

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2005

OR

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

For the transition period from _____ to _____

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 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

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

CLASS	OUTSTANDING AT FEBRUARY 9, 2006
Common Stock, par value \$.05 per share	10,171,496

**HAWKINS, INC.
INDEX TO FORM 10-Q**

	<u>Page</u>
<u>PART I.</u>	
<u>FINANCIAL INFORMATION</u>	
<u>Item 1.</u>	
<u>Financial Statements:</u>	
<u>Condensed Balance Sheets – December 31, 2005 and April 3, 2005</u>	3
<u>Condensed Statements of Income - Three and Nine Months Ended December 31, 2005 and 2004</u>	4
<u>Condensed Statements of Cash Flows – Nine Months Ended December 31, 2005 and 2004</u>	5

Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	8
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	13
Item 4.	Controls and Procedures	13
PART II.	OTHER INFORMATION	
Item 1A.	Risk Factors	14
Item 6.	Exhibits	14
Signatures		15
Exhibit Index		16

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HAWKINS, INC.

CONDENSED BALANCE SHEETS

	DECEMBER 31, 2005 (UNAUDITED)	APRIL 3, 2005 (DERIVED FROM AUDITED FINANCIAL STATEMENTS)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,820,587	\$ 4,564,790
Investments available-for-sale	13,831,698	6,672,521
Trade receivables – net	15,107,453	13,673,953
Inventories	13,652,409	8,587,610
Prepaid expenses and other current assets	2,279,214	2,223,798
Total current assets	46,691,361	35,722,672
PROPERTY, PLANT AND EQUIPMENT- net	33,856,027	30,973,613
INTANGIBLE ASSETS - less accumulated amortization of \$1,362,287 and \$1,870,719, respectively	2,120,746	2,492,330
LONG-TERM INVESTMENTS	6,859,813	16,085,074
OTHER ASSETS	2,048,704	2,384,429
	<u>\$ 91,576,651</u>	<u>\$ 87,658,118</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable – trade	\$ 7,918,641	\$ 5,946,189
Dividends payable	—	1,846,321
Accrued payroll and employee benefits	3,584,049	3,954,968
Other current liabilities	2,446,880	2,510,506
Total current liabilities	13,949,570	14,257,984
OTHER LONG-TERM LIABILITIES	9,741	22,145
DEFERRED INCOME TAXES	787,139	1,178,422
COMMITMENTS AND CONTINGENCIES	—	—
SHAREHOLDERS' EQUITY:		
Common stock, par value \$.05 per share; 10,171,496 and 10,257,341 shares issued and outstanding, respectively	508,575	512,867
Additional paid-in capital	37,056,103	38,232,076
Unearned compensation	—	(198,702)
Accumulated other comprehensive loss	(117,407)	(196,031)
Retained earnings	39,382,930	33,849,357
Total shareholders' equity	<u>76,830,201</u>	<u>72,199,567</u>

See accompanying notes to condensed financial statements.

HAWKINS, INC.
CONDENSED STATEMENTS OF INCOME

	THREE MONTHS ENDED DECEMBER 31		NINE MONTHS ENDED DECEMBER 31	
	2005	2004	2005	2004
	(UNAUDITED)		(UNAUDITED)	
Sales	\$ 34,352,992	\$ 26,703,441	\$ 106,850,761	\$ 85,290,860
Cost of sales	<u>27,133,377</u>	<u>19,764,427</u>	<u>80,950,535</u>	<u>61,448,746</u>
Gross margin	7,219,615	6,939,014	25,900,226	23,842,114
Selling, general and administrative expenses	4,708,939	4,646,327	15,797,249	13,575,820
Litigation settlement (Note 6)	<u>—</u>	<u>—</u>	<u>(1,015,826)</u>	<u>—</u>
Income from operations	2,510,676	2,292,687	11,118,803	10,266,294
Investment income	<u>242,488</u>	<u>464,637</u>	<u>619,366</u>	<u>801,418</u>
Income before income taxes	2,753,164	2,757,324	11,738,169	11,067,712
Provision for income taxes	<u>925,900</u>	<u>984,200</u>	<u>4,160,500</u>	<u>3,959,200</u>
Net income	<u>\$ 1,827,264</u>	<u>\$ 1,773,124</u>	<u>\$ 7,577,669</u>	<u>\$ 7,108,512</u>
Weighted average number of shares outstanding – basic	10,182,144	10,216,688	10,208,563	10,216,688
Weighted average number of shares outstanding – diluted	<u>10,182,144</u>	<u>10,223,464</u>	<u>10,225,477</u>	<u>10,220,429</u>
Earnings per share – basic and diluted	<u>\$ 0.18</u>	<u>\$ 0.17</u>	<u>\$ 0.74</u>	<u>\$ 0.70</u>
Cash dividends declared per common share	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 0.20</u>	<u>\$ 0.18</u>

See accompanying notes to condensed financial statements.

HAWKINS, INC.
CONDENSED STATEMENTS OF CASH FLOWS

	NINE MONTHS ENDED DECEMBER 31	
	2005	2004
	(UNAUDITED)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 7,577,669	\$ 7,108,512
Reconciliation to cash flows:		
Depreciation and amortization	2,655,474	2,369,605
Deferred income taxes	(427,183)	—
Restricted stock compensation expense	198,702	162,206
Intangible assets impairment	176,000	—
Investment impairment	242,454	—
(Gain) loss from property disposals	(106,026)	62,617
Lawsuit settlement	(1,015,826)	—
Changes in operating accounts (using) providing cash:		
Trade receivables	(1,433,500)	(84,944)
Inventories	(5,064,799)	(2,415,909)
Accounts payable	1,972,452	1,563,322
Other liabilities	(499,101)	229,786
Other	<u>51,350</u>	<u>955,924</u>
Net cash provided by operating activities	4,327,666	9,951,119
CASH FLOWS FROM INVESTING ACTIVITIES:		

Additions to property, plant and equipment	(5,464,673)	(5,033,845)
Purchases of investments	(2,082,381)	(9,328,249)
Sale and maturities of investments	4,020,535	9,215,114
Proceeds from property disposals	228,394	70,183
Payments received on notes receivable	116,673	138,717
Net cash used in investing activities	(3,181,452)	(4,938,080)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash dividends paid	(3,890,417)	(3,685,325)
Net cash used in financing activities	(3,890,417)	(3,685,325)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(2,744,203)	1,327,714
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	4,564,790	1,558,969
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 1,820,587	\$ 2,886,683
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Issuance of restricted stock		\$ 486,617
Cash paid for income taxes	\$ 4,140,626	\$ 1,777,864

See accompanying notes to condensed financial statements.

HAWKINS, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS

- The accompanying unaudited condensed financial statements have been prepared in accordance with the instructions for Form 10-Q and, accordingly, do not include all information and footnotes required by generally accepted accounting principles for complete financial statements. These statements should be read in conjunction with the financial statements and footnotes included in the Company's Annual Report on Form 10-K for the fiscal year ended April 3, 2005, previously filed with the Securities and Exchange Commission (the Commission). In the opinion of management, the accompanying unaudited condensed financial statements contain all adjustments necessary to present fairly the Company's financial position and the results of its operations and cash flows for the periods presented. All adjustments made to the interim financial statements were of a normal recurring nature.

The accounting policies followed by the Company are set forth in Note 1 to the Company's financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended April 3, 2005 filed with the Commission on July 1, 2005.

- The results of operations for the period ended December 31, 2005 are not necessarily indicative of the results that may be expected for the full year.
- Inventories, principally valued by the LIFO method, are less than current cost by approximately \$2,025,000 and \$1,302,000 at December 31, 2005 and April 3, 2005, respectively. Inventory consists principally of finished goods.
- Comprehensive income and its components, net of tax, were as follows:

	Three months ended December 31		Nine months ended December 31	
	2005	2004	2005	2004
Net income	\$ 1,827,264	\$ 1,773,124	\$ 7,577,669	\$ 7,108,512
Available-for-sale investments unrealized (loss)/gain	(5,898)	(200,452)	78,624	(276,562)
Comprehensive income	\$ 1,821,366	\$ 1,572,672	\$ 7,656,293	\$ 6,831,950

- The Company determined at September 30, 2005 that the intangible assets associated with the acquisition of Industrial Chemical and Equipment Company in 1993, an asset group within the Industrial segment, were impaired based on undiscounted cash flow calculations. The undiscounted cash flow calculations took into consideration the business outlook over the remaining useful life for this asset group. The sum of expected future cash flows was less than the carrying amount of the intangible assets. The impairment amount was \$176,000, which also represented the net book value of the intangible assets at September 30, 2005. The amount of the impairment is included within Selling, General and Administrative expense in the Condensed Statements of Income for the nine months ended December 31, 2005.
- 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. 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 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 \$1,015,826 was recorded in the Pharmaceutical segment during the quarter ended September 30, 2005 as the Company received the 75,358 shares and the executed final releases and stipulations.

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

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

The Company leases land, and at the end of the lease term of two leases (currently 2018 if the leases are not renewed), the Company has a specified amount of time to remove the property and buildings. At the end of the specified amount of time, anything that remains on the land becomes the property of the lessor, and the lessor has the option to either maintain the property or remove the property at the Company's expense. The Company has not been able to reasonably estimate the fair value of the asset retirement obligations, primarily due to the combination of the following factors: the leases do not expire in the near future; the Company has a history of extending the leases with the lessor and currently intends to do so at expiration of this lease period; the lessor does not have a history of terminating leases with its tenants; and because it is more likely than not that the buildings will have value at the end of the lease life and therefore, may not be removed by either the lessee or the lessor. Therefore, in accordance with Statement of Financial Accounting Standards (SFAS) 143, "Accounting for Asset Retirement Obligations," and Financial Accounting Standards Board (FASB) Interpretation 47, "Accounting for Conditional Asset Retirement Obligations – an interpretation of FASB Statement no. 143," the Company has not recorded an asset retirement obligation as of December 31, 2005. The Company will continue to monitor the factors surrounding the requirement to record an asset retirement obligation and will recognize the fair value of a liability in the period in which it is incurred and a reasonable estimate can be made.

7. The Company has three reportable segments: Industrial, Water Treatment and Pharmaceutical. Reportable segments are defined by product and type of customer. Each segment is responsible for the sales, marketing and development of its products and services. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Product costs and expenses for each segment are based on actual costs incurred along with cost allocation of shared and centralized functions. The Company evaluates performance based on profit or loss from operations before income taxes not including nonrecurring gains and losses. The segments do not have separate accounting, administration, customer service or purchasing functions.

<u>Reportable Segments</u>	<u>Industrial</u>	<u>Water Treatment</u>	<u>Pharmaceutical</u>	<u>Total</u>
Three Months Ended December 31, 2005:				
Sales	\$ 21,404,822	\$ 10,445,868	\$ 2,502,302	\$ 34,352,992
Gross margin	3,549,205	2,878,413	791,997	7,219,615
Income from operations	\$ 676,388	\$ 1,564,477	\$ 269,811	\$ 2,510,676
Three Months Ended December 31, 2004:				
Sales	\$ 15,724,766	\$ 8,646,203	\$ 2,332,472	\$ 26,703,441
Gross margin	3,749,020	2,510,626	679,368	6,939,014
Income from operations	\$ 1,111,341	\$ 1,124,654	\$ 56,692	\$ 2,292,687
Nine Months Ended December 31, 2005:				
Sales	\$ 61,091,702	\$ 38,190,960	\$ 7,568,099	\$ 106,850,761
Gross margin	11,531,113	12,078,678	2,290,435	25,900,226
Income from operations	\$ 2,540,271	\$ 7,207,187	\$ 1,371,345	\$ 11,118,803
Nine Months Ended December 31, 2004:				
Sales	\$ 45,879,546	\$ 32,416,302	\$ 6,995,012	\$ 85,290,860
Gross margin	10,517,704	11,040,672	2,283,738	23,842,114
Income from operations	\$ 3,108,803	\$ 6,659,338	\$ 498,153	\$ 10,266,294

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

FORWARD-LOOKING INFORMATION

The information contained in this Quarterly Report on Form 10-Q for the period ended December 31, 2005 contains statements that we believe to be "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. 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 Quarterly Report on Form 10-Q and in any public statements we make could be materially different from actual results. They can be affected by assumptions we might make or by known or unknown risks or uncertainties, including those described below under "Risk Factors" and other factors disclosed throughout this Quarterly Report on Form 10-Q 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 Quarterly Report on Form 10-Q. Investors are cautioned not to place undue reliance on any forward-looking statements. Investors should

also understand that it is not possible to predict or identify all factors that may affect actual results and should not consider the risk factors listed below to be a complete statement of all potential risks and uncertainties.

RISK FACTORS

In addition to specific factors which may be described in connection with any of the Company's forward-looking statements, factors which could cause actual results to differ materially include, but are not limited to, the following items.

- Reduced profit margins 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.
- Unforeseen liabilities arising from litigation, particularly liabilities that may arise from claims under environmental laws which may impose liability for the release of hazardous materials whether or not the Company had knowledge of or was responsible for such release.
- Changes in governmental and regulatory policies that affect the Company which may entail significant cost increases relating to the handling, storage, transportation, treatment or disposal of hazardous materials.
- Increased competition which could affect our ability to raise prices or successfully enter certain markets.
- Changes in customer demand which may significantly reduce revenues and income.
- Changes in product costs or operating expenses which may reduce our operating margins.
- Unforeseen problems in our ability to develop, introduce and gain market acceptance for new products.
- The financial condition of our customers and their ability to purchase our products at comparable prices.
- Significant changes in our business strategies, including acquisition, divestiture and restructuring activities which may affect our ability to focus on operating activities or increase costs.
- General economic and political conditions, such as political instability or the rate of economic growth in the Company's principal geographic or product markets.
- Changes in operating factors, such as our ability to make continued improvements in distribution efficiencies and inventory risks due to shifts in market demand.
- Unforeseen or recurring operational problems or natural disasters at any of our facilities causing significant lost production and/or increased costs. 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. In September 2001, a 1.5 million-gallon caustic soda storage tank was completed at the Red Rock facility, allowing it to serve as an additional terminal for bulk chemicals. Historically, the property on which the Red Rock facility is located has not been subject to flooding when Terminals 1 and 2, located on opposite sides of the Mississippi River in St. Paul, Minnesota, were not usable due to high water, and the facility was not affected by the most recent flooding in 2001. The Company believes the impact of future flooding, if any, will be reduced as the Red Rock facility is expected to allow the Company to continue normal shipping to customers during periods of high water levels.

- Technology risks, such as the failure to successfully implement new technology that will allow us to make process improvements to reduce costs or to analyze the business.
- Loss of senior management or other key personnel and the Company's ability to hire suitable replacements in a timely manner.
- During the third quarter of fiscal 2005, the Company made the determination to continue to use its current operating system through the end of fiscal 2005 and until the implementation of the Company's Enterprise Resource Planning ("ERP") system is complete. Management's assessment of the effectiveness of the Company's internal controls as of April 3, 2005 that was included in the Annual Report on Form 10-K for the fiscal year ended April 3, 2005 was made on the current operating system and concluded that the internal control system was not operating effectively as of April 3, 2005. The Company is currently in the process of remediating the material weaknesses that led to this conclusion. Effective internal controls are important to the production of reliable financial reports and in helping to prevent financial fraud. If, in the future, as a result of ineffective internal controls, the Company is unable to provide reliable financial reports or prevent fraud, its business and operating results could be harmed, investors could lose confidence in its reported financial information, and the trading price of the Company's stock could drop significantly.

These factors are not exhaustive and new factors may emerge or existing factors may change in a manner that impacts our business. We assume no obligation and disclaim any duty to update the forward-looking statements in this Quarterly Report on Form 10-Q or any other public statement.

RESULTS OF OPERATIONS

The following tables set forth the percentage relationship of certain items to sales for the periods indicated (in thousands, except percentages):

	THREE MONTHS ENDED DECEMBER 31, 2005		NINE MONTHS ENDED DECEMBER 31, 2005	
	\$	%	\$	%
Sales	34,353	100.0%	106,851	100.0%
Cost of sales	27,133	79.0	80,951	75.8
Gross margin	7,220	21.0	25,900	24.2
Selling, general and administrative expenses	4,709	13.7	15,797	14.8
Litigation settlement	—	0.0	(1,016)	(1.0)
Income from operations	2,511	7.3	11,119	10.4
Investment income	242	0.7	619	0.6
Income before income taxes	2,753	8.0	11,738	11.0
Provision for income taxes	926	2.7	4,161	3.9
Net income	\$ 1,827	5.3%	\$ 7,578	7.1%

9

	THREE MONTHS ENDED DECEMBER 31, 2004		NINE MONTHS ENDED DECEMBER 31, 2004	
	\$	%	\$	%
Sales	26,703	100.0%	85,291	100.0%
Cost of sales	19,764	74.0	61,449	72.0
Gross margin	6,939	26.0	23,842	28.0
Selling, general and administrative expenses	4,646	17.4	13,576	15.9
Income from operations	2,293	8.6	10,266	12.0
Investment income	465	1.7	801	0.9
Income before income taxes	2,757	10.3	11,068	13.0
Provision for income taxes	984	3.7	3,959	4.6
Net income	\$ 1,773	6.6%	\$ 7,109	8.3%

Sales increased \$7,649,551, or 28.6%, in the three months ended December 31, 2005, and \$21,559,901, or 25.3%, in the nine months ended December 31, 2005 as compared to the same periods a year ago. Sales of bulk chemicals, including caustic soda, for the three and nine months ended December 31, 2005 were approximately 35% and 36% of total sales, respectively, and were approximately 32% and 33% for the same respective periods in the previous year. Industrial segment sales increased by \$5,680,056 in the three months ended December 31, 2005 and increased by \$15,212,156 in the nine-month period ended December 31, 2005 as compared to the same respective periods in 2004. The sales increase for the three and nine-months ended December 31, 2005 as compared to the same periods in the prior year was primarily a result of selling price increases connected with material cost increases, including caustic soda, combined with enhanced sales of various product lines. During the three and nine-month periods ended December 31, 2005, there was a slight increase in caustic soda volumes sold, which also contributed to the increase in sales. Water Treatment segment sales increased by \$1,799,665 and \$5,774,658 respectively, in the three and nine-month periods ended December 31, 2005 as compared to the same respective periods in 2004. During the three and nine-month periods ended December 31, 2005, the 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 same periods one year ago. Pharmaceutical sales increased by 7.3% to \$2,502,302 for the three months ended December 31, 2005 and increased by 8.2% to \$7,568,099 for the nine months ended December 31, 2005 as compared to the same periods in 2004 due to an increase in sales volumes along several existing product lines.

Gross margin, as a percentage of sales, for the three and nine months ended December 31, 2005 was 21.0% and 24.2%, respectively, compared to 26.0% and 28.0%, respectively, for the comparable periods of 2004. For the Industrial segment, gross margin, as a percentage of sales, was 16.6% for the three months ended December 31, 2005 compared to 23.8% in the prior year and 18.9% for the nine months ended December 31, 2005 compared to 22.9% for the comparable period in 2004. These decreases relate to changes in the cost and selling price of caustic soda during fiscal 2005 and 2006, a highly competitive market environment, and changes in product mix along several product lines. Gross margin, as a percentage of sales, for the Water Treatment segment was 27.6% for the three months ended December 31, 2005 compared to 29.0% in the comparable period of 2004 and 31.6% for the nine-month period ended December 31, 2005 compared to 34.1% for the comparable period of 2004. The decreases were primarily attributable to rising product costs, which to some extent, the Company was unable to pass on to customers due to competitive pressures. For both the Industrial and Water Treatment segments, the Company attempts to maintain relatively constant dollar margins as the cost of caustic soda and other raw material costs increase or decrease. The product costs are normally subject to fluctuations, which are expected to continue in future periods. By maintaining relatively stable dollar margins, 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. Gross margin, as a percentage of sales, for the Pharmaceutical segment was 31.7% for the three months ended December 31, 2005 compared to 29.1% in the comparable period of fiscal 2005 and was 30.3% for the nine months ended December 31, 2005 compared to 32.6% for the same period a year ago. The fluctuations for the three and nine-month periods ended December 31, 2005 are primarily a result of changes in product mix and, to a lesser extent, competitive pressures. The three and nine-month periods ended December 31, 2005 as compared to the prior year periods also experienced an increase in operating costs for staffing increases to facilitate future growth.

Selling, general and administrative expenses increased \$62,612 and \$2,221,429, for the three and nine-months ended December 31, 2005, respectively. The increases 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 Enterprise Resource Planning (ERP) system. Employee compensation and benefits comprise the majority of the selling, general and administrative expenditures. In addition, the \$176,000 intangible assets impairment caused a \$161,000 increase in selling, general and administrative expenses for the nine month period ended December 31, 2005 as compared to the same period one year ago.

INVESTMENT INCOME

Investment income decreased \$182,052 for the nine months ended December 31, 2005, compared to the same period one year ago. The decrease was primarily due to a \$211,859 loss recognized during the quarter ended September 30, 2005 and a \$30,595 loss recognized during the quarter ended December 31, 2005 due to other than temporary declines in the market value of an investment. The decrease was partially offset by higher returns on the Company's cash equivalents and marketable securities.

LIQUIDITY AND CAPITAL RESOURCES

For the nine-month period ended December 31, 2005, cash provided by operations was \$4,327,666 compared to \$9,951,119 for the same period in the prior year. An increase in inventory associated with increased product costs and an increase in accounts receivable related primarily to increased sales were principally responsible for the decrease in cash provided by operating activities. Cash used in investing activities decreased by \$1,756,628, primarily due to a \$2,051,289 reduction in investment purchases in comparison to investment maturities during fiscal 2006 as compared to fiscal 2005. Capital expenditures during the nine months ended December 31, 2005 consisted primarily of expenditures related to the Company's implementation of an ERP system, three semi-trucks, warehousing facilities, and various general maintenance projects. Capital expenditures in the fourth quarter of fiscal 2006 are expected to be approximately \$2.3 million, which are primarily related to additional warehousing facilities, the implementation of the ERP system, Water Treatment route sales trucks, and general maintenance projects.

Cash, cash equivalents and investments (excluding held-to-maturity investments of \$371,576 at December 31, 2005 and \$515,000 at April 3, 2005) decreased by \$4,666,863 from \$26,807,385 as of April 3, 2005 to \$22,140,522 as of December 31, 2005 due primarily to capital expenditures of \$5,464,673 and dividends paid of \$3,890,417 during the nine-month period ended December 31, 2005. Cash equivalents consist of money market accounts and certificates of deposit with an original maturity of three months or less. Investments available-for-sale consists of investment contracts with high-rated, stable insurance companies; marketable securities consisting of corporate and municipal bonds; U.S. Government agency securities and a mutual fund 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, and they generally mature within 10 years. The Company invests in a mutual fund with characteristics similar to its fixed income portfolio to enhance its investment portfolio diversification. The Company monitors the maturities of its investments to ensure that funding is available for anticipated cash needs. At December 31, 2005 and April 3, 2005, respectively, \$6,488,237 and \$15,570,074 of available-for-sale investments were classified as non-current assets as they were determined to be temporarily impaired and have maturity dates of one year or longer. These investments were not determined to be other-than-temporarily impaired as the Company has the intent and ability to hold these investments for a period of time sufficient to allow a recovery of 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.

At December 31, 2005, the Company had an investment portfolio of fixed income securities valued at \$9,709,698 and a mutual fund valued at \$7,557,083, excluding \$5,245,317 of those 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 that the Company is invested in, like all mutual funds, may increase or decrease due to market volatility. The mutual fund held by the Company as of December 31, 2005 is a short-term bond fund that invests primarily in investment grade securities. During the three and nine months ended December 31, 2005, losses of \$30,595 and \$242,454, respectively, was recognized due to other than temporary declines in market value.

Expected future cash flows from operations, coupled with the Company's strong financial position, puts the Company in a position to fund both short and long-term working capital and capital investment needs with internally generated funds. Management does not, therefore, anticipate the need to engage in significant financing activities in either the short or long-term. If the need to obtain additional capital does arise, however, management is confident that the Company's total debt to capital ratio at December 31, 2005 puts it in a position to obtain debt financing on favorable terms.

Management periodically reviews opportunities to enhance the value of the Company through strategic acquisitions, other capital investments and strategic divestitures; and at this time, no material commitments for such investments or divestitures exist. Until appropriate investment opportunities are identified, the Company will invest excess cash in conservative investments.

The Company will continue to incur significant expenditures in the fourth quarter of fiscal 2006 associated with the implementation of its ERP system and to continue meeting the requirements of the Sarbanes-Oxley Act. Fiscal 2006 expenses in these areas, including additional staffing and outside professional services, are expected to be relatively consistent with the additional fiscal 2005 expense of approximately \$1.7 million.

CRITICAL ACCOUNTING POLICIES

The significant accounting policies followed by the Company are set forth in Note 1 to the Company's financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended April 3, 2005. The accounting policies used in preparing the Company's interim fiscal 2006 financial statements are the same as those described in the Company's Annual Report.

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 the product has been shipped to the customer if there is evidence that the customer has agreed to purchase the products, the price and terms of sale are fixed, and collection of the receivable is reasonably assured.

Investments – Statement of Financial Accounting Standards (SFAS) No. 115, “Accounting for Certain Investments in Debt and Equity Securities,” and Securities and Exchange Commission (SEC) Staff Accounting Bulletin (SAB) 59, “Accounting for Noncurrent Marketable Equity Securities,” 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 allowance for doubtful accounts on a quarterly basis.

Inventories - Inventories are valued at the 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 the value of inventory deemed obsolete or excess to market.

LIFO Reserve – Inventories are primarily valued 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. 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. We periodically review the appropriateness of the estimated useful lives of our long-lived assets.

Income Taxes – In the preparation of the Company’s financial statements, management calculates income taxes. This includes estimating 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.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

At December 31, 2005, the Company had an investment portfolio of fixed income securities of \$9,709,698, mutual funds of \$7,557,083, investment contracts of \$3,424,730 and cash and cash equivalents of \$1,820,587. 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 funds, 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 \$34,000, based upon the amount of variable rate insurance contracts held at December 31, 2005. The Company adjusts the carrying value of its investments down 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.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company conducted an evaluation, under the supervision and with the participation of the Company’s management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of the end of the period covered by this report. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Due to the material weaknesses described in the Company’s Annual Report on Form 10-K for the fiscal year ended April 3, 2005, the Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures were not effective as of the end of the period covered by this report in alerting them on a timely basis to material information relating to the Company required to be included in the Company’s reports filed or submitted under the Exchange Act. The Chief Executive Officer and Chief Financial Officer believe that the Company is currently in process of remediating these deficiencies.

Changes in Internal Control

Management, with oversight from the Audit Committee, has been aggressively addressing the material weaknesses disclosed in its Annual Report on Form 10-K for the fiscal year ended April 3, 2005 and is committed to effectively remediating known weaknesses as expeditiously as possible. Although the Company’s remediation efforts are well underway, control weaknesses will not be considered remediated until new internal controls over financial reporting are implemented and operational for a period of time and are tested, and management and its independent registered public accounting firm conclude that

these controls are operating effectively. Due to the timing of this process, there was no change in the Company's internal control over financial reporting that occurred during the Company's most recently completed fiscal quarter that has materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1A. RISK FACTORS

The information set forth under the heading "Risk Factors" in Item 2 of Part I of this Quarterly Report on Form 10-Q (Management's Discussion and Analysis of Financial Condition and Results of Operation) is incorporated herein by reference.

ITEM 6. EXHIBITS

Exhibit Index

<u>Exhibit</u>	<u>Description</u>	<u>Method of Filing</u>
3.1	Amended and Second Restated Articles of Incorporation as amended through February 27, 2001. (1)	Incorporated by Reference
3.2	Second Amended and Superseding By-Laws as amended through February 15, 1995. (2)	Incorporated by Reference
31.1	Certification by Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act.	Filed Electronically
31.2	Certification by Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act.	Filed Electronically
32.1	Section 1350 Certification by Chief Executive Officer.	Filed Electronically
32.2	Section 1350 Certification by Chief Financial Officer.	Filed Electronically

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

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

SIGNATURES

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

HAWKINS, INC.

By: _____ /s/ Marvin E. Dee

Marvin E. Dee

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

Dated: February 9, 2006

Exhibit Index

<u>Exhibit</u>	<u>Description</u>	<u>Method of Filing</u>
3.1	Amended and Second Restated Articles of Incorporation as amended through February 27, 2001. (1)	Incorporated by Reference
3.2	Second Amended and Superseding By-Laws as amended through February 15, 1995. (2)	Incorporated by Reference
31.1	Certification by Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act.	Filed Electronically
31.2	Certification by Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act.	Filed Electronically
32.1	Section 1350 Certification by Chief Executive Officer.	Filed Electronically
32.2	Section 1350 Certification by Chief Financial Officer.	Filed Electronically

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

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

**CERTIFICATION PURSUANT TO
SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002**

CERTIFICATIONS

I, John R. Hawkins, Chief Executive Officer of Hawkins, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Hawkins, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 9, 2006

/s/ John R. Hawkins

John R. Hawkins
Chief Executive Officer

**CERTIFICATION PURSUANT TO
SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002**

CERTIFICATIONS

I, Marvin E. Dee, Chief Financial Officer of Hawkins, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Hawkins, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 9, 2006

/s/ Marvin E. Dee

Marvin E. Dee
Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Hawkins, Inc. (the "Company") on Form 10-Q for the period ended December 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John R. Hawkins, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ John R. Hawkins

John R. Hawkins
Chief Executive Officer
February 9, 2006

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Hawkins, Inc. (the "Company") on Form 10-Q for the period ended December 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Marvin E. Dee, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Marvin E. Dee

Marvin E. Dee
Chief Financial Officer
February 9, 2006
