

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

(Mark One)

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

For the quarterly period ended December 31, 1996  
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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  
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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 February 13, 1997
-----	-----
Common Stock, par value \$.05 per share	11,051,690

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

	December 31, 1996 ----- (Unaudited)	September 29, 1996 ----- (Derived from Audited financial statements)
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$ 7,269,494	\$ 8,932,125
Investments (fair value approximates cost) .....	10,624,077	10,504,603
Accounts receivable-net.....	9,762,299	9,740,285
Notes receivable.....	150,040	170,988
Inventories.....	8,356,680	8,584,034
Other current assets.....	1,156,080	924,457
	-----	-----
Total current assets.....	37,318,670	38,856,492
Property, plant and equipment-net.....	13,350,852	13,187,678
Notes receivable-non current.....	1,797,706	1,797,707

Other assets.....	2,649,101	2,645,479
Total	\$55,116,329	\$ 56,487,356

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Accounts payable.....	\$ 4,883,806	\$ 6,709,434
Current portion of long-term debt.....	59,928	56,008
Other current liabilities.....	4,761,136	5,707,529
Total current liabilities.....	9,704,870	12,472,971
Long term debt.....	512,525	572,453
Deferred income taxes.....	428,300	426,800
Shareholders' equity:		
Common stock, par value \$.05 per share; issued and outstanding, 11,051,690 shares and 11,051,690 shares respectively.....	552,585	552,585
Additional paid-in capital.....	38,679,630	38,679,630
Retained earnings.....	5,238,419	3,782,917
Total shareholders' equity.....	44,470,634	43,015,132
Total	\$55,116,329	\$56,487,356

See accompanying notes

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

	(Unaudited)	
	Three Months Ended	
	December 31	
	1996	1995
Net sales	\$19,936,058	\$17,422,984
Costs and expenses:		
Cost of sales	15,771,082	13,659,310
Selling, general and administrative	2,112,200	1,961,912
Total costs and expenses	17,883,282	15,621,222
Income from operations	2,052,776	1,801,762
Other income (deductions):		
Interest income	262,181	258,500
Interest expense	(11,843)	(12,823)
Miscellaneous	82,888	29,073
Total other income (deductions)	333,226	274,750
Income before income taxes	2,386,002	2,076,512
Provision for income taxes	930,500	834,800
Net income	\$ 1,455,502	\$ 1,241,712

Weighted average number of shares outstanding	11,051,690	11,051,690
Earnings per common share	\$0.13	\$0.11

See accompanying notes

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

	(Unaudited) THREE MONTHS ENDED DECEMBER 31	
	1996	1995
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income.....	\$ 1,455,502	\$ 1,241,712
Depreciation and amortization.....	384,600	340,800
Deferred income taxes.....	16,500	
Other.....	(19,821)	(19,659)
Changes in certain current assets and liabilities...	(1,929,169)	(1,096,417)
Net cash used in operating activities	(92,388)	466,436
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property, plant and equipment.....	(531,574)	(1,355,266)
Purchases of investments.....	(119,474)	(97,557)
Net cash used in investing activities	(651,048)	(1,452,823)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash dividends paid.....	(884,135)	(736,804)
Debt repayment.....	(56,008)	(52,344)
Payments received on notes receivable.....	20,948	20,000
Net cash used in financing activities	(919,195)	(769,148)
DECREASE IN CASH AND CASH EQUIVALENTS	(1,662,631)	(1,755,535)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	8,932,125	9,906,107
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 7,269,494	\$ 8,150,572
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest.....	\$ 46,895	\$ 50,559
Cash paid for income taxes.....	\$ 195,500	\$ 187,333

See accompanying notes

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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. 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 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 December 31, 1996 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 \$1,401,127 at December 31, 1996. 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 7, 1996 to shareholders of record at the close of business on March 29, 1996.

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

RESULTS OF OPERATIONS

Net sales increased \$2,513,074, or 14.4%, in the first quarter of this fiscal year as compared to the same quarter a year ago. This increase is primarily due to volume increases in all of the Company's divisions and subsidiaries.

The gross margin, as a percentage of net sales, for the first quarter of fiscal 1997 was 20.9% compared to 21.6% for the same quarter one year ago. This decrease is due to a slight decrease in the profit margin of a single, large-volume product and to increased costs of operations. 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 gross margins.

Selling, general and administrative expenses, as a percentage of net sales, for the first quarter of fiscal 1997 were 10.6% compared to 11.3% for the same quarter one year ago. Most of the expenses in this category are fixed, with the

remaining expenses fluctuating only slightly with net sales.

Income from operations increased \$251,014, or 13.9%, in the first quarter of fiscal 1997, compared to fiscal 1996. This increase is primarily attributable to the increase in net sales, partially offset by a decrease in the gross margin.

Interest income increased \$3,681, or 1.4%, compared to the same period one year ago. This increase is due to an increase in the amount of cash available for investments. Interest expense decreased slightly due to the decline in long-term debt.

#### LIQUIDITY AND CAPITAL RESOURCES

For the first quarter ended December 31, 1996, cash flows used in operations were \$92,388 compared to cash provided by operations of \$466,436 for the same period one year ago. This is due mainly to decreases in certain current assets and liability accounts discussed below. During the three months ended December 31, 1996, the Company invested \$531,544 in property and equipment additions and added \$119,474 to investments. The reason for the decrease in capital expenditures this year as compared to the same quarter one year ago was due to completing the construction of additional warehouse space at the Minneapolis location and additional storage capacity at the St. Paul River Terminal.

Accounts payable and inventories decreased \$1,825,628 and \$227,354, respectively during the first three months of fiscal 1997. A decrease in these accounts is typical for the first quarter of our fiscal year. Other current assets increased due to payments of prepaid expenses that will be charged to the remaining quarters of this fiscal year. The Company did not issue any securities during the quarter ended December 31, 1996.

The 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 the Company in a position to issue both debt and equity securities on favorable terms.

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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 low-risk investment contracts with highly rated, stable insurance companies, and marketable securities consisting of investment grade municipal securities, all of which are carried at fair value which approximates cost. All cash equivalents and investments are highly liquid and are available upon demand with a minor penalty.

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

#### 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 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.

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PART II. OTHER INFORMATION

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 December 31, 1996.

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: February 13, 1997

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EXHIBIT INDEX

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27	Financial Data Schedule	



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