

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 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, 1997

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 CHEMICAL, 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 12, 1997
----- Common Stock, par value \$.05 per share	----- 11,603,895

HAWKINS CHEMICAL, INC. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

Item I. Financial Statements

HAWKINS CHEMICAL, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS

	June 30, 1997 ----- (Unaudited)	September 29, 1996 ----- (Derived from Audited financial statements)
ASSETS		
Current assets:		
Cash and cash equivalents.	\$ 7,850,442	\$ 8,932,125
Investments (fair value approximates cost)	10,872,671	10,504,603
Accounts receivable-net.	11,572,329	9,740,285
Note receivable.	223,080	170,988
Inventories.	5,220,954	8,584,034
Other current assets	1,194,256	924,457
	-----	-----
Total current assets.	36,933,732	38,856,492
Property, plant and equipment-net.	14,733,113	13,187,678
Note receivable-non current.	3,666,936	1,797,707
Other assets	2,651,775	2,645,479
	-----	-----
Total	\$ 57,985,556	\$ 56,487,356
	-----	-----
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 4,958,154	\$ 6,709,434
Current portion of long-term debt.	59,928	56,008
Dividends payable.		884,135
Other current liabilities.	3,696,266	4,823,394
	-----	-----
Total current liabilities	8,714,348	12,472,971
Long term debt	512,525	572,453
Deferred income taxes.	844,300	426,800
Commitments and contingencies		

Shareholders' equity:		
Common stock, par value \$.05 per share; issued and outstanding, 11,603,895 shares and 11,051,690 shares respectively	580,195	552,585
Additional paid-in capital	42,517,455	38,679,630
Retained earnings	4,816,733	3,782,917
	-----	-----
Total shareholders' equity	47,914,383	43,015,132
	-----	-----
Total	\$ 57,985,556	\$ 56,487,356
	-----	-----

See accompanying Notes to Consolidated Condensed Financial Statements

HAWKINS CHEMICAL, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF INCOME

(Unaudited)

	Three Months Ended June 30 1997	1996	Nine Months Ended June 30 1997	1996
	-----	-----	-----	-----
Net sales	\$23,866,512	\$22,274,546	\$64,476,068	\$58,136,597
Costs and expenses:				
Cost of sales	17,966,900	16,816,775	49,985,070	45,061,816
Selling, general and administrative	2,741,391	2,399,020	7,091,513	6,444,690
	-----	-----	-----	-----
Total costs and expenses	20,708,291	19,215,795	57,076,583	51,506,506
	-----	-----	-----	-----
Income from operations	3,158,221	3,058,751	7,399,485	6,630,091
Other income (deductions):				
Interest income	341,547	238,319	864,160	728,815
Interest expense	(11,958)	(14,193)	(35,620)	(40,702)
Gain on sale of The Lynde Company	1,324,827		1,324,827	
Miscellaneous	65,211	68,752	153,472	139,641
	-----	-----	-----	-----
Total other income (deductions)	1,719,627	292,878	2,306,839	827,754
	-----	-----	-----	-----
Income before income taxes	4,877,848	3,351,629	9,706,324	7,457,845
Provision for income taxes	1,914,600	1,336,500	3,809,800	2,983,200
	-----	-----	-----	-----
Net income	\$ 2,963,248	\$ 2,015,129	\$ 5,896,524	\$ 4,474,645
	-----	-----	-----	-----
Weighted average number of shares outstanding	11,603,895	11,603,895	11,603,895	11,603,895
	-----	-----	-----	-----
Earnings per common share	\$0.26	\$0.17	\$0.51	\$0.39
	-----	-----	-----	-----

HAWKINS CHEMICAL, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

	NINE MONTHS ENDED JUNE 30	
	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 5,896,524	\$ 4,474,645
Depreciation and amortization.	1,163,869	1,052,081
Deferred income taxes.	432,500	(2,000)
Other.	(54,894)	(130,777)
Changes in certain current assets and liabilities. . .	(4,222,255)	(1,438,485)
	3,215,744	3,955,464
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property, plant and equipment	(2,660,706)	(3,655,072)
Purchase of investments.	(368,068)	(2,419,216)
Cash received on sale of land and building		108,188
Cash received on sale of The Lynde Company	500,000	
	(2,528,774)	(5,966,100)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash dividends paid.	(1,881,407)	(1,581,869)
Debt repayment	(56,008)	(52,344)
Payments received on note receivable	168,762	25,416
	(1,768,653)	(1,608,797)
DECREASE IN CASH AND CASH EQUIVALENTS	(1,081,683)	(3,619,433)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	8,932,125	9,906,107
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 7,850,442	\$ 6,286,674
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest	\$ 49,149	\$ 54,956
Cash paid for income taxes	\$ 3,060,771	\$ 3,230,451

HAWKINS CHEMICAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

1. 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 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 September 29, 1996, previously filed with the Commission. In the opinion of management, the accompanying unaudited consolidated 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.

The accounting policies followed by the Company are set forth in Note 1 to the Company's financial statements in the 1996 Hawkins Chemical, Inc. Annual Report which is incorporated by reference to Form 10-K filed with the Commission on December 30, 1996.

2. The results of operations for the period ended June 30, 1997 are not necessarily indicative of the results that may be expected for the full year.
3. Inventories, principally valued by the LIFO method, are less than current cost by approximately \$1,162,400 at June 30, 1997. 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.
4. Earnings per common share are based upon the weighted average number of shares outstanding after giving retroactive effect to a 5% stock dividend declared February 12, 1997 to shareholders of record at the close of business on March 28, 1997. Cash dividends in the amount of \$997,273 were paid on April 11, 1997.
5. On May 29 1997, the Company sold the inventory and operations of The Lynde Company, a wholly-owned subsidiary which specialized in swimming pool chemicals, for \$2,590,000, effective March 1, 1997. The Company recorded a gain on the sale of approximately \$1,324,800. At closing, Hawkins received \$500,000 and a note receivable for the balance. The note receivable is due over the next 6 years plus interest at 8%.

Revenues for Lynde for the nine-month period ending June 30, 1997 and 1996 were \$725,500 and \$2,411,500, respectively. Lynde recorded a net loss of \$19,600 for the nine-month period ending June 30, 1997 and net income of \$154,200 for the nine-month period ended June 30, 1996.

6. On March 1, 1995, the Company and its subsidiary The Lynde Company were named as defendants in an action entitled DONNA M. COOKSEY, ET AL. V. HAWKINS CHEMICAL, INC. AND THE LYNDE COMPANY. This proceeding is pending in state district court in Hennepin County, Minnesota. On March 28, 1997, the court issued its decision on the plaintiffs' motion for class certification. The court denied class certification as to all issues except the issue of whether the Company is liable for the fire. Issues as to whether a particular person was exposed to anything hazardous, whether the alleged exposure

caused any injuries, and whether any damages resulted were not certified by the court and must be the subject of a separate suit or claim by each person seeking damages. The court also rejected the plaintiffs' motion to set aside the approximately 470 individual settlements which Hawkins previously entered into with potential claimants. A trial on the issue of liability has been set for October 20, 1997.

Earlier, by order dated February 8, 1997, the Court granted the plaintiffs' motion to plead a claim for punitive damages on the ground the Company did not have a sprinkler system installed at the time of the fire. This decision means that the plaintiffs may ask the jury to award punitive damages if the plaintiffs can prove by clear and convincing evidence that the Company acted in deliberate disregard of the rights and safety of others. The Company, with its consultant, was in the process of designing a sprinkler system and hiring a contractor to install the system at the time of the fire, in accordance with a schedule approved by the Minneapolis Fire Department. Accordingly, while the court has allowed the plaintiffs to plead a claim for punitive damages, the Company believes there is no factual basis to support such an award. The Company anticipates asking the court, at the appropriate time, to dismiss the punitive damage claim as a matter of law.

7. In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings per Share." This statement specifies the computation, presentation, and disclosure requirements for earnings per share. This Statement is effective for financial statements issued for periods ending after December 15, 1997, including interim periods. The Company does not believe the adoption of SFAS No. 128 will have a material impact on the financial statements.

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

RESULTS OF OPERATIONS

CONTINUING OPERATIONS

Net sales increased \$1,591,966, or 7.1%, in the third quarter of this fiscal year and \$6,339,471, or 10.9%, in the first nine months of fiscal 1997 as compared to the same periods a year ago. Net sales excluding The Lynde Company, as this subsidiary was sold (see Note 5 and discussion below), increased \$3,086,668, or 14.9%, in the third quarter of this fiscal year and \$8,025,495, or 14.4%, in the first nine months of fiscal 1997 as compared to the same periods a year ago. The revenue increases were primarily due to volume increases throughout all of the Company's operating divisions and subsidiaries.

Gross margin, as a percentage of net sales, for the third quarter of this fiscal year was 24.7% compared to 24.5% for the same quarter one year ago, and 22.5% for the first nine months of both fiscal 1997 and 1996. The third quarter increase was mainly due to maintaining the same dollar profit margin of a single, large-volume product where the cost and selling price had decreased from one year ago. The demand for this product does not fluctuate materially as the cost and selling price increase or decrease. By maintaining stable dollar margins, the gross margin percentage will generally increase when the cost of the product is decreasing. The Company has generally been able to and expects to continue to adjust its selling prices as the cost of materials and other expenses change, thereby maintaining relatively stable dollar gross margins.

Selling, general and administrative expenses increased \$342,371, or 14.3%, in the third quarter and \$646,823, or 10.0%, in the first nine months of fiscal 1997 as compared to the same periods in fiscal 1996. Selling, general and administrative expenses, as a percentage of net sales, for the third quarter of fiscal 1997 were 11.5% compared to 10.8% for the same quarter one year ago, and 11.0% for the first nine months of fiscal 1997 as compared to 11.1% for the first nine months of fiscal 1996. These increases were mainly due to increased employee compensation and benefits, which make up the majority of the selling, general and administrative expenditures. Of the remaining expenses in this category, no single item is more than 7% of the total. Most of these expenses fluctuate only slightly with sales.

Income from operations increased \$99,470, or 3.3%, in the third quarter and \$769,394, or 11.6%, in the first nine months of fiscal 1997 as compared to the same periods one year ago. These increases are primarily attributable to the

net sales increase.

OTHER INCOME

Interest income increased \$103,228 in the third quarter of fiscal 1997 as compared to the same quarter one year ago and increased \$135,345 for the first nine months of this fiscal year as compared to the same period one year ago. These increases are due to an increase in the amount of cash available for investments and to a higher rate of return earned on cash equivalents and investments. Interest expense decreased slightly due mainly to the decline in long term debt.

On May 29, 1997, the Company reached an agreement, effective March 1, 1997, to sell the inventory and operations of The Lynde Company. The sale resulted in a gain of \$1,324,827. Sales for Lynde were \$725,500 and \$2,411,500 for the nine-month periods ending June 30, 1997 and 1996, respectively. Lynde had a net loss of \$19,600 for the nine-month period ending June 30, 1997 and net income of \$154,200 for the nine-month period ended June 30, 1996.

LIQUIDITY AND CAPITAL RESOURCES

For the nine-month period ended June 30, 1997, cash flows from operations were \$3,215,744. This amount is \$739,720 lower than cash provided by operations during the same period one year ago, due to changes in certain current assets and liability accounts discussed below. During the nine-month period ended June 30, 1997, the Company invested an additional \$368,068 in short-term investments and added \$2,660,706 in property and equipment additions.

Accounts receivable increased due to increased sales in the quarter. Inventories and accounts payable decreased due to the sale of the business of the Lynde subsidiary discussed previously and to the decrease in the cost of a single, large-volume product. Other current assets increased due to payments of prepaid expenses that will be charged to the remaining quarter of this fiscal year. Other current liabilities decreased as a result of the payment of benefit plan accruals that existed at fiscal year end. The Company did not issue any securities during the nine-month period ended June 30, 1997.

The cash flows from operations, coupled with the Company's strong cash 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 issue either debt or equity securities 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 consist of short-term certificates of deposit and investments consist of relatively low-risk investment and annuity contracts with highly rated, stable insurance companies, and marketable securities consisting of investment grade municipal securities, all of which are carried at cost which approximates fair value. All cash equivalents are highly liquid and are available upon demand. There are some penalties associated with the early liquidation of the Company's investment and annuity contracts.

Other than as discussed above, management is not aware of any matters that have materially affected the first nine months of fiscal 1997, but are not 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.

FORWARD-LOOKING STATEMENTS

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.

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, THE OUTCOME OF PENDING LITIGATION 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 AND RESULTS OF OPERATION.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The following information was reported in the Registrant's Form 10-Q for the quarter ended March 31, 1997, previously filed with the Commission.

LYNDE COMPANY WAREHOUSE FIRE. On March 1, 1995, the Company and its subsidiary The Lynde Company were named as defendants in an action entitled DONNA M. COOKSEY, ET AL. V. HAWKINS CHEMICAL, INC. AND THE LYNDE COMPANY. This proceeding is pending in state district court in Hennepin County, Minnesota. On March 28, 1997, the court issued its decision on the plaintiffs' motion for class certification. The court denied class certification as to all issues except the issue of whether the Company is liable for the fire. Issues as to whether a particular person was exposed to anything hazardous, whether the alleged exposure caused any injuries, and whether any damages resulted were not certified by the court and must be the subject of a separate suit or claim by each person seeking damages. The court also rejected the plaintiffs' motion to set aside the approximately 470 individual settlements which Hawkins previously entered into with potential claimants. A trial on the issue of liability has been set for October 20, 1997.

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There have been no material changes in the status of the legal proceedings described above since the filing of the Company's quarterly report on Form 10-Q for the quarter ended March 31, 1997.

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

(a) Exhibits.

The following exhibits are included with this Quarterly Report on Form 10-Q (or incorporated by reference) as required by Item 601 of Regulation S-K.

Exhibit No.	Description of Exhibit
-----	-----

3.1	Amended and Second Restated Articles of Incorporation as amended through February 28, 1989 (Incorporated by reference to Exhibit 3D to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1989).
3.2	Second Amended and Superseding By-Laws as amended through February 15, 1995 (incorporated by reference to Exhibit 3.2 to the Registrant's Annual Report on Form 10-K for the year ended October 1, 1995).
4	See Exhibits 3.1 and 3.2 above.
27	Financial Data Schedule

(b) Reports on Form 8-K.

No reports on Form 8-K have been filed during the fiscal quarter ended June 30, 1997.

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 CHEMICAL, INC.

BY /s/ Howard M. Hawkins

 Howard M. Hawkins, Treasurer,
 Chief Financial and Accounting Officer

Dated: August 12, 1997

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EXHIBIT INDEX

The following exhibits are included with this Quarterly Report on Form 10-Q (or incorporated by reference) as required by Item 601 of Regulation S-K.

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4	See Exhibits 3.1 and 3.2 above.	
27	Financial Data Schedule	13

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