million, or 27.4% of sales, for the same period of the prior year. During the current and prior year quarters, the LIFO reserve changed nominally and therefore had a minimal impact on gross profit. Gross profit increased as a result of higher sales 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 \$1.1 million to \$4.6 million, or 17.5% of sales, for the three months ended September 29, 2019, as compared to \$5.7 million, or 17.3% of sales, for the same period of the prior year. Gross profit decreased as a result of lower sales, while gross profit as a percent of sales was up slightly year over year.

Selling, General and Administrative Expenses

Selling, general and administrative (“SG&A”) expenses were relatively flat year over year at \$14.8 million, or 10.6% of sales, for the three months ended September 29, 2019, and \$14.9 million, or 10.3% of sales, for the same period of the prior year.

Operating Income

Operating income increased \$2.4 million to \$13.2 million, or 9.4% of sales, for the three months ended September 29, 2019, from \$10.8 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 \$0.7 million for the three months ended September 29, 2019 compared to \$0.8 million for the same period of the prior year. Interest expense decreased due to lower outstanding borrowings compared to the prior year.

Other (expense) income

Other income was nominal for the three months ended September 29, 2019 and was \$0.1 million in the second quarter of last fiscal year. Other (expense) income represents gains or losses recorded on investments held for our non-qualified deferred compensation plan. The amount recorded as a gain or loss is offset by a similar reduction or increase to compensation expense recorded within SG&A expenses.

Income Tax Provision

Our effective income tax rate was 26.2% for the three months ended September 29, 2019. Our effective tax rate for the three months ended September 30, 2018 was 26.6%. The effective tax rate is impacted by projected levels of annual taxable income, permanent items, and state taxes.

Six Months Ended September 29, 2019 Compared to Six Months Ended September 30, 2018

Sales

Sales decreased \$7.7 million, or 2.6%, to \$287.4 million for the six months ended September 29, 2019, as compared to \$295.1 million for the same period of the prior year.

Industrial Segment. Industrial segment sales were \$143.4 million for both the six months ended September 29, 2019 and the same period of the prior year. Sales of bulk commodity products in the Industrial segment were approximately 19% of sales dollars for the six months ended September 29, 2019 and 21% of sales dollars for the same period in the prior year. While sales dollars did not change in the current period compared to a year ago, increased sales of our manufactured, blended and re-packaged products were offset by decreased sales of our Bulk commodity products and lower pricing due to lower costs of one of our major commodities.

Water Treatment Segment. Water Treatment segment sales increased \$5.5 million, or 6.6%, to \$89.1 million for the six months ended September 29, 2019, as compared to \$83.6 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 six months ended September 29, 2019 and 14% 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.

Health & Nutrition Segment. Health and Nutrition segment sales decreased \$13.3 million, or 19.5%, to \$54.8 million for the six months ended September 29, 2019, as compared to \$68.1 million the same period of the prior year. The decline in sales was driven by decreased sales of our specialty distributed products, nearly half of which was due to a previously anticipated worldwide supply shortage of a significant product that we believe to be temporary and the ramp-up of sales with new partners replacing previous product lines.

Gross Profit

Gross profit increased \$2.6 million to \$56.8 million, or 19.8% of sales, for the six months ended September 29, 2019, from \$54.2 million, or 18.4% of sales, for the same period of the prior year. During the six months ended September 29, 2019, the LIFO reserve decreased and gross profit increased by \$0.3 million, while the LIFO reserve increased and gross profit decreased by \$0.5 million in the same period of the prior year.

Industrial Segment. Gross profit for the Industrial segment increased \$2.8 million to \$21.6 million, or 15.1% of sales, for the six months ended September 29, 2019, as compared to \$18.8 million, or 13.1% of sales, for the same period of the prior year. During the six months ended September 29, 2019, the LIFO reserve decreased and gross profit increased by \$0.3 million, while the LIFO reserve increased and gross profit decreased by \$0.4 million during the first six months of the prior year. Total gross profit increased from a year ago due to a favorable product mix shift to sales of higher margin manufactured, blended and re-packaged products.

Water Treatment Segment. Gross profit for the Water Treatment segment increased \$1.7 million to \$24.8 million, or 27.9% of sales, for the six months ended September 29, 2019, as compared to \$23.1 million, or 27.7% of sales, for the same period of the prior year. During the six months ended September 29, 2019 the LIFO reserve changed nominally and therefore had a minimal impact on gross profit. In the same period in the prior year, the LIFO reserve increased and gross profit decreased by \$0.1 million. Gross profit increased as a result of higher sales 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 \$2.0 million to \$10.4 million, or 18.9% of sales, for the six months ended September 29, 2019, as compared to \$12.3 million, or 18.1% 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 were relatively flat year over year at \$29.7 million, or 10.3% of sales, for the six months ended September 29, 2019, and \$29.9 million, or 10.1% of sales, for the same period of the prior year.

Operating Income

Operating income was \$27.1 million, or 9.5% of sales, for the six months ended September 29, 2019, as compared to \$24.3 million, or 8.3% 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 \$1.4 million for the six months ended September 29, 2019 compared to \$1.7 million for the same period of the prior year. Interest expense decreased due to lower outstanding borrowings compared to the prior year.

Income Tax Provision

Our effective tax rate for the six months ended September 29, 2019 was 26.3% and was 27.0% for the six months ended September 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 \$4.1 million at September 29, 2019, a decrease of \$5.1 million as compared with the \$9.2 million available as of March 31, 2019.

Cash provided by operating activities was \$27.1 million for the six months ended September 29, 2019, compared to cash provided by operating activities of \$24.9 million for the same period of the prior year. The year-over-year increase in cash provided by operating activities was primarily driven by the improvement in net income for the first six 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 the majority of barges are received during this period.

Cash used in investing activities was \$13.9 million for the six months ended September 29, 2019, compared to \$4.1 million for the same period of the prior year. Capital expenditures were \$14.1 million for the six months ended September 29, 2019, compared to \$4.2 million in the same period of the prior year. We purchased our previously leased corporate headquarters facility in the first quarter of the current fiscal year, which drove the increase in capital spending.

Cash used in financing activities was \$18.4 million for the six months ended September 29, 2019, compared to cash provided by financing activities of \$21.7 million in the same period of the prior year. Included in financing activities in the current year were debt payments of \$10.0 million, dividend payments of \$4.9 million and share repurchases of \$3.8 million. In the first six months of the prior year, we made debt payments of \$15.0 million and dividend payments of \$7.1 million. The year-over-year change in dividend payments resulted from changing from semi-annual dividends previously to quarterly payments made currently.

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 of Directors 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 six months of fiscal 2020, we repurchased 91,395 shares of common stock with an aggregate purchase price of \$3.8 million. No shares were repurchased during the first six months of fiscal 2019. As of September 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 September 29, 2019, the effective interest rate on our borrowing was 2.9%.

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 September 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 September 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 September 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 second 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 of Directors 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 September 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
7/1/2019 - 7/28/2019	—	\$ —	—	457,244
7/29/2019 - 8/25/2019	44,259	45.00	44,259	412,985
8/26/2019 - 9/29/2019	—	—	—	412,985
Total	44,259		44,259	

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit	<u>Description</u>	<u>Method of Filing</u>
3.1	Amended and Restated Articles of Incorporation. (1)	Incorporated by Reference
3.2	Amended and Restated By-Laws. (2)	Incorporated by Reference
10.1	Employee Stock Purchase Plan, as amended. (3)	Incorporated by Reference
10.2	Amended and Restated Credit Agreement, dated as of November 30, 2018, among the Company, U.S. Bank National Association, and certain financial institutions. (4)	Incorporated by Reference
10.3	2019 Equity Incentive Plan approved August 1, 2019.	Filed Electronically
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 September 29, 2019 filed with the SEC on October 30, 2019 formatted in Extensible Business Reporting Language (XBRL); (i) the Condensed Consolidated Balance Sheets at September 29, 2019 and March 31, 2019, (ii) the Condensed Consolidated Statements of Income for the three and six months ended September 29, 2019 and September 30, 2018, (iii) the Condensed Consolidated Statements of Comprehensive Income for the three and six months ended September 29, 2019 and September 30, 2018, (iv) the Condensed Consolidated Statements of Shareholder's Equity for the three and six months ended September 29, 2019 and September 30, 2018, (v) the Condensed Consolidated Statements of Cash Flows for the six months ended September 29, 2019 and September 30, 2018, and (vi) Notes to Condensed Consolidated Financial Statements.	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).
- (3) Incorporated by reference to Exhibit 99.1 to the Company's Registration Statement on Form S-8 filed November 2, 2018 (File no. 333-228128).
- (4) Incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form 8-K filed December 3, 2018 (File no. 000-07647).

HAWKINS, INC.
2019 EQUITY INCENTIVE PLAN

1. **Purpose.** The purpose of the Hawkins, Inc. 2019 Equity Incentive Plan (the “Plan”) is to attract and retain the best available personnel for positions of responsibility with the Company, to provide additional incentives to them and align their interests with those of the Company’s shareholders, and to thereby promote the Company’s long-term business success.

2. **Definitions.** In this Plan, the following definitions will apply.

(a) “Affiliate” means any entity that is a Subsidiary of the Company.

(b) “Agreement” means the written or electronic agreement, notice or other document containing the terms and conditions applicable to each Award granted under the Plan, including all amendments thereto. An Agreement is subject to the terms and conditions of the Plan.

(c) “Award” means a grant made under the Plan in the form of Options, Stock Appreciation Rights, Restricted Stock, Stock Units or any Other Stock-Based Award.

(d) “Board” means the Board of Directors of the Company.

(e) “Cause” means, unless otherwise defined in a then-effective written agreement (including an Agreement) between a Participant and the Company or any Affiliate, a Participant’s (i) failure to perform satisfactorily the duties reasonably required of the Participant by the Company (other than by reason of Disability); (ii) material violation of any law, rule, regulation, court order or regulatory directive (other than traffic violations, misdemeanors or other minor offenses); (iii) material breach of the Company’s business conduct or ethics code or of any fiduciary duty or nondisclosure, non-solicitation, non-competition or similar obligation owed to the Company or any Affiliate; (iv) engaging in any act or practice that involves personal dishonesty on the part of the Participant or demonstrates a willful and continuing disregard for the best interests of the Company and its Affiliates; or (v) engaging in dishonorable or disruptive behavior, practices or acts which would be reasonably expected to harm or bring disrepute to the Company or any of its Affiliates, their business or any of their customers, employees or vendors.

(f) “Change in Control” means, unless otherwise defined in a then-effective written agreement (including an Agreement) between a Participant and the Company or any Affiliate, one of the following:

(1) An Exchange Act Person becomes the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act) of securities of the Company representing more than 50% of the combined voting power of the Company’s then outstanding Voting Securities, except that the following will not constitute a Change in Control:

(A) any acquisition of securities of the Company by an Exchange Act Person from the Company for the purpose of providing financing to the Company;

(B) any formation of a Group consisting solely of beneficial owners of the Company’s Voting Securities as of the effective date of this Plan; or

(C) any repurchase or other acquisition by the Company of its Voting Securities that causes any Exchange Act Person to become the beneficial owner of more than 50% of the Company’s Voting Securities.

If, however, an Exchange Act Person or Group referenced in clause (A), (B) or (C) above acquires beneficial ownership of additional Company Voting Securities after initially becoming the beneficial owner of more than 50% of the combined voting power of the Company’s Voting Securities by one of the means described in those clauses, then a Change in Control will be deemed to have occurred. Furthermore, a Change in Control will occur if a Person becomes the beneficial owner of more than 50% of the Company’s Voting Securities as the result of a Corporate Transaction only if the Corporate Transaction is itself a Change in Control pursuant to subsection 2(f)(3).

(2) Individuals who are Continuing Directors cease for any reason to constitute a majority of the members of the Board.

(3) A Corporate Transaction is consummated, unless, immediately following such Corporate Transaction, all or substantially all of the individuals and entities who were the beneficial owners of the Company’s Voting Securities immediately

prior to such Corporate Transaction beneficially own, directly or indirectly, more than 50% of the combined voting power of the then outstanding Voting Securities of the surviving or acquiring entity resulting from such Corporate Transaction (including beneficial ownership through any Parent of such entity) in substantially the same proportions as their ownership, immediately prior to such Corporate Transaction, of the Company's Voting Securities.

Notwithstanding the foregoing, to the extent that any Award constitutes a deferral of compensation subject to Code Section 409A, and if that Award provides for a change in the time or form of payment upon a Change in Control, then no Change in Control shall be deemed to have occurred upon an event described in this Section 2(f) unless the event would also constitute a change in ownership or effective control of, or a change in the ownership of a substantial portion of the assets of, the Company under Code Section 409A.

(g) "Code" means the Internal Revenue Code of 1986, as amended and in effect from time to time. For purposes of the Plan, references to sections of the Code shall be deemed to include any applicable regulations thereunder and any successor or similar statutory provisions.

(h) "Committee" means two or more Non-Employee Directors designated by the Board to administer the Plan under Section 3, each member of which shall be (i) an independent director within the meaning of applicable stock exchange rules and regulations and (ii) a non-employee director within the meaning of Exchange Act Rule 16b-3.

(i) "Company" means Hawkins, Inc., a Minnesota corporation, and any successor thereto.

(j) "Continuing Director" means an individual (i) who is, as of the effective date of the Plan, a director of the Company, or (ii) who becomes a director of the Company after the effective date hereof and whose initial election, or nomination for election by the Company's shareholders, was approved by at least a majority of the then Continuing Directors, but excluding, for purposes of this clause (ii), an individual whose initial assumption of office occurs as the result of an actual proxy contest involving the solicitation of proxies or consents by a person or Group other than the Board, or by reason of an agreement intended to avoid or settle an actual or threatened proxy contest.

(k) "Corporate Transaction" means (i) a sale or other disposition of all or substantially all of the assets of the Company, or (ii) a merger, consolidation, share exchange or similar transaction involving the Company, regardless of whether the Company is the surviving entity.

(l) "Disability" means (A) any permanent and total disability under any long-term disability plan or policy of the Company or its Affiliates that covers the Participant, or (B) if there is no such long-term disability plan or policy, "total and permanent disability" within the meaning of Code Section 22(e) (3).

(m) "Employee" means an employee of the Company or an Affiliate.

(n) "Exchange Act" means the Securities Exchange Act of 1934, as amended and in effect from time to time.

(o) "Exchange Act Person" means any natural person, entity or Group other than (i) the Company or any Affiliate; (ii) any employee benefit plan (or related trust) sponsored or maintained by the Company or any Affiliate; (iii) an underwriter temporarily holding securities in connection with a registered public offering of such securities; or (iv) an entity whose Voting Securities are beneficially owned by the beneficial owners of the Company's Voting Securities in substantially the same proportions as their beneficial ownership of the Company's Voting Securities.

(p) "Fair Market Value" means the fair market value of a Share determined as follows:

(1) If the Shares are readily tradable on an established securities market (as determined under Code Section 409A), then Fair Market Value will be the closing sales price for a Share on the principal securities market on which it trades on the date for which it is being determined, or if no sale of Shares occurred on that date, on the next preceding date on which a sale of Shares occurred, as reported in *The Wall Street Journal* or such other source as the Committee deems reliable; or

(2) If the Shares are not then readily tradable on an established securities market (as determined under Code Section 409A), then Fair Market Value will be determined by the Committee as the result of a reasonable application of a reasonable valuation method that satisfies the requirements of Code Section 409A.

(q) "Full Value Award" means an Award other than an Option Award or Stock Appreciation Right Award.

(r) "Grant Date" means the date on which the Committee approves the grant of an Award under the Plan, or such later date as may be specified by the Committee on the date the Committee approves the Award.

(s) "Group" means two or more persons who act, or agree to act together, as a partnership, limited partnership, syndicate or other group for the purpose of acquiring, holding, voting or disposing of securities of the Company.

(t) "Non-Employee Director" means a member of the Board who is not an Employee.

(u) "Option" means a right granted under the Plan to purchase a specified number of Shares at a specified price. An "Incentive Stock Option" or "ISO" means any Option designated as such and granted in accordance with the requirements of Code Section 422. A "Non-Qualified Stock Option" or "NQSO" means an Option other than an Incentive Stock Option.

(v) "Other Stock-Based Award" means an Award described in Section 11 of this Plan.

(w) "Parent" means a "parent corporation," as defined in Code Section 424(e).

(x) "Participant" means a Service Provider to whom a then-outstanding Award has been granted under the Plan.

(y) "Plan" means this Hawkins, Inc. 2019 Equity Incentive Plan, as amended and in effect from time to time.

(z) "Prior Plan" means the Hawkins, Inc. 2010 Omnibus Incentive Plan.

(aa) "Restricted Stock" means Shares issued to a Participant that are subject to such restrictions on transfer, vesting conditions and other restrictions or limitations as may be set forth in this Plan and the applicable Agreement.

(bb) "Service" means the provision of services by a Participant to the Company or any Affiliate in any Service Provider capacity. A Service Provider's Service shall be deemed to have terminated either upon an actual cessation of providing services to the Company or any Affiliate or upon the entity to which the Service Provider provides services ceasing to be an Affiliate. Except as otherwise provided in this Plan or any Agreement, Service shall not be deemed terminated in the case of (i) any approved leave of absence; (ii) transfers among the Company and any Affiliates in any Service Provider capacity; or (iii) any change in status so long as the individual remains in the service of the Company or any Affiliate in any Service Provider capacity.

(cc) "Service Provider" means an Employee, a Non-Employee Director, or any natural person who is a consultant or advisor, or is employed by a consultant or advisor retained by the Company or any Affiliate, and who provides services (other than in connection with (i) a capital-raising transaction or (ii) promoting or maintaining a market in Company securities) to the Company or any Affiliate.

(dd) "Share" means a share of Stock.

(ee) "Stock" means the common stock, \$.05 par value per Share, of the Company.

(ff) "Stock Appreciation Right" or "SAR" means the right to receive, in cash and/or Shares as determined by the Committee, an amount equal to the appreciation in value of a specified number of Shares between the Grant Date of the SAR and its exercise date.

(gg) "Stock Unit" means a right to receive, in cash and/or Shares as determined by the Committee, the Fair Market Value of a Share, subject to such restrictions on transfer, vesting conditions and other restrictions or limitations as may be set forth in this Plan and the applicable Agreement.

(hh) "Subsidiary" means a "subsidiary corporation," as defined in Code Section 424(f), of the Company.

(ii) "Substitute Award" means an Award granted upon the assumption of, or in substitution or exchange for, outstanding awards granted by a company or other entity acquired by the Company or any Affiliate or with which the Company or any Affiliate combines. The terms and conditions of a Substitute Award may vary from the terms and conditions set forth in the Plan to the extent that the Committee at the time of the grant may deem appropriate to conform, in whole or in part, to the provisions of the award in substitution for which it has been granted.

(jj) “Voting Securities” of an entity means the outstanding equity securities (or comparable equity interests) entitled to vote generally in the election of directors of such entity.

3. Administration of the Plan.

(a) Administration. The authority to control and manage the operations and administration of the Plan shall be vested in the Committee in accordance with this Section 3.

(b) Scope of Authority. Subject to the terms of the Plan, the Committee shall have the authority, in its discretion, to take such actions as it deems necessary or advisable to administer the Plan, including:

(1) determining the Service Providers to whom Awards will be granted, the timing of each such Award, the type of and the number of Shares covered by each Award, the terms, conditions, performance criteria, restrictions and other provisions of Awards, and the manner in which Awards are paid or settled;

(2) cancelling or suspending an Award, accelerating the vesting or extending the exercise period of an Award, or otherwise amending the terms and conditions of any outstanding Award, subject to the requirements of Sections 6(b), 15(d) and 15(e);

(3) adopting sub-plans or special provisions applicable to Awards, establishing, amending or rescinding rules to administer the Plan, interpreting the Plan and any Award or Agreement, reconciling any inconsistency, correcting any defect or supplying an omission in the Plan or any Agreement, and making all other determinations necessary or desirable for the administration of the Plan;

(4) granting Substitute Awards under the Plan; and

(5) requiring or permitting the deferral of the settlement of an Award, and establishing the terms and conditions of any such deferral.

Notwithstanding the foregoing, the Board shall perform the duties and have the responsibilities of the Committee with respect to Awards made to Non-Employee Directors.

(c) Awards to Foreign Service Providers. The Committee may grant Awards to Service Providers who are foreign nationals, who are located outside of the United States or who are not compensated from a payroll maintained in the United States, or who are otherwise subject to (or could cause the Company to be subject to) legal or regulatory requirements of countries outside of the United States, on such terms and conditions different from those specified in the Plan as may, in the judgment of the Committee, be necessary or desirable to comply with applicable foreign laws and regulatory requirements and to promote achievement of the purposes of the Plan. In connection therewith, the Committee may establish such subplans and modify exercise procedures and other Plan rules and procedures to the extent such actions are deemed necessary or desirable, and may take any other action that it deems advisable to obtain local regulatory approvals or to comply with any necessary local governmental regulatory exemptions.

(d) Acts of the Committee; Delegation. A majority of the members of the Committee shall constitute a quorum for any meeting of the Committee, and any act of a majority of the members present at any meeting at which a quorum is present or any act unanimously approved in writing by all members of the Committee shall be the act of the Committee. Any such action of the Committee shall be valid and effective even if one or more members of the Committee at the time of such action are later determined not to have satisfied all of the criteria for membership in clauses (i) and (ii) of Section 2(h). To the extent not inconsistent with applicable law or stock exchange rules, the Committee may delegate all or any portion of its authority under the Plan to any one or more of its members or, as to Awards to Participants who are not subject to Section 16 of the Exchange Act, to one or more directors or executive officers of the Company or to a committee of the Board comprised of one or more directors of the Company. The Committee may also delegate non-discretionary administrative responsibilities in connection with the Plan to such other persons as it deems advisable.

(e) Finality of Decisions. The Committee’s interpretation of the Plan and of any Award or Agreement made under the Plan and all related decisions or resolutions of the Board or Committee shall be final and binding on all parties with an interest therein.

(f) Indemnification. Each person who is or has been a member of the Committee or of the Board, and any other person to whom the Committee delegates authority under the Plan, shall be indemnified by the Company, to the maximum extent

permitted by law, against liabilities and expenses imposed upon or reasonably incurred by such person in connection with or resulting from any claims against such person by reason of the performance of the individual's duties under the Plan. This right to indemnification is conditioned upon such person providing the Company an opportunity, at the Company's expense, to handle and defend the claims before such person undertakes to handle and defend them on such person's own behalf. The Company will not be required to indemnify any person for any amount paid in settlement of a claim unless the Company has first consented in writing to the settlement. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such person or persons may be entitled under the Company's Certificate of Incorporation or Bylaws, as a matter of law, or otherwise.

4. Shares Available Under the Plan.

(a) Maximum Shares Available. Subject to Section 4(b) and to adjustment as provided in Section 12(a), the number of Shares that may be the subject of Awards and issued under the Plan shall be 750,000. No further awards may be made under the Prior Plan after the effective date of this Plan. Shares issued under the Plan may come from authorized and unissued shares. In determining the number of Shares to be counted against this share reserve in connection with any Award, the following rules shall apply:

(1) Where the number of Shares subject to an Award is variable on the Grant Date, the number of Shares to be counted against the share reserve shall be the maximum number of Shares that could be received under that particular Award, until such time as it can be determined that only a lesser number of shares could be received.

(2) Where two or more types of Awards are granted to a Participant in tandem with each other, such that the exercise of one type of Award with respect to a number of Shares cancels at least an equal number of Shares of the other, the number of Shares to be counted against the share reserve shall be the largest number of Shares that would be counted against the share reserve under either of the Awards.

(3) Shares subject to Substitute Awards shall not be counted against the share reserve, nor shall they reduce the Shares authorized for grant to a Participant in any calendar year.

(4) Awards that may be settled solely in cash shall not be counted against the share reserve, nor shall they reduce the Shares authorized for grant to a Participant in any calendar year.

(b) Effect of Forfeitures and Other Actions. Any Shares subject to an Award, or to an award granted under the Prior Plan that is outstanding on the effective date of this Plan (a "Prior Plan Award"), that expires, is cancelled or forfeited or is settled for cash shall, to the extent of such cancellation, forfeiture, expiration or cash settlement, again become available for Awards under this Plan, and the share reserve under Section 4(a) shall be correspondingly replenished. The following Shares shall not, however, again become available for Awards or replenish the share reserve under Section 4(a): (i) Shares tendered (either actually or by attestation) by the Participant or withheld by the Company in payment of the exercise price of a stock option issued under this Plan or the Prior Plan, (ii) Shares tendered (either actually or by attestation) by the Participant or withheld by the Company to satisfy any tax withholding obligation with respect to an award under this Plan or the Prior Plan, (iii) Shares repurchased by the Company with proceeds received from the exercise of a stock option issued under this Plan or the Prior Plan, and (iv) Shares subject to a stock appreciation right award issued under this Plan or the Prior Plan that are not issued in connection with the stock settlement of that award upon its exercise.

(c) Effect of Plans Operated by Acquired Companies. If a company acquired by the Company or any Subsidiary or with which the Company or any Subsidiary combines has shares available under a pre-existing plan approved by shareholders and not adopted in contemplation of such acquisition or combination, the shares available for grant pursuant to the terms of such pre-existing plan (as adjusted, to the extent appropriate, using the exchange ratio or other adjustment or valuation ratio or formula used in such acquisition or combination to determine the consideration payable to the holders of common stock of the entities party to such acquisition or combination) may be used for Awards under the Plan and shall supplement the Share reserve under Section 4(a). Awards using such available shares shall not be made after the date awards or grants could have been made under the terms of the pre-existing plan absent the acquisition or combination, and shall only be made to individuals who were not Employees or Non-Employee Directors prior to such acquisition or combination.

(d) No Fractional Shares. Unless otherwise determined by the Committee, the number of Shares subject to an Award shall always be a whole number. No fractional Shares may be issued under the Plan, but the Committee may, in its discretion, adopt any rounding convention it deems suitable or pay cash in lieu of any fractional Share in settlement of an Award.

5. **Eligibility.** Participation in the Plan is limited to Service Providers. Incentive Stock Options may only be granted to Employees.

6. **General Terms of Awards.**

(a) **Award Agreement.** Each Award shall be evidenced by an Agreement setting forth the amount of the Award together with such other terms and conditions applicable to the Award (and not inconsistent with the Plan) as determined by the Committee. An Award to a Participant may be made singly or in combination with any form of Award. Two types of Awards may be made in tandem with each other such that the exercise of one type of Award with respect to a number of Shares reduces the number of Shares subject to the related Award by at least an equal amount.

(b) **Vesting and Term.** Each Agreement shall set forth the period until the applicable Award is scheduled to vest and, if applicable, expire (which shall not be more than ten years from the Grant Date), and, consistent with the requirements of this Section 6(b), the applicable vesting conditions and any applicable performance period. Awards that vest based solely on the satisfaction by the Participant of service-based vesting conditions shall be subject to a vesting period of not less than one year from the applicable Grant Date (during which no portion of the award may be scheduled to vest), and Awards whose grant or vesting is subject to the satisfaction of performance goals over a performance period shall be subject to a performance period of not less than one year. The foregoing minimum vesting and performance periods will not, however, apply in connection with: (i) a Change in Control as provided in Section 12(b)(2), 12(b)(4) or 12(c), (ii) a termination of Service due to death or Disability, (iii) to a Substitute Award that does not reduce the vesting period of the award being replaced, (iv) Awards made in payment of or exchange for other compensation already earned and payable, and (v) outstanding, exercised and settled Awards involving an aggregate number of Shares not in excess of 5% of the Plan's share reserve specified in Section 4(a). For purposes of Awards to Non-Employee Directors, a vesting period will be deemed to be one year if runs from the date of one annual meeting of the Company's shareholders to the date of the next annual meeting of the Company's shareholders.

(c) **Transferability.** Except as provided in this Section 6(c), (i) during the lifetime of a Participant, only the Participant or the Participant's guardian or legal representative may exercise an Option or SAR, or receive payment with respect to any other Award; and (ii) no Award may be sold, assigned, transferred, exchanged or encumbered, voluntarily or involuntarily, other than by will or the laws of descent and distribution. Any attempted transfer in violation of this Section 6(c) shall be of no effect. The Committee may, however, provide in an Agreement or otherwise that an Award (other than an Incentive Stock Option) may be transferred pursuant to a domestic relations order or may be transferable by gift to any "family member" (as defined in General Instruction A.1(a)(5) to Form S-8 under the Securities Act of 1933) of the Participant. Any Award held by a transferee shall continue to be subject to the same terms and conditions that were applicable to that Award immediately before the transfer thereof. For purposes of any provision of the Plan relating to notice to a Participant or to acceleration or termination of an Award upon the death or termination of Service of a Participant, the references to "Participant" shall mean the original grantee of an Award and not any transferee.

(d) **Designation of Beneficiary.** To the extent permitted by the Committee, a Participant may designate a beneficiary or beneficiaries to exercise any Award or receive a payment under any Award that is exercisable or payable on or after the Participant's death. Any such designation shall be on a form approved by the Company and shall be effective upon its receipt by the Company.

(e) **Termination of Service.** Unless otherwise provided in an applicable Agreement or another then-effective written agreement between a Participant and the Company, and subject to Section 12 of this Plan, if a Participant's Service with the Company and all of its Affiliates terminates, the following provisions shall apply (in all cases subject to the scheduled expiration of an Option or SAR Award, as applicable):

(1) Upon termination of Service for Cause, all unexercised Option and SAR Awards and all unvested portions of any other outstanding Awards shall be immediately forfeited without consideration.

(2) Upon termination of Service for any other reason, all unvested and unexercisable portions of any outstanding Awards shall be immediately forfeited without consideration.

(3) Upon termination of Service for any reason other than Cause, death or Disability, the currently vested and exercisable portions of Option and SAR Awards may be exercised for a period of three months after the date of such termination. However, if a Participant thereafter dies during such three-month period, the vested and exercisable portions of the Option and SAR Awards may be exercised for a period of one year after the date of such termination.

(4) Upon termination of Service due to death or Disability, the currently vested and exercisable portions of Option and SAR Awards may be exercised for a period of one year after the date of such termination.

(f) Rights as Shareholder. No Participant shall have any rights as a shareholder with respect to any Shares covered by an Award unless and until the date the Participant becomes the holder of record of the Shares, if any, to which the Award relates.

(g) Performance-Based Awards. Any Award may be granted as a performance-based Award if the Committee establishes one or more measures of corporate, business unit or individual performance which must be attained, and the performance period over which the specified performance is to be attained, as a condition to the grant, vesting, exercisability, lapse of restrictions and/or settlement in cash or Shares of such Award. In connection with any such Award, the Committee shall determine the extent to which performance measures have been attained and other applicable terms and conditions have been satisfied, and the degree to which the grant, vesting, exercisability, lapse of restrictions and/or settlement of such Award has been earned. The Committee shall also have the authority to provide, in an Agreement or otherwise, for the modification of a performance period and/or adjustments to or waivers of the achievement of performance goals under specified circumstances such as (i) the occurrence of events that are unusual in nature or infrequently occurring, such as a Change in Control, an equity restructuring (as described in Section 12(a)), acquisitions, divestitures, restructuring activities, recapitalizations, or asset write-downs, (ii) a change in applicable tax laws or accounting principles, or (iii) the Participant's death or Disability.

(h) Dividends and Dividend Equivalents. No dividends, dividend equivalents or distributions will be paid with respect to Shares subject to an Option or SAR Award. Any dividends or distributions payable with respect to Shares that are subject to the unvested portion of a Restricted Stock Award will be subject to the same restrictions and risk of forfeiture as the Shares to which such dividends or distributions relate, except for regular cash dividends on Shares subject to the unvested portion of a Restricted Stock Award that is subject only to service-based vesting conditions. In its discretion, the Committee may provide in an Award Agreement for a Stock Unit Award or an Other Stock-Based Award that the Participant will be entitled to receive dividend equivalents, based on dividends actually declared and paid on outstanding Shares, on the units or other Share equivalents subject to the Stock Unit Award or Other Stock-Based Award, and such dividend equivalents will be subject to the same restrictions and risk of forfeiture as the units or other Share equivalents to which such dividend equivalents relate. The additional terms of any such dividend equivalents will be as set forth in the applicable Agreement, including the time and form of payment and whether such dividend equivalents will be credited with interest or deemed to be reinvested in additional units or Share equivalents. Any Shares issued or issuable during the term of this Plan as the result of the reinvestment of dividends or the deemed reinvestment of dividend equivalents in connection with an Award or a Prior Plan Award shall be counted against, and replenish upon any subsequent forfeiture, the Plan's share reserve as provided in Section 4.

(i) Deferrals of Full Value Awards. The Committee may, in its discretion, permit or require the deferral by a Participant of the issuance of Shares or payment of cash in settlement of any Full Value Award, subject to such terms, conditions, rules and procedures as it may establish or prescribe for such purpose and with the intention of complying with the applicable requirements of Code Section 409A. The terms, conditions, rules and procedures for any such deferral shall be set forth in writing in the relevant Agreement or in such other agreement, plan or document as the Committee may determine, or some combination of such documents. The terms, conditions, rules and procedures for any such deferral shall address, to the extent relevant, matters such as: (i) the amount of compensation that may or must be deferred (or the method for calculating the amount); (ii) the permissible time(s) and form(s) of payment of deferred amounts; (iii) the terms and conditions of any deferral elections by a Participant or of any deferral required by the Company; and (iv) the crediting of interest or dividend equivalents on deferred amounts.

7. Stock Option Awards.

(a) Type and Exercise Price. The Agreement pursuant to which an Option Award is granted shall specify whether the Option is an Incentive Stock Option or a Non-Qualified Stock Option. The exercise price at which each Share subject to an Option Award may be purchased shall be determined by the Committee and set forth in the Agreement, and shall not be less than the Fair Market Value of a Share on the Grant Date, except in the case of Substitute Awards (to the extent consistent with Code Section 409A and, in the case of Incentive Stock Options, Code Section 424).

(b) Payment of Exercise Price. The purchase price of the Shares with respect to which an Option Award is exercised shall be payable in full at the time of exercise. The purchase price may be paid in cash or in such other manner as the Committee may permit, including by payment under a broker-assisted sale and remittance program, by withholding Shares otherwise issuable to the Participant upon exercise of the Option or by delivery to the Company of Shares (by actual delivery or attestation) already owned by the Participant (in either case, such Shares having a Fair Market Value as of the date the Option is exercised equal to the purchase price of the Shares being purchased).

(c) Exercisability and Expiration. Each Option Award shall be exercisable in whole or in part on the terms provided in the Agreement. No Option Award shall be exercisable at any time after its scheduled expiration. When an Option Award is no longer exercisable, it shall be deemed to have terminated.

(d) Incentive Stock Options.

(1) An Option Award will constitute an Incentive Stock Option Award only if the Participant receiving the Option Award is an Employee, and only to the extent that (i) it is so designated in the applicable Agreement and (ii) the aggregate Fair Market Value (determined as of the Option Award's Grant Date) of the Shares with respect to which Incentive Stock Option Awards held by the Participant first become exercisable in any calendar year (under the Plan and all other plans of the Company and its Affiliates) does not exceed \$100,000 or such other amount specified by the Code. To the extent an Option Award granted to a Participant exceeds this limit, the Option Award shall be treated as a Non-Qualified Stock Option Award. The maximum number of Shares that may be issued upon the exercise of Incentive Stock Option Awards under the Plan shall be 750,000, subject to adjustment as provided in Section 12(a).

(2) No Participant may receive an Incentive Stock Option Award under the Plan if, immediately after the grant of such Award, the Participant would own (after application of the rules contained in Code Section 424(d)) Shares possessing more than 10% of the total combined Voting Power of all classes of stock of the Company or an Affiliate, unless (i) the per Share exercise price for such Award is at least 110% of the Fair Market Value of a Share on the Grant Date and (ii) such Award will expire no later than five years after its Grant Date.

(3) For purposes of continued Service by a Participant who has been granted an Incentive Stock Option Award, no approved leave of absence may exceed three months unless reemployment upon expiration of such leave is provided by statute or contract. If reemployment is not so provided, then on the date six months following the first day of such leave, any Incentive Stock Option held by the Participant shall cease to be treated as an Incentive Stock Option and shall be treated for tax purposes as a Non-Qualified Stock Option.

(4) If an Incentive Stock Option Award is exercised after the expiration of the exercise periods that apply for purposes of Code Section 422, such Option shall thereafter be treated as a Non-Qualified Stock Option.

(5) The Agreement covering an Incentive Stock Option Award shall contain such other terms and provisions that the Committee determines necessary to qualify the Option Award as an Incentive Stock Option Award.

8. Stock Appreciation Right Awards.

(a) Nature of Award. An Award of Stock Appreciation Rights shall be subject to such terms and conditions as are determined by the Committee, and shall provide a Participant the right to receive upon exercise of the SAR Award all or a portion of the excess of (i) the Fair Market Value as of the date of exercise of the SAR Award of the number of Shares as to which the SAR Award is being exercised, over (ii) the aggregate exercise price for such number of Shares. The per Share exercise price for any SAR Award shall be determined by the Committee and set forth in the applicable Agreement, and shall not be less than the Fair Market Value of a Share on the Grant Date, except in the case of Substitute Awards (to the extent consistent with Code Section 409A).

(b) Exercise of SAR. Each SAR Award may be exercisable in whole or in part at the times, on the terms and in the manner provided in the Agreement. No SAR Award shall be exercisable at any time after its scheduled expiration. When a SAR Award is no longer exercisable, it shall be deemed to have terminated. Upon exercise of a SAR Award, payment to the Participant shall be made at such time or times as shall be provided in the Agreement in the form of cash, Shares or a combination of cash and Shares as determined by the Committee. The Agreement may provide for a limitation upon the amount or percentage of the total appreciation on which payment (whether in cash and/or Shares) may be made in the event of the exercise of a SAR Award.

9. Restricted Stock Awards.

(a) Vesting and Consideration. Shares subject to a Restricted Stock Award shall be subject to vesting and the lapse of applicable restrictions based on such conditions or factors and occurring over such period of time as the Committee may determine in its discretion, subject to the requirements of Section 6(b). The Committee may provide whether any consideration other than Services must be received by the Company or any Affiliate as a condition precedent to the grant of a Restricted Stock Award, and may correspondingly provide for Company reacquisition or repurchase rights if such additional consideration has been required and some or all of a Restricted Stock Award does not vest.

(b) Shares Subject to Restricted Stock Awards. Unvested Shares subject to a Restricted Stock Award shall be evidenced by a book-entry in the name of the Participant with the Company's transfer agent or by one or more Stock certificates issued in the name of the Participant. Any such Stock certificate shall be deposited with the Company or its designee, together with an assignment separate from the certificate, in blank, signed by the Participant, and bear an appropriate legend referring to the restricted nature of the Restricted Stock evidenced thereby. Any book-entry shall be subject to comparable restrictions and corresponding stop transfer instructions. Upon the vesting of Shares of Restricted Stock, and the Company's determination that any necessary conditions precedent to the release of vested Shares (such as satisfaction of tax withholding obligations and compliance with applicable legal requirements) have been satisfied, such vested Shares shall be made available to the Participant in such manner as may be prescribed or permitted by the Committee. Except as otherwise provided in the Plan or an applicable Agreement, a Participant with a Restricted Stock Award shall have all the rights of a shareholder, including the right to vote the Shares of Restricted Stock.

10. Stock Unit Awards.

(a) Vesting and Consideration. A Stock Unit Award shall be subject to vesting and the lapse of applicable restrictions based on such conditions or factors and occurring over such period of time as the Committee may determine in its discretion, subject to the requirements of Section 6(b). If vesting of a Stock Unit Award is conditioned on the achievement of specified performance goals, the extent to which they are achieved over the specified performance period shall determine the number of Stock Units that will be earned and eligible to vest, which may be greater or less than the target number of Stock Units stated in the Agreement. The Committee may provide whether any consideration other than Services must be received by the Company or any Affiliate as a condition precedent to the settlement of a Stock Unit Award.

(b) Settlement of Award. Following the vesting of a Stock Unit Award, and the Company's determination that any necessary conditions precedent to the settlement of the Award (such as satisfaction of tax withholding obligations and compliance with applicable legal requirements) have been satisfied, settlement of the Award and payment to the Participant shall be made at such time or times in the form of cash, Shares (which may themselves be considered Restricted Stock under the Plan) or a combination of cash and Shares as determined by the Committee.

11. Other Stock-Based Awards. The Committee may from time to time grant Shares and other Awards that are valued by reference to and/or payable in whole or in part in Shares under the Plan. The Committee shall determine the terms and conditions of such Awards, which shall be consistent with the terms and purposes of the Plan. The Committee may direct the Company to issue Shares subject to restrictive legends and/or stop transfer instructions that are consistent with the terms and conditions of the Award to which the Shares relate.

12. Changes in Capitalization, Corporate Transactions, Change in Control.

(a) Adjustments for Changes in Capitalization. In the event of any equity restructuring (within the meaning of FASB ASC Topic 718) that causes the per share value of Shares to change, such as a stock dividend, stock split, spinoff, rights offering or recapitalization through an extraordinary dividend, the Committee shall make such adjustments as it deems equitable and appropriate to (i) the aggregate number and kind of Shares or other securities issued or reserved for issuance under the Plan, (ii) the number and kind of Shares or other securities subject to outstanding Awards, (iii) the exercise price of outstanding Options and SARs, and (iv) any maximum limitations prescribed by the Plan with respect to certain types of Awards or the grants to individuals of certain types of Awards. In the event of any other change in corporate capitalization, including a merger, consolidation, reorganization, or partial or complete liquidation of the Company, such equitable adjustments described in the foregoing sentence may be made as determined to be appropriate and equitable by the Committee to prevent dilution or enlargement of rights of Participants. In either case, any such adjustment shall be conclusive and binding for all purposes of the Plan. No adjustment shall be made pursuant to this Section 12(a) in connection with the conversion of any convertible securities of the Company, or in a manner that would cause Incentive Stock Options to violate Section 422(b) of the Code or cause an Award to be subject to adverse tax consequences under Section 409A of the Code.

(b) Corporate Transactions. Unless otherwise provided in an applicable Agreement or another written agreement between a Participant and the Company, the following provisions shall apply to outstanding Awards in the event of a Change in Control that involves a Corporate Transaction.

(1) Continuation, Assumption or Replacement of Awards. In the event of a Corporate Transaction, then the surviving or successor entity (or its Parent) may continue, assume or replace Awards outstanding as of the date of the Corporate Transaction (with such adjustments as may be required or permitted by Section 12(a)), and such Awards or replacements therefor shall remain outstanding and be governed by their respective terms, subject to Section 12(b)(4) below. A surviving or successor entity may elect to continue, assume or replace only some Awards or portions of Awards. For purposes of this Section 12(b)(1),

An Award shall be considered assumed or replaced if, in connection with the Corporate Transaction and in a manner consistent with Code Section 409A (and Code Section 424 if the Award is an ISO), either (i) the contractual obligations represented by the Award are expressly assumed by the surviving or successor entity (or its Parent) with appropriate adjustments to the number and type of securities subject to the Award and the exercise price thereof that preserves the intrinsic value of the Award existing at the time of the Corporate Transaction, or (ii) the Participant has received a comparable equity-based award that preserves the intrinsic value of the Award existing at the time of the Corporate Transaction and contains terms and conditions that are substantially similar to those of the Award.

(2) Acceleration. If and to the extent that outstanding Awards under the Plan are not continued, assumed or replaced in connection with a Corporate Transaction, then (i) all outstanding Option and SAR Awards shall become fully vested and exercisable for such period of time prior to the effective time of the Corporate Transaction as is deemed fair and equitable by the Committee, and shall terminate at the effective time of the Corporate Transaction, (ii) all outstanding Full Value Awards shall fully vest immediately prior to the effective time of the Corporate Transaction, and (iii) to the extent vesting of any Award is subject to satisfaction of specified performance goals, such Award shall be deemed “fully vested” for purposes of this Section 12(b)(2) if the performance goals are deemed to have been satisfied at the target level of performance and the vested portion of the Award at that level of performance is proportionate to the portion of the performance period that has elapsed as of the effective time of the Corporate Transaction. The Committee shall provide written notice of the period of accelerated exercisability of Option and SAR Awards to all affected Participants. The exercise of any Option or SAR Award whose exercisability is accelerated as provided in this Section 12(b)(2) shall be conditioned upon the consummation of the Corporate Transaction and shall be effective only immediately before such consummation.

(3) Payment for Awards. If and to the extent that outstanding Awards under the Plan are not continued, assumed or replaced in connection with a Corporate Transaction, then the Committee may provide that some or all of such outstanding Awards shall be canceled at or immediately prior to the effective time of the Corporate Transaction in exchange for payments to the holders as provided in this Section 12(b)(3). The Committee will not be required to treat all Awards similarly for purposes of this Section 12(b)(3). The payment for any Award canceled shall be in an amount equal to the difference, if any, between (i) the fair market value (as determined in good faith by the Committee) of the consideration that would otherwise be received in the Corporate Transaction for the number of Shares subject to the Award, and (ii) the aggregate exercise price (if any) for the Shares subject to such Award. If the amount determined pursuant to the preceding sentence is not a positive number with respect to any Award, such Award may be canceled pursuant to this Section 12(b)(3) without payment of any kind to the affected Participant. With respect to an Award whose vesting is subject to the satisfaction of specified performance goals, the number of Shares subject to such an Award for purposes of this Section 12(b)(3) shall be the number of Shares as to which the Award would have been deemed “fully vested” for purposes of Section 12(b)(2). Payment of any amount under this Section 12(b)(3) shall be made in such form, on such terms and subject to such conditions as the Committee determines in its discretion, which may or may not be the same as the form, terms and conditions applicable to payments to the Company’s shareholders in connection with the Corporate Transaction, and may, in the Committee’s discretion, include subjecting such payments to vesting conditions comparable to those of the Award canceled, subjecting such payments to escrow or holdback terms comparable to those imposed upon the Company’s shareholders under the Corporate Transaction, or calculating and paying the present value of payments that would otherwise be subject to escrow or holdback terms.

(4) Termination After a Corporate Transaction. If and to the extent that Awards are continued, assumed or replaced under the circumstances described in Section 12(b)(1), and if within 12 months after the Corporate Transaction a Participant experiences an involuntary termination of Service for reasons other than Cause, then (i) outstanding Option and SAR Awards issued to the Participant that are not yet fully exercisable shall immediately become exercisable in full and shall remain exercisable for one year following the Participant’s termination of employment, and (ii) any Full Value Awards that are not yet fully vested shall immediately vest in full (with vesting in full for a performance-based award determined as provided in Section 12(b)(2), except that the proportionate vesting amount will be determined with respect to the portion of the performance period during which the Participant was a Service Provider).

(c) Other Change in Control. In the event of a Change in Control that does not involve a Corporate Transaction, the Committee may, in its discretion, take such action as it deems appropriate with respect to outstanding Awards, which may include: (i) providing for the cancellation of any Award in exchange for payments in a manner similar to that provided in Section 12(b)(3) or (ii) making such adjustments to the Awards then outstanding as the Committee deems appropriate to reflect such Change in Control, which may include the acceleration of vesting in full or in part. The Committee will not be required to treat all Awards similarly in such circumstances, and may include such further provisions and limitations in any Award Agreement as it may deem equitable and in the best interests of the Company.

(d) Dissolution or Liquidation. Unless otherwise provided in an applicable Agreement, in the event of a proposed dissolution or liquidation of the Company, the Committee will notify each Participant as soon as practicable prior to the effective

date of such proposed transaction. An Award will terminate immediately prior to the consummation of such proposed action.

13. Plan Participation and Service Provider Status. Status as a Service Provider shall not be construed as a commitment that any Award will be made under the Plan to that Service Provider or to eligible Service Providers generally. Nothing in the Plan or in any Agreement or related documents shall confer upon any Service Provider or Participant any right to continued Service with the Company or any Affiliate, nor shall it interfere with or limit in any way any right of the Company or any Affiliate to terminate the person's Service at any time with or without Cause or change such person's compensation, other benefits, job responsibilities or title.

14. Tax Withholding. The Company or any Affiliate, as applicable, shall have the right to (i) withhold from any cash payment under the Plan or any other compensation owed to a Participant an amount sufficient to cover any required withholding taxes related to the grant, vesting, exercise or settlement of an Award, and (ii) require a Participant or other person receiving Shares under the Plan to pay a cash amount sufficient to cover any required withholding taxes before actual receipt of those Shares. In lieu of all or any part of a cash payment from a person receiving Shares under the Plan, the Committee may permit the Participant to satisfy all or any part of the required tax withholding obligations by authorizing the Company to withhold a number of the Shares that would otherwise be delivered to the Participant pursuant to the Award, or by transferring to the Company Shares already owned by the Participant, with the Shares so withheld or delivered having a Fair Market Value on the date the taxes are required to be withheld equal to the amount of taxes to be withheld.

15. Effective Date, Duration, Amendment and Termination of the Plan.

(a) Effective Date. The Plan shall become effective on the date it is approved by the Company's shareholders, which shall be considered the date of its adoption for purposes of Treasury Regulation §1.422-2(b)(2)(i). No Awards shall be made under the Plan prior to its effective date. If the Company's shareholders fail to approve the Plan by September 30, 2020, the Plan will be of no further force or effect.

(b) Duration of the Plan. The Plan shall remain in effect until all Shares subject to it are distributed, all Awards have expired or terminated, the Plan is terminated pursuant to Section 15(c), or the tenth anniversary of the effective date of the Plan, whichever occurs first (the "Termination Date"). Awards made before the Termination Date shall continue to be outstanding in accordance with their terms and the terms of the Plan unless otherwise provided in the applicable Agreements.

(c) Amendment and Termination of the Plan. The Board may at any time terminate, suspend or amend the Plan. The Company shall submit any amendment of the Plan to its shareholders for approval only to the extent required by applicable laws or regulations or the rules of any securities exchange on which the Shares may then be listed. No termination, suspension, or amendment of the Plan may materially impair the rights of any Participant under a previously granted Award without the Participant's consent, unless such action is necessary to comply with applicable law or stock exchange rules.

(d) Amendment of Awards. Subject to Section 15(e), the Committee may unilaterally amend the terms of any Agreement evidencing an Award previously granted, except that no such amendment may materially impair the rights of any Participant under the applicable Award without the Participant's consent, unless such amendment is necessary to comply with applicable law or stock exchange rules or any compensation recovery policy as provided in Section 16(i).

(e) No Option or SAR Repricing. Except as provided in Section 12(a), no Option or Stock Appreciation Right Award granted under the Plan may be (i) amended to decrease the exercise price thereof, (ii) cancelled in conjunction with the grant of any new Option or Stock Appreciation Right Award with a lower exercise price, (iii) cancelled in exchange for cash, other property or the grant of any Full Value Award at a time when the per share exercise price of the Option or Stock Appreciation Right Award is greater than the current Fair Market Value of a Share, or (iv) otherwise subject to any action that would be treated under accounting rules as a "repricing" of such Option or Stock Appreciation Right Award, unless such action is first approved by the Company's shareholders.

16. Other Provisions.

(a) Unfunded Plan. The Plan shall be unfunded and the Company shall not be required to segregate any assets that may at any time be represented by Awards under the Plan. Neither the Company, its Affiliates, the Committee, nor the Board shall be deemed to be a trustee of any amounts to be paid under the Plan nor shall anything contained in the Plan or any action taken pursuant to its provisions create or be construed to create a fiduciary relationship between the Company and/or its Affiliates, and

a Participant. To the extent any person has or acquires a right to receive a payment in connection with an Award under the Plan, this right shall be no greater than the right of an unsecured general creditor of the Company.

(b) Limits of Liability. Except as may be required by law, neither the Company nor any member of the Board or of the Committee, nor any other person participating (including participation pursuant to a delegation of authority under Section 3(c) of the Plan) in any determination of any question under the Plan, or in the interpretation, administration or application of the Plan, shall have any liability to any party for any action taken, or not taken, in good faith under the Plan.

(c) Compliance with Applicable Legal Requirements and Company Policies. No Shares distributable pursuant to the Plan shall be issued and delivered unless and until the issuance of the Shares complies with all applicable legal requirements, including compliance with the provisions of applicable state and federal securities laws, and the requirements of any securities exchanges on which the Company's Shares may, at the time, be listed. During any period in which the offering and issuance of Shares under the Plan is not registered under federal or state securities laws, Participants shall acknowledge that they are acquiring Shares under the Plan for investment purposes and not for resale, and that Shares may not be transferred except pursuant to an effective registration statement under, or an exemption from the registration requirements of, such securities laws. Any stock certificate or book-entry evidencing Shares issued under the Plan that are subject to securities law restrictions shall bear or be accompanied by an appropriate restrictive legend or stop transfer instruction. Notwithstanding any other provision of this Plan, the acquisition, holding or disposition of Shares acquired pursuant to the Plan shall in all events be subject to compliance with applicable Company policies, including those relating to insider trading, pledging or hedging transactions, minimum post-vesting holding periods and stock ownership guidelines, and to forfeiture or recovery of compensation as provided in Section 16(i).

(d) Other Benefit and Compensation Programs. Payments and other benefits received by a Participant under an Award made pursuant to the Plan shall not be deemed a part of a Participant's regular, recurring compensation for purposes of the termination, indemnity or severance pay laws of any country and shall not be included in, nor have any effect on, the determination of benefits under any other employee benefit plan, contract or similar arrangement provided by the Company or an Affiliate unless expressly so provided by such other plan, contract or arrangement, or unless the Committee expressly determines that an Award or portion of an Award should be included to accurately reflect competitive compensation practices or to recognize that an Award has been made in lieu of a portion of competitive cash compensation.

(e) Governing Law. To the extent that federal laws do not otherwise control, the Plan and all determinations made and actions taken pursuant to the Plan shall be governed by the laws of the State of Minnesota without regard to its conflicts-of-law principles and shall be construed accordingly.

(f) Severability. If any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

(g) Code Section 409A. It is intended that (i) all Awards of Options, SARs and Restricted Stock under the Plan will not provide for the deferral of compensation within the meaning of Code Section 409A and thereby be exempt from Code Section 409A, and (ii) all other Awards under the Plan will either not provide for the deferral of compensation within the meaning of Code Section 409A, or will comply with the requirements of Code Section 409A, and Awards shall be structured and the Plan administered and interpreted in accordance with this intent. The Plan and any Agreement may be unilaterally amended by the Company in any manner deemed necessary or advisable by the Committee or Board in order to maintain such exemption from or compliance with Code Section 409A, and any such amendment shall conclusively be presumed to be necessary to comply with applicable law. Notwithstanding anything to the contrary in the Plan or any Agreement, with respect to any Award that constitutes a deferral of compensation subject to Code Section 409A:

(1) If any amount is payable under such Award upon a termination of Service, a termination of Service will be deemed to have occurred only at such time as the Participant has experienced a "separation from service" as such term is defined for purposes of Code Section 409A;

(2) If any amount shall be payable with respect to any such Award as a result of a Participant's "separation from service" at such time as the Participant is a "specified employee" within the meaning of Code Section 409A, then no payment shall be made, except as permitted under Code Section 409A, prior to the first business day after the earlier of (i) the date that is six months after the Participant's separation from service or (ii) the Participant's death. Unless the Committee has adopted a specified employee identification policy as contemplated by Code Section 409A, specified employees will be identified in accordance with the default provisions specified under Code Section 409A.

None of the Company, the Board, the Committee nor any other person involved with the administration of this Plan shall (i) in any way be responsible for ensuring the exemption of any Award from, or compliance by any Award with, the requirements of Code Section 409A, (ii) have any obligation to design or administer the Plan or Awards granted thereunder in a manner that minimizes a Participant's tax liabilities, including the avoidance of any additional tax liabilities under Code Section 409A, and (iii) shall have any liability to any Participant for any such tax liabilities.

(h) Rule 16b-3. It is intended that the Plan and all Awards granted pursuant to it shall be administered by the Committee so as to permit the Plan and Awards to comply with Exchange Act Rule 16b-3. If any provision of the Plan or of any Award would otherwise frustrate or conflict with the intent expressed in this Section 16(h), that provision to the extent possible shall be interpreted and deemed amended in the manner determined by the Committee so as to avoid the conflict. To the extent of any remaining irreconcilable conflict with this intent, the provision shall be deemed void as applied to Participants subject to Section 16 of the Exchange Act to the extent permitted by law and in the manner deemed advisable by the Committee.

(i) Forfeiture and Compensation Recovery.

(1) The Committee may specify in an Agreement that the Participant's rights, payments, and benefits with respect to an Award will be subject to reduction, cancellation, forfeiture or recovery by the Company upon the occurrence of certain specified events, in addition to any otherwise applicable vesting or performance conditions of an Award. Such events may include termination of Service for Cause; violation of any material Company or Affiliate policy; breach of noncompetition, non-solicitation or confidentiality provisions that apply to the Participant; a determination that the payment of the Award was based on an incorrect determination that financial or other criteria were met or other conduct by the Participant that is detrimental to the business or reputation of the Company or its Affiliates.

(2) Awards and any compensation associated therewith may be made subject to forfeiture, recovery by the Company or other action pursuant to any compensation recovery policy adopted by the Board or the Committee at any time, including in response to the requirements of Section 10D of the Exchange Act and any implementing rules and regulations thereunder, or as otherwise required by law. Any Agreement may be unilaterally amended by the Committee to comply with any such compensation recovery policy.

**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: October 30, 2019

/s/ Patrick H. Hawkins

Patrick H. Hawkins

Chief Executive Officer and President

**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: October 30, 2019

/s/ Jeffrey P. Oldenkamp

Jeffrey P. Oldenkamp

Vice President, Chief Financial Officer, and Treasurer

**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 September 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

October 30, 2019

**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 September 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

October 30, 2019