

HAWKINS INC
Form 10-Q
February 03, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For the quarterly period ended December 28, 2014
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)
2381 ROSEGATE, ROSEVILLE, MINNESOTA 55113
(Address of principal executive offices, including zip code)
(612) 331-6910
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 (Do not check if a smaller reporting company) 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 | Shares Outstanding at January 30, 2015 |
| Common Stock, par value \$.05 per share | 10,645,189 |

HAWKINS, INC.
INDEX TO FORM 10-Q

| | Page |
|--|-----------|
| PART I. <u>FINANCIAL INFORMATION</u> | |
| Item 1. <u>Financial Statements (unaudited):</u> | |
| <u>Condensed Consolidated Balance Sheets – December 28, 2014 and March 30, 2014</u> | <u>3</u> |
| <u>Condensed Consolidated Statements of Income – Three and Nine Months Ended December 28, 2014 and December 29, 2013</u> | <u>4</u> |
| <u>Condensed Consolidated Statements of Comprehensive Income – Three and Nine Months Ended December 28, 2014 and December 29, 2013</u> | <u>5</u> |
| <u>Condensed Consolidated Statements of Cash Flows – Nine Months Ended December 28, 2014 and December 29, 2013</u> | <u>6</u> |
| <u>Notes to Condensed Consolidated Financial Statements</u> | <u>7</u> |
| Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>13</u> |
| Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u> | <u>17</u> |
| Item 4. <u>Controls and Procedures</u> | <u>17</u> |
| PART II. <u>OTHER INFORMATION</u> | |
| Item 1. <u>Legal Proceedings</u> | <u>18</u> |
| Item 1A. <u>Risk Factors</u> | <u>18</u> |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | <u>18</u> |
| Item 6. <u>Exhibits</u> | <u>19</u> |
| <u>Signatures</u> | <u>20</u> |
| <u>Exhibit Index</u> | <u>21</u> |

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HAWKINS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(In thousands, except share data)

| | December 28, 2014 | March 30, 2014 |
|---|----------------------|-------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 18,994 | \$ 33,486 |
| Investments available-for-sale | 16,072 | 13,843 |
| Trade receivables — less allowance for doubtful accounts: \$375 as of December 28, 2014 and \$477 as of March 30, 2014 | 34,626 | 37,946 |
| Inventories | 37,016 | 26,192 |
| Income taxes receivable | 340 | — |
| Prepaid expenses and other current assets | 3,203 | 3,160 |
| Total current assets | 110,251 | 114,627 |
| PROPERTY, PLANT AND EQUIPMENT: | | |
| Less accumulated depreciation and amortization | (75,813 |) (68,406 |
| Net property, plant, and equipment | 92,214 | 90,469 |
| OTHER ASSETS: | | |
| Goodwill | 11,750 | 7,392 |
| Intangible assets — less accumulated amortization: \$3,671 as of December 28, 2014 and \$3,069 as of March 30, 2014 | 11,416 | 8,509 |
| Long-term investments | 16,268 | 15,852 |
| Other | 203 | 344 |
| Total other assets | 39,637 | 32,097 |
| Total assets | \$ 242,102 | \$ 237,193 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 18,205 | \$ 18,306 |
| Dividends payable | — | 3,823 |
| Accrued payroll and employee benefits | 5,933 | 5,555 |
| Deferred income taxes | 2,743 | 2,900 |
| Income tax payable | — | 1,444 |
| Other current liabilities | 3,500 | 3,801 |
| Total current liabilities | 30,381 | 35,829 |
| PENSION WITHDRAWAL LIABILITY | 6,664 | 6,887 |
| OTHER LONG-TERM LIABILITIES | 752 | 1,878 |
| DEFERRED INCOME TAXES | 10,395 | 10,186 |
| Total liabilities | 48,192 | 54,780 |
| COMMITMENTS AND CONTINGENCIES | | |
| SHAREHOLDERS' EQUITY: | | |
| Common stock; authorized: 30,000,000 shares of \$0.05 par value; 10,569,026 and 10,562,400 shares issued and outstanding as of December 28, 2014 and March 30, 2014, respectively | 528 | 528 |
| Additional paid-in capital | 50,716 | 50,502 |
| Retained earnings | 142,705 | 131,427 |
| Accumulated other comprehensive loss | (39 |) (44 |

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| | | |
|--|-----------|-----------|
| Total shareholders' equity | 193,910 | 182,413 |
| Total liabilities and shareholders' equity | \$242,102 | \$237,193 |
| See accompanying notes to condensed consolidated financial statements. | | |

3

HAWKINS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(In thousands, except share and per-share data)

| | Three Months Ended | | Nine Months Ended | |
|--|----------------------|----------------------|----------------------|----------------------|
| | December 28, 2014 | December 29, 2013 | December 28, 2014 | December 29, 2013 |
| Sales | \$83,825 | \$81,697 | \$270,742 | \$263,040 |
| Cost of sales | (70,183) | (68,147) | (220,482) | (215,689) |
| Gross profit | 13,642 | 13,550 | 50,260 | 47,351 |
| Selling, general and administrative expenses | (8,697) | (8,167) | (25,843) | (25,430) |
| Operating income | 4,945 | 5,383 | 24,417 | 21,921 |
| Interest income (expense), net | 15 | 9 | 11 | (18) |
| Income before income taxes | 4,960 | 5,392 | 24,428 | 21,903 |
| Income tax provision | (1,814) | (1,912) | (9,114) | (8,104) |
| Net income | \$3,146 | \$3,480 | \$15,314 | \$13,799 |
| Weighted average number of shares outstanding - basic | 10,564,990 | 10,547,882 | 10,564,401 | 10,538,595 |
| Weighted average number of shares outstanding - diluted | 10,614,740 | 10,595,935 | 10,623,148 | 10,590,880 |
| Basic earnings per share | \$0.30 | \$0.33 | \$1.45 | \$1.31 |
| Diluted earnings per share | \$0.30 | \$0.33 | \$1.44 | \$1.30 |
| Cash dividends declared per common share | \$— | \$— | \$0.38 | \$0.36 |

See accompanying notes to condensed consolidated financial statements.

HAWKINS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(In thousands)

| | Three Months Ended | | Nine Months Ended | | |
|--|----------------------|----------------------|----------------------|----------------------|---|
| | December 28, 2014 | December 29, 2013 | December 28, 2014 | December 29, 2013 | |
| Net income | \$3,146 | \$3,480 | \$15,314 | \$13,799 | |
| Other comprehensive income (loss), net of tax: | | | | | |
| Unrealized gain (loss) on available-for-sale investments | (8 |) (17 |) 5 | (61 |) |
| Unrealized gain (loss) on post-retirement liability | — | (38 |) — | (38 |) |
| Total other comprehensive income (loss) | (8 |) (55 |) 5 | (99 |) |
| Total comprehensive income | \$3,138 | \$3,425 | \$15,319 | \$13,700 | |

See accompanying notes to condensed consolidated financial statements.

HAWKINS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In thousands)

| | Nine Months Ended | |
|---|----------------------|----------------------|
| | December 28, 2014 | December 29, 2013 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$15,314 | \$13,799 |
| Reconciliation to cash flows: | | |
| Depreciation and amortization | 9,250 | 9,678 |
| Deferred income taxes | 49 | 1,216 |
| Stock compensation expense | 1,233 | 946 |
| Loss from property disposals | 7 | 35 |
| Changes in operating accounts providing (using) cash: | | |
| Trade receivables | 4,679 | 1,708 |
| Inventories | (9,965) | (2,188) |
| Accounts payable | (638) | (301) |
| Accrued liabilities | (1,361) | 402 |
| Income tax payable | (1,784) | 403 |
| Other | 257 | (786) |
| Net cash provided by operating activities | 17,041 | 24,912 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Additions to property, plant, and equipment | (10,086) | (10,489) |
| Purchases of investments | (12,394) | (17,956) |
| Sale and maturities of investments | 9,755 | 12,185 |
| Acquisitions | (10,068) | (2,416) |
| Proceeds from property disposals | 137 | 114 |
| Net cash used in investing activities | (22,656) | (18,562) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Cash dividends paid | (7,859) | (7,410) |
| New shares issued | 491 | 459 |
| Shares surrendered for payroll taxes | (295) | (485) |
| Proceeds from the exercise of stock options | 186 | 186 |
| Excess tax benefit from share-based compensation | 64 | 45 |
| Shares repurchased | (1,464) | — |
| Net cash used in financing activities | (8,877) | (7,205) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (14,492) | (855) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 33,486 | 28,715 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | \$18,994 | \$27,860 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | |
| Cash paid for income taxes | \$10,816 | \$6,426 |
| Noncash investing activities - Capital expenditures in accounts payable | \$449 | \$529 |
| See accompanying notes to condensed consolidated financial statements. | | |

HAWKINS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1 – Basis of Presentation

The accompanying unaudited condensed consolidated 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 financial statements should be read in conjunction with the consolidated financial statements and footnotes included in our Annual Report on Form 10-K for the fiscal year ended March 30, 2014, previously filed with the Securities and Exchange Commission (“SEC”). In the opinion of management, the accompanying unaudited condensed consolidated 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 condensed consolidated financial statements were of a normal recurring nature. All significant intercompany accounts and transactions have been eliminated in consolidation. 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 consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended March 30, 2014 filed with the SEC on May 29, 2014. There has been no significant change in our accounting policies since the end of fiscal 2014.

The results of operations for the nine months ended December 28, 2014 are not necessarily indicative of the results that may be expected for the full year.

References to fiscal 2014 refer to the fiscal year ended March 30, 2014 and references to fiscal 2015 refer to the fiscal year ending March 29, 2015.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board issued new accounting requirements for recognition of revenue from contracts with customers. The requirements of the new standard will be effective for annual reporting periods beginning after December 15, 2016 (our fiscal year ending April 1, 2018), and interim periods within those annual periods. We are currently evaluating the impact of this accounting pronouncement on our results of operations and financial position.

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 | | Nine Months Ended | |
|---|----------------------|----------------------|----------------------|----------------------|
| | December 28, 2014 | December 29, 2013 | December 28, 2014 | December 29, 2013 |
| Weighted-average common shares outstanding—basic | 10,564,990 | 10,547,882 | 10,564,401 | 10,538,595 |
| Dilutive impact of stock options, performance units, and restricted stock | 49,750 | 48,053 | 58,747 | 52,285 |
| Weighted-average common shares outstanding—diluted | 10,614,740 | 10,595,935 | 10,623,148 | 10,590,880 |

For the three and nine months ended December 28, 2014 and December 29, 2013, there were no shares or stock options excluded from the calculation of weighted-average common shares for diluted EPS.

Note 3 – Business Combinations

Acquisition of The Dumont Company, Inc.: On October 20, 2014, we acquired substantially all of the assets of The Dumont Company, Inc. (“Dumont”) under the terms of an asset purchase agreement with Dumont and its shareholders. We paid \$10.1 million in cash including a working capital adjustment in the third quarter of fiscal 2015, using available cash on hand to fund the acquisition. Dumont was a water treatment chemical distribution company with revenues of approximately \$14.0 million in calendar year 2013. Through this acquisition we added seven operating locations across Florida. The results of operations since the acquisition date, and the assets, including the goodwill associated with this acquisition, are included in our Water Treatment segment. Costs associated with this transaction were not material to our company and were expensed as incurred.

The acquisition has been accounted for under the acquisition method of accounting, under which the total purchase price is allocated to the net tangible and intangible assets of Dumont acquired in connection with the acquisition based on their estimated fair values. We estimated the fair values of the assets acquired and liabilities assumed using a discounted cash flow analysis (income approach). The following table summarizes the preliminary allocation of the purchase price to the fair values assigned to the assets acquired and liabilities assumed at the date of the Dumont acquisition:

| (In thousands) | Amount | |
|--------------------------------|----------|---|
| Accounts receivable | \$1,358 | |
| Inventory | 859 | |
| Other assets | 159 | |
| Property, plant, and equipment | 702 | |
| Intangible assets | 3,509 | |
| Current liabilities | (877 |) |
| Net assets acquired | 5,710 | |
| Goodwill | 4,358 | |
| Total purchase price | \$10,068 | |

The goodwill recognized as a result of this acquisition is primarily attributable to strategic and synergistic benefits, as well as the assembled workforce. Such goodwill is expected to be deductible for tax purposes.

The preliminary allocation of the purchase price to the assets acquired and liabilities assumed resulted in the recognition of the following intangible assets:

| (In thousands) | Amount | Life (in years) |
|------------------------|---------|-----------------|
| Customer relationships | \$2,810 | 20 |
| Trade Name | 699 | 4 |
| | \$3,509 | |

Acquisition of Advance Chemical Solutions, Inc.: On October 1, 2013, we acquired substantially all of the assets of Advance Chemical Solutions, Inc. (“ACS”). We paid \$2.4 million in cash at closing, and have paid an additional \$0.4 million of a potential \$0.5 million earnout through the third quarter of fiscal 2015. We may be obligated to pay the remainder of the earnout over the next two years based on the achievement of certain financial performance targets.

The ACS acquisition was accounted for under the acquisition method of accounting, under which the total estimated purchase price is allocated to the net tangible and intangible assets acquired based on their estimated fair values. We estimated the fair values of the assets acquired and liabilities assumed to be \$2.8 million using a discounted cash flow analysis (income approach).

ACS had revenues of approximately \$4.0 million for the 12 months ended September 30, 2013. The results of its operations since the acquisition date, and the assets, are included in our Water Treatment segment.

Note 4 – Cash and Cash Equivalents and Investments

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

| (In thousands) | December 28, | | | |
|---------------------------|--------------|----------|---------|---------|
| | 2014 | Level 1 | Level 2 | Level 3 |
| Assets: | | | | |
| Cash and cash equivalents | \$18,994 | \$18,994 | \$— | \$— |
| Certificates of deposit | 28,398 | — | 28,398 | — |
| Municipal bonds | 3,942 | — | 3,942 | — |
| | | | | |
| (In thousands) | March 30, | | | |
| | 2014 | Level 1 | Level 2 | Level 3 |
| Assets: | | | | |
| Cash and cash equivalents | \$33,486 | \$33,486 | \$— | \$— |
| Certificates of deposit | 24,437 | — | 24,437 | — |
| Municipal bonds | 5,258 | — | 5,258 | — |

Our financial assets that are measured at fair value on a recurring basis and fall within valuation technique Level 2 are certificates of deposit (“CDs”) and municipal bonds, with original maturities ranging from three months to three years. The CDs and municipal bonds are classified as investments in current assets and noncurrent assets on the condensed consolidated balance sheets. As of December 28, 2014, the combined CDs and municipal bonds had a fair value of \$16.1 million in current assets and \$16.2 million in noncurrent assets compared to CDs and municipal bonds with a fair value of \$13.8 million in current assets and \$15.9 million in noncurrent assets as of March 30, 2014.

Note 5 – Inventories

Inventories at December 28, 2014 and March 30, 2014 consist of the following:

| (In thousands) | December 28, 2014 | March 30, 2014 |
|------------------------|----------------------|-------------------|
| Inventory (FIFO basis) | \$43,112 | \$31,344 |
| LIFO reserve | (6,096) | (5,152) |
| Net inventory | \$37,016 | \$26,192 |

The first in, first out (“FIFO”) value of inventories accounted for under the last in, first out (“LIFO”) method was \$38.8 million at December 28, 2014 and \$28.5 million at March 30, 2014. The remainder of the inventory was valued and accounted for under the FIFO method.

The LIFO reserve increased \$0.3 million during the three months ended December 28, 2014, and changed nominally during the three months ended December 29, 2013. During the nine months ended December 28, 2014, the LIFO reserve increased

\$0.9 million, and for the nine months ended December 29, 2013 the LIFO reserve decreased \$0.2 million. The valuation of LIFO inventory for interim periods is based on our estimates of year-end inventory levels and costs.

Note 6 – Goodwill and Intangible Assets

Goodwill. The carrying amount of goodwill was \$11.7 million as of December 28, 2014 and \$7.4 million as of March 30, 2014. The increase in goodwill is related to goodwill recorded in conjunction with the acquisition of Dumont as discussed in Note 3.

Intangible assets. A summary of our intangible assets as of December 28, 2014 and March 30, 2014 is as follows:

| (In thousands) | December 28, 2014 | | | March 30, 2014 | | |
|-------------------------------------|-------------------|--------------------------|------------|----------------|--------------------------|-----------|
| | Gross Amount | Accumulated Amortization | Net | Gross Amount | Accumulated Amortization | Net |
| Finite-life intangible assets | | | | | | |
| Customer relationships | \$9,723 | \$(1,575) |) \$8,148 | \$6,913 | \$(1,292) |) \$5,621 |
| Trademark | 2,034 | (580) |) 1,454 | 1,335 | (421) |) 914 |
| Trade secrets | 962 | (864) |) 98 | 962 | (768) |) 194 |
| Carrier relationships | 800 | (317) |) 483 | 800 | (257) |) 543 |
| Other finite-life intangible assets | 341 | (335) |) 6 | 341 | (331) |) 10 |
| Total finite-life intangible assets | 13,860 | (3,671) |) 10,189 | 10,351 | (3,069) |) 7,282 |
| Indefinite-life intangible assets | 1,227 | — |) 1,227 | 1,227 | — |) 1,227 |
| Total intangible assets | \$15,087 | \$(3,671) |) \$11,416 | \$11,578 | \$(3,069) |) \$8,509 |

Note 7 – Accumulated Other Comprehensive Loss

Components of accumulated other comprehensive loss on our consolidated balance sheet, net of tax, are as follows:

| (In thousands) | December 28, 2014 | March 30, 2014 |
|--------------------------------------|-------------------|----------------|
| Unrealized loss on: | | |
| Available-for-sale investments | \$(31) |) \$(36) |
| Post-retirement plan liability | (8) |) (8) |
| Accumulated other comprehensive loss | \$(39) |) \$(44) |

Note 8 – Share-Based Compensation

Performance-Based Restricted Stock Units. Our Board of Directors (the “Board”) approved a performance-based equity compensation arrangement for our executive officers during the first quarters of each of fiscal 2015 and 2014. These performance-based arrangements provide for the grant of performance-based restricted stock units that represent a possible future issuance of restricted shares of our common stock based on a pre-tax income target for the applicable fiscal year. The actual number of restricted shares to be issued to each executive officer is determined when our final financial information becomes available after the applicable fiscal year and will be between zero shares and 50,874 shares in the aggregate for fiscal 2015. The restricted shares issued will fully vest two years after the last day of the fiscal year on which the performance is based. We are recording the compensation expense for the outstanding performance share units and the converted restricted stock over the life of the awards.

The following table represents the restricted stock activity for the nine months ended December 28, 2014:

| | Shares | Weighted-Average Grant Date Fair Value |
|------------------------------------|----------|--|
| Outstanding at beginning of period | 52,104 | \$36.99 |
| Granted | 24,932 | 34.45 |
| Vested | (23,300) |) 33.01 |
| Forfeited or expired | (156) |) 33.01 |
| Outstanding at end of period | 53,580 | \$37.55 |

We recorded compensation expense of \$0.3 million and \$0.9 million related to performance share units and restricted stock for the three and nine months ended December 28, 2014. We recorded compensation expense of \$0.2 million and \$0.6 million related to performance share units and restricted stock for the three and nine months ended December 29, 2013. Substantially all of the compensation expense was recorded in selling, general and administrative expenses in the condensed consolidated statements of income.

Restricted Stock Awards. As part of their retainer, each non-employee director receives an annual grant of restricted stock for their Board services. The restricted stock awards are expensed over the requisite vesting period, which is one year from the date of issuance, based on the market value on the date of grant. As of December 28, 2014, there were 7,077 shares of restricted stock with a weighted averaged grant date fair value of \$34.61 outstanding under this program. Compensation expense for the three and nine months ended December 28, 2014 and December 29, 2013 related to restricted stock awards to the Board was \$0.1 million and \$0.2 million, respectively.

Stock Option Awards. The Board previously approved a long-term incentive equity compensation arrangement for our executive officers that provided for the grant of non-qualified stock options that vested at the end of a three-year period. No stock options have been granted since our fiscal year ended March 28, 2010 and as of December 28, 2014, we had no stock options outstanding. During the nine months ended December 28, 2014, 9,333 options were exercised with an exercise price of \$19.90. No expense was recorded for the three and nine months ended December 28, 2014 and December 29, 2013 related to the value of stock options.

Note 9 – Share Repurchase Program

On May 29, 2014, our Board authorized a share repurchase program of up to 300,000 shares of our outstanding common shares. Under the program, we are authorized to repurchase shares for cash on the open market or in privately negotiated transactions subject to applicable securities laws and regulations. Upon repurchase of the shares, we reduced our common stock for the par value of the shares with the excess applied against additional paid-in capital.

During the first nine months of fiscal 2015 we repurchased 40,020 shares of common stock with an aggregate purchase price of \$1.5 million.

Note 10 – Litigation, Commitments and Contingencies

Litigation — There are no material pending legal proceedings, other than ordinary routine litigation incidental to the business, to which we or any of our subsidiaries are a party or of which any of our property is the subject. Legal fees associated with such matters are expensed as incurred.

Note 11 – Segment Information

We have two reportable segments: Industrial and Water Treatment. The accounting policies of the segments are the same as those described in the summary of significant accounting policies as disclosed in our fiscal 2014 Annual Report on Form 10-K. Product costs and expenses for each segment are based on actual costs incurred along with cost allocation of shared and centralized functions. We evaluate performance based on profit or loss from operations before income taxes not including nonrecurring gains and losses. Reportable segments are defined primarily by product and type of customer. Segments are responsible for the sales, marketing and development of their products and services. The segments do not have separate accounting, administration, customer service or purchasing functions. There are no intersegment sales and no operating segments have been aggregated. Given the nature of our business, it is not practical to disclose revenues from external customers for each product or each group of similar products. No single customer's revenues amounted to 10% or more of our total revenue. Sales are primarily within the United States and all assets are located within the United States.

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| (In thousands) | Industrial | Water Treatment | Total |
|--|------------|-----------------|-----------|
| Three months ended December 28, 2014: | | | |
| Sales | \$57,811 | \$26,014 | \$83,825 |
| Gross profit | 7,011 | 6,631 | 13,642 |
| Selling, general and administrative expenses | 4,715 | 3,982 | 8,697 |
| Operating income | 2,296 | 2,649 | 4,945 |
| Three months ended December 29, 2013: | | | |
| Sales | \$58,510 | \$23,187 | \$81,697 |
| Gross profit | 7,351 | 6,199 | 13,550 |
| Selling, general and administrative expenses | 4,799 | 3,368 | 8,167 |
| Operating income | 2,552 | 2,831 | 5,383 |
| Nine months ended December 28, 2014: | | | |
| Sales | \$183,292 | \$87,450 | \$270,742 |
| Gross profit | 24,735 | 25,525 | 50,260 |
| Selling, general and administrative expenses | 14,531 | 11,312 | 25,843 |
| Operating income | 10,204 | 14,213 | 24,417 |
| Nine months ended December 29, 2013: | | | |
| Sales | \$182,224 | \$80,816 | \$263,040 |
| Gross profit | 23,855 | 23,496 | 47,351 |
| Selling, general and administrative expenses | 15,114 | 10,316 | 25,430 |
| Operating income | 8,741 | 13,180 | 21,921 |

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

The following is a discussion and analysis of our financial condition and results of operations for the three and nine months ended December 28, 2014 as compared to December 29, 2013. This discussion should be read in conjunction with the Condensed Consolidated Financial Statements and Notes to Condensed Consolidated Financial Statements included in this Form 10-Q and Item 8 of our Annual Report on Form 10-K for the fiscal year ended March 30, 2014 ("fiscal 2014"). References to fiscal 2015 refer to the fiscal year ending March 29, 2015.

Overview

We derive substantially all of our revenues from the sale of chemicals to our customers in a wide variety of industries. We began our operations primarily as a distributor of bulk chemicals with a strong customer focus. Over the years, we have maintained the strong customer focus and have expanded our business by increasing our sales of value-added chemical products, including repackaging, blending, and manufacturing certain products.

On October 20, 2014, we acquired substantially all of the assets of The Dumont Company, Inc. ("Dumont") under the terms of an asset purchase agreement with Dumont and its shareholders. We paid \$10.1 million in cash including a working capital adjustment, using available cash on hand to fund the acquisition. Dumont was a water treatment chemical distribution company with revenues of approximately \$14.0 million in calendar year 2013. Through this acquisition we added seven operating locations across Florida serving municipal water and wastewater treatment, private utilities, commercial swimming pools, irrigation water treatment and food processing chemical markets. The results of operations since the acquisition date are included in our Water Treatment Segment.

In the third quarter of fiscal 2014, we acquired substantially all the assets of Advance Chemical Solutions, Inc. ("ACS"). We paid \$2.4 million in cash at closing, and have paid an additional \$0.4 million of a potential \$0.5 million earnout through the third quarter of fiscal 2015. We may be obligated to pay the remainder of the earnout over the next two years based on the achievement of certain financial performance targets. ACS had revenues of approximately \$4.0 million for the 12 months ended September 30, 2013. The results of its operations since the acquisition date are included in our Water Treatment segment.

In fiscal 2014, we exited a leased facility used to serve our bulk pharmaceutical customers. As a result, in the first half of fiscal 2014 we recorded a pre-tax charge of approximately \$0.8 million in cost of sales in our Industrial segment (approximately \$0.5 million after tax) primarily related to accelerated depreciation charges related to exiting this facility.

In the first quarter of fiscal 2015, our Board of Directors authorized a share repurchase program of up to 300,000 shares of our outstanding common stock. The shares may be repurchased on the open market or in privately negotiated transactions subject to applicable securities laws and regulations. The primary objective of the share repurchase program is to offset the impact of dilution from issuances relating to employee and director equity grants and our employee stock purchase program. During the first nine months of fiscal 2015 we repurchased 40,020 shares of common stock with an aggregate purchase price of \$1.5 million.

We use the last in, first out ("LIFO") method for valuing substantially all our inventory, which causes the most recent product costs to be recognized in our income statement. The valuation of LIFO inventory for interim periods is based on our estimates of fiscal year-end inventory levels and costs. The LIFO inventory valuation method and the resulting cost of sales are consistent with our business practices of pricing to current chemical raw material prices. We recorded a \$0.3 million increase in our LIFO reserve for the three months ended December 28, 2014 and a \$0.9 million increase in our LIFO reserve for the nine months ended December 28, 2014, both of which decreased our gross profit in those periods by those amounts. The LIFO reserve for the three months ended December 29, 2013 changed nominally and we recorded a \$0.2 million decrease in our LIFO reserve for the nine months ended December 29, 2013, which

increased our reported gross profit by that amount.

We disclose the sales of our bulk commodity products as a percentage of total sales dollars. We define bulk commodity products to consist of products that we do not modify in any way, but receive, store, and ship from our facilities, or direct ship to our customers in large quantities.

Results of Operations

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

| | Three months ended | | Nine months ended | | |
|--|----------------------|----------------------|----------------------|----------------------|----|
| | December 28, 2014 | December 29, 2013 | December 28, 2014 | December 29, 2013 | |
| Sales | 100.0 | % 100.0 | % 100.0 | % 100.0 | % |
| Cost of sales | (83.7 |)% (83.4 |)% (81.4 |)% (82.0 |)% |
| Gross profit | 16.3 | % 16.6 | % 18.6 | % 18.0 | % |
| Selling, general and administrative expenses | (10.4 |)% (10.0 |)% (9.5 |)% (9.7 |)% |
| Operating income | 5.9 | % 6.6 | % 9.1 | % 8.3 | % |
| Interest income (expense), net | — | % — | % — | % — | % |
| Income before income taxes | 5.9 | % 6.6 | % 9.1 | % 8.3 | % |
| Income tax provision | (2.2 |)% (2.3 |)% (3.4 |)% (3.1 |)% |
| Net income | 3.7 | % 4.3 | % 5.7 | % 5.2 | % |

Three Months Ended December 28, 2014 Compared to the Three Months Ended December 29, 2013

Sales

Sales increased \$2.1 million, or 2.6%, to \$83.8 million for the three months ended December 28, 2014, as compared to \$81.7 million for the same period of the prior year. Sales of bulk commodity products accounted for approximately 23% of sales dollars during each of the three-month periods ended December 28, 2014 and December 29, 2013.

Industrial Segment. Industrial segment sales decreased \$0.7 million, or 1.2%, to \$57.8 million for the three months ended December 28, 2014, as compared to \$58.5 million for the same period of the prior year. Our overall volumes increased from the same period a year ago; however, the product mix for the quarter shifted to products with lower per-unit selling prices. Additionally, lower raw material prices resulted in lower per-unit selling prices.

Water Treatment Segment. Water Treatment segment sales increased \$2.8 million, or 12.2%, to \$26.0 million, as compared to \$23.2 million for the same period of the prior year. The increase was primarily driven by sales of \$2.5 million from our newly-acquired Florida locations.

Gross Profit

Gross profit was \$13.6 million, or 16.3% of sales, for the three months ended December 28, 2014, unchanged from \$13.6 million, or 16.6% of sales, for the same period of the prior year. The LIFO method of valuing inventory decreased gross profit by \$0.3 million for the three months ended December 28, 2014 and had a nominal impact on gross profit for the three months ended December 29, 2013.

Industrial Segment. Gross profit for the Industrial segment decreased \$0.3 million to \$7.0 million, or 12.1% of sales, for the three months ended December 28, 2014, as compared to \$7.3 million, or 12.6% of sales, for the same period of the prior year. While sales volumes increased year-over-year, the decline in gross profit was a result of a mix shift to products that carry lower per-unit margins. The LIFO method of valuing inventory decreased year-over-year gross profit by \$0.3 million.

Water Treatment Segment. Gross profit for the Water Treatment segment increased \$0.4 million to \$6.6 million, or 25.5% of sales, for the three months ended December 28, 2014, as compared to \$6.2 million, or 26.7% of sales, for the same period of the prior year. The increase in gross profit dollars was primarily a result of our newly-acquired Florida locations. However, gross profit as a percentage of sales decreased primarily due to the addition of these seven new branches that have lower per-branch revenues and the costs to operate represent a higher percentage of their sales than many of our existing branches. The LIFO method of valuing inventory had a negligible year-over-year impact on this segment's gross profit.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were \$8.7 million, or 10.4% of sales for the three months ended December 28, 2014 as compared to \$8.2 million, or 10.0% of sales, for the same period of the prior year. The increased expenses were primarily a result of operating the newly-acquired Water Treatment locations in Florida.

Operating Income

Operating income was \$4.9 million for the three months ended December 28, 2014 as compared to \$5.4 million for the same period of the prior year. Operating income for the Industrial segment decreased \$0.3 million, due to the decrease in gross profit described above. Operating income for the Water Treatment segment decreased \$0.2 million, as the increase in gross profit was more than offset by higher selling, general and administrative expenses.

Income Tax Provision

Our effective income tax rate was 36.6% for the three months ended December 28, 2014 compared to 35.5% for the same period of the prior year. The effective tax rate is impacted by projected levels of annual taxable income, permanent items, and state taxes.

Nine Months Ended December 28, 2014 Compared to the Nine Months Ended December 29, 2013

Sales

Sale increased \$7.7 million, or 2.9%, to \$270.7 million for the nine months ended December 28, 2014, as compared to \$263.0 million for the same period of the prior year. Sales of bulk chemicals accounted for approximately 21% of sales dollars during the nine months ended December 28, 2014, as compared to 22% during the same period of the prior year.

Industrial Segment. Industrial segment sales increased \$1.1 million, or 0.6%, to \$183.3 million for the nine months ended December 28, 2014, as compared to \$182.2 million for the same period of the prior year. Our overall volumes increased from the same period a year ago; however, competitive pricing pressures and lower raw material prices resulted in lower per-unit selling prices.

Water Treatment Segment. Water Treatment segment sales increased \$6.6 million, or 8.2%, to \$87.5 million for the nine months ended December 28, 2014, as compared to \$80.8 million for the same period of the prior year. Our recently-acquired Florida and Oklahoma locations contributed \$4.4 million to the increase in sales for the period. In addition, growth in our newer branches and increased sales of specialty chemicals were partially offset by lower sales at certain of our larger branches in our more mature markets where we believe the weather caused reduced municipal pumping rates during the summer months.

Gross Profit

Gross profit increased \$2.9 million to \$50.3 million, or 18.6% of sales, for the nine months ended December 28, 2014, as compared to \$47.4 million, or 18.0% of sales, for the same period of the prior year. The prior year's gross profit was negatively impacted by \$0.8 million of charges related to exiting a leased facility used to serve our bulk pharmaceutical customers. The LIFO method of valuing inventory decreased gross profit by \$0.9 million for the nine months ended December 28, 2014, and increased gross profit by \$0.2 million for the nine months ended December 29, 2013.

Industrial Segment. Gross profit for the Industrial segment increased \$0.9 million to \$24.7 million, or 13.5% of sales, for the nine months ended December 28, 2014, as compared to \$23.9 million, or 13.1% of sales, for the same period of the prior year.

The increase in gross profit was driven by higher sales volumes for the first nine months of fiscal 2015 compared to the same period of the prior year as well as operational overhead efficiencies, partially offset by lower per-unit margins due to continued competitive pricing pressures. Gross profit for the first nine months of fiscal 2014 was negatively impacted by \$0.8 million in costs incurred to exit the leased facility used to serve our bulk pharmaceutical customers. The LIFO method of valuing inventory decreased the Industrial segment's gross profit by \$0.7 million for the nine months ended December 28, 2014, while it increased gross profit by \$0.2 million for the same period of the prior year.

Water Treatment Segment. Gross profit for the Water Treatment segment increased \$2.0 million to \$25.5 million, or 29.2% of sales, for the nine months ended December 28, 2014, as compared to \$23.5 million, or 29.1% of sales, for the same period of the prior year. Higher sales volumes due to growth in our newer branches, in particular the addition of our recently-acquired Florida and Oklahoma locations, along with increased sales of specialty chemicals, were partially offset by lower profits from

certain of our larger branches in more mature markets. The LIFO method of valuing inventory decreased gross profit in this segment by \$0.2 million for the nine months ended December 28, 2014, while it had a nominal impact on gross profit in this segment for the nine months ended December 29, 2013.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were \$25.8 million, or 9.5% of sales, for the nine months ended December 28, 2014, as compared to \$25.4 million, or 9.7% of sales, for the same period of the prior year. Increased expenses in our Water Treatment segment, including expenses from our newly-acquired Florida locations, were partially offset by reductions in expenses in our Industrial segment.

Operating Income

Operating income was \$24.4 million for the nine months ended December 28, 2014 and \$21.9 million for the same period of the prior year. Operating income for the Industrial segment increased \$1.5 million as a result of the increase in gross profit combined with reduced selling, general and administrative expenses. Operating income for the Water Treatment segment increased \$1.0 million, as the increase in gross profit was partially offset by increased selling, general and administrative expenses.

Income Tax Provision

Our effective income tax rate was 37.3% for the nine months ended December 28, 2014 and 37.0% for the same period of the prior year. The effective tax rate is impacted by projected levels of annual taxable income, permanent items, and state taxes.

Liquidity and Capital Resources

Cash provided by operating activities for the nine months ended December 28, 2014 was \$17.0 million compared to \$24.9 million for the same period of the prior year. The decrease in cash provided by operating activities was primarily due to the timing of inventory purchases, with increased levels of inventory on hand at December 28, 2014 as compared to a year ago. Due to the nature of our operations, which includes purchases of large quantities of bulk chemicals, timing of purchases can result in significant changes in working capital investment and the resulting operating cash flow. Typically, our cash requirements increase during the period from April through November as caustic soda inventory levels increase as the majority of barges are received during this period. Additionally, due to the seasonality of the water treatment business, our accounts receivable balance is generally higher during the period of April through September.

Capital expenditures were \$10.1 million for the nine months ended December 28, 2014, as compared to \$10.5 million in the same period of the prior fiscal year. Included in capital expenditures for the first nine months of fiscal 2015 was \$4.4 million related to business expansion, inventory storage and process improvement projects. Other capital spending included new and replacement containers and Water Treatment trucks.

Cash used in financing activities was \$8.9 million for the nine months ended December 28, 2014, as compared to \$7.2 million in the same period of the prior fiscal year, with the increase in the current year driven by common stock repurchases of \$1.5 million.

Cash and investments were \$51.3 million at December 28, 2014, a decrease of \$11.9 million as compared with the \$63.2 million available as of March 30, 2014, due to cash outflows for the Dumont acquisition, dividend payments, capital expenditures, and the share repurchase program described above exceeding the cash flows generated from operations during the nine months ended December 28, 2014.

We expect our cash balances and cash flows from operations will be sufficient to fund our cash requirements including acquisitions or other strategic relationships for the foreseeable future. We periodically evaluate opportunities to borrow funds or sell additional equity or debt securities for strategic reasons or to further strengthen

our financial position.

Critical Accounting Policies

Our significant accounting policies are set forth in Note 1 to our consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended March 30, 2014. The accounting policies used in preparing our interim fiscal 2015 condensed consolidated financial statements are the same as those described in our Annual Report.

Forward-Looking Statements

The information presented in this Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These forward-looking statements have been made pursuant to the provisions of the Private Securities Litigation Reform Act of 1995. These statements are not historical facts, but rather are based on our current expectations, estimates and projections, and our beliefs and assumptions. We intend words such as "anticipate," "expect," "intend," "plan," "believe," "see," "estimate," "will" and similar expressions to identify forward-looking statements. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and other factors, some of which are beyond our control and are difficult to predict. These factors could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements. Additional information concerning potential factors that could affect future financial results is included in our Annual Report on Form 10-K for the fiscal year ended March 30, 2014. We caution you not to place undue reliance on these forward-looking statements, which reflect our management's view only as of the date of this Quarterly Report on Form 10-Q. We are not obligated to update these statements or publicly release the result of any revisions to them to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q or to reflect the occurrence of unanticipated events.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

At December 28, 2014, our investment portfolio included \$32.3 million of certificates of deposit and municipal bonds classified as fixed income securities and cash and cash equivalents of \$19.0 million. The fixed income securities, like all fixed income instruments, are subject to interest rate risks and will decline in value if market interest rates increase. However, while the value of the investment may fluctuate in any given period, we intend to hold our fixed income investments until recovery. Consequently, we would not expect to recognize an adverse impact on net income or cash flows during the holding period. We adjust the carrying value of our investments if impairment occurs that is other than temporary.

We are subject to the risk inherent in the cyclical nature of commodity chemical prices. We do not currently purchase forward contracts or otherwise engage in hedging activities with respect to the purchase of commodity chemicals. We attempt to pass changes in material prices on to our customers, however, there are no assurances that we will be able to pass on cost increases as our pricing must be competitive.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control

There was no change in our internal control over financial reporting during the third quarter of fiscal 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There are no material pending legal proceedings, other than ordinary routine litigation incidental to the business, to which we or any of our subsidiaries are a party or of which any of our property is the subject.

ITEM 1A. RISK FACTORS

There have been no material changes to our risk factors from those disclosed in our Annual Report on Form 10-K for the fiscal year ended March 30, 2014.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On May 29, 2014, our Board of Directors authorized a share repurchase program of up to 300,000 shares of our outstanding common stock. The shares may be repurchased on the open market or in privately negotiated transactions subject to applicable securities laws and regulations. The following table sets forth information concerning purchases of our common stock for the quarter ended December 28, 2014:

| Period | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of a Publicly Announced Plan or Program | Maximum Number of Shares that May Yet be Purchased under Plans or Programs |
|-----------------------|----------------------------------|------------------------------|--|--|
| 9/29/2014-10/26/2014 | — | — | — | — |
| 10/27/2014-11/23/2014 | 850 | 38.00 | 850 | 259,980 |
| 11/24/2014-12/28/2014 | — | — | — | — |
| Total | 850 | 38.00 | 850 | |

ITEM 6. EXHIBITS

Exhibit Index

| Exhibit | Description | Method of Filing |
|---------|---|---------------------------|
| 3.1 | Amended and Restated Articles of Incorporation. (1) | Incorporated by Reference |
| 3.2 | Amended and Restated By-Laws. (2) | Incorporated by Reference |
| 31.1 | Certification by Chief Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act. | Filed Electronically |
| 31.2 | Certification by Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act. | Filed Electronically |
| 32.1 | Section 1350 Certification by Chief Executive Officer. | Filed Electronically |
| 32.2 | Section 1350 Certification by Chief Financial Officer. | Filed Electronically |
| 101 | Financial statements from the Quarterly Report on Form 10-Q of Hawkins, Inc. for the period ended December 28, 2014 filed with the SEC on February 3, 2015, formatted in Extensible Business Reporting Language (XBRL); (i) the Condensed Consolidated Balance Sheets at December 28, 2014 and March 30, 2014, (ii) the Condensed Consolidated Statements of Income for the Three and Nine Months Ended December 28, 2014 and December 29, 2013, (iii) the Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended December 28, 2014 and December 29, 2013, (iv) the Condensed Consolidated Statements of Cash Flows for the Nine Months Ended December 28, 2014 and December 29, 2013, and (v) Notes to Condensed Consolidated Financial Statements. | Filed Electronically |

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

(2) Incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K dated October 28, 2009 and filed November 3, 2009.

SIGNATURES

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

HAWKINS, INC.

By: /s/ Kathleen P. Pepski
Kathleen P. Pepski
Vice President, Chief Financial Officer, and Treasurer
(On behalf of the registrant and as principal financial officer)

Dated: February 3, 2015

20

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