HAWKINS INC
Form 10-Q
January 27, 2011

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

FORM 10-Q

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

For the quarterly period ended December 31, 2010

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.)

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)

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 x NO o

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

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

Large Accelerated Filer o Accelerated Filer x Non-Accelerated Filer o Smaller Reporting Company o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) YES o NO x

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 JANUARY 26, 2011
Common Stock, par value $.05 per share	10,315,954

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HAWKINS, INC.
CONDENSED BALANCE SHEETS

(In thousands, except share data)

	December 31, 2010 (Unaudited)	March 28, 2010 (Audited)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 47,914	$ 18,772
Investments available-for-sale	15,321	25,928
Trade receivables - less allowance for doubtful accounts: $325 as of December 31, 2010 and $300 as of March 28, 2010	26,847	24,832
Inventories	24,414	21,327
Income taxes receivable		4,430
Prepaid expenses and other current assets	2,727	2,209
Total current assets	117,223	97,498
PROPERTY, PLANT, AND EQUIPMENT - net	49,682	47,756
GOODWILL AND INTANGIBLE ASSETS	4,657	4,839
LONG-TERM INVESTMENTS		8,972
OTHER	172	1,228
	$ 171,734	$ 160,293
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable trade	$ 14,513	$ 13,940
Dividends payable		2,879
Accrued payroll and employee benefits	5,721	7,908
Deferred income taxes	3,664	3,364
Container deposits	984	924
Income taxes payable	454	
Other accruals	1,381	1,592
Total current liabilities	26,717	30,607
OTHER LONG-TERM LIABILITIES	566	633
DEFERRED INCOME TAXES	7,563	7,555
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS EQUITY:		
Common stock, par value $0.05; 10,259,458 and 10,253,458 shares issued and outstanding as of December 31, 2010 and March 28, 2010, respectively	513	513
Additional paid-in capital	40,157	39,027
Retained earnings	96,217	81,921

Accumulated other comprehensive income		1		37
Total shareholders equity		136,888		121,498
	$	171,734	$	160,293

See accompanying notes to condensed financial statements.

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HAWKINS, INC.
CONDENSED STATEMENTS OF INCOME (UNAUDITED)

(In thousands, except share and per-share data)	Three Months Ended December 31, 2010	Three Months Ended December 31, 2009	Nine Months Ended December 31, 2010	Nine Months Ended December 31, 2009
Sales	$ 70,620	$ 60,627	$ 215,684	$ 199,189
Cost of sales	(56,894)	(44,772)	(165,768)	(150,062)
Gross profit	13,726	15,855	49,916	49,127
Selling, general and administrative expenses	(6,893)	(6,447)	(20,368)	(19,370)
Operating income	6,833	9,408	29,548	29,757
Investment income	71	99	272	188
Income from continuing operations before income taxes	6,904	9,507	29,820	29,945
Provision for income taxes	(2,650)	(3,912)	(11,397)	(11,741)
Income from continuing operations	4,254	5,595	18,423	18,204
Income from discontinued operations, net of tax				109
Net income	$ 4,254	$ 5,595	$ 18,423	$ 18,313
Weighted average number of shares outstanding-basic	10,259,458	10,253,458	10,256,674	10,250,198
Weighted average number of shares outstanding-diluted	10,355,888	10,283,206	10,336,169	10,279,417
Basic earnings per share				
Earnings per share from continuing operations	$ 0.41	$ 0.55	$ 1.80	$ 1.78
Earnings per share from discontinued operations				0.01
Basic earnings per share	$ 0.41	$ 0.55	$ 1.80	$ 1.79
Diluted earnings per share				
Earnings per share from continuing operations	$ 0.41	$ 0.54	$ 1.78	$ 1.77
Earnings per share from discontinued operations				0.01
Diluted earnings per share	$ 0.41	$ 0.54	$ 1.78	$ 1.78
Cash dividends declared per common share	$	$	$ 0.40	$ 0.38

See accompanying notes to condensed financial statements.

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

(In thousands)	Nine Months Ended December 31, 2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 18,423	$ 18,313
Reconciliation to cash flows:		
Depreciation and amortization	5,106	4,687
Deferred income taxes	333	218
Stock compensation expense	1,132	478
Loss (gain) from property disposals	(32)	2
Changes in operating accounts (using) providing cash:		
Trade receivables	(2,015)	5,038
Inventories	(3,087)	3,536
Accounts payable	1,437	(1,156)
Accrued liabilities	(2,406)	(2,870)
Income taxes	4,882	2,172
Other	538	(752)
Net cash provided by operating activities	24,311	29,666
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property, plant, and equipment	(7,764)	(6,591)
Purchases of investments	(4,410)	(37,320)
Sale and maturities of investments	23,930	4,000
Proceeds from property disposals	80	136
Net cash provided by (used in) investing activities	11,836	(39,775)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash dividends paid	(7,005)	(6,573)
Net cash used in financing activities	(7,005)	(6,573)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	29,142	(16,682)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	18,772	29,536
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 47,914	$ 12,854
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for income taxes	$ 6,181	$ 9,439
Noncash investing activities-		
Capital expenditures in accounts payable	$ 254	$

See accompanying notes to condensed financial statements.

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

Note 1 Basis of Presentation

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 our Annual Report on Form 10-K for the fiscal year ended March 28, 2010, 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 our financial position and the results of our 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 we follow are set forth in Item 8. Financial Statements and Supplementary Data, Note 1 Nature of Business and Significant Accounting Policies to our financial statements in our Annual Report on Form 10-K for the fiscal year ended March 28, 2010 (fiscal 2010) filed with the SEC on June 4, 2010.

The results of operations for the period ended December 31, 2010 are not necessarily indicative of the results that may be expected for the full fiscal year ending April 3, 2011 (fiscal 2011).

Note 2 Earnings per Share

Basic earnings per share (EPS) are computed by dividing net earnings by the weighted-average number of common shares outstanding. Diluted EPS includes the incremental shares assumed to be issued 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:

	Three months ended December 31,		Nine months ended December 31,	
	2010	**2009**	**2010**	**2009**
Weighted average common shares outstanding basic	10,259,458	10,253,458	10,256,674	10,250,198
Dilutive impact of stock options, performance units, and restricted stock	96,430	29,748	79,495	29,219
Weighted average common shares outstanding - diluted	10,355,888	10,283,206	10,336,169	10,279,417

For the period ended December 31, 2010, there were no shares or stock options excluded from the calculation of weighted average common shares for diluted EPS. For the three and nine months ended December 31, 2009, 70,665 stock options were excluded from the calculation of weighted average common shares for diluted EPS because their effects were antidilutive.

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Note 3 Cash and Cash Equivalents and Investments

Estimates of fair value for financial assets and liabilities are based on the framework established in the accounting guidance for fair value measurements. The framework defines fair value, provides guidance for measuring fair value and requires certain disclosures. The framework discusses valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flow), and the cost approach (cost to replace the service capacity of an asset or replacement cost). The framework utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those three levels:

Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3: Unobservable inputs that reflect the reporting entity s own assumptions.

The following table presents information about our financial assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2010, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value.

Description **(In thousands)**	**December 31, 2010**	**Level 1**	**Level 2**	**Level 3**
Assets:				
Cash	$ 47,514	$ 47,514	$	$
Certificates of deposit	15,321		15,321	
Money market securities	400	400		

Our financial assets that are measured at fair value on a recurring basis are certificates of deposit (CD s), with maturities ranging from three months to one year which fall within valuation technique Level 2. The CD s are classified as investments in current assets on the Condensed Balance Sheets.

The carrying value of cash and cash equivalents approximate fair value, as maturities are three months or less. We did not have any financial liability instruments subject to recurring fair value measurements as of December 31, 2010.

Note 4 - Inventories

Inventories at December 31, 2010 and March 28, 2010 consisted of the following:

(In thousands)	**December 31, 2010**	**March 28, 2010**
Finished goods (FIFO basis)	$ 27,698	$ 23,258
LIFO reserve	(3,284)	(1,931)
Net inventory	$ 24,414	$ 21,327

The first in, first out (FIFO) value of inventories accounted for under the last in, first out (LIFO) method was $27.6 million at December 31, 2010 and $23.1 million at March 28, 2010. The remainder of the inventory was valued and accounted for under the FIFO method. The LIFO reserve increased $0.6 million during the three months ended December 31, 2010 compared to a decrease of $2.1 million the three months ended December 31, 2009. During the nine months ended December 31, 2010, the LIFO reserve increased $1.4 million while the LIFO reserve decreased $9.1 million in the nine months ended December 31, 2009 as a result of the changes in inventory costs and inventory product mix. The valuation of LIFO inventory for interim periods is based on our estimates of year-end inventory levels and costs.

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Note 5 Goodwill and Intangible Assets

The carrying amount of goodwill as of December 31, 2010 and March 28, 2010 was $1.2 million.

Intangible assets consist primarily of customer lists, trade secrets and non-compete agreements classified as finite life and trademarks and trade names classified as indefinite life, related to previous business acquisitions. A summary of our intangible assets as of December 31, 2010 and March 28, 2010 were as follows:

	December 31, 2010		
(In thousands)	**Gross Carrying Amount**	**Accumulated Amortization**	**Net**
Finite-life intangible assets	$ 3,259	$ (1,032)	$ 2,227
Indefinite-life intangible assets	1,227		1,227
Total intangible assets, net	$ 4,486	$ (1,032)	$ 3,454

	March 28, 2010		
(In thousands)	**Gross Carrying Amount**	**Accumulated Amortization**	**Net**
Finite-life intangible assets	$ 3,259	$ (851)	$ 2,408
Indefinite-life intangible assets	1,227		1,227
Total intangible assets, net	$ 4,486	$ (851)	$ 3,635

Note 6 Income Taxes

In the preparation of our 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. We record any interest and penalties related to income taxes as income tax expense in the statements of income.

We recognize the effect of income tax positions only if those positions are more likely than not of being sustained. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

We are subject to U.S. federal income tax as well as income tax of multiple state jurisdictions. The tax years beginning with 2006 remain open to examination by the Internal Revenue Service, and with few exceptions, state and local income tax jurisdictions.

Note 7 Accumulated Other Comprehensive Income

Components of accumulated other comprehensive income were as follows:

(In thousands)	**December 31, 2010**	**March 28, 2010**
Unrealized gain (loss) on:		
Available-for-sale investments	$ 31	$ 66
Post-retirement plan liability adjustments	(30)	(29)
Accumulated other comprehensive income	$ 1	$ 37

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Note 8 Stock Based Compensation

Stock Option Awards. Our Board of Directors approved a long-term incentive equity compensation arrangement for our executive officers during the first quarter of fiscal 2009. This long-term incentive arrangement provides for the grant of nonqualified stock options that vest at the end of a three-year period and expire no later than 10 years after the grant date.

The following table represents the stock option activity for the nine months ended December 31, 2010:

	Shares	Weighted-Average Exercise Price	Exercisable
Outstanding at beginning of period	131,997	$ 17.82	
Granted			
Exercised			
Forfeited or expired			
Outstanding at end of period	131,997	$ 17.82	

Compensation expense for the three months ended December 31, 2010 and 2009 related to stock options was not material. We recorded $0.1 million in compensation expense related to stock options in each of the nine month periods ended December 31, 2010 and 2009.

Performance-Based Restricted Stock Units. Our Board of Directors approved a performance-based equity compensation arrangement for our executive officers during the first quarter of fiscal 2009. This performance-based arrangement provides for the grant of performance-based restricted stock units that represent a possible future issuance of restricted shares of our common stock based on our pre-tax income target for the applicable fiscal year. The actual number of restricted shares to be issued to each executive officer will be determined when our final financial information becomes available after the applicable fiscal year and will be between zero shares and 73,387 shares in the aggregate for fiscal 2011. The restricted shares issued will fully vest two years after the last day of the fiscal year on which the performance is based. We are recording the compensation expense for the outstanding performance share units and then-converted restricted stock over the life of the awards.

On June 10, 2009 and June 2, 2010, we awarded performance-based restricted stock units to our executive officers under this arrangement. The following table represents the restricted stock activity for the nine months ended December 31, 2010:

	Shares	Weighted-Average Grant Date Fair Value
Outstanding at beginning of period	23,000	$ 19.90
Granted	26,500	25.81
Vested		
Forfeited or expired		
Outstanding at end of period	49,500	$ 23.06

We recorded compensation expense of $0.4 million and $0.9 million related to performance share units for the three and nine months ended December 31, 2010, respectively. We recorded compensation expense of $0.1 million and $0.3 million related to performance share units for the three and nine months ended December 31, 2009, respectively.

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Restricted Stock Awards. As part of their retainer, each non-employee Director receives restricted stock 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.

On August 5, 2009 and July 28, 2010 we awarded restricted stock to the Board. The following table represents the Board s restricted stock activity for the nine months ended December 31, 2010:

	Shares	Weighted-Average Grant Date Fair Value
Outstanding at beginning of period	6,000	$ 18.68
Granted	6,996	30.00
Vested	(6,000)	18.68
Forfeited or expired		
Outstanding at end of period	6,996	$ 30.00

Compensation expense for the three months ended December 31, 2010 and 2009 related to restricted stock awards to the Board was not material. We recorded $0.1 million in compensation expense related to restricted stock awards to the Board in each of the nine month periods ended December 31, 2010 and 2009.

Note 9 Commitments and Contingencies

Litigation We are a party from time to time in various legal proceedings arising in the ordinary course of our business. None of the pending proceedings are expected to have a material effect on the Company s financial statements.

Note 10 Discontinued Operations

In February 2009, we agreed to sell our inventory and entered into a marketing agreement regarding the business of our Pharmaceutical segment, which provided pharmaceutical chemicals to retail pharmacies and small-scale pharmaceutical manufacturers. On May 22, 2009 the majority of the inventory was sold for cash of approximately $1.6 million which approximated its carrying value. The remaining inventory, with a carrying value of approximately $0.1 million, was sold during fiscal 2010. The agreement provides for annual payments based on a percentage of gross profit on future sales up to a maximum of approximately $3.7 million. We have no significant remaining obligations to fulfill under the agreement. We initially recorded a receivable of approximately $1.7 million, equal to the carrying value of the assets that were related to this business. The first year payment under the agreement of approximately $0.8 million was received in the second quarter of fiscal 2011. Amounts received in excess of the $0.9 million remaining receivable will be recorded as a gain on sale of discontinued operations in future periods. The results of the Pharmaceutical segment have been reported as discontinued operations for all periods presented.

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Note 11 Segment Information

We have two reportable segments: Industrial and Water Treatment. 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. We evaluate performance based on profit or loss from operations before income taxes not including nonrecurring gains and losses. 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 segments do not have separate accounting, administration, customer service or purchasing functions. There are no intersegment sales and no operating segments have been aggregated. Given our nature, it is not practical to disclose revenues from external customers for each product or each group of similar products. No single customer represents 10 percent or more of our revenue. Sales are primarily within the United States and all assets are located within the United States.

Reportable Segments (In thousands)	**Industrial**	**Water Treatment**	**Total**
Three Months Ended December 31, 2010:			
Sales	$ 51,282	$ 19,338	$ 70,620
Gross profit	8,627	5,099	13,726
Operating income	4,130	2,703	6,833
Three Months Ended December 31, 2009:			
Sales	$ 42,336	$ 18,291	$ 60,627
Gross profit	10,122	5,733	15,855
Operating income	5,834	3,574	9,408
Nine Months Ended December 31, 2010:			
Sales	$ 146,016	$ 69,668	$ 215,684
Gross profit	28,550	21,366	49,916
Operating income	15,894	13,654	29,548
Nine Months Ended December 31, 2009:			
Sales	$ 133,460	$ 65,729	$ 199,189
Gross profit	27,386	21,741	49,127
Operating income	14,964	14,793	29,757

Note 12 Subsequent Event

On January 10, 2011, our wholly owned subsidiary (Acquisition Sub), and Vertex Chemical Corporation, R.H.A. Corporation, and Novel Wash Co., Inc. (collectively, Vertex) entered into an Asset Purchase Agreement (the Asset Purchase Agreement) pursuant to which, among other things, Acquisition Sub purchased and acquired from Vertex substantially all of the assets used in Vertex s business, which is the manufacture and distribution of sodium hypochlorite and the distribution of caustic soda, hydrochloric acid and related products. Pursuant to the Asset Purchase Agreement, Acquisition Sub paid Vertex $25.5 million and assumed certain liabilities of Vertex. We guaranteed the payment and performance by Acquisition Sub of all of its obligations under the Asset Purchase Agreement. The Asset Purchase Agreement contains representations, warranties and covenants of us, Acquisition Sub, and Vertex. The acquisition was completed on January 14, 2011.

The allocation of the total purchase price for Vertex has not been finalized. An estimate of the purchase price allocation follows:

(In thousands)	
Net tangible assets acquired	$ 15,400
Identified intangible assets and Goodwill	10,100
Total purchase price	$ 25,500

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The following unaudited pro forma condensed consolidated financial results of operations for the three and nine months ended December 31, 2010 are presented as if the Vertex acquisition had been completed at the beginning of the each period presented:

	Three Months Ended December 31,		Nine Months Ended December 31,	
(In thousands, except share and per-share data)	**2010**	**2009**	**2010**	**2009**
Pro forma net sales	$ 79,920	$ 67,783	$ 245,977	$ 226,382
Pro forma net earnings	4,533	5,622	19,799	19,348
Pro forma earnings per share:				
Basic	$ 0.44	$ 0.55	$ 1.93	$ 1.89
Diluted	0.44	0.55	1.92	1.88
Weighted average common shares outstanding:				
Basic	10,259,458	10,253,458	10,256,674	10,250,198
Diluted	10,355,888	10,283,206	10,336,169	10,279,417

These unaudited pro forma condensed consolidated financial results have been prepared for illustrative purposes only and do not purport to be indicative of the results of operations that actually would have resulted had the acquisition occurred on the first day of each fiscal period presented, or of future results of consolidated entities. The unaudited pro forma condensed consolidated financial information does not reflect any operating efficiencies and cost savings that may be realized from the integration of the acquisition.

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

The following is a discussion and analysis of our financial condition and results of operations for the three and nine months ended December 31, 2010 as compared to December 31, 2009. This discussion should be read in conjunction with the Condensed Financial Statements and Notes to Condensed Financial Statements included in this Form 10-Q and Item 8 of our Annual Report on Form 10-K for the fiscal year ended March 28, 2010 (fiscal 2010). References to fiscal 2011 refer to the fiscal year ending April 3, 2011.

Overview

We derive substantially all of our revenues from the sale of bulk and specialty chemicals 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 our strong customer focus and have expanded our business by increasing our sales of value-added specialty chemical products, including repackaging, blending and manufacturing certain products. In recent years, we significantly expanded the sales of our higher-margin blended and manufactured products. We expect this specialty chemical portion of our business to continue to grow.

We have continued to invest in growing our business. In fiscal 2010, we invested in two new facilities, which expanded our ability to service our customers and facilitate growth within our Industrial Group. Our new facility in Centralia, Illinois began operations in July 2009 and primarily serves our food-grade products business. Additionally, our new facility in Minneapolis, Minnesota, built to handle bulk chemicals sold to pharmaceutical manufacturers, became operational in June 2009. We opened two branches for our Water Treatment Group in the first nine months of fiscal 2011 and one in the first nine months of fiscal 2010 and expect to continue to invest in new branches to expand our geographic coverage. The cost of these new branches is not expected to be material.

We seek to maintain relatively constant gross profit dollars on each of our products as the cost of our raw materials increase or decrease. Since we expect that we will continue to experience fluctuations in our raw material costs and resulting prices in the future, we believe that gross profit dollars is the best measure of our profitability from the sale of our products. If we maintain relatively stable profit dollars on each of our products, our reported gross profit percentage will decrease when the cost of the product increases and will increase when the cost of the product decreases.

We use the last in, first out (LIFO) method of valuing inventory, which causes the most recent product costs 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 commodity chemical raw material prices. Our raw material costs have increased slightly through the first nine months of fiscal 2011, and we anticipate these costs to remain at those levels through the end of fiscal 2011. As a result of these cost projections, we have recorded an increase in our LIFO reserve and a corresponding decrease in our reported gross profit of $0.6 million for the three months ended and $1.4 million for the nine months ended December 31, 2010. We anticipate continued competitive pricing pressure, which negatively impacted our margins in the third quarter and may have a negative effect on our margins in the remainder of fiscal 2011. Our raw material costs declined significantly over the first several months of fiscal 2010, stabilizing in the third quarter of fiscal 2010. Our use of LIFO partially offsets the impact of the rapidly changing prices, and our LIFO reserve decreased significantly in fiscal 2010 due to declining costs. This decrease in the reserve increased our reported gross profit in the three months ended December 31, 2009 by $2.1 million and in the nine months ended December 31, 2009 by $9.1 million.

Vertex Chemical Corporation (Vertex) Acquisition

On January 10, 2011, we, through a wholly owned subsidiary, entered into a definitive agreement to acquire substantially all the assets of Vertex for approximately $25.5 million. The acquisition was completed on January 14, 2011. Vertex had revenues of approximately $39 million in calendar 2010. While Vertex s margins have historically been somewhat lower than ours, we expect that the acquisition will be accretive to earnings.

Vertex has been a manufacturer of sodium hypochlorite in the central Midwest since 1949. In addition to the manufacture of sodium hypochlorite bleaches, Vertex distributes and provides terminal services for bulk liquid inorganic chemicals, and contract and private label packaging for household chemicals. Its corporate headquarters are located in St. Louis, Missouri, with manufacturing sites in Dupo, Illinois; Camanche, Iowa; and Memphis, Tennessee.

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Results of Operations

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

	Three months ended December 31,		Nine months ended December 31,	
	2010	**2009**	**2010**	**2009**
Sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	(80.6)	(73.8)	(76.9)	(75.3)
Gross profit	19.4	26.2	23.1	24.7
Selling, general and administrative expenses	(9.8)	(10.6)	(9.4)	(9.7)
Operating income	9.7	15.5	13.7	14.9
Investment income	0.1	0.2	0.1	0.1
Income from continuing operations before income taxes	9.8	15.7	13.8	15.0
Provision for income taxes	(3.8)	(6.5)	(5.3)	(5.9)
Incoming from continuing operations	6.0	9.2	8.5	9.1
Income from discontinued operations, net of tax				0.1
Net income	6.0%	9.2%	8.5%	9.2%

Three Months Ended December 31, 2010 Compared to the Three Months Ended December 31, 2009

Sales

Sales increased $10.0 million, or 16.5%, to $70.6 million in the three months ended December 31, 2010 as compared to $60.6 million in the same period a year ago. Sales of bulk chemicals, including caustic soda, were approximately 20% of sales during the three months ended December 31, 2010 as compared to 19% of sales during the three months ended December 31, 2009. In addition to higher selling prices due to higher commodity chemical raw material prices, we experienced increased sales across many of our product lines in the third quarter of fiscal 2011 as compared to the same period in fiscal 2010.

Industrial Segment. Industrial segment sales increased $8.9 million, or 21%, to $51.3 million for the three months ended December 31, 2010 as compared to the same period of the prior year, with the increase primarily driven by higher selling prices and increased sales of manufactured and specialty chemical products.

Water Treatment Segment. Water Treatment segment sales increased $1.0 million, or 5.5%, to $19.3 million for the three months ended December 31, 2010 as compared to the same period of the prior year. The sales increase was primarily due to increased sales of manufactured and specialty chemical products.

Gross Profit

Gross profit was $13.7 million, or 19.4 % of sales, for the three months ended December 31, 2010, as compared to $15.9 million, or 26.2% of sales, for the three months ended December 31, 2009. The LIFO method of valuing inventory reduced gross profit by $0.6 million for the three months ended December 31, 2010 and increased gross profit by $2.1 million for the three months ended December 31, 2009. The impact of LIFO in the prior year was primarily due to significant decreases in raw material costs experienced over the first several months of fiscal 2010, whereas we have seen raw material costs increase somewhat through the first three quarters of fiscal 2011 and those costs are expected to remain at current levels through the end of the fiscal year.

Industrial Segment. Gross profit for the Industrial segment was $8.6 million, or 16.8% of sales, for the three months ended December 31, 2010, as compared to $10.1 million, or 23.9% of sales, for the three months ended December 31, 2009. The decrease in gross profit dollars was attributable to competitive pricing pressures and higher operational and infrastructure costs, offset by increased sales. The LIFO method of valuing inventory caused a $0.6 million decrease in gross profit in this segment for the three months ended December 31, 2010 while it increased gross profit by $1.8 million for the three months ended December 31, 2009.

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Water Treatment Segment. Gross profit for the Water Treatment segment was $5.1 million, or 26.4% of sales, for the three months ended December 31, 2010, as compared to $5.7 million, or 31.3% of sales, for the three months ended December 31, 2009. The decrease in gross profit dollars was primarily due to competitive pricing pressures and increased operational and infrastructure costs, partially offset by increased sales. The LIFO method of valuing inventory had a negligible impact on gross profit in this segment for the three months ended December 31, 2010 as compared to a $0.3 million increase in gross profit for the three months ended December 31, 2009.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were $6.9 million, or 9.8% of sales, for the three months ended December 31, 2010 as compared to $6.4 million, or 10.6% of sales, for the three months ended December 31, 2009. The increase was primarily a result of higher equity incentive plan costs and costs related to the Vertex acquisition.

Operating Income

Operating income was $6.8 million for the three months ended December 31, 2010, a decrease of $2.6 million from the same period in the prior year. The Industrial segment decreased $1.7 million and the Water Treatment segment decreased $0.9 million. The decrease in operating income was driven by decreases in profits due to competitive pricing pressures, and higher operational and selling, general and administrative expenses; partially offset by increased sales.

Investment Income

Investment income was $0.1 million for the three months ended December 31, 2010 and 2009.

Provision for Income Taxes

Our effective income tax rate was 38.4 % for the three months ended December 31, 2010, compared to 41.1% for the three months ended December 31, 2009. The overall effective tax rate is impacted by projected taxable income levels, permanent items, and effective state tax rates.

Nine Months Ended December 31, 2010 Compared to the Nine Months Ended December 31, 2009

Sales

Sales increased $16.5 million, or 8.3%, to $215.7 million in the nine months ended December 31, 2010 as compared to $199.2 million in the same period a year ago. Sales of bulk chemicals, including caustic soda, were approximately 20% of sales during the nine months ended December 31, 2010 as compared to 19% of sales during the nine months ended December 31, 2009. We experienced increased sales across many of our product lines in the fiscal 2011 period as compared to the same period in fiscal 2010, which was partially offset by lower selling prices due to lower raw material costs in the first quarter of fiscal 2011 compared to the same period of fiscal 2010.

Industrial Segment. Industrial segment sales increased $12.6 million, or 9.4%, to $146.0 million for the nine months ended December 31, 2010 as compared to the same period of the prior year. Increased sales of bulk chemicals and many other product lines were partially offset by reduced selling prices in response to lower raw material costs in the first quarter of fiscal 2011.

Water Treatment Segment. Water Treatment segment sales increased $3.9 million, or 6.0%, to $69.7 million for the nine months ended December 31, 2010 as compared to the same period of the prior year. The sales increase was primarily due to increased sales of manufactured and specialty chemical products, partially offset by lower selling prices due to lower raw material costs in the first quarter of fiscal 2011.

Gross Profit

Gross profit was $49.9 million, or 23.1% of sales, for the nine months ended December 31, 2010, as compared to $49.1 million, or 24.7% of sales, for the nine months ended December 31, 2009. Due to projected increases in certain raw material costs during fiscal 2011, the LIFO method of valuing inventory reduced gross profit by $1.4 million for the nine months ended December 31, 2010, whereas LIFO increased gross profit by $9.1 million for the nine months ended December 31, 2009 due to significant decreases in raw material costs experienced in the first nine months of fiscal 2010 and projected to remain in place at the end of fiscal 2010.

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Industrial Segment. Gross profit for the Industrial segment was $28.5 million, or 19.6 % of sales, for the nine months ended December 31, 2010, as compared to $27.4 million, or 20.5% of sales, for the nine months ended December 31, 2009. The increase in gross profit dollars for this segment in the first nine months of fiscal 2011 was attributable to increased sales of manufactured and specialty chemicals, partially offset by competitive pricing pressures and higher operational and infrastructure expenses. The LIFO method of valuing inventory decreased gross profit by $1.3 million in this segment for the nine months ended December 31, 2010 while it increased gross profit by $7.2 million for the nine months ended December 31, 2009.

Water Treatment Segment. Gross profit for the Water Treatment segment was $21.4 million, or 30.7% of sales, for the nine months ended December 31, 2010, as compared to $21.7 million, or 33.1% of sales, for the nine months ended December 31, 2009. The decrease in gross profit dollars was primarily due to competitive pricing pressures and increased overhead costs from investments in new facilities and personnel within existing and new markets to support growth in this segment, partially offset by increased sales of manufactured and specialty chemical products. The LIFO method of valuing inventory decreased gross profit in this segment by $0.1 million for the nine months ended December 31, 2010 while it increased gross profit by $1.9 million for the nine months ended December 31, 2009.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were $20.4 million, or 9.4% of sales, for the nine months ended December 31, 2010 as compared to $19.4 million, or 9.7% of sales, for the nine months ended December 31, 2009. The increase was primarily a result of higher equity incentive plan costs and costs related to the Vertex acquisition.

Operating Income

Operating income was $29.5 million for the nine months ended December 31, 2010, a decrease of $0.2 million from the same period in the prior year. The Industrial segment increased $0.9 million while the Water Treatment segment decreased $1.1 million. The decrease in operating income was driven by decreased profits due to competitive pricing pressures, and higher operational and selling, general and administrative expenses; partially offset by increased sales.

Investment Income

Investment income was $0.3 million for the nine months ended December 31, 2010 and $0.2 million for the nine months ended December 31, 2009.

Provision for Income Taxes

Our effective income tax rate was 38.2% for the nine months ended December 31, 2010, compared to 39.2% for the nine months ended December 31, 2009. The overall effective tax rate is impacted by projected taxable income levels, permanent items, and effective state tax rates

Liquidity and Capital Resources

Cash provided by operations for the nine months ended December 31, 2010 was $24.3 million compared to $29.7 million for the nine months ended December 31, 2009. The decrease in cash provided by operating activities was due to an increase in working capital balances, including the timing of inventory purchases and an increase in trade receivables associated with the reported sales increases and timing of customer payments. The higher levels of cash generated from working capital in the nine months ended December 31, 2009 were driven by the rapidly declining material costs and selling prices experienced in that period. 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. Historically, our cash requirements increase during the period from April through September 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, our accounts receivable balance generally increases during the same period.

Cash and investments available-for-sale of $63.2 million at December 31, 2010 increased by $9.5 million as compared with the $53.7 million available as of March 28, 2010, primarily due to cash flows generated from operations, offset by capital expenditures and dividends paid. In January 2011, the Company used $25.5 million of its cash balances to acquire substantially all of the assets of Vertex.

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Capital Expenditures

Capital expenditures were $7.8 million for the nine months ended December 31, 2010 compared to $6.6 million in the same period in the prior fiscal year. Capital expenditures related to new facilities projects were approximately $0.6 million for the nine months ended December 31, 2010 compared to $2.5 million for the nine months ended December 31, 2009. Additional significant capital expenditures during the nine months ended December 31, 2010 consisted of approximately $3.0 million for business expansion and process improvement projects, $3.5 million for other facility, regulatory and safety improvements and $0.7 million for new and replacement route sales trucks for the Water Treatment segment. We expect our cash flows from operations will be sufficient to fund our planned capital expenditures for the remainder of fiscal 2011.

Critical Accounting Policies

Our significant accounting policies are set forth in Note 1 to our financial statements in our Annual Report on Form 10-K for the fiscal year ended March 28, 2010. The accounting policies used in preparing our interim fiscal 2011 financial statements are the same as those described in our Annual Report.

Forward-Looking Statements

The information presented in this Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). These forward-looking statements have been made pursuant to the provisions of the Private Securities Litigation Reform Act of 1995. These statements are not historical facts, but rather are based on our current expectations, estimates and projections, and our beliefs and assumptions. We intend words such as anticipate, expect, intend, plan, believe, 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 28, 2010. 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.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

At December 31, 2010, our investment portfolio included $15.3 million of certificates of deposit classified as fixed income securities and cash and cash equivalents of $47.9 million. 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, we intend to hold our fixed income investments until recovery. Consequently, we would not expect to recognize an adverse impact on net income or cash flows during the holding period. We adjust the carrying value of our investments if impairment occurs that is other than temporary.

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 material prices on to our customers, however, there are no assurances that we will be able to pass on cost increases in the future.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures

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

Changes in Internal Control

There was no change in our internal control over financial reporting during the third quarter of fiscal 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

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 28, 2010.

ITEM 6. EXHIBITS

Exhibit Index

Exhibit	Description	Method of Filing
3.1	Amended and Restated Articles of Incorporation. (1)	Incorporated by Reference
3.2	Amended and Restated By-Laws. (2)	Incorporated by Reference
31.1	Certification by Chief Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act.	Filed Electronically
31.2	Certification by Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act.	Filed Electronically
32.1	Section 1350 Certification by Chief Executive Officer.	Filed Electronically
32.2	Section 1350 Certification by Chief Financial Officer.	Filed Electronically

(1) Incorporated by reference to Exhibit 3.1 to the Company s Quarterly Report in Form 10-Q for the period ended June 30, 2010 and filed July 29, 2010.

(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.

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SIGNATURES

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

HAWKINS, INC.

By: /s/ Kathleen P. Pepski

Kathleen P. Pepski

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

Dated: January 27, 2011

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