HAWKINS INC
Form DEF 14A
July 23, 2004

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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 ý

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Check the appropriate box:

o Preliminary Proxy Statement

o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

ý Definitive Proxy Statement

o Definitive Additional Materials

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HAWKINS, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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(1) Amount Previously Paid:

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

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To Be Held
August 17, 2004

To our Shareholders:

The Annual Meeting of Shareholders of Hawkins, Inc. (the "Company") will be held at the Four Points Sheraton Hotel, 1330 Industrial Boulevard, Minneapolis, Minnesota, on Tuesday, August 17, 2004, at 3:00 p.m., Central Daylight Time, for the following purposes:

1. To elect eight directors;

2. To consider and vote upon the Hawkins, Inc. 2004 Omnibus Stock Plan; and

3. 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 July 20, 2004 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. The Company's transfer books will not be closed.

Dated: July 23, 2004.

BY ORDER OF THE BOARD OF DIRECTORS

MARVIN E. DEE, *Secretary*

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

July 23, 2004

The following statement is furnished in connection with the solicitation of proxies by the Board of Directors of Hawkins, Inc. (the "Company") to be voted at the Annual Meeting of Shareholders of the Company to be held on Tuesday, August 17, 2004 at the Four Points Sheraton Hotel, 1330 Industrial Boulevard, Minneapolis, Minnesota, at 3:00 p.m., Central Daylight Time, and at any adjournments of such meeting. Distribution of this proxy statement and proxy to shareholders began on or about July 23, 2004.

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 the Company. In addition to the use of the mail, proxies may be solicited personally or by telephone, mail or electronic mail by directors, officers and regular employees of the Company. Furthermore, arrangements may be made with brokers, banks and similar organizations to send proxies and proxy materials to beneficial owners for voting instructions. The Company 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 the Secretary at the Company's offices, (2) signing and forwarding to the Company at its offices a later dated proxy, or (3) attending the Annual Meeting and casting his or her votes personally.

Unless otherwise directed in the accompanying proxy, the persons named therein will vote FOR the nominees for director as set forth in this Proxy Statement and FOR the approval of the Hawkins, Inc. 2004 Omnibus Stock Plan. The Company's management is not aware of any other business that will, or is likely to, come before the meeting. If any other business does properly come before the meeting, the persons named in the accompanying proxy will vote in accordance with their judgment as to what is in the Company's best interests.

A majority of the outstanding shares will constitute a quorum at the Annual Meeting. Abstentions and broker non-votes are counted for purposes of determining the presence or absence of a quorum for the transaction of business. Abstentions are counted in determining the total number of the votes cast on proposals presented to shareholders, but will not be treated as votes in favor of the proposals. Accordingly, a withholding or an abstention will have the effect of a negative vote. Broker non-votes are not counted for purposes of determining the total number of votes cast on proposals presented to shareholders.

OUTSTANDING SHARES AND VOTING RIGHTS

At the close of business on July 20, 2004, the record date, there were 10,216,688 shares of the Company's common stock, par value $.05 per share, outstanding. The common stock is the only outstanding class of capital stock of the Company. 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.

ELECTION OF DIRECTORS

(PROPOSAL 1)

At the Annual Meeting, eight persons are to be elected to the Company's Board of Directors, each to hold office for the ensuing year or until his successor is duly elected and qualified. The Company's By-laws provide for a Board of Directors of not fewer than three nor more than eleven directors. The Company's 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 have the effect of a vote against the nominees. 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 the Company's 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.

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

Information About Nominees

All nominees have served as directors of the Company continuously since the year indicated below. The following information, as of May 31, 2004, including the principal occupation or employment of each nominee, has been furnished to the Company by the respective nominees. All positions are with the Company unless otherwise noted.

Nominee	Principal Occupation or Employment	Age	Director Since
John R. Hawkins	Chairman of the Board and Chief Executive Officer since February 2000; President from December 1998 to February 2000; Executive Vice President from 1997 to December 1998; Vice President of Sales from 1987 to 1997; Secretary from 1991 to 1999.	52	1989
Dean L. Hahn	Retired; Chairman of the Board and Chief Executive Officer from 1996 to 2000; President from 1983 to 1996.	70	1974
Donald L. Shipp	Retired; Vice Chairman from December 1998 to September 2000; President from 1996 to December 1998; Executive Vice President from 1983 to 1996; President of Feed-Rite Controls, Inc. (then a subsidiary of the Company) from 1967 to 1996.	69	1977
Howard M. Hawkins	Retired; Treasurer from 1973 to 1999; Vice President from 1996 to 1999.	60	1976
John S. McKeon	President and Chief Operating Officer of ConAgra Foods, Inc. Venture Development Group since November 2003; President and Chief Operating Officer of ConAgra Foods Snack Group (formerly Golden Valley Microwave Foods, Inc.) from August 1993 to November 2003; President of McKeon Associates, Inc. (corporate finance consulting) from 1991 to 1993; Vice President of Northstar Industries, Inc. from 1976 to 1990.	59	1984

Duane M. Jergenson	Retired; Vice President of Operations, Taylor Corporation from 1985 to 1999; various positions with Taylor Corporation from 1966 to 1985.	57	1996
G. Robert Gey	President of Fuller Brands since 2003 and President of The Fuller Brush Company since 2002; President of Pentair Service Equipment Business from 1996 to 2001; Vice President of Pentair Corporate Development from 1995 to 1996; President of Niagara Paper Corp. from 1992 to 1995; various positions with Pentair, Inc. from 1983 to 1992.	59	1999
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.	62	2001

Howard M. Hawkins and John R. Hawkins are brothers. There are no other family relationships between any executive officers or directors of the Company.

Director Independence

The Board of Directors has determined that all of the directors of the Company, except Howard M. Hawkins and John R. Hawkins, are "independent" as that term is defined under the applicable independence listing standards of the NASDAQ Stock Market. Accordingly, the Company's Board of Directors is predominantly independent.

Meetings of the Board of Directors

The Board of Directors held five meetings in fiscal 2004. All directors attended at least 75% of the meetings of the Board of Directors and the committees on which they served. All directors attended the Company's annual meeting of shareholders in 2003. The Board of Directors encourages, but does not require, director attendance at annual meetings of shareholders.

Audit Committee

The Audit Committee, which consists of John S. McKeon (Chair), Duane M. Jergenson, G. Robert Gey and Daryl I. Skaar, is responsible for, among other things, selecting and appointing the Company's 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 the Board of Directors any changes to these responsibilities, and establishing and reviewing internal controls. The Audit Committee held six meetings during fiscal 2004.

All members of the Audit Committee are "independent" as that term is defined in the applicable standards of the NASDAQ Stock Market, Section 301 of the Sarbanes-Oxley Act of 2002 and the rules adopted by the Securities and Exchange Commission (the "SEC") pursuant to the Sarbanes-Oxley Act. The Board of Directors has determined that John S. McKeon, Duane M. Jergenson, G. Robert Gey and Daryl I. Skaar are "audit committee financial experts," as the term is defined under Section 407 of the Sarbanes-Oxley Act and the rules promulgated by the SEC in furtherance of Section 407.

The responsibilities of the Audit Committee are set forth in the Audit Committee Charter. The Audit Committee has reviewed and assessed the adequacy of its charter and concluded that the charter satisfactorily states the responsibilities of the Audit Committee. A revised Audit Committee Charter was adopted by the Board of Directors on February 20, 2004. The charter is set forth in *Appendix A* to this Proxy Statement.

Compensation Committee

The Compensation Committee, which consists of Duane M. Jergenson (Chair), John S. McKeon, G. Robert Gey and Daryl I. Skaar, is responsible for establishing compensation policies for the Company and for reviewing and setting compensation for senior executives of the Company. The Compensation Committee held four meetings during fiscal 2004.

Nominating Process

The Board of Directors does not have a separately constituted nominating committee and has no written charter related to the nomination process. Given the small size of the Company and its Board, and the small number of new directors elected each year, the Board does not believe that creating a separate nominating committee would result in any greater efficiency in the nominating process or quality of nominees. All members of the Board of Directors participate in the consideration of director nominees, and the approval of a majority of the independent directors is required to nominate a director candidate. The Board of Directors does not have a formal policy regarding the consideration of any director candidates recommended by shareholders. However, the Board of Directors would consider for possible nomination qualified nominees recommended by shareholders in compliance with the Company's 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, and a completed director nominee questionnaire (available from the Secretary of the Company upon request) to the Secretary of the Company no later than 60 days after the end of the Company's fiscal year. The proposing shareholder should also include his or her contact information and a statement of his or her share ownership (how many shares of the Company owned and for how long). The Board of Directors will evaluate candidates (nominated by shareholders or otherwise) based on financial literacy, knowledge of the Company's industry or other background relevant to the Company's needs, status as a stakeholder in the Company, "independence" for purposes of compliance with SEC rules and NASDAQ Stock Market listing standards, and willingness, ability and availability for service.

Communications with Directors

You can contact the full Board of Directors, the independent directors as a group or any of the individual directors by writing to the Company's 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 the Company's audited financial statements for the fiscal year ended March 28, 2004 with both the Company's management and its independent auditors, Deloitte & Touche LLP ("Deloitte"); (ii) discussed with Deloitte the matters required to be discussed by Statement of Auditing Standards No. 61 regarding communications with audit committees; (iii) received from Deloitte the written disclosures and the letter required by Independence Standards Board Standard No. 1 and discussed with Deloitte its independence; and (iv) considered whether the level of non-audit services provided by Deloitte is compatible with maintaining the independence of Deloitte.

Based on the review and discussions described above, the Audit Committee recommended to the Board of Directors that the Company's audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended March 28, 2004 for filing with the SEC.

John S. McKeon (Chair)   Duane M. Jergenson   G. Robert Gey   Daryl I. Skaar
Audit Committee of the Board of Directors

INDEPENDENT AUDITORS' FEES

The following table shows the aggregate fees billed to the Company by Deloitte for services rendered during the fiscal years ended March 28, 2004 and March 30, 2003. The Audit Committee pre-approved 100% of the services described below.

Description of Fees	Fiscal 2004	Fiscal 2003
Audit Fees(1)	$ 110,000	$ 103,000
Audit-Related Fees(2)	15,000	20,000
Tax Fees(3)	7,000	5,000
All Other Fees(4)	568,000	
Total	$ 700,000	$ 128,000

(1) Includes fees for fiscal year audit and reviews of quarterly financial statements.

(2) Includes fees for audits in connection with the Company's benefit plans.

(3) Includes fees for state and federal tax planning and state sales tax matters.

(4) Includes fees for consulting services related to the selection and design of an Enterprise Resource Planning system of $386,000, consulting services related to Sarbanes-Oxley Act compliance of $152,000 and other consulting services of $30,000.

The Audit Committee's current practice on pre-approval of services performed by the independent auditors is to approve annually all audit services and, on a case-by-case basis, recurring permissible non-audit services to be provided by the independent auditors during the fiscal year. The Audit Committee reviews each non-audit service to be provided and assesses the impact of the service on the auditors' independence. In addition, the Audit Committee may pre-approve other non-audit services during the year on a case-by-case basis.

COMPENSATION COMMITTEE REPORT ON ANNUAL COMPENSATION

The annual compensation programs of the Company are designed to create incentives and reward performance. The Company's annual compensation mix generally has lower base salaries than comparable companies, coupled with an incentive system that rewards good performance and the achievement of Company objectives.

Executive Salaries

Salary increases for the Company's executive officers are based on inflation, performance and increase in corporate profits. Fiscal 2004 increases were primarily attributable to a Company-wide salary reallocation that included the executive officers. The Board and the Company's management determined that a salary reallocation was necessary in order to create a more appropriate base pay and bonus structure.

Executive Bonus Plan

The bonus plan for executive officers uses the following factors: corporate performance, business unit performance and personal performance. The corporate performance ratings are based on the Company's performance against various financial metrics as compared to the prior fiscal year. Business unit performance ratings are based primarily on business unit profitability. Personal performance ratings generally reflect qualitative factors such as quality of the strategic plan, organizational and management development progress and industry considerations, public affairs, and civic involvement.

Bonuses for Company-wide executive officers are weighted as follows: 50% based upon corporate performance and 50% based upon personal performance. Bonuses for executive officers who manage business units are generally weighted as follows: 40% based upon business unit performance, 20% based upon corporate performance and 40% based upon personal performance.

Chief Executive Officer Compensation

The compensation of John R. Hawkins, Chief Executive Officer, is determined in the same manner as set forth above for all other executive officers. During fiscal 2004, Mr. Hawkins' base salary was increased by 25.9% over fiscal 2003 to $209,800 primarily due to a salary reallocation and in recognition of his individual performance. The Board and the Company's management determined that a salary reallocation was necessary in order to create a more appropriate base pay and bonus structure. For fiscal 2004, Mr. Hawkins received a cash bonus pursuant to the Company's executive bonus plan described above in the amount of $105,000, which is equal to 50% of his base salary as of the end of the fiscal year. All of Mr. Hawkins' bonus for fiscal 2004 was earned during the first half of the year as a result of corporate and individual performance. Mr. Hawkins did not earn additional bonus compensation for the second half of fiscal 2004 as a result of the Company's financial performance during that period.

Duane M. Jergenson (Chair) *John S. McKeon* *G. Robert Gey* *Daryl I. Skaar*

Compensation Committee of the Board of Directors

COMPARATIVE STOCK PERFORMANCE GRAPH

The following is a graph comparing the cumulative total shareholder return on the Company's common stock with the cumulative total returns of the NASDAQ Composite Index and the NASDAQ Industrial Index for the Company's fiscal years ended October 3, 1999, October 1, 2000 and September 30, 2001, the six-month transitional period ended March 31, 2002 and the fiscal years ended March 30, 2003 and March 28, 2004. The Company changed its fiscal year end from the Sunday closest to September 30 to the Sunday closest to March 31, beginning after a six-month transitional period ended on March 31, 2002. The graph assumes the investment of $100 in the Company's common stock, the NASDAQ Composite Index and the NASDAQ Industrial Index on October 4, 1999, and reinvestment of all dividends.

COMPENSATION OF EXECUTIVE OFFICERS AND DIRECTORS

The following table sets forth the compensation of the Chief Executive Officer and the four other highest paid executive officers (collectively, the "Named Executive Officers"):

Summary Compensation Table

		Annual Compensation			
Name and Principal Position	**Fiscal Year***	**Salary ($)**	**Bonus ($)**	**Other Compensation ($)(a)**	**All Other Compensation ($)(b)(c)**
John R. Hawkins	2004	209,800	105,000	4,500	40,000
Chairman of the Board and	2003	166,650	173,000	4,500	40,000
Chief Executive Officer	2002	82,500	85,000	2,250	17,000
	2001	163,776	156,000	4,500	35,000
Marvin E. Dee	2004	160,855	71,400	3,150	40,000
Vice President,	2003	142,410	92,000	3,150	40,000
Chief Financial Officer,	2002	70,500	40,000	1,575	17,000
Secretary and Treasurer	2001	140,000	72,000	1,050	35,000
Keenan A. Paulson	2004	140,530	69,700	4,500	40,000
Vice President Water	2003	120,695	81,000	4,500	40,000
Treatment Group	2002	59,750	40,000	2,250	17,000
	2001	118,750	68,000	4,500	35,000
John R. Sevenich	2004	137,060	59,000	4,500	40,000
Vice President Manufacturing and Specialty	2003	117,665	83,000	4,500	40,000
	2002	58,250	40,000	2,250	17,000
	2001	115,750	74,000	4,500	35,000
Daniel E. Soderlund	2004	133,670	45,000	4,500	40,000
Vice President Pharmaceuticals	2003	117,665	75,000	4,500	38,533
	2002	58,250	40,000	2,250	17,000
	2001	115,750	69,000	4,500	35,000

* The Company changed its fiscal year from the Sunday closest to September 30 to the Sunday closest to March 31, beginning after a six-month transitional period ended March 31, 2002. Fiscal year 2002 compensation reflects the six-month period ended March 31, 2002.

(a) Employee Stock Purchase Plan

All employees of the Company age 18 and over who have been employed by the Company for 90 days are eligible to participate in the Company's Employee Stock Purchase Plan. Under the Plan, each participant authorizes the Company to deduct a specified amount, not to exceed $500, from the participant's paycheck each month, to which the Company generally adds a bonus of 75% of such amount, to be used by a depository agent to purchase shares of the Company's common stock for the participant's individual account under the Plan.

(b) Money Purchase Pension Plan

Non-bargaining employees of the Company age 21 and over who have been employed by the Company for one year are eligible to participate in the Company's Money Purchase Pension Plan, a defined contribution pension plan. Each year, the Company contributes a percentage of each eligible participant's compensation to an account maintained for the participant under the Plan. The Company

contributed 15% for the fiscal year ended March 28, 2004, 11% for the fiscal year ended March 30, 2003 and the six-month transitional period ended March 31, 2002, and 10% for the fiscal year ended September 30, 2001. The annual compensation that was used to determine Plan benefits was capped at $200,000 for the Plan year ended March 31, 2004; this limit will be adjusted in future years under federal tax law for cost-of-living increases.

Participant accounts are credited with the appropriate gains or losses resulting from employee-directed investments made by the Plan. A participant is fully vested after completing seven years of service. At retirement, the participant may elect to receive the amount credited to his or her account either as a lump sum, in installments or in the form of an annuity contract.

(c) Employee Stock Ownership Plan

Non-bargaining employees of the Company age 21 and over who have been employed by the Company for one year are eligible to participate in the Company's Employee Stock Ownership Plan. Contributions to this Plan, which are made at the discretion of the Board of Directors, are credited to individual accounts maintained for participants under the Plan.

The Company contributed 5% of each participant's base salary for the fiscal year ended March 28, 2004, 9% for the fiscal year ended March 30, 2003 and the six-month transitional period ended March 31, 2002, and 11% for the fiscal year ended September 30, 2001. The annual compensation that was used to determine Plan benefits was capped at $200,000 for the Plan year ended March 31, 2004; this limit will be adjusted in future years under federal tax law for cost-of-living increases. In addition, the aggregate amount contributed in any one Plan year for a participant under the Money Purchase Pension Plan and the Employee Stock Ownership Plan may not exceed the lesser of 25% of compensation or $40,000.

Participant accounts in the Employee Stock Ownership Plan are credited with the appropriate gains or losses resulting from Plan investments. A participant is fully vested after completing seven years of service. At retirement, the participant may elect to receive the amount credited to his or her account either as a lump sum or in installments.

Option/Stock Appreciation Rights Grants and Exercises in Fiscal 2004

There were no options or stock appreciation rights granted to or exercised by the Named Executive Officers in fiscal 2004.

Director Compensation

During fiscal 2004, the Company paid each director who was not an employee of the Company an annual retainer of $15,000, of which $6,000 was used to purchase Company common stock through the Company's Employee Stock Purchase Plan. Pursuant to the bonus provisions of the Employee Stock Purchase Plan, the Company credited an additional $4,500 to each non-employee director's account to fund the purchase of additional shares of Company common stock. The Company also paid an annual retainer of $2,500 to the chairs of the Audit Committee and the Compensation Committee. Additionally, the non-employee directors received a meeting fee of $1,000 for each Board and committee meeting attended.

Compensation Committee Interlocks and Insider Participation

All decisions regarding compensation of executive officers of the Company during fiscal 2004 were made by the Compensation Committee of the Board of Directors. During fiscal 2004, the Compensation Committee consisted of the following directors: Duane M. Jergenson (Chair), John S. McKeon, G. Robert Gey and Daryl I. Skaar. None of the executive officers of the Company participates in any Board vote setting his or her annual salary or bonus. During fiscal 2004, none of the members of the Compensation Committee were officers or employees of the Company and there were no interlocking relationships as defined by the SEC.

SECURITY OWNERSHIP OF MANAGEMENT AND BENEFICIAL OWNERSHIP

The following table contains information as of May 31, 2004 (except as otherwise noted below) concerning the beneficial ownership of the Company's common stock by all directors, the Named Executive Officers, all directors and executive officers as a group and shareholders known by the Company to beneficially own more than 5% of its common stock. Unless otherwise noted, the address for each shareholder listed below is the Company's executive offices.

Name of Beneficial Owner	Number of Shares Beneficially Owned(a)	Percent of Shares
Royce & Associates, LLC	1,203,445(b)	11.8%
Marvin E. Dee	2,274(c)	*
G. Robert Gey	6,417	*
Dean L. Hahn	113,515(d)	1.1%
Howard M. Hawkins.	207,720(e)	2.0%
John R. Hawkins	62,641(f)	*
Duane M. Jergenson	10,836	*
John S. McKeon	23,638(g)	*
Keenan A. Paulson	6,186(h)	*
John R. Sevenich	17,713(i)	*
Donald L. Shipp	285,869(j)	2.8%
Daryl I. Skaar	3,661	*
Daniel E. Soderlund	5,901(k)	*
All directors and officers as a group (12 persons)	746,372(l)	7.3%
Trustees, Hawkins, Inc. Employee Stock Ownership Plan and Trust	1,719,215(m)	16.8%

* Less than one percent.

(a) Unless otherwise noted, all shares shown are held by shareholders possessing sole voting and investment power with respect to such shares.

(b) Based on a Form 13F Holdings Report filed by Royce & Associates, LLC with the SEC on May 12, 2004 for the period ended March 31, 2004. The address for Royce & Associates is 1414 Avenue of the Americas, New York, NY 10019.

(c) Does not include shares representing the beneficial interest of Mr. Dee as of March 31, 2004 in the Company's Employee Stock Ownership Plan (4,682 shares).

(d) Includes 23,859 shares that Mr. Hahn holds jointly with his wife as to which he shares voting and investment power. Does not include shares representing Mr. Hahn's beneficial interest as of March 31, 2004 in the Company's Employee Stock Ownership Plan (12,324 shares).

(e) Includes 64,195 shares held by Mr. Hawkins' wife as to which he may be deemed to share voting and investment power, but as to which he disclaims beneficial ownership. Includes 39,246 shares that Mr. Hawkins holds jointly with his wife as to which he shares voting and investment power. Does not include shares representing the beneficial interest of Mr. Hawkins as of March 31, 2004 in the Company's Employee Stock Ownership Plan (100,478 shares).

(f) Includes 61,981 shares that Mr. Hawkins holds jointly with his wife as to which he shares voting and investment power. Does not include shares representing Mr. Hawkins' beneficial interest as of March 31, 2004 in the Company's Employee Stock Ownership Plan (121,605 shares).

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(g) Includes 438 shares held by Mr. McKeon as custodian for a child as to which Mr. McKeon has sole voting and investment power, but as to which he disclaims beneficial ownership.

(h) Includes 5,158 shares that Ms. Paulson holds jointly with her husband and 1,028 shares that Ms. Paulson holds jointly with a child as to which she shares voting and investment power. Does not include shares representing the beneficial interest of Ms. Paulson as of March 31, 2004 in the Company's Employee Stock Ownership Plan (65,431 shares).

(i) Does not include shares representing the beneficial interest of Mr. Sevenich as of March 31, 2004 in the Company's Employee Stock Ownership Plan (21,793 shares).

(j) Includes 107,359 shares held by Mr. Shipp's wife as to which he may be deemed to share voting and investment power, but as to which he disclaims beneficial ownership.

(k) Includes 5,901 shares that Mr. Soderlund holds jointly with his wife as to which he shares voting and investment power. Does not include shares representing the beneficial interest of Mr. Soderlund as of March 31, 2004 in the Company's Employee Stock Ownership Plan (13,832 shares).

(l) Does not include shares representing the beneficial interest of the directors and officers as of March 31, 2004 in the Company's Employee Stock Ownership Plan (340,144 shares).

(m) The trustees of the Hawkins, Inc. Employee Stock Ownership Plan and Trust are John R. Hawkins and Marvin E. Dee. Although these individuals could be deemed to beneficially own all of the shares held by this Plan as a result of their shared voting and investment power with respect to those shares, the shares have not been included in the amount of shares beneficially owned by these individuals or for all directors and officers as a group. Voting rights for shares held by the Employee Stock Ownership Plan and Trust are passed through to Plan participants.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's executive officers, directors and persons who beneficially own more than ten percent of the Company's common stock to file initial reports of ownership and reports of changes in ownership of common stock of the Company with the SEC. Executive officers, directors and persons who beneficially own more than ten percent of the common stock of the Company are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file. Based solely on a review of the copies of such forms furnished to the Company, and written representations from the Company's executive officers and directors, all Section 16(a) filing requirements applicable to the Company's executive officers and directors have been satisfied, except that Keenan A. Paulson filed one untimely report for a transaction in February 2004.

APPROVAL OF THE HAWKINS, INC. 2004 OMNIBUS STOCK PLAN
(PROPOSAL 2)

Introduction. Effective June 17, 2004, the Company's Board of Directors authorized the adoption of the Hawkins, Inc. 2004 Omnibus Stock Plan (the "Plan"), which is attached as *Appendix B* to this Proxy Statement. At that time, the Board directed that the Company submit the Plan to the shareholders of the Company for approval at the Annual Meeting. If the shareholders approve the Plan, it will be effective as of June 17, 2004.

The Compensation Committee and the Board of Directors believe that a stock-based compensation program is a key element in achieving the Company's continued financial and operational success. The Company's compensation programs have been designed to motivate representatives of the Company to work as a team to achieve the corporate goal of maximizing shareholder return.

The descriptions set forth below are in all respects qualified by the terms of the Plan.

Purpose. The purpose of the Plan is to promote the interests of the Company and its shareholders by providing key personnel of the Company and its affiliates with an opportunity to acquire a proprietary interest in the Company and reward them for achieving a high level of corporate performance and thereby develop a stronger incentive to put forth maximum effort for the continued success and growth of the Company and its affiliates. In addition, the opportunity to acquire a proprietary interest in the Company will aid in attracting and retaining key personnel of outstanding ability. The Plan is also intended to provide directors of the Company who are not employees of the Company (the "Outside Directors") with an opportunity to acquire a proprietary interest in the Company, to compensate Outside Directors for their contributions to the Company and to aid in attracting and retaining Outside Directors.

Administration. The Plan is administered by the Company's Compensation Committee (the "Committee"). The Committee has the authority to adopt, revise and waive rules relating to the Plan and to determine the timing and identity of participants, the amount of any awards and other terms and conditions of awards. The Committee may delegate its responsibilities under the Plan to members of management of the Company or to others with respect to the selection and grants of awards to employees of the Company who are not officers of the Company under applicable Federal securities laws.

The regulations under Section 162(m) of the Internal Revenue Code of 1986 (the "Code") require that the directors who serve as members of the Committee must be "outside directors." The Plan provides that directors serving on the Committee may be "outside directors" within the meaning of Section 162(m). This limitation would exclude from the Committee directors who are (i) current employees of the Company or an affiliate, (ii) former employees of the Company or an affiliate receiving compensation for past services, other than benefits under a tax-qualified pension option plan, (iii) current and former officers of the Company or an affiliate, (iv) directors currently receiving direct or indirect remuneration from the Company or an affiliate in any capacity, other than as a director, and (v) any other person who is not otherwise considered an "outside director" for purposes of Section 162(m). The definition of an "outside director" under Section 162(m) is generally narrower than the definition of a "non-employee director" under Rule 16b-3 of the Securities Exchange Act of 1934.

Eligibility and Number of Shares. All employees of the Company and its affiliates and other individuals or entities that are not employees but who provide services to the Company or its affiliates in capacities such as consultants, advisors and directors are eligible to receive awards under the Plan at the discretion of the Committee. Incentive stock options under the Plan may be awarded by the Committee only to employees. There are approximately 20 employees and others who provide services to the Company, any or all of whom may be considered for the grant of awards under the Plan at the discretion of the Committee.

The total number of shares of the Company's common stock available for distribution under the Plan is 350,000, subject to adjustment for future stock splits, stock dividends and similar changes in the capitalization of the Company. No more than 50,000 shares pursuant to stock options and no more than 50,000 shares pursuant to stock appreciation rights may be granted to any one participant under the Plan in any calendar year. Subject to this limitation, there is no limit on the number of shares in respect of which awards may be granted by the Committee to any person.

The Plan provides that all awards are subject to agreements containing the terms and conditions of the awards. Such agreements will be entered into by the recipients of the awards and the Company on or after the time the awards are granted and are subject to amendment, including unilateral amendment by the Company unless such amendments are determined by the Committee to be materially adverse to the participant and are not required as a matter of law. Except in limited circumstances, the Committee may not reduce the exercise price of stock options and stock appreciation rights without shareholder approval. Any shares of the Company's common stock subject to awards under the Plan which are not used because the terms and conditions of the awards are not met may be reallocated as though they had not previously been awarded, unless such shares were used to calculate the value of stock appreciation rights which have been exercised.

Types of Awards. The types of awards that may be granted under the Plan include restricted and unrestricted stock, incentive and nonstatutory stock options, stock appreciation rights, performance units and other stock-based awards. Subject to the restrictions described in this Proxy Statement with respect to incentive stock options, such awards will be exercisable by the participants at such times as are determined by the Committee. Except as noted below, during the lifetime of a person to whom an award is granted, only that person, or that person's legal representative, may exercise an option or stock appreciation right, or receive payment with respect to any other award. Generally, no award may be sold, assigned, transferred, exchanged or otherwise encumbered other than to a successor in the event of a participant's death or pursuant to a qualified domestic relations order. However, the Committee may provide that an award, other than incentive stock options, may be transferable to members of the participant's immediate family or to one or more trusts for the benefit of such family members or partnerships in which such family members are the only partners, if the participant does not receive any consideration for the transfer.

In addition to the general characteristics of all of the awards described in this Proxy Statement, the basic characteristics of each type of award that may be granted to an employee, and in some cases, a consultant, advisor or director, under the Plan are as follows:

Restricted and Unrestricted Stock and Other Stock-Based Awards. The Committee is authorized to grant, either alone or in conjunction with other awards, stock and stock-based awards. The Committee shall determine the persons to whom such awards are made, the timing and amount of such awards, and all other terms and conditions. The Company's common stock granted to participants may be unrestricted or may contain such restrictions, including provisions requiring forfeiture and imposing restrictions upon stock transfer, as the Committee may determine. Unless forfeited, the recipient of restricted common stock will have all other rights of a shareholder, including without limitation, voting and dividend rights.

Incentive and Nonstatutory Stock Options. Both incentive stock options and nonstatutory stock options may be granted to participants at such exercise prices as the Committee may determine, provided that the exercise price of incentive stock options shall be not less than 100% of the fair market value of the underlying stock as of the date the option is granted. Stock options may be granted and exercised at such times as the Committee may determine, except that unless applicable Federal tax laws are modified, (i) no incentive stock options may be granted more than 10 years after the effective date of the Plan, (ii) an incentive stock option shall not be exercisable more than 10 years after the date of grant and (iii) the aggregate fair market value of the shares of the Company's common stock with respect to which incentive stock options held by an employee under the Plan and any other plan of the Company or any affiliate may first become exercisable in any calendar year may not exceed $100,000. Additional restrictions apply to an incentive stock option granted to an individual who beneficially owns 10% or more of the outstanding shares of the Company.

The purchase price for stock purchased upon the exercise of the options may be payable in cash, in stock having a fair market value on the date the option is exercised equal to the option price of the stock being purchased or in a combination of cash and stock, as determined by the Committee. The Committee may permit optionees to simultaneously exercise options and sell the stock purchased upon such exercise pursuant to brokerage or similar relationships and use the sale proceeds to pay the purchase price. The Committee may provide, at or after the grant of a stock option, that a Plan participant who surrenders shares of stock in payment of an option shall be granted a new incentive or nonstatutory stock option covering a number of shares equal to the number of shares so surrendered. The Committee may prevent participants from purchasing options in any manner that could have adverse financial accounting consequences for the Company.

Stock Appreciation Rights. The value of a stock appreciation right granted to a participant is determined by the appreciation in the Company's common stock, subject to any limitations upon the amount or percentage of total appreciation that the Committee may determine at the time the right is granted. The participant receives all or a portion of the amount by which the fair market value of a specified number of shares, as of the date the stock appreciation right is exercised, exceeds a price specified by the Committee at the time the right is granted. The price specified by the Committee must be at least 100% of the fair market value of the specified number of shares of the Company's common stock to which the right relates determined as of the date the stock appreciation right is granted. Payments with respect to stock appreciation rights may be paid in cash, shares of the Company's common stock or a combination of cash and shares as determined by the Committee.

Performance Units. The Committee may grant performance units to participants which entitle them to receive a payment in cash, the Company's common stock or both upon the attainment of performance targets specified by the Committee. The performance targets may include those relating to one or more of the Company's or a group's, unit's, affiliate's or individual's performance.

Acceleration of Awards, Lapse of Restrictions, Termination of Employment, Forfeiture. The Committee may provide for the lapse of restrictions on restricted stock or other awards, accelerated exercisability of options, stock appreciation rights and other awards, and acceleration of performance cycles and adjusted targets and payments on performance units, in the event of certain fundamental changes in the corporate structure of the Company, the death of the participant or such other events as the Committee may determine.

In the event of the death or disability of a participant, options and stock appreciation rights that were not previously exercisable will become immediately exercisable in full if the participant was continuously employed by the Company and its affiliates between the date the options or stock appreciation rights were granted and the date of such disability, or, in the event of death, a date not more than three months prior to such death. If a participant's employment or other relationship with the Company, including service as a director, terminates for any reason other than death or disability, then any option or stock appreciation right that has not expired shall remain exercisable for three months after termination of the participant's employment or other relationship with the Company, but, unless otherwise provided in the agreement, only to the extent such option or stock appreciation right was exercisable prior to termination of such participant's employment or other relationship with the Company. No award may be exercised after its term has expired.

Unless otherwise provided in an agreement, if a participant's employment or other relationship with the Company and its affiliates terminates due to death or disability, the participant shall be entitled to receive (i) a number of shares of restricted stock under outstanding awards that has been prorated for the portion of the term of the award during which the participant was employed by the Company or its affiliates, and all restrictions will lapse with respect to such shares, and (ii) a payment with respect to performance units at the end of the performance cycle based upon the extent to which achievement of performance targets was satisfied at the end of such period and prorated for the portion of the performance cycle during which the participant was employed by the Company or its affiliates.

The Committee may condition a grant upon the participant's agreement that in the event of certain occurrences, which may include a participant's competition with, unauthorized disclosure of confidential information of, or violation of the applicable business ethics policy or business policy of the Company or any of its affiliates, the awards paid to the participant within six months prior to the termination of employment of the participant (or their economic value) may be subject to forfeiture at the Committee's option.

Adjustments, Modifications, Cancellations. The Plan gives the Committee discretion to adjust the kind and number of shares available for awards or subject to outstanding awards and the exercise price of outstanding options and stock appreciation rights in the event of mergers, recapitalizations, stock dividends, stock splits or other relevant changes. The Plan also gives the Board the right to terminate, suspend or modify the Plan, except that amendments to the Plan are subject to shareholder approval if needed to comply with the incentive stock option provisions of Federal tax laws. Under the Plan, the Committee may cancel outstanding options and stock appreciation rights generally in exchange for cash payments to the participants in the event of certain dissolutions, liquidations, mergers, statutory share exchanges or other similar events involving the Company.

Federal Tax Considerations. The Company has been advised by its counsel that awards made under the Plan generally will result in the following tax consequences for United States citizens under current United States Federal income tax laws:

Restricted and Unrestricted Stock. Unless the participant files an election to be taxed under Section 83(b) of the Code, (a) the participant will not realize income upon the grant of restricted stock, (b) the participant will realize ordinary income and the Company will be entitled to a corresponding deduction when the restrictions have been removed or expire and (c) the amount of such ordinary income and deduction will be the fair market value of the restricted stock on the date the restrictions are removed or expire. If the recipient files an election to be taxed under Section 83(b) of the Code, the tax consequences to the participant and the Company will be determined as of the date of the grant of the restricted stock rather than as of the date of the removal or expiration of the restrictions.

With respect to awards of unrestricted stock, (a) the participant will realize ordinary income and the Company will be entitled to a corresponding deduction upon the grant of the unrestricted stock and (b) the amount of such ordinary income and deduction will be the fair market value of such unrestricted stock on the date of grant.

When the participant disposes of restricted or unrestricted stock, the difference between the amount received upon such disposition and the fair market value of such shares on the date the recipient realizes ordinary income will be treated as a capital gain or loss.

Incentive Stock Options. A participant will not realize any taxable income, and the Company will not be entitled to any related deduction, when any incentive stock option is granted under the Plan. If certain statutory employment and holding period conditions are satisfied before the participant disposes of shares acquired pursuant to the exercise of such an option, then no taxable income will result upon the exercise of such option and the Company will not be entitled to any deduction in connection with such exercise. Upon disposition of the shares after expiration of the statutory holding periods, any gain or loss a recipient realizes will be a capital gain or loss. The Company will not be entitled to a deduction with respect to a disposition of the shares by a participant after the expiration of the statutory holding periods.

Except in the event of death, if shares acquired upon the exercise of an incentive stock option are disposed of before the expiration of the statutory holding periods (a "disqualifying disposition"), the participant will be considered to have realized as compensation, taxable as ordinary income in the year of disposition, an amount, not exceeding the gain realized on such disposition, equal to the difference between the exercise price and the fair market value of the shares on the date of exercise of the option. The Company will be entitled to a deduction at the same time and in the same amount as the participant is deemed to have realized ordinary income. Any gain realized on the disposition in excess of the amount treated as compensation or any loss realized on the disposition will constitute capital gain or loss, respectively. If the participant pays the option price with shares that were originally acquired pursuant to the exercise of an incentive stock option and the statutory holding periods for such shares have not been met, the participant will be treated as having made a disqualifying disposition of such shares and the tax consequences of such disqualifying disposition will be as described above.

The foregoing discussion applies only for regular tax purposes. For alternative minimum tax purposes, an incentive stock option will be treated as if it were a nonstatutory stock option, the tax consequences of which are discussed below.

Nonstatutory Stock Options. A participant will not realize any taxable income, and the Company will not be entitled to any related deduction, when any nonstatutory stock option is granted under the Plan. When a participant exercises a nonstatutory stock option, the participant will realize ordinary income, and the Company will be entitled to a deduction, equal to the excess of the fair market value of the stock on the date of exercise over the option price. Upon disposition of the shares, any additional gain or loss the participant realizes will be a capital gain or loss.

Stock Appreciation Rights. Generally (i) the participant will not realize income upon the grant of a stock appreciation right, (ii) the participant will realize ordinary income and the Company will be entitled to a corresponding deduction, when cash, shares of common stock or a combination of cash and shares are delivered to the participant upon exercise of a stock appreciation right and (iii) the amount of such ordinary income and deduction will be the amount of cash received plus the fair market value of the shares of common stock received on the date they are received. The Federal income tax consequences of a disposition of unrestricted shares received by the participant upon exercise of a stock appreciation right are the same as described above with respect to a disposition of unrestricted shares.

Performance Units. A participant receiving performance units will not recognize income, and the Company will not be allowed a tax deduction, at the time such award is granted. When a participant receives payment of performance units, the amount of cash and the fair market value of any shares of common stock received will be ordinary income to the participant, and the Company will be entitled to a corresponding tax deduction at that time.

Potential Limitation on Company Deductions. Section 162(m) of the Code denies a deduction to any publicly-held corporation for compensation paid to certain "covered employees" in a taxable year to the extent that compensation to such covered employee exceeds $1 million. It is possible that compensation attributable to stock options, when combined with all other types of compensation received by a covered employee from the Company, may cause this limitation to be exceeded in any particular year.

Certain kinds of compensation, including qualified "performance-based compensation," are disregarded for purposes of the deduction limitation. In accordance with Treasury regulations issued under Section 162(m), compensation attributable to stock options will qualify as performance-based compensation if the option is granted by a compensation committee comprised solely of "outside directors" and either (i) the plan contains a per-employee limitation on the number of shares for which options may be granted during a specified period, the per-employee limitation is approved by the shareholders, and the exercise price of the option is no less than the fair market value of the stock on the date of grant or (ii) the option is granted (or exercisable) only upon the achievement (as certified in writing by the compensation committee) of an objective performance goal established in writing by the compensation committee while the outcome is substantially uncertain, and the option is approved by shareholders. The Company intends that any stock options granted to covered employees will qualify as "performance-based compensation" for purposes of Section 162(m), thereby preserving any available corporate compensation deductions attributable to such options.

Withholding. The Plan permits the Company to withhold from cash awards, and to require a participant receiving common stock under the Plan to pay the Company in cash, an amount sufficient to cover any required withholding taxes. In lieu of cash, the Committee may permit a participant to cover withholding obligations through a reduction in the number of shares delivered to such participant or a surrender to the Company of shares then owned by the participant.

Voting Requirements, Recommendation. The affirmative vote of the holders of a majority of the outstanding shares of common stock of the Company entitled to vote on this item and present in person or by proxy at the Annual Meeting is required for approval of the Plan. Proxies solicited by the Board will be voted for approval of the proposal, unless shareholders specify otherwise in their proxies.

For this purpose, a shareholder voting through a proxy who abstains with respect to approval of the Plan is considered to be present and entitled to vote on the approval of the Plan at the meeting, and is in effect a negative vote, but a shareholder (including a broker) who does not give authority to a proxy to vote, or withholds authority to vote, on the approval of the Plan shall not be considered present and entitled to vote on the proposal.

THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE "FOR" APPROVAL OF THE HAWKINS, INC. 2004 OMNIBUS STOCK PLAN.

OTHER MATTERS

The Company's management does not know of any other business which will be presented for consideration at the Annual Meeting. If, however, any other business does properly come before the Annual Meeting, proxies will be voted in accordance with the judgment of the person or persons acting under them as to what is in the best interests of the Company.

INDEPENDENT PUBLIC ACCOUNTANTS

Deloitte & Touche LLP, independent certified public accountants, has been the auditors of the Company since 1971. It has been retained by the Audit Committee of the Board of Directors as the Company's auditors for the current fiscal year.

Representatives of Deloitte & Touche LLP are expected to attend the Annual Meeting with the opportunity to make a statement if they desire. They will be available to respond to appropriate questions.

PROPOSALS BY SHAREHOLDERS

In order for a shareholder proposal to be considered for inclusion in the Company's proxy statement for next year's Annual Meeting, the written proposal must be received by the Company at its principal executive office no later than March 25, 2005. Any such proposals also must comply with the rules and regulations of the SEC regarding the inclusion of shareholder proposals in company sponsored proxy materials. In order for a shareholder proposal to be raised from the floor during next year's Annual Meeting (without being included in the proxy materials), written notice of the proposal must be received by the Company no later than June 8, 2005. The persons named as proxies by the Company for that meeting will have discretionary authority to vote on any shareholder proposal for which such notice is not properly received by the Company and as otherwise permitted pursuant to the SEC's rules and regulations regarding the voting of proxies. Any director nominations made by shareholders also must comply with the relevant provisions set forth in Article I of the Company's

By-laws, as described under the caption "Election of Directors Nominating Process" elsewhere in this Proxy Statement. A copy of the By-laws has been filed with the SEC and is available on the SEC's website (www.sec.gov) or may be obtained by sending a written request to the Secretary at the Company's headquarters.

FORM 10-K

The Company's 2004 Annual Report on Form 10-K for the fiscal year ended March 28, 2004, including financial statements, is being mailed with this Proxy Statement. Shareholders who wish to obtain an additional copy of the Company's Annual Report on Form 10-K for fiscal 2004 may do so without charge by writing to: Hawkins, Inc., 3100 East Hennepin Avenue, Minneapolis, Minnesota 55413, Attention: Corporate Secretary. The Annual Report on Form 10-K, as well as other Company reports, are also available on the SEC's website (www.sec.gov).

Dated: July 23, 2004.

BY ORDER OF THE BOARD OF DIRECTORS

MARVIN E. DEE, SECRETARY

Appendix A

Hawkins, Inc.
Charter of the Audit Committee of the Board of Directors
Adopted on February 20, 2004

Purpose

The purpose of the Audit Committee (the "Audit Committee") of the board of directors (the "Board") of Hawkins, Inc. (the "Company") is to oversee the accounting and financial reporting processes of the Company and the audits of the financial statements of the Company.

Composition

The Audit Committee shall consist of at least three directors, each of whom:

(a) shall be "independent" as that term is defined under the listing standards of the National Association of Securities Dealers;

(b) shall meet the criteria of independence under the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act") and the rules adopted by the Securities and Exchange Commission (the "SEC") pursuant to the Sarbanes-Oxley Act;

(c) shall be free of any relationship that, in the opinion of the Board, would interfere with his or her individual exercise of independent judgment;

(d) shall not have participated in the preparation of the financial statements of the Company or any current subsidiary of the Company at any time during the three years prior to such member's appointment to the Audit Committee; and

(e) shall be able to read and understand fundamental financial statements, including a company's balance sheet, income statement, and cash flow statement.

At least one member of the Audit Committee shall have past employment experience in finance or accounting, requisite professional certification in accounting, or any other comparable experience or background which results in the individual's financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities.

The Audit Committee shall also endeavor to have at all times on the Audit Committee at least one member who satisfies the definition of an "audit committee financial expert" as defined by the SEC.

Audit Committee members may be removed or replaced by the Board from time to time in its discretion.

The Board shall appoint one member of the Audit Committee as chairperson. He or she shall be responsible for leadership of the Audit Committee, including overseeing the agenda, presiding over the meetings and reporting to the Board.

Responsibilities and Duties

In carrying out its responsibilities, the Audit Committee believes that its policies and procedures should remain flexible in order to best react to changing circumstances. The primary duties and responsibilities of the Audit Committee shall be as follows:

Oversight of Independent Auditor

1. Be directly responsible for the appointment, retention, compensation, evaluation, termination and oversight of the work of the Company's independent auditor (including resolution of disagreements between management and the independent auditor regarding financial reporting) engaged for the purpose of preparing or issuing an audit report or related work. The independent auditor shall report directly to the Audit Committee.

2. Pre-approve all audit services and permissible non-audit services by the Company's independent auditor.

3. Review and discuss representations from the independent auditor regarding:

   - critical accounting policies and practices to be used;

   - alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor; and

   - other material written communications between the independent auditor and management, such as any management letter or schedule of unadjusted differences.

4. Ensure regular rotation of the lead and concurring audit partners and other significant audit partners of the Company's independent auditor as required by law.

5. Obtain and review a report from the independent auditor at least annually regarding all relationships between the independent auditor and the Company consistent with Independence Standards Board Standard No. 1.

6. Evaluate the qualifications, performance and independence of the independent auditor, including:

   - actively engaging in a dialogue with the independent auditor regarding any relationship or services that may impact the auditor's objectivity and independence;

   - at least annually, evaluating the independence of the auditor, including assessing whether all relationships between the independent auditor and the Company and the provisions of permissive non-audit services are compatible with maintaining the auditor's independence;

   - considering whether the independent auditor's quality controls are adequate; and

   - reviewing and evaluating the qualifications and performance of the Company's independent auditor.

7.

On an annual basis, review the independent auditor's audit plan and discuss scope, staffing, locations, reliance upon management and general audit approach.

8. Review with the independent auditor any audit problems or difficulties the auditor may have encountered and management's response thereto. Such reviews should include any difficulties encountered in the course of the audit work, including any restrictions on the scope of activities or access to required information.

9. Discuss with the independent auditor the matters required to be discussed by Statement on Auditing Standards No. 61 related to the conduct of the audit.

10. Confirm that the none of the audit partners earn or receive compensation based on procuring engagements with the Company for providing products or services, other than audit, review or attest services.

Oversight of Financial Reporting and Disclosure Matters

11. Review and discuss with management and the independent auditor the Company's annual audited financial statements, including disclosures made in management's discussion and analysis, prior to the filing of the Company's Form 10-K, and recommend to the Board whether the audited financial statements should be included in the Company's Form 10-K.

12. Review and discuss with management and the independent auditor the Company's quarterly financial statements, including disclosures made in management's discussion and analysis, prior to the filing of the Company's Form 10-Q, including the results of the independent auditor's review of the quarterly financial statements.

13. Discuss with management and the independent auditor:

    - material financial reporting issues and judgments made in connection with the preparation of the Company's financial statements;
    - any material changes, including proposed changes, in the Company's selection or application of accounting principles;
    - any significant deficiencies or material weaknesses in the design or operation of internal controls that could adversely affect the Company's ability to record, process, summarize and report financial data;
    - the independent auditor's attestation of management's report on internal controls; and
    - any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls.

14. Discuss with management the Company's earnings press releases, including the use of "pro forma" or "adjusted" non-GAAP information, as well as financial information and earnings guidance provided to analysts and rating agencies, prior to public release.

15. Discuss with management and the independent auditor the effect of regulatory and accounting initiatives as well as off-balance sheet structures on the Company's financial statements.

16. Review any significant reports to management prepared by the independent auditor or the internal audit personnel and management's responses.

17. Discuss with management and the independent auditor any correspondence with regulators or governmental agencies and any published reports which raise material issues regarding the Company's financial statements or accounting policies.

Oversight of Compliance and Regulatory Matters

18. Establish and review periodically procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters. The Audit Committee has the authority to conduct any investigation appropriate to fulfilling its responsibilities and has direct access to the Company's outside counsel and anyone in the Company.

19. Discuss with the independent auditor and management any other matters covered by Section 10A of the Securities Exchange Act of 1934 as determined necessary or appropriate by the Audit Committee to ensure compliance.

Other Responsibilities

20. Approve all related party transactions of the Company. The term "related party transaction" shall refer to transactions required to be disclosed pursuant to SEC Regulation S-K, Item 404.

21. Review with the full Board any issues that arise with respect to the quality or integrity of the Company's financial statements, the Company's compliance with legal or regulatory requirements, and the performance and independence of the Company's independent auditor.

22. Perform any other activities consistent with this Audit Committee Charter, the Company's By-laws and governing law, as the Audit Committee or the Board deems necessary or appropriate.

Committee Administration

23. Prepare the Audit Committee report required by the rules of the SEC to be included in the Company's annual proxy statement.

24. Meet periodically with management and the independent auditor in separate executive sessions.

25. Review the Audit Committee's own performance annually.

26. Review and reassess the adequacy of this Audit Committee Charter annually and recommend any proposed changes to the Board and have the Audit Committee Charter published at least every three years in accordance with SEC regulations.

27. Retain independent counsel and other legal, accounting or other advisors as the Audit Committee determines necessary to carry out its duties. The Company shall provide funding, as determined by the Audit Committee, for payment of compensation to any advisors employed by the Audit Committee and for payment of ordinary administrative expenses that are necessary for the Audit Committee to carry out its duties.

The Audit Committee members are not professional accountants or auditors and their functions are not intended to duplicate or certify the activities of management or the independent auditor. While the Audit Committee has the responsibilities set forth in this Audit Committee Charter, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the Company's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. This is the responsibility of the Company's management and independent auditor.

To the extent permissible under applicable laws and regulations, the Audit Committee may delegate its responsibilities to one or more members of the Audit Committee.

Meetings

The Audit Committee shall meet at least four times annually, and special meetings shall be called as necessary.

The Audit Committee may request any officer or employee of the Company or the Company's outside counsel or independent auditor to attend a meeting of the Audit Committee or to meet with any members of, or consultants to, the Audit Committee.

All meetings of the Audit Committee shall be held pursuant to the By-laws of the Company with regard to notice and waiver thereof, and written minutes and presentations of each meeting and other Audit Committee correspondence shall be duly filed in the Company's records. A majority of the members of the Audit Committee shall constitute a quorum of the Audit Committee.

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APPENDIX B

HAWKINS, INC.
2004 OMNIBUS STOCK PLAN

1. *Purpose*. The purpose of the Hawkins, Inc. 2004 Omnibus Stock Plan (the "*Plan*") is to promote the interests of the Company and its shareholders by providing key personnel of the Company and its Affiliates with an opportunity to acquire a proprietary interest in the Company and reward them for achieving a high level of performance and thereby develop a stronger incentive to put forth maximum effort for the continued success and growth of the Company and its Affiliates. In addition, the opportunity to acquire a proprietary interest in the Company will aid in attracting and retaining key personnel of outstanding ability. The Plan is also intended to provide Outside Directors with an opportunity to acquire a proprietary interest in the Company, to compensate Outside Directors for their contribution to the Company and to aid in attracting and retaining Outside Directors.

2. *Definitions*.

2.1 The capitalized terms used elsewhere in the Plan have the meanings set forth below.

(a) "*Affiliate*" means any corporation that is a "parent corporation" or "subsidiary corporation" of the Company, as those terms are defined in Code Sections 424(e) and (f), or any successor provisions.

(b) "*Agreement*" means a written contract (i) consistent with the terms of the Plan entered into between the Company or an Affiliate and a Participant and (ii) containing the terms and conditions of an Award in such form and not inconsistetext-align:center;">**Three months ended March 31,**

(Inception) to

2007

2006

March 31, 2007

Revenues from license fees, grants and research contracts

$

536,042

$

65,962

$

10,516,861

Operating expenses:

Research and development

6,317,641

6,763,245

153,964,856

General and administrative

4,303,885

2,821,726

45,124,413

Acquired in-process research and development

19,545,028

10,621,526

9,584,971

218,634,297

Other income (loss):

Interest income, net

362,509

457,859

7,812,051

Realized gain on sale of short-term securities available-for-sale

3,862,502

Write-down of short-term securities available-for-sale

(17,001,348)

362,509

457,859

(5,326,795)

Net loss

$

(9,722,975)

$

(9,061,150)

$

(213,444,231)

Net loss per share - basic and diluted

$

(0.18)

$

(0.18)

Weighted average number of common shares outstanding for computing basic and diluted loss per share

53,241,730

51,715,050

See accompanying notes to financial statements.

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AVI BIOPHARMA, INC.
(A Development Stage Company)
STATEMENTS OF CASH FLOWS

(unaudited)

	Three months ended March 31, 2007	2006	For the Period July 22, 1980 (Inception) to March 31, 2007
Cash flows from operating activities:			
Net loss	$ (9,722,975)	$ (9,061,150)	$ (213,444,231)
Adjustments to reconcile net loss to net cash flows used in operating activities:			
Depreciation and amortization	479,630	525,141	13,299,869
Loss on disposal of assets	53,498	164,253	368,676
Realized gain on sale of short-term securities available-for-sale			(3,862,502)
Write-down of short-term securities available-for-sale			17,001,348
Issuance of common stock to vendors	300,000	700,000	1,675,000
Compensation expense on issuance of common stock and partnership units			861,655
Compensation expense to non-employees on issuance of options and warrants to purchase common stock or partnership units	312,637	525,126	2,955,690
Stock-based compensation	2,360,770	1,937,271	7,242,240
Conversion of interest accrued to common stock			7,860
Acquired in-process research and development			19,545,028
(Increase) decrease in:			
Accounts receivable and other current assets	(473,488)	281,612	(1,261,269)
Other assets		2,900	(34,709)
Net increase (decrease) in accounts payable, accrued employee compensation, and other liabilities	1,195,910	(363,169)	4,641,755
Net cash used in operating activities	(5,494,018)	(5,288,016)	(151,003,590)
Cash flows from investing activities:			
Purchase of property and equipment	(464,029)	(194,546)	(15,762,540)
Patent costs	(145,933)	(94,999)	(4,620,963)
Purchase of marketable securities		(1,026,087)	(112,865,796)
Sale of marketable securities	909,694	902,117	105,710,131
Acquisition costs			(2,377,616)
Net cash provided by (used in) investing activities	299,732	(413,515)	(29,916,784)
Cash flows from financing activities:			
Proceeds from sale of common stock, warrants, and partnership units, net of offering costs, and exercise of options and warrants		7,971,098	196,270,726
Buyback of common stock pursuant to rescission offering			(288,795)
Withdrawal of partnership net assets			(176,642)
Issuance of convertible debt			80,000
Net cash provided by financing activities		7,971,098	195,885,289
Increase (decrease) in cash and cash equivalents	(5,194,286)	2,269,567	14,964,915
Cash and cash equivalents:			
Beginning of period	20,159,201	34,597,734	
End of period	$ 14,964,915	$ 36,867,301	$ 14,964,915
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES AND FINANCING			

ACTIVITIES:							
Short-term securities available-for-sale received in connection with the private offering	$		$		$	17,897,000
Change in unrealized gain on short-term securities available-for-sale	$	(2,041	)	$	1,890	$	16,377
Issuance of common stock and warrants in satisfaction of liabilities	$		$	175,000	$	545,000

See accompanying notes to financial statements.

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AVI BIOPHARMA, INC.

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

Note 1. Basis of Presentation

The financial information included herein for the three-month period ended March 31, 2007 and 2006 and the financial information as of March 31, 2007 is unaudited; however, such information reflects all adjustments consisting only of normal recurring adjustments, which, in the opinion of management, are necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods. The financial information as of December 31, 2006 is derived from AVI BioPharma, Inc. s (the Company s) Form 10-K. The interim financial statements should be read in conjunction with the financial statements and the notes thereto included in the Company s Form 10-K. The results of operations for the interim periods presented are not necessarily indicative of the results to be expected for the full year.

Stock-based compensation costs are generally based on the fair value calculated from the Black-Scholes option-pricing model on the date of grant for stock options and on the date of enrollment for the Plan. The fair value of stock grants is amortized as compensation expense on a straight-line basis over the vesting period of the grants. Stock options granted to employees are service-based and typically vest over four years.

The fair market values of stock options granted during the periods presented were measured on the date of grant using the Black-Scholes option-pricing model, with the following weighted average assumptions:

Three Months Ended March 31,	2007		2006	
Risk-free interest rate	4.91	%	4.07	%
Expected dividend yield	0	%	0	%
Expected lives	8.0 years		9.3 years	
Expected volatility	90	%	91	%

The risk-free interest rate is estimated using an average of treasury bill interest rates. The expected dividend yield is zero as the Company has not paid any dividends to date and does not expect to pay dividends in the future. The expected lives are estimated using expected and historical exercise behavior. The expected volatility is estimated using historical calculated volatility and considers factors such as future events or circumstances that could impact volatility.

As part of the requirements of FSAS 123R, the Company is required to estimate potential

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forfeiture of stock grants and adjust compensation cost recorded accordingly. The estimate of forfeitures will be adjusted over the requisite service period to the extent that actual forfeitures differ, or are expected to differ, from such estimates. Changes in estimated forfeitures will be recognized through a cumulative catch-up in the period of change and will also impact the amount of stock compensation expense to be recognized in future periods.

A summary of the Company s stock option compensation activity with respect to the fiscal quarter ended March 31, 2007 follows:

Stock Options	**Shares**	**Weighted Average Exercisable Price**	**Weighted Average Remaining Contractual Term**	**Aggregate Intrinsic Value**
Outstanding at January 1, 2007	5,571,470	$ 5.12		
Granted	1,137,548	$ 2.78		
Exercised		$		
Canceled or expired	(43,646)	$ 5.58		
Outstanding at March 31, 2007	6,665,372	$ 4.72	6.07	$ (12,780,458)
Vested at March 31, 2007 and expected to vest	6,621,056	$ 4.72	6.05	$ (12,720,904)
Exercisable at March 31, 2007	4,449,582	$ 5.00	4.66	$ (9,802,794)

The weighted average fair value per share of stock-based payments granted to employees during the three months ended March 31, 2007 and March 31, 2006 was $2.25 and $6.25, respectively. During the same periods, the total intrinsic value of stock options exercised were $0 and $729,759, and the total fair value of stock options that vested were $1,303,398 and $1,103,771, respectively.

As of March 31, 2007, there was $4,922,460 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plan. These costs are expected to be recognized over a weighted-average period of 2.4 years.

During the first quarter of fiscal 2007, no stock options were exercised. The Company is obligated to issue shares from the 2002 Equity Incentive Plan reserve upon the exercise of stock options. The Company does not currently expect to repurchase shares from any source to satisfy its obligations under the Plan.

The following are the stock-based compensation costs recognized in the Company s statements of operations:

	Three Months Ended March 31, 2007	**Three Months Ended March 31, 2006**
Research and development	$ 397,037	$ 539,497
General and administrative	906,361	564,274
Total	$ 1,303,398	$ 1,103,771

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The 2000 Employee Stock Purchase Plan (ESPP) provides that eligible employees may contribute, through payroll, deductions, up to 10% of their earnings toward the purchase of the Company s Common Stock at 85% of the fair market value at specific dates. On January 1, 2006, the Company adopted SFAS 123R, which requires the measurement and recognition of compensation expense for all share based payment awards made to the Company s employees and directors related to the Employee Stock Purchase Plan, based on estimated fair values. During the first quarter of 2007 the total compensation expense for participants in the ESPP was $7,849 using the Black-Scholes option-pricing model with a weighted average estimated fair value per share of $1.26, expected life of six months, risk free interest rate of 5.17%, volatility of 70.90%, and no dividend yield. During the first quarter of 2006 the total compensation expense for participants in the ESPP was $15,118 using the Black-Scholes option-pricing model with a weighted average estimated fair value per share of $1.07, expected life of six months, risk free interest rate of 3.5%, volatility of 73.21%, and no dividend yield. At March 31, 2007, 248,144 shares remain available for purchase through the plan and there were 86 employees eligible to participate in the plan, of which 29 were participants.

On March 27, 2007, in connection with his resignation, the Company entered into a Separation and Release Agreement with AVI s former Chairman and Chief Executive Officer. Pursuant to this agreement, he may exercise his previously granted options until March 28, 2010. This modification of these stock options in the first quarter of 2007 increased compensation costs by $1,057,372.

On March 15, 2006 unvested stock options for nine employees in the Company s Colorado facility were accelerated. These employees joined Cook Group Inc. in April 2006. The acceleration of these stock options in the first quarter of 2006 increased compensation costs by $833,500.

During the first quarter of 2007 and 2006, the total compensation expense for stock-based compensation was $2,360,770 and $1,937,271, respectively.

The Company records the fair value of stock options granted to non-employees in exchange for services in accordance with EITF 96-18 *Accounting for Equity Instruments That are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services*. The fair value of the options granted is expensed when the measurement date is known. The performance for services was satisfied on the grant date for stock options granted to non-employees. The total fair value of the options granted to non-employees during the three months ended March 31, 2007 and March 31, 2006 was $312,637 and $525,126 which was expensed to research and development, respectively.

Commitments and Contingencies. In the normal course of business, the Company may be named as a party to various legal claims, actions and complaints, including matters

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involving employment, intellectual property, effects from the use of drugs utilizing our technology, or others. It is impossible to predict with certainty whether any resulting liability would have a material adverse effect on the Company s financial position, results of operations or cash flows.

Financial Instruments. The carrying amounts reported in the balance sheets for cash and cash equivalents, accounts receivable, accounts payable, and other current monetary assets and liabilities approximate fair value because of the immediate or short-–term maturity of these financial instruments.

License Arrangements. License arrangements may consist of non-refundable upfront license fees, data transfer fees, research reimbursement payments, exclusive licensed rights to patented or patent pending compounds, technology access fees, various performance or sales milestones and future product royalty payments. Some of these arrangements are multiple element arrangements.

The Company defers recognition of non-refundable upfront fees if it has continuing performance obligations without which the technology, right, product or service conveyed in conjunction with the non-refundable fee has no utility to the licensee that is separate and independent of Company performance under the other elements of the arrangement. In addition, if the Company has continuing involvement through research and development services that are required because its know-how and expertise related to the technology is proprietary to the Company, or can only be performed by the Company, then such up-front fees are deferred and recognized over the period of continuing involvement.

Payments related to substantive, performance-based milestones in a research and development arrangement are recognized as revenue upon the achievement of the milestones as specified in the underlying agreements when they represent the culmination of the earnings process.

Government Research Contract Revenue. The Company recognizes revenues from federal research contracts during the period in which the related expenditures are incurred.

Income Taxes. In July 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the financial statements. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The provisions of FIN 48 are effective for the Company as of January 1, 2007, with cumulative effect, if any, of applying FIN 48 recorded as an adjustment to opening retained earnings in the year of adoption. The Company adopted FIN 48 on January 1, 2007, which did not have a material impact on the consolidated financial statements. See Note 7.

Note 2. Liquidity

The Company is in the development stage. Since its inception in 1980 through March 31, 2007, the Company has incurred losses of approximately $213 million, substantially all of which resulted from expenditures related to research and development, general and administrative expenses, non-cash write-downs in 2002 of $4,478,260 and in 2001 of $12,523,088 on short-term securities available-for-sale that had an other than temporary impairment as defined by SEC accounting rules and a one-time charge of $19,545,028 for acquired in-process research and development reflecting the acquisition of ImmunoTherapy Corporation. The Company has not generated any material revenue from product sales to date, and there can be no assurance that revenues from product sales will be achieved. Moreover, even if the Company does achieve revenues from product sales, the Company expects to incur operating losses over the next several years.

The financial statements have been prepared assuming that the Company will continue as a going concern. The Company s ability to achieve a profitable level of operations in the future will depend in large part on completing product development of its antisense products,

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obtaining regulatory approvals for such products, and bringing these products to market. During the period required to develop these products, the Company will require substantial additional financing. There is no assurance that such financing will be available when needed or that the Company s planned products will be commercially successful. The Company believes it has sufficient cash to fund operations through 2007. For 2007, the Company expects expenditures for operations, including collaborative efforts and GMP facilities to be approximately $25 to $28 million. Expenditures for 2007 could increase if the Company undertakes additional collaborative efforts. If necessary, however, the Company s management has the ability to significantly curtail certain expenditures because a significant amount of the Company s costs are variable.

In December 2006, the Company announced the execution of a two-year $28 million research contract with the Defense Threat Reduction Agency (DTRA), an agency of the United States Department of Defense (DoD). The contract is directed toward funding the Company s development of antisense therapeutics to treat the effects of Ebola, Marburg and Junin hemorrhagic viruses, which are seen as biological warfare and bioterrorism agents. Funding under this contract is expected over two years, with approximately $18.0 million committed in the first year, and the remainder anticipated in the second year. In the first quarter of 2007, the Company recognized $485,292 in research contract revenue from this contract.

In January 2006, the Company announced that the final version of the 2006 defense appropriations act had been approved, which included an allocation of $11.0 million to fund its ongoing defense-related programs. Net of government administrative costs, it is anticipated that the Company will receive up to $9.8 million under this allocation. The Company s NEUGENE® technology is expected to be used to continue developing therapeutic agents against Ebola, Marburg and dengue viruses, as well as to continue developing countermeasures for anthrax exposure and antidotes for ricin toxin. The Company has received signed contracts for three of the projects, with government expenditures of $7.1 million. The Company continues to work with the government to define the scope of work to be performed on the fourth project, dengue viruses. The Company expects that funding under these contracts will be received over the next 12 months as it seeks reimbursement for its research under the contracts, and such funding has not yet been received and is not reflected in the Company s 2007 first quarter financial statements.

The likelihood of the long-term success of the Company must be considered in light of the expenses, difficulties and delays frequently encountered in the development and commercialization of new pharmaceutical products, competitive factors in the marketplace as well as the burdensome regulatory environment in which the Company operates. There can be no assurance that the Company will ever achieve significant revenues or profitable operations. In this regard, the Company s long term success may be adversely affected by the resignation of the Company s Chief Executive Officer in March 2007, as the Company must find a permanent CEO.

Note 3. Earnings Per Share

Basic EPS is calculated using the weighted average number of common shares outstanding for the period and diluted EPS is computed using the weighted average number of common shares and dilutive common equivalent shares outstanding. Given that the Company is in a loss position, there is no difference between basic EPS and diluted EPS since the common stock equivalents would be antidilutive.

Three Months Ended March 31,	2007	2006
Net loss	$ (9,722,975)	$ (9,061,150)
Weighted average number of shares of common stock and common stock equivalents outstanding:		
Weighted average number of common shares Outstanding for computing basic earnings per share	53,241,730	51,715,050
Dilutive effect of warrants and stock options after application of the treasury stock method	*	*
Weighted average number of common shares outstanding for computing diluted earnings per share	53,241,730	51,715,050
Net loss per share - basic and diluted	$ (0.18)	$ (0.18)

* Warrants and stock options to purchase 15,173,475 and 17,214,065 shares of common stock as of March 31, 2007 and 2006, respectively, were excluded from the earnings per share calculation as their effect would have been antidilutive.

Note 4. Comprehensive Income and securities available for sale

Comprehensive income (loss) includes charges or credits to equity that did not result from transactions with shareholders. The Company s only component of other comprehensive income (loss) is unrealized gain (loss) on cash equivalents and short-term securities available-for-sale. Accordingly, such investment securities are stated on the balance sheet at their fair market value. The Company classifies its investment securities with an original maturity of three months or less from the date of purchase as cash equivalents. The Company classifies its investment securities with an original maturity of more than three months from the date of purchase as short-term securities available-for-sale. At March 31, 2007 and December 31, 2006, the Company s investments in marketable securities had gross unrealized gains of $16,377 and $18,418, respectively. The unrealized difference between the adjusted cost and the fair market value of these securities has been reflected as a separate component of shareholders equity. The following table sets forth the calculation of comprehensive income for the periods indicated:

	Three Months Ended March 31, 2007	2006
Net loss	$ (9,722,975)	$ (9,061,150)
Unrealized gain (loss) on marketable securities	(2,041)	1,890
Total comprehensive loss	$ (9,725,016)	$ (9,059,260)

Note 5. Significant Agreements

On January 8, 2007, the Company announced that it had entered into a cross-license agreement with Eleos Inc. for the development of antisense drugs targeting p53, a well-studied human protein that controls cellular response to genetic damage. Under the terms of the agreement, the Company is granting Eleos Inc. an exclusive license to the

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Company s NEUGENE® third-generation antisense chemistry to treat cancer with p53-related drugs. In return, Eleos Inc. is granting the Company an exclusive license to its patents for treatment of most viral diseases with drugs that target p53. The companies are sharing rights in other medical fields where targeting p53 may be therapeutically useful. Each company will make milestone payments and royalty payments to the other on development and sales of products that utilize technology licensed under the agreement. In addition, Eleos Inc. is making an upfront payment of $500,000 to the Company. The Company recognized $31,250 in license fees in the first quarter of 2007; the remaining $468,750 has been classified as deferred revenue.

In February 2007, the Company issued 100,000 shares of the Company s common stock with a market value of $300,000 for consulting services, which was expensed to research and development.

On March 27, 2007, the Board of Directors appointed K.Michael Forrest as interim Chief Executive Officer and set his compensation as follows: (a) annual salary - $385,000 and (b) options to acquire 300,000 shares of the Company s common stock. The stock options granted to Mr. Forrest become exercisable starting one month after the grant date, with one-twelfth of the options becoming exercisable at that time and an additional one-twelfth of the options becoming exercisable each month thereafter. The exercise price is $2.45 per share.

On March 27, 2007, in connection with the resignation of AVI s Chairman and Chief Executive Officer, the Company entered into a Separation and Release Agreement, pursuant to which the former Chairman and CEO is entitled to receive his base compensation for 18 months ($562,500 in the aggregate) and medical insurance for the same 18 month period and may exercise his previously granted options until March 28, 2010. The Company recognized $1,619,872 in total compensation expense to general and administrative in the first quarter of 2007, including $562,500 in cash compensation and $1,057,372 in SFAS 123R expenses.

Note 6. Other current assets

Amounts included in other current assets are as follows:

	March 31, 2007	December 31, 2006
Prepaid expenses	$ 449,263	$ 480,003
Prepaid rents	102,837	100,838
Restricted cash	157,386	155,442
Other current assets	$ 709,486	$ 736,283

Starting in April 2006, the Company was required to pledge $150,000 as collateral for company credit cards issued to certain employees. The Company classifies this amount as restricted cash. As of March 31, 2007, restricted cash including accrued interest was $157,386. The remaining components of other current assets include normally occurring prepaid expenses and rents.

Note 7. Income Taxes

The Company adopted the provisions of FIN 48 on January 1, 2007, which did not materially impact its consolidated financial statements. No unrecognized tax benefits were recorded as of the date of adoption. As a result of the implementation of FIN 48, the Company did not recognize any liability for unrecognized tax benefits. There are no unrecognized tax benefits included in the balance sheet that would, if recognized, affect the effective tax rate.

The Company s policy is to recognize interest and/or penalties related to income tax matters in income tax expense. The Company had no accrual for interest or penalties on its balance sheet at March 31, 2007 and at December 31, 2006, and has not recognized interest and/or penalties in the statement of operations for the three months ended March 31, 2007.

At January 1, 2007, the Company had net deferred tax assets of $79,398,000. The deferred tax assets are primarily composed of federal and state tax net operating loss carryforwards, federal and state R&D credit carryforwards, share-based compensation expense and intangibles. Due to uncertainties surrounding its ability to generate future taxable income to realize these assets, a full valuation allowance has been established to offset its net deferred tax asset. Additionally, the Internal Revenue Code rules under Section 382 could limit the future use of its net operationg loss and R&D credit carryforwards to offset future taxable income based on ownership changes and the value of the Company s stock.

Note 8. Subsequent Events

On April 19, 2007, the Company entered into a real property purchase agreement with WKL Investments Airport, LLC (WKL) to purchase a parcel of real property at 1749 SW Airport Avenue, Corvallis, Oregon 97330, including improvements situated on the land and intangibles related to the land. Under the terms of the real property purchase agreement, the total purchase price of the property is $3,300,000. The Company paid the purchase price as follows: paid $250,000 in an earnest money deposit, assumed two loans secured by the property in the amount of $2,196,208, paid $125,000 in immediately available funds, and issued 270,758 shares of AVI common stock (at $2.77 per share or $750,000 in the aggregate) to WKL in exchange for the property. As of March 31, 2007, the Company recorded $250,000 in an earnest money deposit to other assets.

On May 2, 2007, the Company entered into a cross-license and collaboration agreement with Ercole Biotech, Inc. (Ercole) to develop drugs that may prove effective in treating the genetic diseases Duchenne muscular dystrophy and beta thalassemia and a stock purchase agreement in connection therewith. Under the terms of the stock purchase agreement, Ercole issued AVI shares of Ercole Series A 2 Preferred Stock, and the Company issued to Ercole 73,607 shares of the Company s common stock with a market value of $200,000.

Item 2. Management s Discussion and Analysis or Plan of Operations

This section should be read in conjunction with the same titled section contained in our Annual Report on Form 10-K as filed with the SEC for the year ended December 31, 2006 and the Risk Factors contained in such report.

Forward-Looking Information

The Financial Statements and Notes thereto should be read in conjunction with the following discussion. The discussion in this Form 10-Q contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Exchange Act. Forward looking statements are identified by such words as believe, expect, anticipate and words of similar import. All statements other than historical or current facts, including, without limitation, statements about our business strategy, plans and objectives of management and our future prospects, are forward-looking statements. Such forward-looking statements involve risks and uncertainties, including, but not limited to, the results of research and development efforts, the success of raising funds in the current offering or future offerings under our current shelf registration, the results of pre-clinical and clinical testing, the effect of regulation by FDA and other agencies, the impact of competitive products, product development, commercialization and technological difficulties, and other risks detailed in the Company s Securities and Exchange Commission filings, that could cause actual results to differ materially from the expected results reflected in such forward looking statements.

Overview

From our inception in 1980, we have devoted our resources primarily to fund our research and development efforts. We have been unprofitable since inception and, other than limited interest, license fees, grants and research contracts, we have had no material revenues from the sale of products or other sources, other than from government grants and research contracts, and we do not expect material revenues for the foreseeable future. We expect to continue to incur losses for the foreseeable future as we continue to expand our research and development efforts and enter additional collaborative efforts. As of March 31, 2007, the Company s accumulated deficit was $213,444,231.

Results of Operations

Revenues, from license fees, grants and research contracts, increased to $536,042 in the first quarter of 2007 from $65,962 in the comparable period in 2006, due to increases in research contracts revenues of $485,292 and license fees of $31,250, partially offset by decreases in grants revenues of $46,462.

Operating expenses increased to $10,621,526 in the first quarter of 2007 from $9,584,971 in the first quarter of 2006 due to increases in general and administrative, which increased to $4,303,885 in 2007 from $2,821,726 in the comparable period in 2006. This general and administrative increase was due primarily to increases in employee costs of approximately $1,200,000, of which approximately $1,620,000 (including $562,500 in cash compensation and $1,057,372 in SFAS 123R expenses) was related to the Separation and Release Agreement with the Company s former Chief Executive Officer, partially offset by decreases in SFAS 123R expenses of approximately $130,000 and salaries and bonuses of approximately $330,000. General and administrative also includes increases in legal expenses of approximately $230,000 and accounting expenses of approximately $50,000. Research and development decreased to $6,317,641 in the first quarter of 2007 from $6,763,245 in the first quarter of 2006. This research and development decrease was due primarily to decreases in employee costs of approximately $940,000, of which approximately $430,000 was related to the acceleration of the vesting of certain stock options in the first quarter of 2006 and decreases in SFAS 123R expenses of approximately $140,000 and salaries and bonuses of approximately $360,000, partially offset by increases in chemical and lab supply costs of approximately $390,000, government contract related equipment expenses of approximately $350,000, and professional consultant costs of approximately $160,000. The remaining research and development decrease was due to net decreases in clinical trial related expenses of approximately $500,000, partially offset by increases in leasehold and patent amortization expenses of approximately $50,000 and facility costs of approximately $40,000. Net interest income decreased to $362,509 in the first quarter of 2007 from $457,859 in the first quarter of 2006 due to decreases in average cash, cash equivalents and short-term securities, partially offset by increases in average interest rates of the Company s interest earning investments.

Liquidity and Capital Resources

The Company does not expect any material revenues in 2007 or 2008 from its business activities other than from potential government grants and research contracts. The Company expects that its cash requirements through 2007 will be satisfied by existing cash resources. To fund its operations beyond 2007, the Company will need to secure additional funds. Such funds could come from technology license fees, government grants and research contracts, and accessing capital markets.

In December 2006, the Company announced the execution of a two-year $28 million research contract with the Defense Threat Reduction Agency (DTRA), an agency of the United States Department of Defense (DoD). The contract is directed toward funding the

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Company s development of antisense therapeutics to treat the effects of Ebola, Marburg and Junin hemorrhagic viruses, which are seen as biological warfare and bioterrorism agents. Funding under this contract is expected over two years, with approximately $18.0 million committed in the first year, and the remainder anticipated in the second year. In the first quarter of 2007, the Company recognized $485,292 in research contract revenue from this contract.

In January 2006, the Company announced that the final version of the 2006 defense appropriations act had been approved, which included an allocation of $11.0 million to fund its ongoing defense-related programs. Net of government administrative costs, it is anticipated that the Company will receive up to $9.8 million under this allocation. The Company s NEUGENE® technology is expected to be used to continue developing therapeutic agents against Ebola, Marburg and dengue viruses, as well as to continue developing countermeasures for anthrax exposure and antidotes for ricin toxin. The Company has received signed contracts for three of the projects, with government expenditures of $7.1 million. The Company continues to work with the government to define the scope of work to be performed on the fourth project, dengue viruses. The Company expects that funding under these contracts will be received over the next 12 months as it seeks reimbursement for its research under the contracts, and such funding has not yet been received and is not reflected in the Company s 2007 first quarter financial statements .

The Company s cash, cash equivalents and short-term securities were $27,046,111 at March 31, 2007, compared with $33,152,132 at December 31, 2006. The decrease of $6,106,021 was due primarily to $5,494,018 used in operations and $609,962 used for purchases of property and equipment and patent related costs.

The Company s short-term securities include certificates of deposit, commercial paper and other highly liquid investments with original maturities in excess of 90 days at the time of purchase and less than one year from the balance sheet date. The Company classifies its investment securities as available-for-sale and, accordingly, such investment securities are stated on the balance sheet at their fair market value with unrealized gains (losses) recorded as a separate component of shareholders equity and comprehensive income (loss).

The Company s future expenditures and capital requirements depend on numerous factors, most of which are difficult to project beyond the short term, including without limitation, the progress of its research and development programs, the progress of its pre-clinical and clinical trials, the time and costs involved in obtaining regulatory approvals, the cost of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights, competing technological and market developments, its ability to establish collaborative arrangements and the terms of any such arrangements, and the costs associated with commercialization of its products. The Company s cash requirements are expected to continue to increase each year as the Company expands its activities and operations. There can be no assurance, however, that the Company will ever be able to generate product revenues or achieve or sustain profitability.

In addition, the Company s prospects for profitability and long term success may be adversely affected by the recent resignation of its Chief Executive Officer. There can be no assurance that the Company will be able to find and employ a permanent CEO that will be able to lead the Company successfully in the near term. The failure to secure a permanent replacement may adversely affect the Company s research and development efforts.

The Company expects to continue to incur losses as it expands its research and development activities and related regulatory work and increases its collaborative efforts. For 2007, the Company expects expenditures for operations, including collaborative efforts and GMP facilities to be approximately $25 to $28 million. Expenditures for 2007 could increase if the Company undertakes additional collaborative efforts. If necessary, however, the Company s management has the ability to significantly curtail certain expenditures because a significant amount of the Company s costs are variable.

Critical Accounting Policies and Estimates

The discussion and analysis of the Company s financial condition and results of operations are based upon its financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. The Company s critical accounting policies and estimates are consistent with the disclosure in the Company s Form 10-K.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

There has been no material change in the Company s market risk exposure since the filing of our 2006 Annual Report on Form 10-K.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

As of March 31, 2007, the Company carried out an evaluation, under the supervision and with the participation of its management, including its Chief Executive Officer and its Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures pursuant to Rule 13a-15(e) under the Securities Exchange Act of 1934. Based on this review of its disclosure controls and procedures, the Chief Executive Officer and the Chief Financial Officer have concluded that its disclosure controls and procedures are effective in timely alerting them to material information relating to the Company that is required to be included in our periodic SEC filings.

Internal Controls and Procedures

There were no significant changes in internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

None

Item 1A. Risk Factors.

In March 2007, the Company s Chief Executive officer resigned and an interim CEO was appointed. The Company intends to commence a search for a permanent replacement. There can be no assurance that the Company will be able to find and employ a new permanent CEO that will be able to lead the Company successfully in the near term. The failure to secure a permanent replacement may adversely affect the Company s research and development efforts.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None

Item 3 Defaults Upon Senior Securities.

None

Item 4. Submission of Matters to a Vote of Securities Holders.

None

Item 5. Other Information.

None

Item 6. Exhibits

		Incorporated by Reference to Filings Indicated				
Exhibit No	**Exhibit Description**	**Form**	**File No.**	**Exhibit**	**Filing Date**	**Filed Herewith**
4.1	Third Restated Articles of Incorporation of AntiVirals Inc.	SB-2	333-20513	3.1	5/29/97	
4.2	First Amendment to Third Restated Articles of Incorporation of AntiVirals Inc.	8-K	0-22613	3.3	9/30/98	
4.3	Amendment to Article 2 of the Company s Third Restated Articles of Incorporation	DEF 14A	1-14895	N/A	4/11/02	
4.4	Bylaws of AntiVirals Inc.	SB-2	333-20513	3.2	5/29/97	
10.58+	Cross License Agreement dated January 8, 2007 by and between Eleos, Inc. and AVI BioPharma, Inc.					X
10.59	Separation and Release Agreement dated March 27, 2007 by and between Denis R. Burger, Ph.D. and AVI BioPharma, Inc.					X
31.1	Certification of the Company s Chief Executive Officer, K. Michael Forrest, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X

31.2	Certification of Chief Financial Officer, Mark M. Webber pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X
32	Certification of the Company s Chief Executive Officer, K. Michael Forrest, and Chief Financial Officer, Mark M. Webber, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X

Materials in the exhibit marked with a + have been omitted pursuant to a request for confidential treatment filed with the Securities and Exchange Commission. Omitted portions have been filed separately with the Securities and Exchange Commission.

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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.

Date:May 10, 2007

AVI BIOPHARMA, INC.

By: /s/ K. MICHAEL FORREST
K. Michael Forrest
Chief Executive Officer
(Principal Executive Officer)

By: /s/ MARK M. WEBBER
Mark M. Webber
Chief Financial Officer and Chief Information Officer
(Principal Financial and Accounting Officer)

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