

HAWKINS INC
Form 10-Q
July 29, 2010

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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 June 30, 2010

Commission file number 0-7647

HAWKINS, INC.

(Exact name of registrant as specified in its charter)

MINNESOTA
(State or other jurisdiction of
incorporation or organization)

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

3100 EAST HENNEPIN AVENUE, MINNEAPOLIS, MINNESOTA 55413

(Address of principal executive offices, including zip code)

(612) 331-6910

(Registrant's telephone number, including area code)

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

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

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

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

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

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

CLASS	OUTSTANDING AT JULY 29, 2010
Common Stock, par value \$.05 per share	10,308,958

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Table of Contents**PART I. FINANCIAL INFORMATION**

ITEM 1. FINANCIAL STATEMENTS

HAWKINS, INC.**CONDENSED BALANCE SHEETS (UNAUDITED)****(In thousands, except share data)**

	June 30, 2010	March 28, 2010
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 19,570	\$ 18,772
Investments available-for-sale	27,315	25,928
Trade receivables - less allowance for doubtful accounts: \$275 as of June 30, 2010 and \$300 as of March 28,2010	27,154	24,832
Inventories	25,844	21,327
Income taxes receivable	191	4,430
Prepaid expenses and other current assets	2,086	2,209
Total current assets	102,160	97,498
PROPERTY, PLANT, AND EQUIPMENT - net	48,488	47,756
GOODWILL AND INTANGIBLE ASSETS	4,778	4,839
LONG-TERM INVESTMENTS	5,229	8,972
OTHER	990	1,228
	\$ 161,645	\$ 160,293
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable trade	\$ 15,108	\$ 13,940
Dividends payable		2,879
Accrued payroll and employee benefits	3,660	7,908

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Deferred income taxes	3,364	3,364
Container deposits	959	924
Other accruals	1,627	1,592
Total current liabilities	24,718	30,607
OTHER LONG-TERM LIABILITIES	297	633
DEFERRED INCOME TAXES	7,538	7,555
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Common stock, par value \$0.05; 10,253,458 shares issued and outstanding as of June 30, 2010 and March 28, 2010	513	513
Additional paid-in capital	39,309	39,027
Retained earnings	89,258	81,921
Accumulated other comprehensive income	12	37
Total shareholders' equity	129,092	121,498
	\$ 161,645	\$ 160,293

See accompanying notes to financial statements.

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

(In thousands, except share and per-share data)	Three Months Ended June 30,	
	2010	2009
Sales	\$ 74,665	\$ 73,586
Cost of sales	(56,218)	(57,730)
Gross profit	18,447	15,856
Selling, general and administrative expenses	(6,661)	(6,355)
Operating income	11,786	9,501
Investment income	106	9
Income from continuing operations before income taxes	11,892	9,510
Provision for income taxes	(4,555)	(3,566)
Income from continuing operations	7,337	5,944
Income from discontinued operations, net of tax		109
Net income	\$ 7,337	\$ 6,053
Weighted average number of shares outstanding-basic	10,253,458	10,246,458
Weighted average number of shares outstanding-diluted	10,308,270	10,265,357
Basic earnings per share		
Earnings per share from continuing operations	\$ 0.72	\$ 0.58
Earnings per share from discontinued operations		0.01
Basic earnings per share	\$ 0.72	\$ 0.59
Diluted earnings per share		
Earnings per share from continuing operations	\$ 0.71	\$ 0.58
Earnings per share from discontinued operations		0.01
Diluted earnings per share	\$ 0.71	\$ 0.59
Cash dividends declared per common share	\$	\$

See accompanying notes to financial statements.

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

(In thousands)	Three Months Ended June 30,	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 7,337	\$ 6,053
Reconciliation to cash flows:		
Depreciation and amortization	1,724	1,500
Stock compensation expense	283	153
Gain from property disposals	(13)	
Changes in operating accounts (using) providing cash:		
Trade receivables	(2,322)	2,249
Inventories	(4,517)	6,000
Accounts payable	2,044	(1,476)
Accrued liabilities	(4,797)	(5,283)
Income taxes	4,521	2,591
Other	363	(63)
Net cash provided by operating activities	4,623	11,724
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property, plant, and equipment	(3,301)	(3,135)
Purchases of investments	(1,960)	(20,000)
Sale and maturities of investments	4,275	
Proceeds from property disposals	40	43
Net cash used in investing activities	(946)	(23,092)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash dividends paid	(2,879)	(2,666)
Net cash used in financing activities	(2,879)	(2,666)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	798	(14,034)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	18,772	29,536
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 19,570	\$ 15,502
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for income taxes	\$ 34	\$ 1,063

Noncash investing activities-				
Capital expenditures in accounts payable	\$	242	\$	281

See accompanying notes to 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 June 30, 2010 are not necessarily indicative of the results that may be expected for the full year.

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 June 30,	
2010	2009

Weighted average common shares outstanding basic	10,253,458	10,246,458
Dilutive impact of stock options, performance units, and restricted stock	54,812	18,899
Weighted average common shares outstanding - diluted	10,308,270	10,265,357

For the period ended June 30, 2010, there were no shares or stock options excluded from the calculation of weighted average common shares for diluted EPS. The period ended June 30, 2009 excludes 70,665 stock options from the calculation of weighted average common shares for diluted EPS because their effects were antidilutive.

Note 3 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 have 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 due in the second quarter will be approximately \$0.7 million and we have classified this portion of the receivable as current on the Condensed Balance Sheets. Amounts received in excess of the approximately \$1.7 million 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.

Table of Contents**Note 4 Cash and Cash Equivalents and Investments**

The following table presents information about our financial assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2010, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value.

<u>Description</u> (In thousands)	June 30, 2010	Level 1	Level 2	Level 3
Assets:				
Cash	\$ 19,350	\$ 19,350		\$
Certificates of deposit	32,544		32,544	
Money market securities	220	220		

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 two years which fall within valuation technique Level 2. The CD s are classified as investments in current assets and noncurrent assets on the Condensed Balance Sheets. As of June 30, 2010, the CD s in current assets have a fair value of \$27.3 million, and in noncurrent assets, the CD s have a fair value of \$5.2 million.

The carrying value of cash and cash equivalents accounts approximates 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 June 30, 2010.

Note 5 Inventories

Inventories at June 30, 2010 and March 28, 2010 consisted of the following:

(In thousands)	June 30, 2010	March 28, 2009
Finished goods (FIFO basis)	\$ 28,571	\$ 23,258

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LIFO reserve		(2,727)		(1,931)
Net inventory	\$	25,844	\$	21,327

The first in, first out (FIFO) value of inventories accounted for under the last in, first out (LIFO) method were \$28.4 million at June 30, 2010 and \$23.1 million at March 28, 2010. The remainder of the inventory was valued and accounted for under the FIFO method. We increased the LIFO reserve by \$0.8 million in the three months ended June 30, 2010 and decreased the LIFO reserve by \$2.8 million in the three months ended June 30, 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.

Table of Contents**Note 6 Goodwill and Intangible Assets**

The carrying amount of goodwill as of June 30, 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 June 30, 2010 and March 28, 2010 were as follows:

(In thousands)	Gross Carrying Amount	June 30, 2010 Accumulated Amortization	Net
Finite-life intangible assets	\$ 3,259	\$ (911)	\$ 2,348
Indefinite-life intangible assets	1,227		1,227
Total intangible assets, net	\$ 4,486	\$ (911)	\$ 3,575

(In thousands)	Gross Carrying Amount	March 28, 2010 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 7 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 8 Accumulated Other Comprehensive Income

Components of accumulated other comprehensive income were as follows:

(In thousands)	June 30,		March 28,	
	2010		2010	
Unrealized gain (loss) on:				
Available-for-sale investments	\$	41	\$	66
Post-retirement plan liability adjustments		(29)		(29)
Accumulated other comprehensive income	\$	12	\$	37

Table of Contents**Note 9 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. We used the Black-Scholes valuation model to estimate the fair value of the options at grant date based on the following assumptions:

	June 10, 2009 issuance
Dividend yield	2.5%
Volatility	31.4%
Risk-free interest rate	2.1%
Expected life in years	4

Volatility was calculated using the past four years of historical stock prices of our common stock. The expected life is estimated based on expected future trends and the terms and vesting periods of the options granted. The risk-free interest rate is an interpolation of the relevant U.S. Treasury Bond Rate as of the grant date.

The following table represents the stock option activity for the quarter ended June 30, 2010:

(In thousands, except share data)	Shares	Weighted-Average Exercise Price	Exercisable
Outstanding at beginning of period	131,997	\$ 17.82	
Granted			
Exercised			