

HAWKINS INC  
Form 10-Q  
February 05, 2009  
[Table of Contents](#)

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

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**FORM 10-Q**

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

**For the quarterly period ended December 31, 2008**

**Commission file number 0-7647**

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**HAWKINS, INC.**

(Exact name of registrant as specified in its charter)

**MINNESOTA**

(State or other jurisdiction of  
incorporation or organization)

**41-0771293**

(I.R.S. Employer Identification No.)

**3100 EAST HENNEPIN AVENUE, MINNEAPOLIS, MINNESOTA 55413**

(Address of principal executive offices, including zip code)

**(612) 331-6910**

(Registrant's telephone number, including area code)

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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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer

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(as defined in Rule 12b-2 of the Exchange Act).

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer  Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES  NO

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

| CLASS                                   | OUTSTANDING AT FEBRUARY 5, 2009 |
|---|---------------------------------|
| Common Stock, par value \$.05 per share | 10,253,458                      |

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HAWKINS, INC.  
INDEX TO FORM 10-Q

|  | Page |
|--|------|
| <b><u>PART I.</u></b>  |      |
| <b><u>FINANCIAL INFORMATION</u></b>  |      |
| <u>Item 1.</u>   |      |
| <u>Financial Statements (Unaudited):</u>   |      |
| <u>Condensed Balance Sheets – December 31, 2008 and March 30, 2008</u>                         | 3    |
| <u>Condensed Statements of Income – Three and Nine Months Ended December 31, 2008 and 2007</u> | 4    |
| <u>Condensed Statements of Cash Flows – Nine Months Ended December 31, 2008 and 2007</u>       | 5    |
| <u>Notes to Condensed Financial Statements</u>   | 6    |
| <u>Item 2.</u>   |      |
| <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>   | 10   |
| <u>Item 3.</u>   |      |
| <u>Quantitative and Qualitative Disclosures about Market Risk</u>                              | 13   |
| <u>Item 4.</u>   |      |
| <u>Controls and Procedures</u>   | 13   |
| <b><u>PART II.</u></b>   |      |
| <b><u>OTHER INFORMATION</u></b>  |      |
| <u>Item 1A.</u>  |      |
| <u>Risk Factors</u>  | 14   |
| <u>Item 6.</u>   |      |
| <u>Exhibits</u>  | 14   |
| <u>Signatures</u>  | 15   |
| <u>Exhibit Index</u>   | 16   |

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS  
HAWKINS, INC.  
CONDENSED BALANCE SHEETS**

|  | <b>DECEMBER 31,<br/>2008<br/>(UNAUDITED)</b> | <b>MARCH 30,<br/>2008<br/>(DERIVED FROM<br/>AUDITED<br/>FINANCIAL<br/>STATEMENTS)</b> |
|--|--|---|
| <b>ASSETS</b>  |  |   |
| <b>CURRENT ASSETS:</b>   |  |   |
| Cash and cash equivalents  | \$ 13,723,527                                | \$ 21,509,181   |
| Investments available-for-sale   | 260,638                                      | 2,276,358   |
| Trade receivables - net  | 31,574,734                                   | 23,788,342  |
| Inventories  | 30,809,007                                   | 14,010,952  |
| Prepaid expenses and other current assets  | 2,734,080                                    | 3,614,387   |
| Total current assets   | 79,101,986                                   | 65,199,220  |
| PROPERTY, PLANT AND EQUIPMENT net  | 43,609,508                                   | 35,928,878  |
| GOODWILL AND INTANGIBLE ASSETS   | 6,539,856                                    | 6,906,956   |
| LONG-TERM INVESTMENTS  | 611,450                                      | 583,836   |
| OTHER ASSETS   | 231,553                                      | 324,061   |
|  | \$ 130,094,353                               | \$ 108,942,951  |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>   |  |   |
| <b>CURRENT LIABILITIES:</b>  |  |   |
| Accounts payable trade   | \$ 18,101,507                                | \$ 11,780,842   |
| Dividends payable  |  | 2,459,150   |
| Accrued payroll and employee benefits  | 5,849,510                                    | 6,137,089   |
| Container deposits   | 993,795                                      | 983,640   |
| Other accruals   | 2,668,697                                    | 1,344,123   |
| Total current liabilities  | 27,613,509                                   | 22,704,844  |
| OTHER LONG-TERM LIABILITIES  | 161,755                                      | 119,600   |
| DEFERRED INCOME TAXES  | 1,090,736                                    | 1,097,097   |
| <b>COMMITMENTS AND CONTINGENCIES</b>   |  |   |
| <b>SHAREHOLDERS EQUITY:</b>  |  |   |
| Common stock, par value \$.05 per share; 10,246,458 and 10,239,458 shares issued and outstanding, respectively | 512,323                                      | 511,973   |
| Additional paid-in capital   | 38,301,141                                   | 38,090,696  |
| Accumulated other comprehensive loss   | (19,275)                                     | (9,321)   |
| Retained earnings  | 62,434,164                                   | 46,428,062  |
| Total shareholders equity  | 101,228,353                                  | 85,021,410  |
|  | \$ 130,094,353                               | \$ 108,942,951  |

See accompanying notes to condensed financial statements unaudited.



Table of Contents**HAWKINS, INC.  
CONDENSED STATEMENTS OF INCOME**

|   | THREE MONTHS ENDED<br>DECEMBER 31 |               | NINE MONTHS ENDED<br>DECEMBER 31 |                |
|---|-----------------------------------|---------------|----------------------------------|----------------|
|   | 2008                              | 2007          | 2008                             | 2007           |
|   | (UNAUDITED)                       |               | (UNAUDITED)                      |                |
| Sales   | \$ 77,396,576                     | \$ 48,471,758 | \$ 222,910,325                   | \$ 145,238,339 |
| Cost of sales   | 58,846,387                        | 39,335,817    | 172,321,581                      | 112,396,348    |
| Gross profit  | 18,550,189                        | 9,135,941     | 50,588,744                       | 32,841,991     |
| Selling, general and administrative expenses          | 7,273,971                         | 6,958,489     | 20,515,565                       | 21,952,418     |
| Income from operations                                | 11,276,218                        | 2,177,452     | 30,073,179                       | 10,889,573     |
| Investment income                                     | 81,314                            | 257,468       | 337,822                          | 872,036        |
| Income before income taxes                            | 11,357,532                        | 2,434,920     | 30,411,001                       | 11,761,609     |
| Provision for income taxes                            | 4,384,500                         | 927,967       | 11,739,000                       | 4,382,167      |
| Net income  | \$ 6,973,032                      | \$ 1,506,953  | \$ 18,672,001                    | \$ 7,379,442   |
| Weighted average number of shares outstanding basic   | 10,246,458                        | 10,216,632    | 10,243,174                       | 10,204,609     |
| Weighted average number of shares outstanding diluted | 10,250,774                        | 10,217,997    | 10,256,540                       | 10,205,075     |
| Earnings per share basic and diluted                  | \$ 0.68                           | \$ 0.15       | \$ 1.82                          | \$ 0.72        |
| Cash dividends declared per common share              | \$                                | \$            | \$ 0.26                          | \$ 0.24        |

See accompanying notes to condensed financial statements - unaudited.

Table of Contents**HAWKINS, INC.  
CONDENSED STATEMENTS OF CASH FLOWS**

|   | <b>NINE MONTHS ENDED<br/>DECEMBER 31</b> |                     |
|---|--|---------------------|
|   | <b>2008</b>                              | <b>2007</b>         |
|   | <b>(UNAUDITED)</b>                       |                     |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                          |  |                     |
| Net income  | \$ 18,672,001                            | \$ 7,379,442        |
| Reconciliation to cash flows:   |  |                     |
| Depreciation and amortization   | 4,171,931                                | 3,847,600           |
| Stock compensation expense  | 210,795                                  | 494,285             |
| Loss from property disposals  | 93,811                                   | 88,154              |
| Changes in operating accounts providing (using) cash:                 |  |                     |
| Trade receivables   | (7,786,392)                              | (5,597)             |
| Inventories   | (16,798,055)                             | (3,876,965)         |
| Accounts payable  | 4,901,739                                | (879,011)           |
| Other liabilities   | 1,099,989                                | (1,341,413)         |
| Other   | 949,024                                  | 1,219,072           |
| <b>Net cash provided by operating activities</b>                      | <b>5,514,843</b>                         | <b>6,925,567</b>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                          |  |                     |
| Additions to property, plant and equipment                            | (10,243,053)                             | (4,077,992)         |
| Sale and maturities of investments                                    | 1,984,898                                | 5,563,155           |
| Proceeds from property disposals                                      | 82,707                                   | 81,029              |
| Acquisition of Trumark, Inc.  |  | (5,963,182)         |
| <b>Net cash used in investing activities</b>                          | <b>(8,175,448)</b>                       | <b>(4,396,990)</b>  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                          |  |                     |
| Cash dividends paid   | (5,125,049)                              | (4,711,066)         |
| <b>Net cash used in financing activities</b>                          | <b>(5,125,049)</b>                       | <b>(4,711,066)</b>  |
| <b>DECREASE IN CASH AND CASH EQUIVALENTS</b>                          | <b>(7,785,654)</b>                       | <b>(2,182,489)</b>  |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>                 | <b>21,509,181</b>                        | <b>11,592,939</b>   |
| <b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>                       | <b>\$ 13,723,527</b>                     | <b>\$ 9,410,450</b> |
| <b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>             |  |                     |
| Cash paid for income taxes  | \$ 8,674,210                             | \$ 3,273,428        |
| Noncash investing activities-   |  |                     |
| Capital expenditures in accounts payable                              | \$ 1,759,985                             | \$ 872,113          |
| Stock issued for acquisition of Trumark                               | \$                                       | \$ 588,000          |
| See accompanying notes to condensed financial statements - unaudited. |  |                     |

Table of Contents**HAWKINS, INC.****NOTES TO CONDENSED FINANCIAL STATEMENTS - UNAUDITED**

1. The accompanying unaudited condensed 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 statements should be read in conjunction with the financial statements and footnotes included in the Company's Annual Report on Form 10-K for the fiscal year ended March 30, 2008, previously filed with the Securities and Exchange Commission (SEC). In the opinion of management, the accompanying unaudited condensed financial statements contain all adjustments necessary to present fairly the Company's financial position and the results of its operations and cash flows for the periods presented. All adjustments made to the interim financial statements were of a normal recurring nature.

The accounting policies followed by the Company are set forth in Note 1 to the Company's financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended March 30, 2008 filed with the SEC on June 13, 2008.

2. The results of operations for the periods ended December 31, 2008 are not necessarily indicative of the results that may be expected for the full year.
3. In March 2008, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of SFAS No. 133. SFAS 161 is intended to improve financial standards for derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand the effect these instruments and activities have on an entity's financial position, financial performance and cash flows. Entities are required to provide enhanced disclosures about: how and why an entity uses derivative instruments; how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations; and how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. We do not expect SFAS 161 to have a material impact on the preparation of our financial statements.

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles. This standard is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with generally accepted accounting principles in the United States for non-governmental entities. SFAS 162 was effective on November 15, 2008, and the adoption had no impact on our results of operations and financial condition.

4. Basic earnings per share (EPS) is net earnings divided by the weighted average number of common shares outstanding during the period. Diluted EPS includes the incremental shares assumed to be issued upon the exercise of stock options and the incremental shares assumed to be issued as performance units and restricted stock. Basic and diluted EPS were calculated using the following:

|   | <b>Three months ended</b> |             | <b>Nine months ended</b> |             |
|---|---------------------------|-------------|--------------------------|-------------|
|   | <b>December 31</b>        |             | <b>December 31</b>       |             |
|   | <b>2008</b>               | <b>2007</b> | <b>2008</b>              | <b>2007</b> |
| Weighted average common shares outstanding - basic                        | 10,246,458                | 10,216,632  | 10,243,174               | 10,204,609  |
| Dilutive impact of stock options, performance units, and restricted stock | 4,316                     | 1,365       | 13,366                   | 466         |
| Weighted average common shares outstanding - diluted                      | 10,250,774                | 10,217,997  | 10,256,540               | 10,205,075  |

For the three and nine months ended December 31, 2008, 61,332 stock options were excluded from the calculation of weighted average shares for diluted EPS because their effects were antidilutive.

5. Inventories, principally valued by the LIFO method, are less than current cost by \$11,478,745 and \$4,501,745 at December 31, 2008 and March 30, 2008, respectively. Inventory consists principally of finished goods.

Table of Contents

6. Intangible assets consist primarily of customer lists, trademarks, and trade names in previous business acquisitions. A summary of our intangible assets for December 31, 2008 and March 30, 2008 were as follows:

|                                   | December 31, 2008     |                          |              |
|-----------------------------------|-----------------------|--------------------------|--------------|
|                                   | Gross Carrying Amount | Accumulated Amortization | Net          |
| Finite-life intangible assets     | \$ 6,565,033          | \$ (2,455,767)           | \$ 4,109,266 |
| Indefinite-life intangible assets | 1,227,000             |                          | 1,227,000    |
| Total intangibles, net            | \$ 7,792,033          | \$ (2,455,767)           | \$ 5,336,266 |

|                                   | March 30, 2008        |                          |              |
|-----------------------------------|-----------------------|--------------------------|--------------|
|                                   | Gross Carrying Amount | Accumulated Amortization | Net          |
| Finite-life intangible assets     | \$ 6,565,033          | \$ (2,088,667)           | \$ 4,476,366 |
| Indefinite-life intangible assets | 1,227,000             |                          | 1,227,000    |
| Total intangibles, net            | \$ 7,792,033          | \$ (2,088,667)           | \$ 5,703,366 |

Goodwill in the amount of \$1,203,590 is included in Goodwill and Intangible Assets at December 31, 2008 and March 30, 2008.

7. The Company follows SFAS No. 109, Accounting for Income Taxes. In the preparation of the Company's financial statements, management calculates income taxes based upon the estimated effective rate applicable to operating results for the full fiscal year. This includes estimating the current tax liability as well as assessing differences resulting from different treatment of items for tax and book accounting purposes. These differences result in deferred tax assets and liabilities, which are recorded on the balance sheet. These assets and liabilities are analyzed regularly and management assesses the likelihood that deferred tax assets will be recovered from future taxable income. The Company records any interest and penalties related to income taxes as income tax expense in the condensed statements of income.

The Company is subject to U.S. federal income tax as well as income tax of multiple state jurisdictions. The tax years beginning with 2005 remain open to examination by the Internal Revenue Service. The significant state jurisdictions of Minnesota, Iowa, North Dakota, South Dakota, and Wisconsin have tax years beginning with 2005 open to examination.

In accordance with FASB Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109, we accrue for the effects of open uncertain tax positions and the related penalties and interest. There were no adjustments made to record a liability for unrecognized tax benefits during the nine months ended December 31, 2008, and we do not expect any significant adjustments to be made that would have a material impact on our results of operations and financial condition.

8. Comprehensive income and its components, net of tax, were as follows:

|  | Three months ended<br>December 31 |              | Nine months ended<br>December 31 |              |
|--|-----------------------------------|--------------|----------------------------------|--------------|
|  | 2008                              | 2007         | 2008                             | 2007         |
| Net income                                     | \$ 6,973,032                      | \$ 1,506,953 | \$ 18,672,001                    | \$ 7,379,442 |
| Available-for-sale investments unrealized gain | 4,437                             | 40,283       | 1,078                            | 76,782       |
| Post-retirement plan liability (loss) gain     | (11,032)                          | 4,087        | (11,032)                         | 4,087        |
| Comprehensive income                           | \$ 6,966,437                      | \$ 1,551,323 | \$ 18,662,047                    | \$ 7,460,311 |

9. The Company is involved in various legal actions arising from the normal course of business from time to time. Management is of the opinion that any judgment or settlement resulting from pending or threatened litigation would not have a material adverse effect on the

financial position, results of operations or cash flows of the Company.

7

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Table of Contents

10. Our Board of Directors approved a long-term incentive equity compensation arrangement for the executive officers of the Company during the first quarter of fiscal 2009. This long-term incentive arrangement provides for the grant of nonqualified stock options that cliff vest at the end of a three-year period and expire no later than 10 years after the grant date. On May 13, 2008, the Company issued 61,332 stock options to the executive officers of the Company under this plan. The Black-Scholes valuation model was used to estimate the fair value of the options at grant date based on the following assumptions:

|                          |       |
|--------------------------|-------|
| Dividend Yield:          | 3.2%  |
| Volatility:              | 28.0% |
| Risk-Free Interest Rate: | 3.0%  |
| Expected Life in Years:  | 4     |

Volatility was calculated using the past four years of historical stock prices of our common stock. The expected life is estimated based on expected future trends and the terms and vesting periods of the options granted. The risk-free interest rate is an interpolation of the relevant U.S. Treasury Bond Rate as of the grant date. The grant date fair value was \$2.95 per option and the Company recorded compensation expense for the three and nine months ended December 31, 2008 of approximately \$15,000 and \$38,000, respectively.

Our Board of Directors approved a performance-based equity compensation arrangement for the executive officers of the Company during the first quarter of fiscal 2009. The performance-based arrangement provides for the grant of performance units that represent a possible future issuance of restricted shares of the Company's common stock based on the Company's pre-tax income target for the applicable fiscal year. The actual number of restricted shares to be issued to each officer will be determined after the Company's final financial information becomes available after the applicable fiscal year and will be between 0 shares and 23,000 shares in the aggregate. The restricted shares fully vest two years after the last day of the fiscal year on which the performance is based. On May 13, 2008, performance units were granted to the executive officers of the Company under this plan. In accordance with SFAS 123R, Share-Based Payment, the Company is recording the compensation expense for the outstanding performance share units over the life of the awards and recorded approximately \$23,000 and \$90,000 of compensation expense for the three and nine months ended December 31, 2008, respectively. The amount of expense recorded each period is dependent upon our estimate of the number of shares that will ultimately be issued and the then current price of our common stock.

On August 7, 2008, the Company issued 7,000 shares of restricted stock to the Board of Directors as part of their annual retainer for their Board services. The restricted stock awards are expensed over the requisite vesting period, which begins on the date of issuance and ends on the date of the next Annual Meeting of shareholders, based on the market value on the date of grant. The grant date fair value on August 7, 2008 was \$14.53. There was approximately \$25,000 and \$42,000 of compensation expense recorded for this award for the three and nine months ended December 31, 2008, respectively.

On September 18, 2007, the Company issued 7,000 shares of restricted stock to the Board of Directors as part of their annual retainer for their Board services. The restricted stock awards are expensed over the requisite vesting period, which begins on the date of issuance and ends on the date of the next Annual Meeting of shareholders, based on the market value on the date of grant. The grant date fair value on September 18, 2007 was \$14.48. The shares became fully vested on August 7, 2008. For the three and nine months ended December 31, 2008, there was approximately \$0 and \$40,000, respectively, of compensation expense recorded for this award.

On December 15, 2006, the Company issued 45,257 shares of restricted stock to certain employees of the Company. The restricted stock awards are recorded as compensation expense over the requisite vesting period, which was one year of service, based on the market value on the date of grant. The grant date fair value on December 15, 2006 was \$14.09. The shares became fully vested on December 15, 2007. Restricted stock expense related to this grant for three and nine months ended December 31, 2007 was approximately \$133,000 and \$452,000, respectively.

11. On July 15, 2008, the Company acquired a 77,000 square foot facility on 10 acres in Centralia, Illinois for approximately \$2,000,000. The facility will be primarily used for expansion of the Company's lactate and other food ingredient manufacturing capacity within its Industrial segment, with the Water Treatment segment using the location as a branch office for its operations as it expands its geographic coverage.

On May 15, 2007, the Company signed an asset purchase agreement with Trumark, Inc., Trumark Ltd., Profloc Inc. (collectively Trumark) and the shareholders of each entity, under which the Company agreed to acquire substantially all of the assets of the entities and assume certain operating liabilities for cash of approximately \$5,963,000 and Hawkins stock of \$588,000. On May 31, 2007, the

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acquisition was completed. The acquired business is a producer of antimicrobial products for the food industry. The acquired business is included in the Company's Industrial operating segment.

Table of Contents

The assets acquired consist of assets used by Trumark to operate its business, including intellectual property, manufacturing equipment and inventory. The purchase price consisted of cash and shares of the Company's common stock. The Company funded the cash portion of the transaction with existing cash and issued new shares of common stock. The operations of Trumark are included in the Company's statement of income beginning on June 1, 2007. The proforma effect of this acquisition on prior period sales, operating income, and EPS was not significant.

12. The Company has three reportable segments: Industrial, Water Treatment and Pharmaceutical. Reportable segments are defined by product and type of customer. Segments are responsible for the sales, marketing and development of their products and services. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Product costs and expenses for each segment are based on actual costs incurred along with cost allocation of shared and centralized functions. The Company evaluates performance based on income from operations not including nonrecurring gains and losses. The segments do not have separate accounting, administration, customer service or purchasing functions. There are no intersegment sales and no operating segments have been aggregated. Sales are primarily within the United States and all assets are located within the United States. These results are not necessarily indicative of the results of operations that would have occurred had each segment been an independent, stand-alone entity during the periods presented.

| Reportable Segments                          | Industrial     | Water Treatment | Pharmaceutical | Total          |
|--|----------------|-----------------|----------------|----------------|
| <b>Three Months Ended December 31, 2008:</b> |                |                 |                |                |
| Sales  | \$ 56,245,786  | \$ 19,308,548   | \$ 1,842,242   | \$ 77,396,576  |
| Income from operations                       | \$ 8,684,588   | \$ 2,569,202    | \$ 22,428      | \$ 11,276,218  |
| <b>Three Months Ended December 31, 2007:</b> |                |                 |                |                |
| Sales  | \$ 32,338,138  | \$ 13,578,224   | \$ 2,555,396   | \$ 48,471,758  |
| Income from operations                       | \$ 414,515     | \$ 1,668,741    | \$ 94,196      | \$ 2,177,452   |
| <b>Nine Months Ended December 31, 2008:</b>  |                |                 |                |                |
| Sales  | \$ 151,175,472 | \$ 65,396,061   | \$ 6,338,792   | \$ 222,910,325 |
| Income from operations                       | \$ 19,587,152  | \$ 10,514,040   | \$ (28,013)    | \$ 30,073,179  |
| <b>Nine Months Ended December 31, 2007:</b>  |                |                 |                |                |
| Sales  | \$ 90,058,381  | \$ 47,948,008   | \$ 7,231,950   | \$ 145,238,339 |
| Income from operations                       | \$ 1,999,659   | \$ 8,529,681    | \$ 360,233     | \$ 10,889,573  |

Table of Contents

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

### FORWARD-LOOKING INFORMATION

The information contained in this Quarterly Report on Form 10-Q for the period ended December 31, 2008 contains statements that we believe to be forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, and within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements give our current expectations or forecasts of future events. Forward-looking statements generally can be identified by the use of forward-looking terminology such as may, will, expect, intend, estimate, anticipate, believe, project, or continue, or the negative of similar words. From time to time, we also may provide oral or written forward-looking statements in other materials we release to the public. Any or all of our forward-looking statements in this Quarterly Report on Form 10-Q and in any public statements we make could be materially different from actual results. They can be affected by assumptions we might make or by known or unknown risks or uncertainties, including those described in Item 1A Risk Factors and other factors disclosed throughout this Quarterly Report on Form 10-Q and the Company's other filings with the SEC. Consequently, we cannot guarantee any forward-looking statements and undertake no obligation to revise any forward-looking statements in order to reflect events or circumstances that may arise after the date of this Quarterly Report on Form 10-Q. Investors are cautioned not to place undue reliance on any forward-looking statements. Investors should also understand that it is not possible to predict or identify all factors that might affect actual results and should not consider these factors to be a complete statement of all potential risks and uncertainties. We assume no obligation and disclaim any duty to update the forward-looking statements in this Quarterly Report on Form 10-Q or any other public statement.

### RESULTS OF OPERATIONS

The following table sets forth the percentage relationship of certain items to sales for the period indicated (in thousands, except percentages):

|  | THREE MONTHS ENDED<br>DECEMBER 31, 2008 |        | NINE MONTHS ENDED<br>DECEMBER 31, 2008 |        |
|--|---|--------|--|--------|
| Sales  | \$ 77,397                               | 100.0% | \$ 222,910                             | 100.0% |
| Cost of sales                                | 58,846                                  | 76.0   | 172,322                                | 77.3   |
| Gross profit                                 | 18,550                                  | 24.0   | 50,589                                 | 22.7   |
| Selling, general and administrative expenses | 7,274                                   | 9.4    | 20,516                                 | 9.2    |
| Income from operations                       | 11,276                                  | 14.6   | 30,073                                 | 13.5   |
| Investment income                            | 81                                      | 0.1    | 338                                    | 0.2    |
| Income before income taxes                   | 11,358                                  | 14.7   | 30,411                                 | 13.6   |
| Provision for income taxes                   | 4,385                                   | 5.7    | 11,739                                 | 5.3    |
| Net income                                   | \$ 6,973                                | 9.0%   | \$ 18,672                              | 8.4%   |

|  | THREE MONTHS ENDED<br>DECEMBER 31, 2007 |        | NINE MONTHS ENDED<br>DECEMBER 31, 2007 |        |
|--|---|--------|--|--------|
| Sales  | \$ 48,472                               | 100.0% | \$ 145,238                             | 100.0% |
| Cost of sales                                | 39,336                                  | 81.2   | 112,396                                | 77.4   |
| Gross profit                                 | 9,136                                   | 18.8   | 32,842                                 | 22.6   |
| Selling, general and administrative expenses | 6,958                                   | 14.4   | 21,952                                 | 15.1   |
| Income from operations                       | 2,177                                   | 4.5    | 10,890                                 | 7.5    |
| Investment income                            | 257                                     | 0.5    | 872                                    | 0.6    |
| Income before income taxes                   | 2,435                                   | 5.0    | 11,762                                 | 8.1    |
| Provision for income taxes                   | 928                                     | 1.9    | 4,382                                  | 3.0    |
| Net income                                   | \$ 1,507                                | 3.1%   | \$ 7,379                               | 5.1%   |



Table of Contents

SALES

Sales increased \$28,924,818, or 59.7%, in the three months ended December 31, 2008, and increased \$77,671,986, or 53.5%, in the nine months ended December 31, 2008 as compared to the same periods a year ago. Sales of bulk chemicals, including caustic soda, were approximately 32% and 34% of sales for the three and nine months ended December 31, 2008, respectively, which is consistent with the comparable periods a year ago. Industrial segment sales increased by \$23,907,648 in the three months ended December 31, 2008 and increased by \$61,117,091 in the nine-month period ended December 31, 2008, as compared to the comparable periods in fiscal 2008. Water Treatment segment sales increased by \$5,730,324 in the three months ended December 31, 2008 and increased \$17,448,053 in the nine-month period ended December 31, 2008, as compared to the same periods in fiscal 2008. The Industrial and Water Treatment segments' sales increases were primarily attributable to increases in selling prices related to rising material costs along existing product lines and also by increased demand combined with supply constraints for certain products. However, there was a decline in volumes of certain products within the Industrial segment, primarily products used in the agricultural markets during the three months ended December 31, 2008 as compared to the prior year.

Pharmaceutical segment sales decreased by 27.9% to \$1,842,242 for the three months ended December 31, 2008 and decreased by 12.4% to \$6,338,792 for the nine months ended December 31, 2008 as compared to the same periods in fiscal 2008. Sales during the three and nine months ended December 31, 2008 were negatively impacted by the Food and Drug Administration (FDA) having issued industry-wide restrictions on two major compounding chemicals. The FDA removed the restrictions on one of the chemicals in October 2008 however the restriction continues to be in effect for the other chemical. Supply constraints on certain other key products also contributed to the decline in sales during these periods. During the nine months ended December 31, 2007, the Pharmaceutical segment was restricted from selling certain products by the Minneapolis District Office of the FDA. The Company worked to resolve this matter and, during the third quarter of fiscal 2008, received clearance from the FDA to sell the majority of the products initially affected. Although sales within the Pharmaceutical segment were negatively impacted by these regulatory actions in fiscal 2008 and the first nine months of fiscal 2009, there was not a material impact to the Company's results of operations or cash flows.

GROSS PROFIT

Gross profit margin, as a percentage of sales, for the three and nine months ended December 31, 2008 was 24.0% and 22.7%, respectively, compared to 18.8% and 22.6%, respectively, for the comparable periods of fiscal 2008. Due to significant increases in raw material inventory costs and, to a lesser extent, higher inventory levels, the LIFO method of valuing inventory resulted in a LIFO charge of \$1,749,733 for the three-month period and \$6,976,999 for the nine-month period that negatively impacted the gross margin for the three and nine months ended December 31, 2008 by 2.3% and 3.1%, respectively. The pass-through of higher raw material costs also reduces the reported gross margin rate as a percentage of sales. To more accurately reflect their underlying nature, certain operating expenses that were classified as selling, general and administrative expenses in fiscal 2008, are now classified as cost of sales. For the three and nine months ended December 31, 2008, these operating expenses totaled \$626,373 and \$2,211,462, respectively. The higher margin rates realized were primarily due to the sale of lower-cost inventory on hand and, to a lesser degree, an increase in margins on certain products due to the Company having the inventory to meet demand that escalated during the three months ended December 31, 2008 from current and new customers during a period of constrained supply. The Company saw a decrease in demand for lower-margin products sold into the agricultural markets during the three months ended December 31, 2008. Many of the Company's products are commodity based and are subject to cost and pricing fluctuations that impact the reported gross margin percentage rate. The cost and pricing fluctuations are expected to continue in future periods.

SELLING, GENERAL AND ADMINISTRATIVE

Selling, general and administrative (SG&A) expenses, for the three and nine months ended December 31, 2008 were \$7,273,971 and \$20,515,565, respectively, compared to \$6,958,489 and \$21,952,418 for the comparable periods a year ago. The increase for the three months ended December 31, 2008 was primarily due to higher employee compensation expenses, including variable rate pay plans and additional sales staff to support growth in the Water Treatment segment, as well as a \$700,000 increase in bad debt expense. The increase for the three months ended December 31, 2008 was mitigated by and the decrease for the nine months ended December 31, 2008 was primarily due to the classification of \$626,373 and \$2,211,462 of certain expenses to cost of sales for the three and nine months ended December 31, 2008, respectively, which were classified as SG&A in fiscal 2008. Additionally, SG&A expenses were reduced by the elimination of contractor and consulting fees in the current year that were incurred in the three and nine months ended December 31, 2007 related to the Company's implementation of an Enterprise Resource Planning system and approximately \$300,000 of non-recurring acquisition-related expenses associated with the Trumark acquisition recorded in the first quarter of fiscal 2008.



Table of Contents

## INCOME FROM OPERATIONS

Income from operations for the three and nine months ended December 31, 2008 increased by \$9,098,766 to \$11,276,218 and by \$19,183,606 to \$30,073,179, respectively. The increases for the three and nine months ended December 31, 2008 were driven by the Industrial segment, which increased by \$8,270,073 and \$17,587,493, respectively, and the Water Treatment segment, which increased by \$900,461 and \$1,984,359, respectively. The increases during the three and nine month periods were driven by higher than usual margins on certain products due to the sale of lower-cost inventory during a period of rapidly escalating commodity chemical prices and increased demand combined with supply constraints for certain products. Shortages of certain raw materials in the Industrial segment's industry acutely impacted the ability of certain competitors to meet their customers' product requirements, while the Company's inventory position allowed it to meet the requirements of its current customer base and to expand its business. The Pharmaceutical segments' income from operations decreased by \$71,768 and \$388,246, respectively, for the three and nine months ended December 31, 2008 due to the decrease in sales discussed above and higher lab testing expenses.

## INVESTMENT INCOME

Investment income was \$337,822 for the nine months ended December 31, 2008 as compared to \$872,036 during the same period a year ago. The decrease was primarily due to lower average investment balances due to higher working capital requirements and capacity expansion projects initiated during fiscal 2009. The decrease is also attributable to lower yields due to the change in mix in investment balances in the current year as compared to the prior year, as the Company has moved a substantial portion of its investment assets into cash equivalents.

## PROVISION FOR INCOME TAXES

The effective income tax rate was 38.6% for the three and nine months ended December 31, 2008 compared to 38.1% and 37.3% for the three and nine months ended December 31, 2007, respectively. The increase was primarily due to an increase in pre-tax income subject to a higher marginal income tax rate.

## LIQUIDITY AND CAPITAL RESOURCES

For the nine-month period ended December 31, 2008, cash provided by operations was \$5,514,843 compared to \$6,925,567 for the same period one year ago. The decrease in cash provided by operating activities was due to higher working capital balances commensurate with the higher commodity chemical costs and resulting increase in selling prices; including the timing of inventory purchases and the related vendor payments, as well as an increase in trade receivables associated with the increase in sales. Due to the nature of our operations, which includes purchases of large quantities of bulk chemicals, the timing of purchases can result in significant changes in working capital investment and the resulting operating cash flow. Historically, the Company's cash requirements for working capital increase during the period from April through November as caustic soda inventory levels increase as the majority of barges are received during this period. Additionally, due to the seasonality of the water treatment business, the Company's trade receivable balance generally increases during this period. Cash used in investing activities increased by \$3,778,458 for the nine months ended December 31, 2008 compared to the same period one year ago primarily due to the purchase of the land and facility in Centralia, Illinois during the second quarter of fiscal 2009 and the related facility improvement projects to increase our lactate and other food ingredient manufacturing capacity. Other capital expenditures during the nine months ended December 31, 2008 consisted primarily of facilities improvement projects, machinery and equipment, new route sales trucks, and returnable containers. In the prior year, the acquisition of Trumark was largely offset by the proceeds obtained from the sale of investments during the nine months ended December 31, 2007. The Company has plans to spend approximately \$8.0 million on capacity expansion during the current fiscal year, of which approximately \$6.0 million has been incurred through December 31, 2008. Recurring capital expenditures for the remainder of this fiscal year are expected to be comparable with the prior year and they will primarily relate to equipment replacement.

Cash, cash equivalents and investments available-for-sale decreased by \$9,779,563 from March 30, 2008 to \$14,334,812 as of December 31, 2008 due primarily to capital expenditures of \$10,243,053 and dividends paid of \$5,125,049, partially offset by cash generated from operating activities during the nine-month period ended December 31, 2008. Cash equivalents consist of money market accounts and certificates of deposit with an original maturity of three months or less. Investments available-for-sale consist of corporate bonds and U.S. Government agency securities. The Company's investment objectives in order of importance are the preservation of principal, maintenance of liquidity and rate of return. The fixed income portfolio consists primarily of investment grade securities to minimize credit risk, and have maturities ranging to 24 years. The Company monitors the maturities of its investments to ensure that funding is available for anticipated cash needs. At December 31, 2008, \$350,647 of available-for-sale investments were classified as non-current assets as they were determined to be temporarily impaired with an aggregate carrying value exceeding market value by approximately \$6,000 and have maturity dates of one year or longer. These investments were not determined to be other-than-temporarily impaired, as the Company has the intent and ability to hold these investments for a period of time sufficient to allow a recovery of cost.



Table of Contents

At December 31, 2008, the Company had an investment portfolio of fixed income securities of \$872,088 and cash and cash equivalents of \$13,723,527. The fixed income securities, like all fixed income instruments, are subject to interest rate risk and will decline in value if market interest rates increase. However, while the value of the investment may fluctuate in any given period, the Company intends to hold its fixed income investments until recovery of cost. Consequently, the Company would not expect to recognize an adverse impact on net income or cash flows during the holding period.

Expected future cash flows from operations, coupled with the Company's financial position, puts the Company in a position to fund both short and long-term working capital and capital investment needs with internally generated funds. Management does not, therefore, anticipate the need to engage in significant financing activities in either the short or long-term. If the need to obtain additional capital does arise, however, management believes that the Company's total debt to capital ratio at December 31, 2008 puts it in a position to obtain debt financing on favorable terms, although there can be no assurance of this.

Although management continually reviews opportunities to enhance the value of the Company through strategic acquisitions, other capital investments and strategic divestitures, no material commitments for such investments or divestitures currently exist.

**CRITICAL ACCOUNTING POLICIES**

The significant accounting policies followed by the Company are set forth in Note 1 to the Company's financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended March 30, 2008. The accounting policies used in preparing the Company's interim fiscal 2009 financial statements are the same as those described in the Company's Annual Report.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

At December 31, 2008, the Company had an investment portfolio of fixed income securities of \$872,088 and cash and cash equivalents of \$13,723,527. The fixed income securities, like all fixed income instruments, are subject to interest rate risks and will decline in value if market interest rates increase. However, while the value of the investment may fluctuate in any given period, the Company intends to hold its fixed income investments until recovery of cost. Consequently, the Company would not expect to recognize an adverse impact on net income or cash flows during the holding period. The Company adjusts the carrying value of its investments if an impairment occurs that is considered to be other than temporary.

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

**ITEM 4. CONTROLS AND PROCEDURES**

**Evaluation of disclosure controls and procedures**

We maintain a system of disclosure controls and procedures designed to provide reasonable assurance as to the reliability of our published financial statements and other disclosures included in this report. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure. Our management evaluated, with the participation of our Chief Executive Officer and our Chief Financial Officer, the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation the Chief Executive Officer and Chief Financial Officer concluded that as of December 31, 2008, the disclosure controls and procedures for Hawkins, Inc. were effective to ensure that information required to be disclosed in reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time period specified in SEC's rules and forms.

Table of Contents

**Changes in Internal Control**

There was no change in the Company's internal control over financial reporting during the third quarter of fiscal 2009 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II. OTHER INFORMATION**

**ITEM 1A. RISK FACTORS**

There have been no material changes to the Company's risk factors from those disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended March 30, 2008.

**ITEM 6. EXHIBITS**

Exhibit Index

| <b>Exhibit</b> | <b>Description</b>  | <b>Method of Filing</b>   |
|----------------|---|---------------------------|
| 3.1            | Amended and Second Restated Articles of Incorporation as amended through February 27, 2001. (1) | Incorporated by Reference |
| 3.2            | Second Amended and Superseding By-Laws as amended through February 15, 1995. (2)                | Incorporated by Reference |
| 31.1           | Certification by Chief Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act.        | Filed Electronically      |
| 31.2           | Certification by Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act.        | Filed Electronically      |
| 32.1           | Section 1350 Certification by Chief Executive Officer.  | Filed Electronically      |
| 32.2           | Section 1350 Certification by Chief Financial Officer.  | Filed Electronically      |

(1) Incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K for the year ended September 30, 2001.

(2) Incorporated by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K for the year ended October 1, 1995.

Table of Contents

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HAWKINS, INC.

By:

/s/ Kathleen P. Pepsi

Kathleen P. Pepsi

Vice President, Chief Financial Officer, and Treasurer  
(On behalf of the Registrant and as principal financial officer)

Dated: February 5, 2009

Table of Contents

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