

**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 June 30, 2001

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**

**41-0771293**

(State or other jurisdiction of  
incorporation of organization)

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

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

(Address of principal executive offices) 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 the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

CLASS

OUTSTANDING AT August 10, 2001

Common Stock, par value \$.05 per share

10,268,139

HAWKINS, INC.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HAWKINS, INC.  
CONDENSED BALANCE SHEETS

|  | JUNE 30,<br>2001<br>(UNAUDITED) | OCTOBER 1,<br>2000<br>(DERIVED FROM AUDITED<br>FINANCIAL STATEMENTS) |
|--|---------------------------------|--|
| <b>ASSETS</b>  |                                 |  |
| <b>CURRENT ASSETS:</b>   |                                 |  |
| Cash and cash equivalents  | \$ 1,346,232                    | \$ 2,185,757   |
| Investments available-for-sale   | 11,404,028                      | 12,033,866   |
| Trade receivables-net  | 13,116,042                      | 11,610,606   |
| Notes receivable   | 219,086                         | 157,701  |
| Inventories  | 10,366,827                      | 8,929,957  |
| Prepaid expenses and other   | 1,354,790                       | 2,658,875  |
| Total current assets   | 37,807,005                      | 37,576,762   |
| PROPERTY, PLANT AND EQUIPMENT-net  | 27,885,835                      | 23,687,337   |
| NOTES RECEIVABLE-NONCURRENT  | 2,283,175                       | 2,611,577  |
| OTHER ASSETS   | 5,884,318                       | 6,018,844  |
|  | \$ 73,860,333                   | \$ 69,894,520  |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |                                 |  |
| <b>CURRENT LIABILITIES:</b>  |                                 |  |
| Accounts payable   | \$ 8,441,306                    | \$ 5,006,580   |
| Current portion of long-term debt  | 109,180                         | 102,037  |
| Dividends payable  |                                 | 1,566,036  |
| Other current liabilities  | 5,093,329                       | 4,788,365  |
| Total current liabilities  | 13,643,815                      | 11,463,018   |
| LONG-TERM DEBT   | 116,823                         | 226,003  |
| DEFERRED INCOME TAXES  | 947,330                         | 937,330  |
| OTHER LONG-TERM LIABILITIES  | 459,378                         | 596,943  |
| <b>COMMITMENTS AND CONTINGENCIES</b>   |                                 |  |
| <b>SHAREHOLDERS' EQUITY:</b>   |                                 |  |
| Common stock, par value \$.05 per share; issued and outstanding, 10,287,639 and 10,417,739 shares respectively | 514,382                         | 520,887  |

|                            |                      |                      |
|----------------------------|----------------------|----------------------|
| Additional paid-in capital | 38,009,633           | 38,490,313           |
| Retained earnings          | 20,168,972           | 17,660,026           |
| Total shareholders' equity | 58,692,987           | 56,671,226           |
|                            | <u>\$ 73,860,333</u> | <u>\$ 69,894,520</u> |

See accompanying notes to condensed financial statements.

HAWKINS, INC.  
CONDENSED STATEMENTS OF INCOME

|   | THREE MONTHS ENDED JUNE 30 |               | NINE MONTHS ENDED JUNE 30 |               |
|---|----------------------------|---------------|---------------------------|---------------|
|   | 2001                       | 2000          | 2001                      | 2000          |
|   | (UNAUDITED)                |               | (UNAUDITED)               |               |
| Net sales                                     | \$ 28,754,706              | \$ 26,832,838 | \$ 78,721,225             | \$ 71,206,581 |
| Cost of sales                                 | 21,674,380                 | 19,190,913    | 61,197,141                | 53,205,404    |
| Gross profit                                  | 7,080,326                  | 7,641,925     | 17,524,084                | 18,001,177    |
| Selling, general and administrative           | 3,845,915                  | 3,365,051     | 10,486,496                | 8,636,647     |
| Income from operations                        | 3,234,411                  | 4,276,874     | 7,037,588                 | 9,364,530     |
| Interest income                               | 211,000                    | 256,184       | 676,074                   | 817,911       |
| Interest expense                              | (5,758)                    | (7,498)       | (17,241)                  | (22,604)      |
| Income before income taxes                    | 3,439,653                  | 4,525,560     | 7,696,421                 | 10,159,837    |
| Provision for income taxes                    | 1,356,700                  | 1,783,100     | 3,024,800                 | 4,003,000     |
| Net income                                    | \$ 2,082,953               | \$ 2,742,460  | \$ 4,671,621              | \$ 6,156,837  |
| Weighted average number of shares outstanding | 10,343,086                 | 10,515,251    | 10,373,053                | 10,671,563    |
| Earnings per share - basic and diluted        | \$ 0.20                    | \$ 0.26       | \$ 0.45                   | \$ 0.58       |

See accompanying notes to condensed financial statements.

HAWKINS, INC.  
CONDENSED STATEMENTS OF CASH FLOWS

|  | NINE MONTHS ENDED<br>JUNE 30 |              |
|--|------------------------------|--------------|
|  | 2001                         | 2000         |
|  | (UNAUDITED)                  |              |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b> |                              |              |
| Net income                                   | \$ 4,671,621                 | \$ 6,156,837 |
| Depreciation and amortization                | 1,971,376                    | 1,578,699    |
| Deferred income taxes                        | 641,750                      | 83,000       |
| Trade receivables                            | (1,505,436)                  | (504,347)    |
| Inventories                                  | (1,436,870)                  | (433,179)    |
| Accounts payable                             | 3,434,726                    | (10,611)     |
| Other liabilities                            | 167,399                      | (999,529)    |
| Other  | 594,247                      | (4,691)      |

|   |                     |                    |
|---|---------------------|--------------------|
| Net cash provided by operating activities                 | 8,538,813           | 5,866,179          |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>              |                     |                    |
| Additions to property, plant and equipment                | (5,957,260)         | (5,967,171)        |
| Purchases of investments                                  | (402,180)           | (523,204)          |
| Sale of investments                                       | 1,032,018           | 6,110,867          |
| Payments received on notes receivable                     | 267,017             | 371,532            |
| Acquisition of St. Mary's Chemicals, Inc.                 |                     | (2,700,000)        |
| Net cash used in investing activities                     | (5,060,405)         | (2,707,976)        |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>              |                     |                    |
| Cash dividends paid                                       | (3,118,722)         | (3,109,181)        |
| Acquisition and retirement of stock                       | (1,097,174)         | (4,414,182)        |
| Debt repayment  | (102,037)           | (95,362)           |
| Net cash used in financing activities                     | (4,317,933)         | (7,618,725)        |
| <b>DECREASE IN CASH AND CASH EQUIVALENTS</b>              | <b>(839,525)</b>    | <b>(4,460,522)</b> |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>       | <b>2,185,757</b>    | <b>4,778,174</b>   |
| <b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>           | <b>\$ 1,346,232</b> | <b>\$ 317,652</b>  |
| <b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b> |                     |                    |
| Cash paid for interest                                    | \$ 28,338           | \$ 34,658          |
| Cash paid for income taxes                                | \$ 619,000          | \$ 4,504,049       |

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 year ended October 1, 2000, previously filed with 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 year ended October 1, 2000 filed with the Commission on December 27, 2000.

- The results of operations for the period ended June 30, 2001 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 \$3,036,000 at June 30, 2001. Inventory consists principally of finished goods. Inventory quantities fluctuate during the year. No material amounts of interim liquidation of inventory quantities have occurred that are not expected to be replaced by year-end.
- During the nine months ended June 30, 2001, the Company acquired and retired 130,100 shares of common stock for \$1,097,174.
- On October 2, 2000, the Company adopted Statement of Financial Accounting Standard (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities". SFAS No. 133 establishes accounting and reporting standards for derivative instruments and for hedging activities. It requires that all derivatives, including those embedded in other contracts, be recognized as either assets or liabilities and that those financial instruments be measured at fair value. The accounting for changes in the fair value of derivatives depends on their intended use and designation. Management has reviewed the requirements of SFAS No. 133 and has determined that they have no free-standing or embedded derivatives. All contracts that contain provisions meeting the definition of a derivative also meet the requirements of, and have been designated as, normal purchases and sales. The Company's policy is to not use free-standing derivatives and to not enter into contracts with terms that cannot be designated as normal purchases or sales.

In December 1999, the Securities and Exchange Commission released Staff Accounting Bulletin No. 101 that provides the staff's views in applying generally accepted accounting principles to selected revenue recognition issues. An amendment in June 2000 delayed the effective date and it is not required to be adopted by the Company until the fourth quarter of fiscal 2001. Management does not anticipate that the adoption of this standard will have a significant impact on the Company's financial position or the results of its operations.

Also in fiscal 2000 the Emerging Issues Task Force (EITF) issued EITF 00-10, "Accounting for Shipping and Handling Fees and Costs," which is

effective for the Company in conjunction with the adoption of SAB No. 101, as amended, during the fourth quarter of fiscal 2001. EITF 00-10 requires companies to classify as revenue all amounts billed to customers in a sales transaction related to shipping and handling. The reclassification of shipping and handling charges would have no effect on net income or net income per share as reported.

In July 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets" (the Statements). The Company is required to apply SFAS No. 141 and 142 to all business combinations entered into after June 30, 2001. The Company has the option of adopting the provisions of SFAS No. 141 and No. 142 for intangibles and goodwill acquired before June 30, 2001 on the first day of fiscal year 2002 or 2003.

SFAS No. 141 requires the use of the purchase method of accounting for all business combinations initiated after June 30, 2001 and all acquisitions dated July 1, 2001 or later. Under the Statements, goodwill as well as other intangibles determined to have an infinite life will no longer be amortized; however, these assets will be reviewed for impairment on a periodic basis. The Statements also include provisions for the reclassification of certain existing recognized intangibles as goodwill, reclassification of certain intangibles out of previously reported goodwill and the identification of reporting units for purposes of assessing potential future impairments of goodwill.

The Company is currently assessing but has not yet determined the impact of the Statements on its financial position and results of operations. As of June 30, 2001 the Company had net goodwill of approximately \$3,558,000. Amortization expense recorded during the three and nine month periods ended June 30, 2001 was approximately \$71,000 and \$213,000, respectively.

6. The Company has two reportable segments: Industrial and Water Treatment. Reportable segments are defined by product and type of customer. Segments are responsible for the sales, marketing and development of their products and services. The segments do not have separate accounting, administration, customer service or purchasing functions.

| REPORTABLE SEGMENTS                     | INDUSTRIAL    | WATER TREATMENT | TOTAL         |
|---|---------------|-----------------|---------------|
| <b>THREE MONTHS ENDED JUNE 30, 2001</b> |               |                 |               |
| Net sales                               | \$ 18,814,009 | \$ 9,940,697    | \$ 28,754,706 |
| Gross profit                            | 3,875,357     | 3,204,969       | 7,080,326     |
| Operating income                        | 1,352,128     | 1,882,283       | 3,234,411     |
| <b>THREE MONTHS ENDED JUNE 30, 2000</b> |               |                 |               |
| Net sales                               | \$ 17,804,687 | \$ 9,028,151    | \$ 26,832,838 |
| Gross profit                            | 4,711,194     | 2,930,731       | 7,641,925     |
| Operating income                        | 2,600,612     | 1,676,262       | 4,276,874     |
| <b>NINE MONTHS ENDED JUNE 30, 2001</b>  |               |                 |               |
| Net sales                               | \$ 55,443,428 | \$ 23,277,797   | \$ 78,721,225 |
| Gross profit                            | 10,283,195    | 7,240,889       | 17,524,084    |
| Operating income                        | 2,990,489     | 4,047,099       | 7,037,588     |
| <b>NINE MONTHS ENDED JUNE 30, 2000</b>  |               |                 |               |
| Net sales                               | \$ 49,570,772 | \$ 21,635,809   | \$ 71,206,581 |
| Gross profit                            | 11,155,798    | 6,845,379       | 18,001,177    |
| Operating income                        | 5,541,684     | 3,822,846       | 9,364,530     |

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

### RESULTS OF OPERATIONS

THE INFORMATION CONTAINED IN THIS FORM 10-Q INCLUDES FORWARD-LOOKING STATEMENTS AS DEFINED IN SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. FORWARD-LOOKING INFORMATION OR STATEMENTS INCLUDE STATEMENTS ABOUT THE FUTURE OF THE INDUSTRIES REPRESENTED BY OUR OPERATING GROUPS, STATEMENTS ABOUT OUR FUTURE BUSINESS PLANS AND STRATEGIES, THE TIMELINESS OF PRODUCT INTRODUCTIONS AND DELIVERIES, EXPECTATIONS ABOUT INDUSTRY AND MARKET GROWTH DEVELOPMENTS, EXPECTATIONS ABOUT OUR GROWTH AND PROFITABILITY AND OTHER STATEMENTS THAT ARE NOT HISTORICAL IN NATURE. MANY OF THESE STATEMENTS CONTAIN WORDS SUCH AS "MAY", "WILL", "BELIEVE", "INTEND", "ESTIMATE", OR "CONTINUE" OR OTHER SIMILAR WORDS.

THESE FORWARD-LOOKING STATEMENTS INVOLVE A NUMBER OF RISKS AND UNCERTAINTIES, INCLUDING DEMAND FROM MAJOR CUSTOMERS, COMPETITION, CHANGES IN PRODUCT OR CUSTOMER MIX OR REVENUES, CHANGES IN PRODUCT COSTS AND OPERATING EXPENSES AND OTHER FACTORS DISCLOSED THROUGHOUT THIS REPORT. THE ACTUAL RESULTS THAT THE COMPANY ACHIEVES MAY DIFFER MATERIALLY FROM ANY FORWARD-LOOKING STATEMENTS DUE TO SUCH RISKS AND UNCERTAINTIES. THE COMPANY UNDERTAKES NO OBLIGATION TO REVISE ANY FORWARD-LOOKING STATEMENTS IN ORDER TO REFLECT EVENTS OR CIRCUMSTANCES THAT MAY ARISE AFTER THE DATE OF THIS REPORT. READERS ARE URGED TO CAREFULLY REVIEW AND CONSIDER THE VARIOUS DISCLOSURES MADE BY THE COMPANY IN THIS REPORT AND IN THE COMPANY'S OTHER REPORTS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION THAT ATTEMPT TO ADVISE INTERESTED PARTIES OF THE RISKS AND UNCERTAINTIES THAT MAY AFFECT THE COMPANY'S FINANCIAL CONDITION, RESULTS OF OPERATIONS, AND CASH FLOWS.

### OPERATIONS

Net sales increased \$1,921,868, or 7.2%, in the third quarter of this fiscal year, and \$7,514,644, or 10.6%, in the first nine months of this fiscal year as compared to the same periods in fiscal 2000. The Industrial segment had an increase of \$1,009,322 in the third quarter of this fiscal year as compared to the third quarter of fiscal 2000 and \$5,872,656 in the first nine months of fiscal 2001 as compared to the first nine months of fiscal 2000. These increases were mainly attributable to selling price increases of a single, large-volume product (caustic soda) and to increased sales volumes in several other product lines. The Water Treatment segment had a sales increase of \$912,546 in the third quarter of this fiscal year as compared to the third quarter of fiscal 2000 and an increase of \$1,641,988 in the first nine months of fiscal 2001 as compared to the first nine months of fiscal 2000. These increases are due to both increased sales volumes and selling prices.

The gross margin, as a percentage of net sales, for the third quarter of fiscal 2001 was 24.6% compared to 28.5% for the same quarter one year ago, and was 22.3% for the first nine months of fiscal 2001 compared to 25.3% for the first nine months of fiscal 2000. For the Industrial segment, gross margin, as a percentage of sales, was 20.6% for the third quarter of fiscal 2001 compared to 26.5% for the third quarter of fiscal 2000 and 18.5% for the first nine months of this fiscal year compared to 22.5% for the first nine months of fiscal 2000. These decreases are mainly due to higher caustic soda costs, which have increased substantially since October 1, 2000 and because we are on the LIFO method of valuing inventories. The Company was able to implement some caustic soda price increases during this period; however, market pressures prevented the Company from recovering all of the increased caustic soda costs. Gross margin, as a percentage of sales, for the Water Treatment segment was 32.2% for the third quarter ended June 30, 2001 compared to 32.5% for the third quarter of fiscal 2000 and 31.1% for the nine-month period ended June 30, 2001 compared to 31.6% for the comparable nine month period of fiscal 2000. These decreases are attributable to the aforementioned increased cost of caustic soda and additional costs associated with the new Red Rock facility in St. Paul, Minnesota.

Selling, general and administrative expenses, as a percentage of net sales were 13.4% for the third quarter of fiscal 2001 compared to 12.5% for the same quarter one year ago, and were 13.3% for the first nine months of fiscal 2001, compared to 12.1% for the first nine months of fiscal 2000, representing increases of \$480,864 and \$1,849,849, respectively, over the prior periods. The increases were mainly due to increased employee compensation and benefits associated with the hiring of personnel within both the Industrial and Water Treatment segments and increased operating costs within the Industrial segment including costs associated with the Company's long-term strategic growth plans. Employee compensation and benefits comprise the majority of the selling, general and administrative expenditures. Most of the remaining expenses in this category are fixed in nature and vary only slightly with sales fluctuations.

Income from operations decreased by \$1,042,463 in the third quarter of fiscal 2001, and \$2,326,942 in the first nine months of fiscal 2001 compared to the comparable periods of fiscal 2000. These decreases are mainly due to competitive conditions, primarily in caustic soda prices, which resulted in a negative adjustment to inventory of \$0.01 per share in the third quarter and \$0.13 for the first nine months of fiscal 2001. This adjustment does not affect cash flows as evidenced by a \$2,672,634 increase in cash flows from operations as compared to the first nine months of last year. Additionally, selling, general and administrative expenses increased due to an increased investment in infrastructure necessary to support the Company's long-term strategic growth plans, including efforts to expand into new markets.

#### INTEREST INCOME

Interest income decreased by \$45,184 in the third quarter of fiscal 2001 as compared to the third quarter of last year and \$141,837 for the first nine months of this fiscal year as compared to the first nine-months of last year. These decreases are due to the Company having less cash available for investment and to a lower rate of return on investments.

#### LIQUIDITY AND CAPITAL RESOURCES

For the nine month period ended June 30, 2001, cash provided by operations was \$8,538,813 compared to \$5,866,179 for the same period one-year ago. This increase was due mainly to changes in certain current asset and liability accounts discussed in the paragraph below and a decrease in current deferred tax assets. These increases were partially offset by the decrease in net income, which was due to higher operating expenses incurred to meet our long-term strategic growth plans and to the increased cost of caustic soda mentioned previously. During the nine months ended June 30, 2001, the Company invested \$5,957,260 in property and equipment additions, which included approximately \$3,500,000 for a new building constructed in St. Paul, Minnesota. The new Red Rock facility opened during the first quarter of fiscal 2001 and is currently occupied by the Minneapolis/St. Paul Water Treatment operations.

Inventories increased during the first nine months of fiscal 2001 due to quantity increases to meet seasonal demand and rising caustic soda prices, which was partially offset by an increase in the LIFO reserve of approximately \$2.5 million. Accounts receivable increased due to the increase in sales for the quarter. Additionally, other current assets decreased during the first nine months of fiscal 2001 due to prepayments that existed at October 1, 2000 that are currently being expensed, a decrease in current deferred tax assets, and a decrease in income tax receivable. Accounts payable and other liabilities increased during the first nine months of fiscal 2001 due to the increase in inventory and timing of payments. The Company did not issue any securities during the nine month period ended June 30, 2001.

Through open market purchases, the Company acquired and retired 79,600 shares of common stock for an aggregate of \$676,815 during the quarter ended June 30, 2001 and 130,100 shares of common stock for an aggregate of \$1,097,174 during the nine-month period ended June 30, 2001.

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 puts it in a position to obtain debt financing on favorable terms.

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. Until appropriate investment opportunities are identified, the Company will continue to invest excess cash in conservative investments. Cash equivalents include all liquid debt instruments (primarily cash funds, certificates of deposit and a money market account) purchased with an original maturity of three months or less. Cash equivalents are carried at cost, which approximates market value. Investments classified as available-for-sale securities consist of insurance contracts and variable rate marketable securities (primarily municipal bonds and annuity contracts) that will be held for indefinite periods of time, including securities that may be sold in response to changes in market interest or prepayment rates, needs for liquidity or changes in the availability or yield of alternative investments. These securities are carried at market value, which approximates cost.

From approximately April 12, 2001 to May 8, 2001, the areas around the Company's Terminal 1 and Terminal 2 operations were flooded, preventing shipments to and from these locations. The terminals themselves were not flooded as the facilities were adequately protected by dikes. The Red Rock facility was not affected by this flood. Additionally, the high water interrupted barge traffic on the Mississippi River and no caustic soda barges were received from the closing of the river in the fall of 2000 until the end of May 2001. No substantial interruptions to sales resulted from the flooding as trucks and railroad tank cars were used as an alternative means of supply. However, the Company incurred additional shipping, labor, and other costs and has not been able to pass through all of these costs to

its customers. 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. The Company expects the impact of future flooding, if any, will be reduced with the completion of its 1.5 million gallon caustic soda storage tank at its new Red Rock facility in September 2001.

Other than as discussed above, management is not aware of any matters that have materially affected the first nine months of fiscal 2001, or are expected to materially affect future periods, nor is management aware of other matters not affecting this period that are expected to materially affect future periods.

## MARKET RISK

At June 30, 2001, the Company had an investment portfolio of fixed income securities of \$1,606,647, excluding \$13,267,662 of those classified as cash and cash equivalents and variable rate securities. These securities, like all fixed income instruments, are subject to interest rate risks and will decline in value if market interest rates increase. However, the Company expects to be able to hold its fixed income investments until maturity and therefore the Company does not expect to recognize an adverse impact on income or cash flows.

## RECENTLY ISSUED ACCOUNTING STANDARD

In December 1999, the Securities and Exchange Commission released Staff Accounting Bulletin No. 101 that provides the staff's view in applying generally accepted accounting principles to selected revenue recognition issues. An amendment in June 2000 delayed the effective date and it is not required to be adopted by the Company until the fourth quarter of fiscal 2001. Management does not anticipate that the adoption of the standard will have a significant impact on the Company's financial position or the results of its operations.

Also in fiscal 2000 the Emerging Issues Task Force (EITF) issued EITF 00-10, "Accounting for Shipping and Handling Fees and Costs," which is effective for the Company in conjunction with the adoption of SAS No. 101, as amended, during the fourth quarter of fiscal 2001. EITF 00-10 requires companies to classify as revenue all amounts billed to customers in a sales transaction related to shipping and handling. The reclassification of shipping and handling charges would have no effect on net income or net income per share as reported.

In July 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets" (the Statements). The Company is required to apply SFAS No. 141 and 142 to all business combinations entered into after June 30, 2001. The Company has the option of adopting the provisions of SFAS No. 141 and No. 142 for intangibles and goodwill acquired before June 30, 2001 on the first day of fiscal year 2002 or 2003.

SFAS No. 141 requires the use of the purchase method of accounting for all business combinations initiated after June 30, 2001 and all acquisitions dated July 1, 2001 or later. Under the Statements, goodwill as well as other intangibles determined to have an infinite life will no longer be amortized; however, these assets will be reviewed for impairment on a periodic basis. The Statements also include provisions for the reclassification of certain existing recognized intangibles as goodwill, reclassification of certain intangibles out of previously reported goodwill and the identification of reporting units for purposes of assessing potential future impairments of goodwill.

The Company is currently assessing but has not yet determined the impact of the Statements on its financial position and results of operations. As of June 30, 2001 the Company had net goodwill of approximately \$3,558,000. Amortization expense recorded during the three and nine month periods ended June 30, 2001 was approximately \$71,000 and \$213,000, respectively.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

As of the date of this filing, the Registrant was not involved in any pending legal proceedings other than ordinary routine litigation incidental to its business, except as follows:

LYNDE COMPANY WAREHOUSE FIRE. The settlement agreement (the "Settlement Agreement") relating to the class action, DONNA M. COOKSEY, ET AL. V. HAWKINS CHEMICAL, INC. AND THE LYNDE COMPANY ("Cooksey"), brought in March 1995 against the Company and its former subsidiary, for damages alleged to be caused by a fire at an office/warehouse facility used by the former subsidiary, was approved by the court on January 30, 1998. Pursuant to the Settlement Agreement, the Company agreed to pay certain of the plaintiffs' costs and expenses as well as certain compensation to the class. Less than five claimants remain who have not yet resolved their claims under the Settlement Agreement. The Registrant anticipates that the defense and payment of these remaining claims, which are subject to arbitration, will be covered by its umbrella insurer.

### Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits.

None.

(b) Reports on Form 8-K.

No reports on Form 8-K have been filed during the fiscal quarter ended June 30, 2001.

## SIGNATURE

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

Dated: August 14, 2001