HAWKINS INC
Form DEF 14A
June 22, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 (Amendment No.___)

Filed by the registrant þ
Filed by a party other than the registrant o
Check the appropriate box:

o Preliminary proxy statement.

o Confidential, for use of the Commission only (as permitted by Rule 14A-6(e)(2)).

þ Definitive proxy statement.

o Definitive additional materials.

o Soliciting material pursuant to section 240.14a-11(c) or Section 240.14a-12.

HAWKINS, INC.
(Name of Registrant as Specified in its Charter)
(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of filing fee (check the appropriate box):

þ No fee required.

o Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.
(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.
(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

HAWKINS, INC.
3100 East Hennepin Avenue
Minneapolis, Minnesota 55413

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
To Be Held August 2, 2011

To our Shareholders:

The Annual Meeting of Shareholders of Hawkins, Inc. will be held at the Midland Hills Country Club, 2001 Fulham Street, Roseville, Minnesota on Tuesday, August 2, 2011, at 3:00 p.m., Central Time, for the following purposes:

1. To elect seven directors;

2. To approve the Hawkins, Inc. Employee Stock Purchase Plan;

3. To advise in a non-binding vote to approve the compensation of our executive officers as disclosed in the attached proxy statement, or a say-on-pay vote;

4. To advise in a non-binding vote to recommend the frequency of future say-on-pay votes, or a say-when-on-pay vote; and

5. To transact such other business as may properly come before the meeting or any adjournment thereof.

The Board of Directors has fixed the close of business on June 6, 2011 as the record date for determining the shareholders entitled to vote at the Annual Meeting. Accordingly, only shareholders of record at the close of business on that date will be entitled to vote. Our transfer books will not be closed.

BY ORDER OF THE BOARD OF DIRECTORS

RICHARD G. ERSTAD, *Secretary*

Dated: June 22, 2011

IMPORTANT: To assure the necessary representation at the Annual Meeting, you are urged to SIGN AND RETURN THE ENCLOSED PROXY PROMPTLY TO SAVE THE COMPANY THE EXPENSE OF ADDITIONAL SOLICITATION. You may revoke your proxy at any time prior to its exercise, and returning your proxy will not affect your right to vote in person if you attend the Annual Meeting and revoke the proxy.

PROXY STATEMENT

HAWKINS, INC.
3100 East Hennepin Avenue
Minneapolis, Minnesota 55413
June 22, 2011

The following proxy statement is furnished in connection with the solicitation of proxies by our Board of Directors to be voted at the Annual Meeting of Shareholders (the Annual Meeting) to be held on Tuesday, August 2, 2011 at the Midland Hills Country Club, 2001 Fulham Street, Roseville, Minnesota, at 3:00 p.m., Central Time, and at any adjournments of such meeting. Distribution of this Proxy Statement and proxy to shareholders began on or about June 22, 2011.

SOLICITATION

The cost of soliciting proxies and of the notices of the meeting, including the preparation, assembly and mailing of proxies and this Proxy Statement, will be borne by us. In addition to the use of the mail, proxies may be solicited personally or by telephone, mail or electronic mail by our directors, officers and regular employees. Furthermore, arrangements may be made with brokers, banks and similar organizations to send proxies and proxy materials to beneficial owners for voting instructions. We will reimburse such organizations for their expenses.

REVOCATION AND VOTING OF PROXY

Any proxy given pursuant to this solicitation and received in time for the Annual Meeting will be voted in accordance with the instructions in such proxy, unless the proxy is properly revoked prior to the meeting. Any shareholder giving a proxy may revoke it prior to its exercise at the meeting by (1) delivering a written notice expressly revoking the proxy to our Secretary at our offices, (2) signing and forwarding to us at our offices a later dated proxy, or (3) attending the Annual Meeting and casting his or her votes personally.

If you indicate on your proxy that you wish to abstain from voting, and you hold your shares in street name or your broker records abstentions, your shares will be considered present and entitled to vote at the Annual Meeting. Such shares will also count toward determining whether or not a quorum is present for the Annual Meeting. However, abstentions will not be taken into account in determining the approval of any of the proposals and will have the effect of casting a negative vote. If a shareholder (including a broker) does not give authority to a proxy to vote, or withholds authority to vote on a certain proposal, then the shareholder s shares will not be considered present or entitled to vote on that proposal.

If you hold your shares in street name and do not provide voting instructions to your broker, your broker has authority under New York Stock Exchange rules to vote those shares for or against routine proposals, such as an amendment and restatement of our articles of incorporation. Brokers cannot vote on their customers behalf on non-routine proposals such as the approval of an equity compensation plan or the election of directors. These rules apply to us even though the shares of our common stock are traded on the NASDAQ Global Market. If a broker votes shares for which its customers have not provided voting instructions for or against a routine proposal, then those shares are counted for the purpose of establishing a quorum at the Annual Meeting and also will be counted for the purpose of determining the outcome of routine proposals. If a broker does not receive voting instructions as to a non-routine proposal, or chooses to leave shares unvoted on a routine proposal, a broker non-vote will occur and those shares will be counted for the purpose of establishing a quorum at the Annual Meeting, but not for determining the outcome of those proposals. Shares that are subject to broker non-votes are considered not entitled to vote on the particular proposal, and effectively reduce the number of shares needed to approve that proposal.

As of the date of this proxy statement, we know of no matters that will be presented for determination at the meeting other than those referred to in this proxy statement. If any other matters properly come before the meeting calling for a vote of shareholders, proxies in the enclosed form returned to us will be voted in accordance with the recommendation of the Board of Directors or, in the absence of such a recommendation, in accordance with the judgment of the proxy holders.

OUTSTANDING SHARES AND VOTING RIGHTS

At the close of business on June 6, 2011, the record date, there were 10,311,235 shares of our common stock, par value $0.05 per share, outstanding. The common stock is our only outstanding class of capital stock. Holders of common stock are entitled to one vote for each share held on the record date with respect to all matters that may be brought before the meeting. There is no cumulative voting for directors.

PROPOSAL ONE   ELECTION OF DIRECTORS

At the Annual Meeting, seven persons are to be elected to our Board of Directors, each to hold office for the ensuing year and until his successor is duly elected and qualified. Our By-laws provide for a Board of Directors of not fewer than three nor more than eleven directors. Our Board of Directors currently consists of seven directors, as established by resolution of our Board of Directors. Our By-laws provide that the nominees must be elected by the affirmative vote of the holders of a majority of the voting power of the shares represented at the meeting (whether in person or by proxy). Abstentions and withhold votes have the effect of a vote against the nominees. Executed and delivered proxies will be voted for the election of all nominees unless you direct otherwise. Should any nominee decline or be unable to accept such nomination or to serve as a director (an event which our management does not now expect to occur), proxies will be voted for a substitute nominee or nominees in accordance with the best judgment of the person or persons acting under them.

Our Board of Directors has nominated James A. Faulconbridge, Patrick H. Hawkins, Duane M. Jergenson, John S. McKeon, Daryl I. Skaar, James T. Thompson and Jeffrey L. Wright for election to the Board of Directors.

OUR BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE FOR THE ELECTION OF ALL NOMINEES FOR DIRECTOR.

Information About Our Directors

Our directors have served as our directors continuously since the year indicated below. The following information, as of May 31, 2011, including the principal occupation or employment of each director nominee, has been furnished to us by the respective director nominees. All positions are with our Company unless otherwise noted.

Director	Principal Occupation or Employment	Age	Director Since
John S. McKeon	Chairman of the Board since 2005; Retired; President and Chief Operating Officer of ConAgra Foods, Inc. Venture Development Group from 2003 to 2005; President and Chief Operating Officer of ConAgra Foods Snack Group (formerly Golden Valley Microwave Foods, Inc.) from 1993 to 2003; President of McKeon Associates, Inc. (corporate finance consulting) from 1991 to 1993; Vice President of Northstar Industries, Inc. from 1976 to 1990.	66	1984
Patrick H. Hawkins	Chief Executive Officer since 2011; President since 2010; Business Director Food and Pharmaceuticals from 2009-2010;	40	2011

	Business Manager Food and Co-Extrusion Products from 2007-2009; Sales Representative Food Ingredients from 2002-2009; various positions with the Company from 1992 to 2002.		
James A. Faulconbridge	President of Karges-Faulconbridge, Inc. (engineering and technical services) since 1996.	43	2006

Director	Principal Occupation or Employment	Age	Director Since
Duane M. Jergenson	Retired; Vice President of Operations of Taylor Corporation from 1985 to 1999; various positions with Taylor Corporation from 1966 to 1985.	64	1996
Daryl I. Skaar	Retired; Vice President and Chief Procurement Officer of Lucent Technologies from 1997 to 2000; various positions at 3M from 1965 to 1997, most recently as Vice President of Purchasing and Packaging Engineering.	69	2001
James T. Thompson	Retired; Executive Vice President Commercial of The Mosaic Company from 2004 to 2007; board member, Sims Metal Management since 2009; various positions at Cargill, Inc. from 1974 to 2004, most recently as President of Cargill Steel from 1996 to 2004.	60	2009
Jeffrey L. Wright	G&K Services, Inc. Chief Financial Officer since 1999, Executive Vice President and Director since May 2009, Senior Vice President from 2004 to 2009, Treasurer and Secretary from 1999 to 2003; BMC Industries, Inc. Treasurer from 1998 to 1999, Controller from 1996 to 1998; various positions at Employee Benefit Plans, Inc. from 1993 to 1996, most recently as Vice President and Treasurer; employed by Arthur Andersen & Co. from 1984 to 1993.	48	2009

There are no family relationships among any of our directors, executive officers, or director nominees.

Each director nominee brings unique capabilities to our Board of Directors. The Board believes the nominees as a group have the experience and skills in areas such as general business management, corporate governance, manufacturing, finance, strategic planning and risk management that are necessary to effectively oversee our Company. In addition, the Board believes that each of our directors possesses high standards of ethics, integrity and professionalism, sound judgment and a commitment to representing the long-term interests of our shareholders. The following is information as to why each nominee should serve as a director of our Company:

Mr. McKeon has been our Chairman of the Board since 2005 and has extensive experience in management, manufacturing and corporate finance, having served as President and Chief Operating Officer of ConAgra Foods, Inc. Venture Development Group. His knowledge of our Company and its business is also valuable in formulating and executing our business plans and growth strategies.

Mr. Hawkins was appointed as our Chief Executive Officer in 2011. Mr. Hawkins has been with the Company for more than 18 years, giving him an intimate knowledge of our Company and its business and a deep passion for our Company s continued success.

Mr. Faulconbridge is a principal of Karges-Faulconbridge, Inc., an engineering and technical services firm that services a broad variety of industries, including the ethanol industry. His background provides the Company with technical expertise and insight into ethanol and other industries we serve.

Mr. Jergenson has been on our Board for 14 years. His operations management experience with Taylor Corporation, one of the largest privately held companies in the United States, provides valuable perspective and insight as our Company seeks and implements growth opportunities.

Mr. Skaar has extensive experience in purchasing and procurement for large public companies, having served as Vice President and Chief Procurement Officer at Lucent Technologies and Vice President of Purchasing and Packing Engineering at 3M. This experience is valuable given the large number of products we must buy to operate our business.

Mr. Thompson has experience with major manufacturing and commodity companies having served 30 years at Cargill, Inc., including eight years as President of Cargill Steel, and three years as Executive Vice President Commercial for The Mosaic Company, the world s leading producer and marketer of concentrated phosphate and potash. This knowledge and experience is valuable to us in our commodity chemicals business.

Mr. Wright has extensive public company finance and audit experience, serving as Chief Financial Officer of G&K Services, Inc. and having been employed by Arthur Andersen & Co. He also has public company board experience, serving as a director of G&K Services, Inc. His background provides us with valuable financial and accounting experience as well as public company board experience.

Director Independence

Our Board of Directors has determined that, of the director nominees, each of Messrs. Faulconbridge, Jergenson, McKeon, Skaar, Thompson and Wright are Independent Directors as that term is defined under the applicable listing standards of the NASDAQ Stock Market. Accordingly, a majority of our directors are independent. In connection with its determination of independence, our Board of Directors determined that Mr. Wright s director and officer positions with G&K Services, Inc., which is a customer of and supplier of services to the Company, did not constitute a relationship that would interfere with Mr. Wright s exercise of independent judgment in carrying out the responsibilities of a director of our Company. All of our transactions with G&K Services, Inc. during the most recent completed fiscal year were conducted on arms-length terms in the ordinary course of business, and the amount of the transactions represents less than one percent of the annual revenues of both G&K Services, Inc. and our Company.

CORPORATE GOVERNANCE

Meetings of the Board of Directors

Our Board of Directors held ten meetings during the fiscal year ended April 3, 2011, hereinafter referred to as fiscal 2011. All directors attended at least 75% of the meetings of our Board of Directors and the committees on which they served. All directors attended our Annual Meeting of Shareholders in 2010. Our Board of Directors encourages, but does not require, director attendance at annual meetings of shareholders.

Leadership Structure of the Board of Directors

Our Board of Directors does not have a policy regarding the separation of the roles of Chief Executive Officer and Chairman of the Board as the Board of Directors believes it is in the best interests of the Company to make that determination based on the position and direction of the Company and the membership of the Board. The positions of Chief Executive Officer and Chairman of the Board are not currently held by the same person. This structure allows us to more fully utilize the skills of Mr. McKeon and ensures a greater active participation of the directors in setting agendas and establishing Board priorities and procedures. Further, this structure permits our Chief Executive Officer to focus on the management of the Company s day-to-day operations.

Audit Committee

The Audit Committee, which consists of Jeffrey L. Wright (Chair), James A. Faulconbridge, and Daryl I. Skaar, is responsible for, among other things, selecting and appointing our independent auditors, meeting with the independent auditors and financial management to review the scope of the audit and the audit procedures, reviewing annually the responsibilities of the Audit Committee and recommending to our Board of Directors any changes to these responsibilities, and establishing and reviewing internal controls. The Audit Committee held four meetings during fiscal 2011.

Our Board of Directors has determined that all members of the Audit Committee are independent as that term is used in Section 10A(m) of the Securities Exchange Act of 1934 and Independent Directors as that term is defined under the applicable listing standards of the NASDAQ Stock Market. Our Board of Directors has determined that Messrs. Wright, Faulconbridge, and Skaar are audit committee financial experts, as the term is defined by regulations promulgated by the Securities and Exchange Commission (SEC).

The responsibilities of the Audit Committee are set forth in the Audit Committee Charter. A current copy of the charter is available on our website (www.hawkinsinc.com).

Compensation Committee

The Compensation Committee, which consists of James T. Thompson (Chair), Duane M. Jergenson, Daryl I. Skaar, and Jeffrey L. Wright, is responsible for establishing compensation policies for our Company and for reviewing and setting compensation for our executive officers. The Compensation Committee held five meetings during fiscal 2011.

Our Board of Directors has determined that all members of the Compensation Committee are Independent Directors as that term is defined under the applicable listing standards of the NASDAQ Stock Market, non-employee directors as that term is defined in Rule 16b-3 promulgated under the Securities Exchange Act of 1934, and outside directors as that term is used in Section 162(m) of the Internal Revenue Code of 1986, as amended.

The Compensation Committee retained independent compensation consultant McLagan, formerly Amalfi Consulting, to provide the Compensation Committee with independent advice regarding industry practices and peer company compensation programs for fiscal 2011. No member of the Board of Directors or any executive officer has any affiliation with McLagan. McLagan provides no other services to the Company, and has reported directly to the chair of the Compensation Committee. McLagan advised the Compensation Committee on the principal aspects of our executive compensation components and best practices in executive compensation and provides market information and analysis regarding the competitiveness of levels and components of total compensation for the Company s named executive officers for fiscal 2011. In determining the competitiveness of such compensation, the Compensation Committee reviewed survey data prepared by McLagan. The Company does not benchmark its compensation. The Compensation Committee reviews and considers the information provided by McLagan to understand current compensation practices, levels and structures and to inform its compensation decisions, but not to establish specific compensation parameters based on such data.

The Compensation Committee also regularly consults with our Chief Executive Officer, who makes recommendations to the Compensation Committee regarding compensation of our executive officers other than the Chief Executive Officer. Additional information on the role of the compensation consultants and management in the Compensation Committee s processes and procedures can be found in the Compensation Discussion and Analysis section below.

The responsibilities of the Compensation Committee are set forth in the Compensation Committee Charter. A current copy of the charter is available on our website (www.hawkinsinc.com).

Governance and Nominating Committee

The Governance and Nominating Committee, which consists of James A. Faulconbridge (Chair), John S. McKeon, James T. Thompson and Jeffrey L. Wright, is responsible for identifying individuals qualified to become directors and recommending nominees to our Board of Directors for election at annual meetings of shareholders and to fill vacancies, monitoring developments in director compensation and, as appropriate, developing and recommending to our Board corporate governance principles applicable to us and overseeing public policy matters and compliance with our Code of Conduct. The Governance and Nominating Committee held four meetings during fiscal 2011. The responsibilities of the Governance and Nominating Committee are set forth in the Governance and Nominating Committee Charter. A current copy of the charter is available on our website (www.hawkinsinc.com). The Governance and Nominating Committee evaluated potential candidates for director nomination on the basis indicated below and recommended to the Board of Directors that the director nominees included in this Proxy Statement be submitted to the shareholders for election at the upcoming Annual Meeting of Shareholders.

Nominating Process

In order to maintain flexibility in its consideration of candidates, our Board of Directors does not have a formal policy regarding the consideration of any director candidates recommended by shareholders. However, the Governance and Nominating Committee would consider for possible nomination qualified nominees recommended by shareholders in compliance with our By-laws. To make a director nomination, a shareholder should send the director candidate s name, credentials and contact information, a signed statement consenting to his or her nomination and agreeing, if elected, to serve as a director, a completed director nominee questionnaire (available from our Secretary upon request) and the other information required by our By-laws, to our Secretary no later than 90 days prior to the first anniversary of the preceding year s annual meeting. The proposing shareholder should also include his or her contact information and evidence that the person submitting the nomination is a shareholder of the Company. The Governance and Nominating Committee will evaluate candidates (nominated by shareholders or otherwise) based on financial literacy, knowledge of our industry or other background relevant to our needs, status as a stakeholder in our Company, independence for purposes of compliance with Internal Revenue Service and SEC rules and NASDAQ Stock Market listing standards, and willingness, ability and availability for service. The Company does not have a formal policy with regard to the consideration of diversity in identifying director nominees, but the Governance and Nominating Committee strives to nominate directors with a variety of complementary skills so that, as a group, the Board will possess the appropriate talent, skills, and expertise to oversee the Company s businesses.

Risk Oversight

The Company s management is responsible for identifying the various risks facing the Company, formulating risk management policies and procedures, and managing the Company s risk exposures on a day-to-day basis. The Board of Directors is responsible for monitoring the Company s risk management processes by informing itself concerning the Company s material risks and evaluating whether management has reasonable controls in place to address the material risks. The Board is not responsible, however, for identifying or managing the Company s various risks. The Audit Committee of the Board of Directors is primarily responsible for monitoring management s responsibility in the area of risk oversight, and risk management is a factor the Board and the Governance and Nominating Committee consider when determining which directors serve on the Audit Committee. Accordingly, management has reported to the Audit Committee on various risk management matters during fiscal 2011. The Audit Committee, in turn, reports on the matters discussed at the committee level to the full Board of Directors. The Audit Committee and the Board of Directors focus on the material risks facing the Company, including operational, market, liquidity, legal and regulatory risks, to assess whether management has reasonable controls in place to address these risks. The Board believes this allocation of responsibility provides an effective and efficient approach for addressing risk management.

Communications with Directors

Shareholders can contact the full Board of Directors, the independent directors as a group or any of the individual directors by writing to our Secretary at 3100 East Hennepin Avenue, Minneapolis, Minnesota 55413. All communications will be compiled by the Secretary and submitted to the addressees on a periodic basis.

REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

The Audit Committee has (i) reviewed and discussed our audited financial statements for fiscal 2011 with both our management and KPMG LLP (KPMG); (ii) discussed with KPMG the matters required to be discussed by Statement of Auditing Standards No. 61, as amended, regarding communications with audit committees; (iii) received from KPMG the written disclosures and the letter required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant s communications with the Audit Committee concerning independence and discussed with KPMG its

independence; and (iv) considered whether the non-audit services provided by KPMG are compatible with maintaining the independence of KPMG.

Based on the review and discussions described above, the Audit Committee recommended to our Board of Directors that our audited financial statements be included in our Annual Report on Form 10-K for fiscal 2011 for filing with the SEC.

Jeffrey L. Wright (Chair)   James A. Faulconbridge   Daryl I. Skaar

Audit Committee of the Board of Directors

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM S FEES

Our Audit Committee dismissed Deloitte & Touche LLP as the Company s independent registered public accounting firm effective June 9, 2009. Neither of Deloitte s reports on the financial statements of the Company for fiscal years ended March 30, 2008 or March 29, 2009, hereinafter referred to as fiscal 2008 and fiscal 2009, respectively, contained an adverse opinion or disclaimer of opinion, or was qualified or modified as to uncertainty, audit scope, or accounting principles. During fiscal years 2008 and 2009 and through June 9, 2009, there were no disagreements with Deloitte on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure which, if not resolved to Deloitte s satisfaction, would have caused Deloitte to make reference to the subject matter in connection with its reports on the Company s financial statements for such periods. During the same periods, there were no reportable events of the type set forth in Item 304(a)(1)(v) of Regulation S-K.

The Company provided Deloitte with a copy of this disclosure and requested that Deloitte furnish the Company with a letter addressed to the Securities and Exchange Commission stating whether it agrees with the above statements. The letter from Deloitte was filed under cover of Amendment No. 1 to a Current Report on Form 8-K/A on June 17, 2009.

On June 9, 2009, our Audit Committee approved the engagement of KPMG LLP as the Company s independent registered public accounting firm for fiscal 2010. During fiscal years 2008 and 2009 and through June 9, 2009, the Company had not consulted with KPMG with respect to any of the matters or reportable events set forth in Item 304(a)(2)(i) or (ii) of Regulation S-K.

The following table shows the aggregate fees billed to us by our independent registered public accounting firm, KPMG LLP, for services rendered during fiscal 2011 and fiscal 2010. The Audit Committee pre-approved 100% of the services described below.

Description of Fees	**Fiscal 2011 Amount**	**Fiscal 2010 Amount**
Audit Fees	$ 267,300	$ 212,000
Tax Fees(b)	100,880	44,350
Total	$ 368,180	$ 256,350

(a) Includes tax preparation and consulting fees.

The Audit Committee s current practice on pre-approval of services performed by our independent registered public accounting firm is to approve annually all audit services, as well as the nature and extent of specific types of audit-related, tax and other non-audit services to be provided by the independent registered public accounting firm during the year. The Audit Committee reviews each non-audit service to be provided and assesses the impact of the service on the auditors independence. As the need arises, other specific permitted services are pre-approved on a case-by-case basis during the year. The Audit Committee has delegated to its chair pre-approval authority between meetings of the Audit Committee. Any pre-approvals made by the chair must be reported to the Audit Committee.

COMPENSATION OF EXECUTIVE OFFICERS AND DIRECTORS

Compensation Discussion and Analysis

Our executive compensation program is designed to attract and retain executives who will lead our Company to achieve long-term success and growth in shareholder value. Consistent with that goal, our executive compensation is based on Company, business unit and individual performance to align the interests of our executive officers with those of our shareholders and is used to encourage our executive officers to stay with the Company. Our executive compensation program currently includes a mix of elements that rewards current results as well as motivates long-term performance through an appropriate balance of base pay and performance-based variable compensation. Our performance-based variable compensation consists of a short-term component that provides significant incentives relative to both superior current business results as well as personal performance, and a long-term incentive plan that motivates long-term performance and aligns business objectives with the interests of our shareholders.

Our profitability in fiscal 2011 declined slightly from fiscal 2010 levels. Gross profit was $61.9 million, or 20.8% of sales, for fiscal 2011, as compared to $64.4 million, or 25.1% of sales, for fiscal 2010. The LIFO method of valuing inventory decreased gross profit by $3.9 million for fiscal 2011 due to increased raw material costs and higher inventory volumes at year-end maintained to meet customer requirements during an anticipated flood. In the prior year, LIFO increased gross profit by $12.6 million due to decreases in certain raw material costs during that period. As a result, our executive officers received below-target payouts under the corporate and business unit performance measures under our annual non-equity incentive compensation arrangement and earned below the targeted number of restricted shares under the performance-based restricted stock units granted for fiscal 2011 as described below.

During the same period, our executives negotiated and completed the acquisition of substantially all the assets of Vertex Chemical Company, which provides us with significant expansion opportunities, and also managed a transition between Chief Executive Officers. These were among the factors considered by the Compensation Committee in providing at target or above target awards under the individual performance measures under our annual non-equity incentive compensation arrangements.

Our Chief Executive Officer John R. Hawkins passed away on March 9, 2011. On March 11, 2011, our Board of Directors appointed Patrick H. Hawkins, then President of our Company, to serve as Chief Executive Officer in accordance with our existing succession plan. The Board did not make any changes to Patrick H. Hawkins compensatory arrangements in connection with his promotion and they remained unchanged through the remainder of fiscal 2011. References in this Compensation Discussion and Analysis to Chief Executive Officer means John R. Hawkins, unless otherwise noted.

Determining Executive Compensation for Fiscal 2011

Our executive compensation program for the last fiscal year consisted of the following elements:

- base salary,
- annual non-equity incentive compensation,
- annual equity awards,
- contributions to long-term benefit plans, and

other benefits.

The Compensation Committee does not benchmark the total compensation or any element of compensation to our executives. It also does not apply a mechanical formula or target a specific amount relative to comparative data for any individual nor does it target a specific amount or relative weight for any component of compensation. Rather, the Compensation Committee members reviewed and considered broad-based third-party survey data to understand current compensation practices, levels and structures and thereby inform its compensation decisions, but not to establish specific compensation parameters based on such data. The data was collected by independent compensation consultant McLagan, formerly Amalfi Consulting, a compensation consulting firm, which also provided the Compensation Committee with independent advice on industry practices and information on compensation programs of companies offering products similar to ours and from companies of comparable size to us that the Compensation Committee used in determining the compensation received by our executives during fiscal 2011. The Compensation Committee did not select the companies that McLagan included in its sample, although it did have input into the criteria used by McLagan in the selection process. The Compensation Committee did not use the information provided to it by McLagan in a formulaic manner, but instead used the information to inform its judgment regarding the appropriate levels and components of total compensation for the Company s executive officers. The Compensation Committee considered all elements of compensation together and utilized the members experience and judgment in determining the total compensation opportunity and mix of compensation elements appropriate for each executive officer in light of our compensation objectives.

The Compensation Committee viewed the information provided by McLagan as one of a number of tools available to the Committee in assessing executive compensation. The Compensation Committee also regularly consults with our Chief Executive Officer, who makes recommendations to the Compensation Committee regarding compensation of our executive officers other than the Chief Executive Officer. Our Chief Executive Officer participates in some of the Compensation Committee s deliberations regarding compensation for our other executive officers, although all determinations are made by the Compensation Committee.

Elements of Executive Officer Compensation

Base Salary

We provide base salaries to our executive officers to compensate them for fulfilling their primary responsibilities and to provide financial stability. The Compensation Committee annually reviews, and adjusts as appropriate, base salaries for our executive officers. In June 2010, the Compensation Committee made market adjustments to base salaries for fiscal 2011 based on its evaluation of the competitive information available to it. The base salaries paid to our executive officers during the last three completed fiscal years are listed in the Summary Compensation Table below.

Annual Non-Equity Incentive Compensation

Annual non-equity incentive compensation is a key component of our executive compensation strategy. The purpose of annual incentive compensation is to provide cash compensation that is variable based on the achievement of performance goals established by the Compensation Committee. Our executive officers do not have a contractual right to receive a fixed bonus for any fiscal year.

Our non-equity incentive arrangement (described below) provides for no payout to executive officers unless a specified portion of the target is achieved and allows for a significantly increased payout if the target is exceeded. Beginning in fiscal 2011, cash incentive payments were determined and paid once each year following the completion of our annual audit.

For fiscal 2011, the Compensation Committee designated the following factors for determining whether a cash incentive payment would be paid under the arrangement for a particular performance period and in what amount:

- corporate performance,
- business unit performance for the executive in charge of such unit, and
- individual objectives.

The corporate performance portion of the annual cash incentive payment was based on our Company-wide results for fiscal 2011 as measured by income before taxes as compared to a targeted level of income before taxes for that period. The 2011 target was adjusted to exclude costs related to the accelerated vesting of outstanding equity awards incurred in fiscal 2011 due to the death of our Chief Executive Officer, John Hawkins, and the acceleration of certain payments due to John Hawkins under his Retention Bonus

Agreement. For fiscal 2011, the targeted level of income before taxes was $34,500,000, while the actual performance was $33,281,000. The business unit performance portion of the incentive payment was based on an operational measure of business unit profitability for fiscal 2011 as compared to a targeted measure for the respective business unit for that period. The targeted Water Treatment Group measure was $23,400,000, while the actual performance was $23,300,000. The targeted Industrial Group measure was $44,000,000, while the actual performance was $43,963,000. In each case, the targeted levels of performance were based on the level of anticipated performance that was derived from the Company s annual operating plan. The Compensation Committee set these target performance levels to ensure that a substantial portion of each executive officer s cash compensation is tied to corporate and business unit performance, as appropriate, and to provide our executives with a performance-based opportunity to achieve market-competitive total compensation.

The Compensation Committee established multiple individual objectives for each executive officer for the fiscal year. The individual objectives for our Chief Executive Officer included succession planning, strategic planning matters and developing a growth plan for the business. For our President, the individual objectives included strengthening our relationships with key customers and suppliers, strengthening working relationships within our groups and continued leadership development. For our Chief Financial Officer, the individual objectives included supporting acquisition activities and staff development. For our General Counsel, the individual objectives included supporting acquisition activities and managing the business insurance renewal process. For our Vice President Water Treatment Group, the individual objectives included business expansion initiatives and staff planning. For our Vice President Industrial, the individual objectives included customer relationship matters and new product initiatives. The Compensation Committee consulted with our Chief Executive Officer, Patrick H. Hawkins, for his assessment of the degree to which the other executive officers had met their respective individual objectives and then made its own determination as to the appropriate level of payout under these measures for each of the executive officers.

The Compensation Committee determined that 80% of the annual cash incentive payment opportunities for our Chief Executive Officer, Chief Financial Officer and General Counsel for fiscal 2011 should be based upon Company-wide performance against the income targets to reflect their significant Company-wide responsibilities and resulting ability to impact the overall success of the Company. In addition, the Compensation Committee determined that 20% should be based upon meeting their individual objectives.

The Compensation Committee determined that 40% of the annual cash incentive payment opportunities for Ms. Paulson and Mr. Sevenich for fiscal 2011 should be based upon Company-wide performance and 40% should be based upon the profitability of their respective business units to reflect their dual roles as leaders of their respective business units and as members of the Company s overall executive management team. In addition, the Compensation Committee determined that 20% should be based upon meeting their individual objectives.

The annual cash incentive payment opportunities for participating executive officers were based on the following percentages of base salary for fiscal 2011:

Position	Threshold Annual Cash Incentive Payment	Target Annual Cash Incentive Payment	Maximum Annual Cash Incentive Payment
Chief Executive Officer	30%	60%	120%
President	25%	50%	100%
Chief Financial Officer	20%	40%	80%
General Counsel	15%	30%	60%

Vice President	Water Treatment Group	20%	40%	80%
Vice President	Industrial Group	20%	40%	80%

The Compensation Committee established the targets for each of the executive officers based on the relative scope of his or her responsibilities and resulting ability to impact the Company s performance. The Compensation Committee established a higher target opportunity for the Chief Executive Officer to reflect his significant responsibilities regarding the creation and implementation of long-term strategic direction for the entire Company.

No annual cash incentive payments are made unless the threshold level of 80% of the respective performance target is achieved. Performance between 80% and 100% of the respective target is awarded on a sliding scale from 50% of the target annual cash incentive payment for exactly achieving 80% of the performance target to 100% of the target annual cash incentive payment for achieving the respective target (*e.g.*, 90% of performance target will lead to an award of 75% of the target annual cash incentive payment). Performance between 100% and 120% of the respective target is awarded on a sliding scale from 100% of the target annual cash incentive payment for exactly meeting the performance target to 200% of the target annual cash incentive payment for exceeding the performance target by 20% (e.g., 105% of performance target will lead to an award of 125% of the target annual cash incentive payment). Performance over 120% of the applicable performance target does not result in any additional annual cash incentive payment.

As a result of our financial performance for the fiscal year, no participating executive officer met their respective corporate and business unit performance targets. As a result, each participating executive officer received less than the targeted payout under the financial measures. Achievement of individual objectives is more qualitative and subjective and Ms. Paulson was determined to have attained her individual objectives for the fiscal year, while Ms. Pepski and Messrs. Patrick Hawkins and Erstad were determined to have exceeded their individual objectives for the year and Mr. Sevenich was determined to have attained the threshold level of performance for his individual objectives. Ms. Paulson received the targeted annual cash incentive payment for individual objectives, while Ms. Pepski and Messrs. Patrick Hawkins and Erstad received the maximum annual cash incentive payment for individual objectives based on exceeding the targeted performance on their personal objectives and Mr. Sevenich received the minimum annual cash payment for individual objectives based on attaining the threshold level of performance based on his individual objectives. While the Compensation Committee has discretion to adjust the size of the final payouts under the program, it has not done so.

Equity Awards

Our equity incentive compensation program is designed to:

- align the interests of the participants with those of our shareholders,
- provide incentives for the retention of executive officers,
- establish a minimum level of performance for payouts under certain of the equity awards,
- provide an opportunity for increased payouts for performance in excess of established targets under certain of the equity awards, and
- provide an equity incentive program comparable to those at competitive companies.

The equity incentive award program had consisted of a combination of:

- grants to each executive officer of traditional stock options at fair market value on the date of grant with vesting on the third anniversary of the date of grant, and
- grants of performance-based restricted stock unit awards based on Company performance during the current fiscal year with any related restricted stock vesting on the second anniversary of the end of that fiscal year.

For fiscal 2011, the Compensation Committee, with the assistance of McLagan, reviewed our equity incentive award practices and determined to discontinue granting stock options to our executives and increased the targeted level of performance-based restricted stock units granted to each executive. The change was made to make a greater portion of the executive s compensation performance based. As a result, each executive s targeted grant is based on a percentage of the executive s base salary, rather than a fixed number of units. Under this program, in June 2010 each executive officer was granted a performance-based restricted stock unit award representing a future issuance of restricted shares of our common stock based on a pre-tax income target for the fiscal year.

The actual number of restricted shares issued to each executive officer under the performance-based restricted stock unit is based on a sliding scale for pre-tax income above or below the target and is subject to minimum and maximum thresholds. For fiscal 2011, the pre-tax income target was set at $34,500,000, the same level as our target used for our non-equity incentive plan arrangement described above, while our actual performance was $33,281,000. If our pre-tax income were less than 80% of the target pre-tax income in fiscal 2011, then no executive officer would have received restricted shares from the performance-based restricted stock units. If our pre-tax income were between 80% and 100% of the target in fiscal 2011, then the executive officers would have received a number of restricted shares based on a sliding scale between 50% of the target restricted shares and 100% of the target restricted shares. If our pre-tax income were between 100% and 120% of the target in fiscal 2011, then the executive officers would have received a number of restricted shares based on a sliding scale between 100% of the target restricted shares and 150% of the target restricted shares. Because our pre-tax income was more than 80%, but less than 100%, of the target in fiscal 2011, the executive officers each received fewer than the targeted number of restricted shares.

The Compensation Committee established the following performance-based restricted stock unit award amounts for the executive officers for fiscal 2011:

Position	**Target % of Base Salary**	**Minimum**	**Target**	**Maximum**
CEO	90%	7,410	14,820	22,230
President	75%	4,068	8,136	12,205
Chief Financial Officer	60%	2,790	5,579	8,369
General Counsel	60%	2,616	5,231	7,846
Vice President Water Treatment Group	60%	2,732	5,463	8,194
Vice President Industrial Group	60%	2,464	4,928	7,392