

HAWKINS INC  
Form 10-K  
June 15, 2007

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-K**

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

**For the Fiscal Year Ended April 1, 2007**

**Commission File Number 0-7647**

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**HAWKINS, INC.**

(Exact Name of Registrant as specified in its Charter)

**MINNESOTA**  
(State of Incorporation)

**41-0771293**  
(I.R.S. Employer Identification No.)

**3100 East Hennepin Avenue, Minneapolis, Minnesota**  
(Address of Principal Executive Offices)

**55413**  
(Zip Code)

**(612) 331-6910**

(Registrant's Telephone Number, Including Area Code)

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Securities registered pursuant to Section 12(b) of the Act: NONE

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Securities registered pursuant to Section 12(g) of the Act: COMMON STOCK, PAR VALUE \$.05 PER SHARE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

YES ☐ NO ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

YES ☐ NO ☒

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 twelve 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer ☐ Accelerated Filer ☒ Non-Accelerated Filer ☐

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

YES ☐ NO ☒

The aggregate market value of voting stock held by non-affiliates of the Registrant on September 30, 2006 (the last business day of the Registrant's most recently completed second fiscal quarter) was \$117,543,251 based upon the closing sale price for Hawkins, Inc.'s common stock on that date as reported by The NASDAQ Stock Market, excluding all shares held by officers and directors of the Registrant and by the Trustees of the Registrant's Employee Stock Ownership Plan and Trust.

As of May 31, 2007, the Registrant had 10,257,084 shares of common stock outstanding.

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## DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Annual Report on Form 10-K incorporates by reference information (to the extent specific sections are referred to herein) from the Registrant's Proxy Statement for its 2007 Annual Meeting of Shareholders to be held August 7, 2007.

## PART I

### ITEM 1. BUSINESS

(a) GENERAL DEVELOPMENT OF THE BUSINESS. Hawkins, Inc. was incorporated in Minnesota in 1955 and has its principal executive offices at 3100 East Hennepin Avenue, Minneapolis, Minnesota. As used in this Annual Report on Form 10-K, except where otherwise stated or indicated by the context, Hawkins, we, the Company, our, or the Registrant means Hawkins, Inc. and its predecessors.

(b) FINANCIAL INFORMATION ABOUT INDUSTRY SEGMENTS. The Company's principal business is the distribution, blending, and formulation of bulk and specialty chemicals, which it conducts in three principal segments: Water Treatment, Industrial and Pharmaceutical. Financial information regarding these segments is reported in the Company's audited financial statements. See Items 7 and 8 below.

(c) NARRATIVE DESCRIPTION OF THE BUSINESS.

(i) PRODUCTS AND MARKETS. The Company's business is conducted in three segments, Water Treatment, Industrial and Pharmaceutical, which are more fully described below:

(A) WATER TREATMENT. The Water Treatment segment specializes in providing equipment, chemicals and solutions to problems for potable water, municipal and industrial wastewater, industrial process water and non-residential swimming pool water. The Water Treatment Group has warehouses in twelve cities and utilizes a Driver/Technician/Salesperson approach in supplying products and service to customers in Minnesota, Wisconsin, Iowa, North Dakota, South Dakota, Nebraska, Illinois, Michigan, Montana, Kansas and Wyoming.

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(B) **INDUSTRIAL.** The Industrial segment specializes in providing industrial chemicals and services to the energy, electronics, chemical processing, pulp and paper, medical device and plating industries. In addition, the Industrial segment provides products and services to food manufacturers and processing plants. The Industrial segment also manufactures and sells certain food grade products, including the Cheese-Phos® liquid phosphate product and other blended products, none of which are individually material to the Company. This segment conducts its business primarily through distribution centers and terminal operations.

The Industrial segment receives, stores and distributes various chemicals in bulk, including liquid caustic soda, phosphoric acid, potassium hydroxide and aqua ammonia; manufactures sodium hypochlorite (bleach) and agricultural products; repackages water treatment chemicals; and performs custom blending of certain chemicals for customers according to customer formulas. The Industrial segment operates liquid caustic soda barge terminals to receive shipments during the period the Mississippi River is open to barge traffic (approximately April 1 through November 15). During the remainder of the year, the Company relies on stockpiles, as well as supplies shipped in by railroad tank car. Pursuant to operating agreements it has with other chemical companies, the Company receives and stores liquid caustic soda and other chemicals at its two terminal sites, Hawkins Terminal 1 and Terminal 2. Terminal 1 and Terminal 2 are located on opposite sides of the Mississippi River in St. Paul, Minnesota.

The Industrial segment also includes a manufacturing, blending and sales distribution center for industrial chemicals, food grade chemicals, high-purity electronic chemicals and laboratory chemicals and supplies. Bulk industrial chemicals are generally repackaged and sold in smaller quantities to the Company's customers. Sales are concentrated primarily in Wisconsin, Minnesota, northern Iowa, and North and South Dakota. The principal products are acids and alkalis and industrial and food grade salts. The Industrial segment also specializes in sales to the plating and electronic industries, relying on a specially trained sales staff that works directly with customers on their surface finishing needs.

(C) **PHARMACEUTICAL.** The Pharmaceutical segment specializes in providing pharmaceutical chemicals to pharmacies and small-scale pharmaceutical manufacturers. This segment conducts the majority of its business through one warehouse located at the principal executive site. The Pharmaceutical segment's sales are primarily focused in the United States.

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(ii) **NEW PRODUCTS.** The Company did not have any significant new products during the fiscal year ended April 1, 2007.

(iii) **RAW MATERIALS.** The Company has approximately 200 suppliers, including many of the major chemical producers in the United States, of which approximately 30 account for a majority of the Company's purchases. The Company typically has written distributorship agreements or supply contracts with its suppliers that are renewed from time to time. Although there is no assurance that any contract or understanding with any supplier will not be terminated in the foreseeable future, most of the products purchased can be obtained from alternative sources should existing relationships be terminated.

(iv) **PATENTS, TRADEMARKS, LICENSES, FRANCHISES, AND CONCESSIONS.** There are no patents, trademarks, licenses, franchises or concessions that are currently material to the successful operation of the Company's business.

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- (v) **SEASONAL ASPECTS.** The Water Treatment segment has historically experienced higher sales during the April to September timeframe, which is due primarily to an increase in chemicals used by municipal water treatment facilities.
- (vi) **WORKING CAPITAL ITEMS.** As a bulk distributor of chemicals, the Company is required to carry significant amounts of inventory to meet rapid delivery requirements of customers. Working capital requirements vary on a seasonal basis as a result of the seasonality of the water treatment business.
- (vii) **DEPENDENCE ON LIMITED NUMBER OF CUSTOMERS.** No single customer represents more than approximately 5% of the Company's sales, but the loss of our five largest customers could have a material adverse effect on the Company's results of operations. Total aggregate sales to the Company's five largest customers were \$15.8 million and \$16.9 million for the fiscal years ended April 1, 2007 and April 2, 2006, respectively. Additionally, no single customer represents 10% or more of the Water Treatment, Industrial or Pharmaceutical segment sales.
- (viii) **BACKLOG.** Backlog is not material to an understanding of the Company's business.
- (ix) **GOVERNMENT CONTRACTS.** No material portion of the Company's business is subject to renegotiation of profits or termination of contracts at the election of any state or federal governmental subdivision or agency.
- (x) **COMPETITIVE CONDITIONS.** The Company operates in a competitive industry and competes with producers, distributors and sales agents offering chemicals equivalent to substantially all of the products handled by the Company. Many such producers and distributors are substantially larger than the Company. No one competitor, however, is dominant in the Company's market.
- (xi) **RESEARCH AND DEVELOPMENT.** The Company devotes resources to research and development on a project basis as the need arises. During the fiscal year ended April 1, 2007, expenditures for research and development were not material to the Company's business.
- (xii) **ENVIRONMENTAL MATTERS.** The Company is primarily a compounder and distributor, rather than a manufacturer, of chemical products. As such, compliance with current federal, state and local provisions regarding discharge of materials into the environment, or otherwise relating to the protection of the environment, is not anticipated to have any material effects upon the capital expenditures, earnings or competitive position of the Company. The Company does not currently anticipate making any material capital expenditures for environmental control facilities during fiscal 2008.
- (xiii) **EMPLOYEES.** The Company had 243 employees as of April 1, 2007.
- (d) **FINANCIAL INFORMATION ABOUT FOREIGN AND DOMESTIC OPERATIONS AND EXPORT SALES.** Because the Company deals primarily in one geographic area of the United States, a breakdown of sales, profitability or assets attributable to different geographic areas is not meaningful to an understanding of the Company's business.

(e) AVAILABLE INFORMATION. We have made available, free of charge, through our Internet website (<http://www.hawkinsinc.com>) our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and if applicable, amendments to those reports, as soon as reasonably practicable after we electronically file such materials with, or furnish them to, the Securities and Exchange Commission. Reports of beneficial ownership filed by our directors and executive officers pursuant to Section 16(a) of the Exchange Act are also available on our website. We are not including the information contained on our website as part of, or incorporating it by reference into, this Annual Report on Form 10-K.

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## ITEM 1A. RISK FACTORS

*You should consider carefully the following risks when reading the information, including the financial information, contained in this Annual Report on Form 10-K.*

***Our inability to pass through increases in costs and expenses for raw materials and energy, on a timely basis or at all, and the cyclical nature of commodity chemical prices, could have a material adverse effect on the margins of our products.***

Periodically, we experience significant increases in the cost of raw materials. We generally attempt to pass changes in the prices of raw materials and energy to our customers, but we may be unable to or be delayed in doing so. Our inability to pass through price increases or any limitation or delay in our passing through price increases could adversely affect our profit margins. In addition to raising prices, raw material suppliers may extend lead times or limit supplies. Constraints on the supply or delivery of critical raw materials could disrupt our operations and adversely affect the performance of our business.

Additionally, our profit margins may be reduced due to the cyclical nature of commodity chemical prices. The cyclical nature of commodity chemical markets, such as caustic soda, primarily results from changes in the balance between supply and demand and the level of general economic activity. The Company cannot predict with any certainty whether the markets for its commodity chemicals will favorably impact the Company's operations or whether the Company will experience losses due to excess production resulting in oversupply and lower prices.

***We face competition from other chemical companies, which places downward pressure on the prices and margins of our products.***

We operate in a highly competitive marketplace, competing primarily against a number of chemical companies. Competition is based on several key criteria, including product performance and quality, product price, product availability and security of supply, responsiveness of product development in cooperation with customers and customer service. Many of our competitors are larger than we are and may have greater financial resources. These competitors may also be able to maintain significantly greater operating and financial flexibility than we do. As a result, these competitors may be better able to withstand changes in conditions within our industry, changes in the prices of raw materials and energy, and changes in general economic conditions. Additionally, competitors' pricing decisions could compel us to decrease our prices, which could adversely affect our margins and profitability. Our ability to maintain or increase our profitability is, and will continue to be, dependent upon our ability to offset decreases in the prices and margins of our products by improving production efficiency and volume, shifting to higher margin chemical products and improving existing products through innovation and research and development. If we are unable to do so or to otherwise maintain our competitive position, we could lose market share to our competitors.

***Our business, and in particular our Water Treatment segment, is subject to seasonality and weather conditions, which could adversely affect our results of operations.***

The Water Treatment segment of our business is seasonal, as higher sales are incurred from April through September due to increased water usage. Demand is affected by weather conditions as either higher or lower than normal precipitation may affect usage. We cannot assure you that seasonality or weather conditions will not have a material adverse effect on our results of operations and financial condition.

***Costs and difficulties in connection with our new enterprise resource planning system could have a material adverse effect on our results of operations.***

We implemented a new enterprise resource planning (ERP) system in October 2006. We are still completing the implementation of the ERP system throughout our company and have experienced some delays, extra costs and inefficiency. Because ERP systems are highly complex, implementation and the transition to the new system has resulted in additional unexpected costs and difficulties. For instance, as a result of the implementation there were significant changes in our internal controls, processes and procedures during the fiscal year ended April 1, 2007. To address these changes, we modified ongoing processes and controls during the implementation period. These modifications included putting in place a number of manual controls and procedures as management could not test or rely on certain of the internal controls that are part of the ERP system. Management is in the process of planning and implementing actions to replace the majority of these manual controls and procedures with automated controls. As a result of the issues described above, we were not able to file our 10-Q report for the quarter ended December 31, 2006 by the filing deadline specified in the SEC's rules and forms.

Additional future difficulties in the implementation of our new ERP system, including failure or inefficient operation of the new system, could impair our ability to access certain business and financial information. In addition, we may continue to experience difficulties in the transition to our new ERP system that could affect our internal control systems, processes and procedures. Should we experience such difficulties as a result of our new ERP system, our business, financial condition and results of operations could be materially adversely affected.

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***Our business is subject to hazards common to chemical businesses, any of which could interrupt our production and adversely affect our results of operations.***

Our business is subject to hazards common to chemical manufacturing, storage, handling and transportation, including explosions, fires, inclement weather, natural disasters, mechanical failure, unscheduled downtime, transportation interruptions, remediation, chemical spills, discharges or releases of toxic or hazardous substances or gases and other risks. These hazards can cause personal injury and loss of life, severe damage to or destruction of property and equipment, and environmental contamination. In addition, the occurrence of material operating problems at our facilities due to any of these hazards may diminish our ability to meet our output goals. Accordingly, these hazards and their consequences could have a material adverse effect on our operations as a whole, including our results of operations and cash flows, both during and after the period of operational difficulties.

***Our business is subject to risks stemming from natural disasters, which could interrupt our production and adversely affect our results of operations.***

Natural disasters have the potential of interrupting our operations and damaging our properties, which could adversely affect our business. Since 1963, flooding of the Mississippi River has required the Company's terminal operations to be temporarily shifted out of its buildings four times, the most recent being in the spring of 2001. This had a negative impact on earnings in the third quarter of fiscal 2001 of approximately \$200,000. No assurance can be given that flooding will not recur or that there will not be material damage or interruption to the Company's operations in the future from flooding.

***Downturns in our customers' cyclical industries could adversely affect our sales and profitability.***

Downturns in the businesses that use our chemicals will adversely affect our sales. Many of our customers are in industries that are cyclical in nature and sensitive to changes in general economic conditions. Historically, downturns in general economic conditions have resulted in diminished product demand and lower average selling prices, and we may experience similar problems in the future. A decline in economic conditions in our customers' cyclical industries may have a material adverse effect on our sales and profitability.

***Changes in our customers' products can reduce the demand for our chemicals.***

Our chemicals are used for a broad range of applications by our customers. Changes in our customers' products or processes may enable our customers to reduce consumption of the chemicals that we provide or make our chemicals unnecessary. Customers may also find alternative

materials or processes that no longer require our products. Consequently, it is important that we develop new products to replace the sales of products that mature and decline in use.

***We incur substantial costs in order to comply with extensive environmental, health and safety laws and regulations.***

In the jurisdictions in which we operate, we are subject to numerous federal, state and local environmental, health and safety laws and regulations, including those governing the discharge of pollutants into the air and water, and the management and disposal of hazardous substances and wastes. Ongoing compliance with such laws and regulations is an important consideration for us and we incur substantial capital and operating costs in our compliance efforts. Governmental laws have become increasingly strict in recent years. We expect this trend to continue and anticipate that compliance will continue to require increased capital expenditures and operating costs.

***Violations of environmental, health and safety laws and regulations may subject us to fines, penalties and other liabilities and may require us to change certain business practices.***

If we violate environmental, health and safety laws or regulations, in addition to being required to correct such violations, we can be held liable in administrative, civil or criminal proceedings for substantial fines and other sanctions could be imposed that could disrupt or limit our operations. Liabilities associated with the investigation and cleanup of hazardous substances, as well as personal injury, property damages or natural resource damages arising out of such hazardous substances, may be imposed in many situations without regard to violations of laws or regulations or other fault, and may also be imposed jointly and severally (so that a responsible party may be held liable for more than its share of the losses involved, or even the entire loss). Such liabilities may also be imposed on many different entities with a relationship to the hazardous substances at issue, including, for example, entities that formerly owned or operated the property affected and entities that arranged for the disposal of the hazardous substances at the affected property, as well as entities that currently own or operate such property. Such liabilities can be difficult to identify and the extent of any such liabilities can be difficult to predict. We use, and in the past have used, hazardous substances at many of our facilities, and we have in the past, and may in the future, be subject to claims relating to exposure to hazardous materials and the associated liabilities may be material. We also have generated, and continue to generate, hazardous wastes at a number of our facilities. The nature of our business exposes us to risks of liability under these laws and regulations due to the production, storage, use, transportation and sale of materials that can cause contamination or personal injury if released into the environment.

***We could be subject to damages based on claims brought against us by our customers or lose customers as a result of the failure of our products to meet certain quality specifications.***

Our products provide important performance attributes to our customers' products. If a product fails to perform in a manner consistent with quality specifications or has a shorter useful life than guaranteed, a customer could seek replacement of the product or damages for costs incurred as a result of the product failing to perform as expected. A successful claim or series of claims against us could have a material adverse effect on our financial condition and results of operations and could result in a loss of one or more customers.

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***The insurance that we maintain may not fully cover all potential exposures.***

We maintain property, business interruption and casualty insurance but such insurance may not cover all risks associated with the hazards of our business and is subject to limitations, including deductibles and maximum liabilities covered. We may incur losses beyond the limits, or outside the coverage, of our insurance policies, including liabilities for environmental remediation. In addition, from time to time, various types of insurance for companies in the specialty chemical industry have not been available on commercially acceptable terms or, in some cases, have not been available at all. In the future, we may not be able to obtain coverage at current levels, and our premiums may increase significantly on coverage that we maintain.

***If we are unable to retain key personnel or attract new skilled personnel, it could have an adverse effect on our business.***

The unanticipated departure of any key member of our management team could have an adverse effect on our business. In addition, because of the specialized and technical nature of our business, our future performance is dependent on the continued service of, and on our ability to attract and retain, qualified management, scientific, technical, marketing and support personnel.

***We may not be able to consummate future acquisitions or integrate future acquisitions into our business, which could result in unanticipated expenses and losses.***

As part of our business growth strategy, we have acquired businesses and may pursue acquisitions in the future. Our ability to pursue this strategy will be limited by our ability to identify appropriate acquisition candidates and our financial resources, including available cash and borrowing capacity. The expense incurred in consummating acquisitions, the time it takes to integrate an acquisition or our failure to integrate businesses successfully, could result in unanticipated expenses and losses. Furthermore, we may not be able to realize any of the anticipated benefits from acquisitions.

To the extent this strategy is pursued, the process of integrating acquired operations into our existing operations may result in unforeseen operating difficulties and may require significant financial resources that would otherwise be available for the ongoing development or expansion of existing operations. Some of the risks associated with the integration of acquisitions include, among many others, potential disruption of our ongoing business and distraction of management; unforeseen claims and liabilities; unforeseen adjustments; charges and write-offs; difficulty in conforming the acquired business standards, processes, procedures and controls with our operations; and challenges arising from the increased scope, geographic diversity and complexity of our operations.

***The occurrence or threat of extraordinary events, including domestic and international terrorist attacks, and laws and regulations related thereto may disrupt our operations and decrease demand for our products.***

Chemical-related assets may be at greater risk of future terrorist attacks than other possible targets in the United States. Federal legislation is under consideration that could impose new site security requirements, specifically on chemical facilities, which may increase our overhead expenses.

New federal regulations have already been adopted to increase the security of the transportation of hazardous chemicals in the United States. We believe we have met these requirements but additional federal and local regulations that limit the distribution of hazardous materials are being considered. We ship and receive materials that are classified as hazardous. Bans on movement of hazardous materials through certain cities could affect the efficiency of our logistical operations. Broader restrictions on hazardous material movements could lead to additional investment to produce hazardous raw materials and change where and what products we provide.

The occurrence of extraordinary events, including future terrorist attacks and the outbreak or escalation of hostilities, cannot be predicted, and their occurrence can be expected to continue to affect negatively the economy in general, and specifically the markets for our products. The resulting damage from a direct attack on our assets, or assets used by us, could include loss of life and property damage. In addition, available insurance coverage may not be sufficient to cover all of the damage incurred or, if available, may be prohibitively expensive.

***We may not be able to renew our leases of land where three of our terminals reside.***

We lease the land where our three main terminals reside. In the future, we may not be able to renew our leases due to the fact that we do not have guaranteed lease renewal options. Our current lease renewal periods extend out to 2018 (two leases) and 2029 (one lease). This may have a material impact to our business, as this is where the majority of our bulk chemicals are stored. We believe that we will be able to renew our leases as the renewal periods expire based on historical experience and anticipated future needs.

## ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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## ITEM 2. PROPERTIES

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The Company owns its principal location, which consists of approximately 11 acres of land in Minneapolis, Minnesota, with six buildings containing a total of 177,000 square feet of office and warehouse space. The Company's principal office is located in one of these buildings, at 3100 East Hennepin Avenue. As of April 1, 2007, the Company has installed sprinkler systems in substantially all of its warehouse facilities for fire protection. The Company carries insurance covering the replacement of property damaged by fire or flood. The Pharmaceutical segment occupies approximately 13,000 square feet of office and warehouse space within this location.

As noted above, in December 2000 the Company completed the Red Rock facility, which consists of a 59,000 square-foot building located on approximately 10 acres of land. This facility has outside storage capacity of approximately 1.5 million gallons for the storage of liquid caustic soda, as well as numerous smaller tanks for storing and mixing chemicals. The land is leased from the Port Authority of the City of St. Paul, Minnesota through July 31, 2029 for a basic rent plus an amount based on the annual tonnage unloaded at the site. The basic rent and annual tonnage rent were renegotiated August 1, 2004 and are to be renegotiated every five years.

In addition to the facilities described above, the Company's other facilities are described below. These facilities, together with those described above, are adequate and suitable for the purposes they serve. Unless noted, each facility is owned and is fully utilized by the Company.

Segment	Location	Primary Use	Approx. Square Feet
Industrial	St. Paul, MN (1)	Office, Warehouse and Garage	32,000
	St. Paul, MN (2)	Office	3,000
	Linden, NJ (2)	Office and Warehouse	12,000
Water Treatment	Fargo, ND	Office and Warehouse	22,800
	Fond du Lac, WI	Warehouse	20,300
	Washburn, ND	Office and Warehouse	14,000
	Billings, MT	Office and Warehouse	9,300
	Sioux Falls, SD	Warehouse	27,200
	Rapid City, SD	Warehouse	9,500
	Joliet, IL (2)	Warehouse	5,200
	Superior, WI	Office and Warehouse	17,000
	Slater, IA	Warehouse	8,700
	Lincoln, NE (2)	Office and Warehouse	6,500
	Eldridge, IA	Office and Warehouse	6,000

(1) The Company's terminal operations, located at two sites on opposite sides of the Mississippi River, are made up of three buildings, nine outside storage tanks with a total capacity of approximately 8,900,000 gallons for the storage of liquid caustic soda, as well as numerous smaller tanks for storing and mixing chemicals. The land is leased from the Port Authority of the City of St. Paul, Minnesota for a basic rent plus an amount based on the annual tonnage unloaded at each site. The applicable leases run until December 31, 2008, at which time the Company has an option to renew the leases for an additional five-year period on the same terms and conditions subject to renegotiation of rent. The Company also has options to renew these leases for additional successive five-year renewal periods (extending until 2018) for which the rent may be adjusted pursuant to the rental renegotiation provisions contained in the leases.

(2) This facility is leased from a third party.

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### ITEM 3. LEGAL PROCEEDINGS

Not Applicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not Applicable.

EXECUTIVE OFFICERS OF THE REGISTRANT

The executive officers of the Company, their ages and offices held, as of May 31, 2007 are set forth below:

Name	Age	Office
John R. Hawkins	55	Chief Executive Officer
Marvin E. Dee	58	Vice President, Chief Financial Officer, Secretary, and Treasurer
Keenan A. Paulson	57	Vice President - Water Treatment Group
John R. Sevenich	49	Vice President Industrial Group
Daniel E. Soderlund	44	Vice President Pharmaceutical Group

John R. Hawkins has been the Company's Chief Executive Officer since February 2000 and was Chairman of the Board from February 2000 to September 2005. He was President and Chief Operating Officer from December 1998 to February 2000 and was Secretary from 1991 to December 1999. He was an Executive Vice President from 1997 to December 1998 and Vice President of Sales from 1987 to 1997.

Marvin E. Dee has been the Company's Vice President and Chief Financial Officer since September 1999 and its Secretary and Treasurer since December 1999. He was the Chief Financial Officer of Nath Companies from 1997 to September 1999, the Vice President of Finance and Treasurer of Tricord Systems, Inc. from 1993 to 1997 and Senior Director of Accounting of NordicTrack, Inc. in 1993 and the Controller of NordicTrack from 1991 to 1992.

Keenan A. Paulson has been the Company's Vice President - Water Treatment Group since May 2000. Prior to attaining this position, Ms. Paulson held various positions during her 35-year career with the Company, most recently as its Water Treatment General Manager.

John R. Sevenich has been the Company's Vice President - Industrial Group since May 2000. He was the Business Unit Manager of Manufacturing from 1998 to May 2000 and was a Sales Representative with the Company from 1989 to 1998.

Daniel E. Soderlund has been the Company's Vice President - Pharmaceutical Group since May 2000. He was the Business Unit Manager of Pharmaceuticals from April 1999 to May 2000 and was a Sales Representative with the Company from 1992 to April 1999.

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PART II

ITEM 5. MARKET FOR THE COMPANY'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

<b>Quarterly Stock Data</b>	<b>High</b>	<b>Low</b>
Fiscal 2007		
4 <sup>th</sup> Quarter	\$ 16.070	\$ 14.130
3 <sup>rd</sup> Quarter	14.780	14.010
2 <sup>nd</sup> Quarter	14.250	13.250
1 <sup>st</sup> Quarter	14.380	13.350
Fiscal 2006		
4 <sup>th</sup> Quarter	\$ 14.380	\$ 13.500
3 <sup>rd</sup> Quarter	16.240	12.950
2 <sup>nd</sup> Quarter	14.230	11.900
1 <sup>st</sup> Quarter	12.500	11.910
<b>Cash Dividends</b>	<b>Declared</b>	<b>Paid</b>
Fiscal 2008		
1 <sup>st</sup> Quarter		\$ .22
Fiscal 2007		
4 <sup>th</sup> Quarter	\$ .22	
3 <sup>rd</sup> Quarter		\$ .22
2 <sup>nd</sup> Quarter	\$ .22	
1 <sup>st</sup> Quarter		\$ .20
Fiscal 2006		
4 <sup>th</sup> Quarter	\$ .20	
3 <sup>rd</sup> Quarter		\$ .20
2 <sup>nd</sup> Quarter	\$ .20	
1 <sup>st</sup> Quarter		\$ .18

The Company's common shares are traded on The NASDAQ Stock Market under the symbol HWKN. The price information represents closing sale prices as reported by The NASDAQ Stock Market. As of April 1, 2007, there were approximately 625 registered common shareholders, which includes nominees or broker dealers holding stock on behalf of an estimated 1,380 beneficial owners.

The Company first started paying cash dividends in 1985 and has continued to do so since. Future dividend levels will be dependent upon Hawkins' results of operations, financial position, cash flows and other factors, and will be evaluated by our Board of Directors.

The following is a graph comparing the cumulative total shareholder return on the Company's common stock with the cumulative total returns of the NASDAQ Industrial Index and the NASDAQ Composite Index for the Company's last five fiscal years. The graph assumes the investment of \$100 in the Company's stock, the NASDAQ Industrial Index and the NASDAQ Composite Index on April 1, 2002, and reinvestment of all dividends.

## ITEM 6. SELECTED FINANCIAL DATA

	<b>Fiscal Year Ended April 1, 2007</b>	<b>Fiscal Year Ended April 2, 2006</b>	<b>Fiscal Year Ended April 3, 2005</b>	<b>Fiscal Year Ended March 28, 2004</b>	<b>Fiscal Year Ended March 30, 2003</b>
Sales	\$ 160,405,080	\$ 143,331,250	\$ 115,280,312	\$ 107,028,131	\$ 104,004,611
Gross margin	37,236,977	33,219,142	29,606,185	27,974,289	27,957,852
Net income	8,068,883	8,886,153	8,092,009	5,751,884	8,430,172
Basic and diluted earnings per common share	.79	.87	.79	.56	.83
Cash dividends declared per common share	.44	.40	.36	.36	.33
Cash dividends paid per common share	.42	.38	.36	.36	.30
Total assets	101,268,594	94,056,734	87,658,118	82,616,905	81,098,739

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## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

## FORWARD-LOOKING INFORMATION

The information contained in this Annual Report on Form 10-K for the year ended April 1, 2007, 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 thereof or 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 Annual Report on Form 10-K 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 Annual Report on Form 10-K and the Company's other filings with the Securities and Exchange Commission. 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 Annual Report on Form 10-K. 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 Annual Report on Form 10-K or any other public statement.

## GENERAL

The following is a discussion and analysis of our financial condition and results of operations for the Company's fiscal years ended April 1, 2007, April 2, 2006, and April 3, 2005. This discussion should be read in conjunction with the Financial Statements and Notes to Financial Statements included in ITEM 8 of this Annual Report on Form 10-K.

## OVERALL SUMMARY

Sales for the fiscal year ended April 1, 2007 were \$160,405,080 versus \$143,331,250 for the fiscal year ended April 2, 2006 and \$115,280,312 for the fiscal year ended April 3, 2005. Net income for the fiscal year ended April 1, 2007 was \$8,068,883, or \$.79 per share, compared to \$8,886,153, or \$.87 per share, for the fiscal year ended April 2, 2006 and \$8,092,009, or \$.79 per share, for the fiscal year ended April 3, 2005.

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

	<b>Fiscal</b>		<b>Fiscal</b>		<b>Fiscal</b>	
	<b>Year Ended</b>		<b>Year Ended</b>		<b>Year Ended</b>	
	<b>April 1, 2007</b>		<b>April 2, 2006</b>		<b>April 3, 2005</b>	
Sales	100.0	%	100.0	%	100.0	%
Cost of sales	(76.8	)%	(76.8	)%	(74.3	)%
Gross margin	23.2	%	23.2	%	25.7	%
Selling, general and administrative expenses	(16.2	)%	(15.0	)%	(15.7	)%
Litigation settlement			.7	%		
Income from operations	7.0	%	8.9	%	10.0	%
Investment income	1.1	%	.6	%	1.0	%
Income before income taxes	8.1	%	9.5	%	11.0	%
Provision for income taxes	(3.0	)%	(3.3	)%	(3.9	)%
Net income	5.0	%	6.2	%	7.0	%

## SALES

Sales increased \$17,073,830, or 11.9%, to \$160,405,080 for the fiscal year ended April 1, 2007 as compared to sales of \$143,331,250 for the fiscal year ended April 2, 2006. Sales of bulk chemicals, including caustic soda, were approximately 34% of sales compared to 35% in the previous year. Industrial segment sales increased \$11,202,506, or 13.3%, to \$95,394,903, and Water Treatment segment sales increased \$7,424,323, or 15.2%, to \$56,371,237. Pharmaceutical segment sales decreased \$1,552,999, or 15.2%, to \$8,638,940. The increase in the Industrial segment sales was primarily due to increased sales volumes within existing product lines. Caustic soda volumes sold were comparable to the prior year. Water Treatment segment sales increases were

attributable to selling price increases connected with material cost increases and successful expansion of existing product lines to new and existing customers. The decrease in Pharmaceutical segment sales was due primarily to restrictions placed on the Company's ability to sell certain products by the Minneapolis District Office of the Food and Drug Administration (the FDA) and, to a lesser extent, competitive pressures. The FDA matter is described in more detail below.

In September 2006, the Company received a warning letter from the FDA. The Company responded to this letter and subsequently received a letter from the FDA in November 2006 requesting that the Company cease shipments of certain products until it resolved certain issues with the FDA with respect to the validation of packaging configurations and expiration dating for those products. The Company is working to resolve this matter as promptly as possible and suspended shipment of the affected products to customers until the matter is resolved. The FDA has also requested that the Company cease shipments of certain other pharmaceutical products until this matter is resolved and the Company is complying with this request. The Company has received clearance from the FDA to sell some of the products initially affected, however sales for the second half of fiscal 2007 were negatively impacted. The Company currently has approximately \$45,000 of Pharmaceutical products in inventory that it is not permitted to sell as a result of this matter. At this time, the Company is unable to determine the impact of the FDA letter on future results of operations for the Pharmaceutical segment, however the Company does not expect a material impact to the Company's results of operations or cash flows.

Sales increased \$28,050,938, or 24.3%, to \$143,331,250 for the fiscal year ended April 2, 2006 as compared to sales of \$115,280,312 for the fiscal year ended April 3, 2005. Sales of bulk chemicals, including caustic soda, were approximately 35.1% of sales compared to 33.3% in the previous year. All three operating segments contributed to the increase in sales. Industrial segment sales increased \$20,062,330, or 31.3%, to \$84,192,397, Water Treatment segment sales increased \$7,417,284, or 17.9%, to \$48,946,914 and Pharmaceutical segment sales increased \$571,324, or 5.9%, to \$10,191,939. The increase in the Industrial segment sales was primarily due to improved sales across several product lines combined with selling price increases related to material cost increases, including caustic soda, in comparison to the prior year. Caustic soda volumes sold were comparable to the prior year. Water Treatment segment sales increases were attributable to selling price increases connected with material cost increases and successful expansion of existing product lines in comparison to the prior year. Increased volumes along several existing product lines drove the increase in Pharmaceutical segment sales.

## GROSS MARGIN

Gross margin, as a percentage of sales, was 23.2% for the fiscal years ended April 1, 2007 and April 2, 2006 and 25.7% for the fiscal year ended April 3, 2005. Changes in gross margin are due to a number of variables as explained below.

## Industrial Segment

Gross margin, as a percentage of sales, for the Industrial segment was 19.0% for the fiscal year ended April 1, 2007, 17.9% for the fiscal year ended April 2, 2006 and 20.9% for the fiscal year ended April 3, 2005. The LIFO method of valuing inventory combined with changes in product mix and volumes of inventory on hand positively impacted gross margins by approximately 2.2% in fiscal 2007 as compared to fiscal 2006. This was partially offset by a portion of the sales increase related to high-volume, lower-margin products. The decrease for the fiscal year ended April 2, 2006 as compared to the fiscal year ended April 3, 2005 relates to changes in the cost and selling price of caustic soda during fiscal 2005 and 2006, increased product costs, a highly competitive market environment, and changes in product mix along several product lines. Additionally, since we are on the LIFO method of valuing inventory, the increased caustic soda costs and the higher cost of inventory on hand as of April 2, 2006 negatively impacted gross margins by 0.3% as compared to fiscal 2005. The cost of caustic soda is normally subject to fluctuations, which are expected to continue in future periods. The Company attempts to maintain relatively constant dollar margins as the cost

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of caustic soda increases or decreases. Therefore, the gross margin percentage will decrease when the cost of the product is increasing and will increase when the cost of the product is decreasing.

### Water Treatment Segment

Gross margin, as a percentage of sales, for the Water Treatment segment was 29.6% for the fiscal year ended April 1, 2007, 30.8% for the fiscal year ended April 2, 2006 and 31.3% for the fiscal year ended April 3, 2005. The decrease for the fiscal year ended April 1, 2007 as compared to the fiscal year ended April 2, 2006 was primarily attributable to changes in product mix as a result of the increased sales volumes. The decrease for the fiscal year ended April 2, 2006 as compared to the fiscal year ended April 3, 2005 was primarily attributable to rising product costs, which to some extent, the Company was unable to pass on to customers due to competitive pressures. Additionally, due to the LIFO method of valuing inventory, the margin was negatively impacted by higher inventory costs and changes in product mix of inventory on hand as compared to the prior year.

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### Pharmaceutical Segment

Gross margin, as a percentage of sales, for the Pharmaceutical segment was 28.3% for the fiscal year ended April 1, 2007, 30.4% for the fiscal year ended April 2, 2006 and 33.0% for the fiscal year ended April 3, 2005. The decrease for the fiscal year ended April 1, 2007 as compared to the fiscal year ended April 2, 2006 was primarily attributable to the decrease in sales associated with the FDA matter as discussed above as sales were not at a level sufficient to cover fixed costs. The decrease for the fiscal year ended April 2, 2006 as compared to the fiscal year ended April 3, 2005 related primarily to an increase in operating costs for staffing increases to facilitate future growth, changes in product mix and competitive pressures.

### SELLING, GENERAL AND ADMINISTRATIVE

Selling, general and administrative expenses, as a percentage of sales, were 16.2% (\$25,972,636) for the fiscal year ended April 1, 2007, 15.0% (\$21,513,444) for the fiscal year ended April 2, 2006 and 15.7% (\$18,089,829) for the fiscal year ended April 3, 2005. A significant portion of the increase during the year ended April 1, 2007 was due to costs associated with the Company's implementation of an Enterprise Resource Planning (ERP) system, including consultants and contractors, depreciation, and employee overtime. Consulting and contractor fees were approximately \$1,800,000 during the fiscal year ended April 1, 2007, which are expected to gradually decrease in fiscal 2008. To a lesser extent, increased staff to support sales growth also contributed to the increase in selling, general and administrative expenses. The dollar increases for the fiscal year ended April 2, 2006 as compared to the fiscal year ended April 3, 2005 were mainly due to increased sales staff, and, to a lesser extent, contractor fees associated with the Company's efforts in complying with the requirements of the Sarbanes-Oxley Act and the Company's implementation of an ERP system. Additionally, in fiscal 2006 bad debt expense increased by \$564,445 due primarily to the bankruptcy of a large customer and the \$176,000 impairment of intangible assets resulted in an increase in selling, general and administrative expenses. This customer's bankruptcy did not have a material impact on the Company's results of operations, financial condition or liquidity during fiscal 2007. Excluding the costs associated with the implementation of the ERP, employee compensation and benefits comprise the majority of the selling, general and administrative expenditures.

## LITIGATION SETTLEMENTS

The Company completed the acquisition of Universal Chemicals on May 26, 2000. As consideration for this acquisition the Company paid cash of \$2,700,000 and issued 75,358 shares of unregistered common stock valued at \$600,000 to Universal Chemicals' shareholders. The stock issued was not subject to any contingencies at the time of the acquisition. In the fourth quarter of fiscal 2004, the Company paid \$3.0 million to resolve a personal injury lawsuit captioned Chavarria et al v. Hawkins, Inc., Panorama Compounding Pharmacy, and Valley Drug and Compounding, et al that arose from the alleged mislabeling of certain inventory the Company purchased in connection with its acquisition of St. Mary's Chemicals, Inc. (d/b/a Universal Chemicals) in May 2000. The lawsuit alleged that the inventory was purchased from Universal Chemicals prior to the acquisition and was not related to assets purchased in the acquisition and accordingly was determined not to be an adjustment to the purchase price for Universal Chemicals. Pursuant to the terms of the settlement, the Company denied all liability and reserved its right to pursue indemnification and contribution from third parties. In July 2004, the Company filed suit in Hennepin County, Minnesota against the former principals of Universal Chemicals, seeking indemnification for the costs the Company incurred in defending and resolving the prior litigation.

On June 23, 2005, the Company and the former Universal Chemicals principals (the defendants) executed a settlement agreement in full and final resolution of the Company's claims, as well as any claims the defendants may have or may have had against the Company. The settlement agreement required the defendants to surrender to the Company 75,358 shares of the Company's common stock, which they received as consideration for the May 2000 acquisition. The 75,358 shares represent a partial reimbursement for the \$3.0 million settlement paid by the Company in fiscal 2004. Both the original \$3.0 million settlement paid by the Company and the settlement received from the Universal Chemicals shareholders were recorded within the litigation settlement line of the Statements of Income. The agreement also terminated the non-competition provisions of the Company's agreements with the defendants, relieving the Company of the obligation to pay \$500,000 to the defendants over the next five years as consideration for these provisions. The settlement agreement called for the parties to execute mutual releases and a stipulation of dismissal. Litigation settlement income of \$1,056,520 was recorded in the Pharmaceutical segment during the fiscal year ended April 2, 2006 as the Company received the 75,358 shares and the executed final releases and stipulations.

## INVESTMENT INCOME

Investment income increased approximately \$800,000 to \$1,692,332 for the fiscal year ended April 1, 2007 compared to \$892,289 for the fiscal year ended April 2, 2006. The increase was primarily related to an approximately \$300,000 difference between the amount realized on the repayment and the carrying value of three notes receivable that were paid in full during the fourth quarter of fiscal 2007, and an approximately \$229,000 increase due to higher average investment balances and yields. Additionally, an approximately \$281,000 loss was recognized in fiscal 2006 due to other than temporary declines in the market value of an investment, which decreased investment income in comparison to fiscal years 2007 and 2005. The \$228,000 decrease in fiscal 2006 compared to fiscal 2005 was partially offset by higher returns on the Company's cash equivalents and marketable securities.

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## PROVISION FOR INCOME TAXES

The effective income tax rate was 37.7% for the fiscal year ended April 1, 2007, 34.9% for the fiscal year ended April 2, 2006, and 36.0% for the fiscal year ended April 3, 2005. The higher effective tax rates for the fiscal years ended April 1, 2007 and April 3, 2005 as compared to the fiscal year ended April 2, 2006 was primarily due to a tax benefit recognized for adjustments to deferred tax estimates in fiscal 2006.

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## SELECTED QUARTERLY FINANCIAL DATA

	<b>Fiscal Year Ended April 1, 2007 (Unaudited)</b>			
	<b>First</b>	<b>Second</b>	<b>Third</b>	<b>Fourth</b>
	<b>Quarter Ended</b>	<b>Quarter Ended</b>	<b>Quarter Ended</b>	<b>Quarter Ended</b>
	<b>June 30, 2006</b>	<b>September 30, 2006</b>	<b>December 31, 2006</b>	<b>April 1, 2007</b>
Sales	\$ 41,460,663	\$ 42,200,162	\$ 37,039,181	\$ 39,705,074
Gross margin	10,823,085	11,176,647	6,991,206	8,246,039
Net income	2,799,967	3,146,128	314,273	1,808,515
Basic and diluted earnings per share	\$ .28	\$ .31	\$ .03	\$ .18

	<b>Fiscal Year Ended April 2, 2006 (Unaudited)</b>			
	<b>First</b>	<b>Second</b>	<b>Third</b>	<b>Fourth</b>
	<b>Quarter Ended</b>	<b>Quarter Ended</b>	<b>Quarter Ended</b>	<b>Quarter Ended</b>
	<b>June 30, 2005</b>	<b>September 30, 2005</b>	<b>December 31, 2005</b>	<b>April 2, 2006</b>
Sales	\$ 35,854,527	\$ 36,643,242	\$ 34,352,992	\$ 36,480,489
Gross margin	9,885,658	8,794,953	7,219,615	7,318,916
Net income	2,749,486	3,000,919	1,827,264	1,308,484
Basic and diluted earnings per share	\$ .27	\$ .29	\$ .18	\$ .13

## FINANCIAL CONDITION

## LIQUIDITY

Cash provided by operations in the fiscal year ended April 1, 2007 was \$8,729,475 compared to \$9,457,722 in the fiscal year ended April 2, 2006 and \$12,617,158 in the fiscal year ended April 3, 2005. The decrease in the fiscal year ended April 1, 2007 compared to the fiscal year ended April 2, 2006 was due primarily to fluctuations in working capital balances including the timing of income tax payments. These amounts were partially offset by an increase in accounts payable due to timing of payments. The decrease in the fiscal year ended April 2, 2006 compared to the fiscal year ended April 3, 2005 was due primarily to the timing of payments and an increase in inventory primarily associated with cost increases.

Cash and investments available-for-sale of \$27,954,367 at April 1, 2007 increased by \$2,163,975 as compared with the \$25,790,392 available as of April 2, 2006, primarily as a result of the payoff of three notes receivables in the amount of approximately \$2.3 million (see Note 4 to the Notes to the Financial Statements). 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 investment contracts with high-rated, stable insurance companies; marketable securities consisting of corporate and municipal bonds; U.S. Government agency securities and mutual funds carried at fair value. 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, which generally mature within 10 years. The Company invests in such securities both through the purchase of securities of individual companies as well as mutual funds that pool together

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the securities of many different companies. The Company monitors the maturities of its investments to ensure that funding is available for anticipated cash needs. At April 1, 2007, \$2,648,888 of available-for-sale investments were classified as non-current assets as they were determined to be temporarily impaired, with maturity dates of one year or longer, and the Company intends to hold the investments for at least one more year. 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 fair value. Expected future cash flows from operations, cash equivalents and investments included within current assets are expected to fund the Company's short-term working capital needs.

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At April 1, 2007, the Company had an investment portfolio of fixed income securities of \$5,599,623, a mutual fund of \$7,564,732 and \$15,155,012 classified as cash and cash equivalents and variable rate securities. 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 maturity. Consequently, the Company would not expect to recognize an adverse impact on net income or cash flows or the amount ultimately realized on the investment. The value of the mutual fund, like all mutual funds, may increase or decrease due to market volatility. The Company recorded a loss of \$30,595 and \$280,699 in the fiscal years ended April 1, 2007 and April 2, 2006, respectively, due to declines in market value that were deemed other than temporary. The mutual fund held by the Company as of April 1, 2007 is a short-term bond fund that invests primarily in investment grade securities.

### CAPITAL EXPENDITURES

Capital expenditures in the fiscal years ended April 1, 2007, April 2, 2006, and April 3, 2005 were \$4,687,973, \$6,948,010, and \$5,922,862, respectively. Significant capital expenditures during the fiscal year ended April 1, 2007 consisted of approximately \$800,000 for software and hardware data processing equipment associated with the Company's implementation of an ERP system, \$450,000 for machinery and equipment used in operations, \$300,000 for returnable cylinders, \$200,000 for warehouse additions, and \$200,000 for trucks. We anticipate capital expenditures in fiscal 2008 to be comparable with the three previous years average and they are expected to relate primarily to facilities improvement projects and new route sales trucks.

### DIVIDENDS

We increased our semi-annual cash dividend by 10.0% during the second quarter of fiscal 2007 to \$0.22 per share from \$0.20 per share. The Company first started paying cash dividends in 1985 and has done so each year since that time. Future dividend levels will be dependent upon Hawkins' results of operations, financial position, cash flows and other factors, and will be evaluated by our Board of Directors.

### OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements.

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### CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

The following table provides aggregate information about our contractual payment obligations and the periods in which payments are due:

Contractual Obligation	Payments due by period					More than	Total
	2008	2009	2010	2011	2012	5 Years	
Operating lease obligations	\$ 268,716	\$ 244,215	\$ 219,667	\$ 187,023	\$ 187,023	\$ 2,691,160	\$ 3,797,804
Purchase obligations (1)	9,304,729						9,304,729
Total	\$ 9,573,445	\$ 244,215	\$ 219,667	\$ 187,023	\$ 187,023	\$ 2,691,160	\$ 13,102,533

(1) The Company is committed to pay suppliers under the terms of open purchase orders issued in the normal course of business. The Company does not purchase, or commit to purchase, quantities in excess of normal usage or amounts that cannot be used within one year.

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### OUTLOOK

Expected future cash flows from operations, coupled with the Company's strong financial position, put 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, management believes that the Company's total debt to capital ratio puts it in a position to obtain debt financing on favorable terms, however there are no assurances that this will occur.

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. As described in Note 9 to the Notes to the Financial Statements, on May 15, 2007, the Company signed an asset purchase agreement with Trumark, Inc., Trumark Ltd., Profloc Inc. 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 approximately \$6,000,000.

### CRITICAL ACCOUNTING POLICIES

In preparing the financial statements, the Company follows accounting principles generally accepted in the United States. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, sales and expenses, and related disclosure of contingent assets and liabilities. The Company re-evaluates its estimates on an on-going basis. The Company's estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions and conditions. The Company considers the following

policies to involve the most judgment in the preparation of the Company's financial statements.

**Revenue Recognition** The Company recognizes revenue when title passes to our customers, which occurs primarily when product has been shipped, if there is evidence that the customer has agreed to purchase the products, performance has occurred, the price and terms of sale are fixed, and collection is reasonably assured.

**Investments** Statement of Financial Accounting Standard (SFAS) No. 115, Accounting for Certain Investments in Debt and Equity Securities, Securities and Exchange Commission (SEC) Staff Accounting Bulletin (SAB) 59, Accounting for Noncurrent Marketable Equity Securities, and FASB Staff Position (FSP) FAS No. 115-1 and FAS No. 124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments provide guidance on determining when an investment is other-than-temporarily impaired. Investments are reviewed quarterly for indicators of other-than-temporary impairment. This determination requires significant judgment. In making this judgment, we evaluate, among other factors, the duration and extent to which the fair value of an investment is less than its cost; the general market conditions, including factors such as industry and sector performance, rating agency actions, and our intent and ability to hold the investment. Investments with an indicator are further evaluated to determine the likelihood of a significant adverse effect on the fair value and amount of the impairment as necessary. If market, industry and/or investee conditions deteriorate, we may incur future impairments.

**Allowance for Doubtful Accounts** Accounts receivable are reduced by an allowance for amounts that may become uncollectible in the future. Substantially all of the Company's receivables are due from customers located in the United States. The estimated allowance for doubtful accounts is based upon the age of the outstanding receivables and the payment history and credit worthiness of each customer. Management evaluates the adequacy of the reserve for doubtful accounts on a quarterly basis. There can be no assurance that our estimates will match actual amounts ultimately written off.

**Inventories** - Inventories are valued at lower of cost or market. On a quarterly basis, management assesses the inventory quantities on hand to estimated future usage and sales and, if necessary, writes down to net realizable the value of inventory deemed obsolete or excess. Though management considers these reserves adequate and proper, changes in sales volumes due to unexpected economic or competitive conditions are among the factors that could materially affect the adequacy of this reserve.

**LIFO Reserve** Inventories are primarily valued at the lower of cost or market with cost being determined using the last-in, first-out (LIFO) method. We may incur significant fluctuations in our gross margins due primarily to changes in the cost of a single, large-volume component of inventory. The price of this inventory component may vary depending on the balance between supply and demand. Management reviews the LIFO reserve on a quarterly basis.

**Impairment of Long-Lived Assets** We evaluate the carrying value of long-lived assets, including intangible assets subject to amortization and property, plant, and equipment, when events and changes in circumstances warrant such a review, such as prolonged industry downturn or significant reductions in projected future cash flows. The carrying value of long-lived assets is considered impaired when the projected future undiscounted cash flows from such assets are less than their carrying value. In that event, a loss is recognized equal to the amount by which the carrying value exceeds the fair value of the long-lived assets. Significant judgments and assumptions are required in the forecast of future operating results used in the preparation of the estimated future cash flows. We periodically review the appropriateness of the estimated useful lives of our long-lived assets. Changes in these estimates could have a material effect on the assessment of long-lived assets. There were no material assets that were determined to be impaired during fiscal 2007.

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**Self Insurance** The Company purchases insurance for employee medical benefits with high deductibles. Third party insurance is carried for what is believed to be the major portion of potential exposures that would exceed the Company's self-insured retentions. The Company has established a liability for potential uninsured claims. The Company considers factors such as known outstanding claims, historical experience, and other relevant factors in setting the liability. These reserves are monitored and adjusted when warranted by changing circumstances. Though management considers these balances adequate, a substantial change in the number and/or severity of claims could result in materially different amounts for this item.

**Income Taxes** In the preparation of the Company's financial statements, management calculates income taxes. This includes estimating the current tax liability as well as assessing temporary 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. A valuation allowance is established to the extent that management believes that recovery is not likely. Reserves are also established for potential and ongoing audits of federal and state tax issues. The Company routinely monitors the potential impact of such situations and believes that it is properly reserved. Valuations related to amounts owed and tax rates could be impacted by changes to tax codes, changes in statutory tax rates, the Company's future taxable income levels and the results of tax audits.

### RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

See ITEM 8, Note 1 of the Notes to Financial Statements for information pertaining to recently adopted accounting standards or accounting standards to be adopted in the future.

### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

At April 1, 2007, the Company had an investment portfolio of fixed income securities of \$5,599,623, a mutual fund of \$7,564,732, investment contracts of \$3,562,073 and cash and cash equivalents of \$11,592,939. 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 maturity. Consequently, the Company would not expect to recognize an adverse impact on net income or cash flows during the holding period. The value of the mutual fund, like all mutual funds, may increase or decrease due to market volatility. The investment contracts are variable rate insurance contracts that reset on a quarterly basis. A hypothetical 1% change in rates would impact investment income by approximately \$35,500, based upon the amount of variable rate insurance contracts held at April 1, 2007. The Company adjusts the carrying value of its investments if an impairment occurs that is 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.

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### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of Hawkins, Inc.

Minneapolis, MN

We have audited the accompanying balance sheets of Hawkins, Inc. (the Company) as of April 1, 2007 and April 2, 2006, and the related statements of income, shareholders' equity, and cash flows for each of the three years in the period ended April 1, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Hawkins, Inc. as of April 1, 2007 and April 2, 2006, and the results of their operations and their cash flows for each of the three years in the period ended April 1, 2007, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of April 1, 2007, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated June 13, 2007 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

Minneapolis, MN

June 13, 2007

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**HAWKINS, INC.**  
**BALANCE SHEETS**

	April 1, 2007	April 2, 2006
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 11,592,939	\$ 6,330,004
Investments available-for-sale	13,712,540	14,167,047
Trade receivables less allowance for doubtful accounts: \$225,000 for 2007 and 2006	19,663,169	16,185,560
Inventories	12,786,348	10,449,671

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Prepaid expenses and other current assets (Note 8)	3,214,254	2,314,458
Total current assets	60,969,250	49,446,740

## PROPERTY, PLANT, AND EQUIPMENT:

Land	1,415,172	1,349,805
Buildings and improvements	30,519,907	30,080,775
Machinery and equipment	15,904,651	14,150,782
Transportation equipment	9,122,960	9,012,104
Office furniture and equipment including computer systems	10,525,070	9,594,885
	67,487,760	64,188,351
Less accumulated depreciation	32,767,300	29,466,612
Net property, plant, and equipment	34,720,460	34,721,739

## OTHER ASSETS:

Intangible assets less accumulated amortization: 2007, \$1,643,308; 2006, \$1,418,491	1,839,725	2,064,542
Long-term investments	3,013,888	5,658,341
Other	725,271	2,165,372
Total other assets	5,578,884	9,888,255
	\$ 101,268,594	\$ 94,056,734

## LIABILITIES AND SHAREHOLDERS EQUITY

### CURRENT LIABILITIES:

Accounts payable trade	\$ 10,891,162	\$ 8,695,396
Dividends payable	2,247,686	2,034,299
Accrued payroll and employee benefits	5,221,005	4,426,356
Container deposits	991,601	990,267
Other accruals	1,380,303	1,421,409
Total current liabilities	20,731,757	17,567,727

OTHER LONG-TERM LIABILITIES	138,673	127,644
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DEFERRED INCOME TAXES	420,521	265,324
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### COMMITMENTS AND CONTINGENCIES (Note 7)

### SHAREHOLDERS EQUITY:

Common stock; authorized: 30,000,000 shares of \$.05 par value; 10,171,496 shares issued and outstanding		
for 2007 and 2006	508,575	508,575
Additional paid-in capital	37,242,090	37,056,103
Accumulated other comprehensive loss	(13,605 )	(125,754 )
Retained earnings	42,240,583	38,657,115
Total shareholders equity	79,977,643	76,096,039
	\$ 101,268,594	\$ 94,056,734

See accompanying notes to financial statements.

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**HAWKINS, INC.**  
**STATEMENTS OF INCOME**

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	<b>Fiscal Year Ended April 1, 2007</b>	<b>Fiscal Year Ended April 2, 2006</b>	<b>Fiscal Year Ended April 3, 2005</b>
Sales	\$ 160,405,080	\$ 143,331,250	\$ 115,280,312
Cost of sales	(123,168,103 )	(110,112,108 )	(85,674,127 )
Gross margin	37,236,977	33,219,142	29,606,185
Selling, general and administrative expenses	(25,972,636 )	(21,513,444 )	(18,089,829 )
Litigation settlement (Note 7)		1,056,520	
Income from operations	11,264,341	12,762,218	11,516,356
Investment income	1,692,332	892,289	1,120,775
Income before income taxes	12,956,673	13,654,507	12,637,131
Provision for income taxes	(4,887,790 )	(4,768,354 )	(4,545,122 )
Net income	\$ 8,068,883	\$ 8,886,153	\$ 8,092,009
Weighted average number of shares outstanding-basic	10,171,496	10,199,194	10,216,688
Weighted average number of shares outstanding-diluted	10,173,719	10,211,834	10,222,669
Earnings per share - basic and diluted	\$ .79	\$ .87	\$ .79
Cash dividends declared per common share	\$ .44	\$ .40	\$ .36

See accompanying notes to financial statements.

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**HAWKINS, INC.**  
**STATEMENTS OF SHAREHOLDERS' EQUITY**

	<b>Common Stock</b>		<b>Additional</b>		<b>Retained</b>	<b>Accumulated</b>	<b>Total</b>
	<b>Shares</b>	<b>Amount</b>	<b>Paid-in Capital</b>	<b>Unearned Compensation</b>	<b>Earnings</b>	<b>Other Comprehensive Income (Loss)</b>	<b>Shareholders Equity</b>
BALANCE March 28, 2004	10,216,688	\$ 510,834	\$ 37,747,492	\$	\$ 29,449,991	\$ 196,328	\$ 67,904,645
Cash dividends					(3,692,643 )		(3,692,643 )
Restricted stock issued	40,653	2,033	484,584	(486,617 )			