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HAIN CELESTIAL GROUP INC
Form 10-K/A
November 02, 2005

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

FORM 10-K/A
(Amendment No. 1)

(Mark One)

☒ Annual Report Pursuant to Section 13 or 15(d) of the
Securities and Exchange Act of 1934

For The Fiscal Year Ended June 30, 2005

☐ Transition Report pursuant to Section 13 or 15(d) of The Securities Exchange
Act of 1934 for the transition period from _____ to _____.

Commission File No. 0-22818

THE HAIN CELESTIAL GROUP, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

22-3240619
(I.R.S. Employer
Identification No.)

58 South Service Road
Melville, New York
(Address of principal executive offices)

11747
(Zip Code)

Registrant's telephone number, including area code: (631) 730-2200

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value \$.01 per share
(Title of class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to Form 10-K.

☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes ☒ No ☐

Indicate by check mark whether the registrant is a shell company (as defined in

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Rule 12b-2 of the Act). Yes ☐ No ☒

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant based upon the closing price of the registrant's stock, as quoted on the Nasdaq National Market on December 31, 2004, the last business day of the registrant's most recently completed second fiscal quarter, was \$621,035,069.

As of September 1, 2005, there were 36,680,242 shares outstanding of the registrant's Common Stock, par value \$.01 per share.

Documents Incorporated by Reference

Document	Part of the Form 10-K into which Incorporated
The Hain Celestial Group, Inc. Definitive Proxy Statement for the Annual Meeting of Stockholders to be Held December 1, 2005	Part III

EXPLANATORY NOTE

The undersigned registrant hereby amends the Form 10-K originally filed on September 13, 2005 (the "Form 10-K") in order to reflect the change in the date of the registrant's Annual Meeting of Stockholders from November 15, 2005 to December 1, 2005, as well as certain other minor updates and language changes. This Form 10-K/A does not reflect events occurring after the filing of the Form 10-K. Investors should rely on the Form 10-K and amendments thereto for information regarding the fiscal year ended June 30, 2005.

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PART I THE HAIN CELESTIAL GROUP, INC.

Item 1. Business.

Unless otherwise indicated, references in this Annual Report to 2005, 2004, 2003 or "fiscal" 2005, 2004, 2003 or other years refer to our fiscal year ended June 30 of that year and references to 2006 or "fiscal" 2006 refer to our fiscal year ending June 30, 2006.

General

The Hain Celestial Group, Inc., a Delaware corporation, and its subsidiaries (collectively, the "Company", and herein referred to as "we", "us", and "our") manufacture, market, distribute and sell natural and organic food products and natural personal care products under brand names which are sold as "better-for-you" products. We are a leader in many of the top natural food categories, with such well-known food brands as Celestial Seasonings(R) teas, Hain Pure Foods(R), Westbrae(R), Westsoy(R), Rice Dream(R), Soy Dream(R), Imagine(R), Walnut Acres Organic(TM), Ethnic Gourmet(R), Rosetto(R), Little Bear

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Organic Foods(R), Bearitos(R), Arrowhead Mills(R), Health Valley(R), Breadshop's(R), Casbah(R), Garden of Eatin'(R), Terra Chips(R), Harry's Premium Snacks(R), Boston's(R), Lima(R), Biomarche(R), Grains Noirs(R), Natumi(R), Milkfree, Yves Veggie Cuisine(R), DeBoles(R), Earth's Best(R), and Nile Spice(R). The Company's principal specialty product lines include Hollywood(R) cooking oils, Estee(R) sugar-free products, Boston Better Snacks(R), and Alba Foods(R). Our natural personal care products line is marketed under the JASON(R), Zia(R), Orjene(R), Shaman Earthly Organics(TM), and Heather's(R) brands.

Our products are sold primarily to specialty and natural food distributors and are marketed nationally to supermarkets, natural food stores, and other retail classes of trade including mass-market stores, drug stores, food service channels and club stores. During 2005, 2004 and 2003, approximately 47%, 39% and 42%, respectively, of our revenues were derived from products manufactured within our own facilities. The remaining 53%, 61% and 58% for 2005, 2004 and 2003, respectively, of our revenues were derived from products which are produced by independent food manufacturers ("co-packers") using proprietary specifications controlled by us.

Since our formation, we have completed a number of acquisitions of companies and brands. In the last three fiscal years, we have acquired the following companies and brands:

- o On April 4, 2005, we acquired Zia Cosmetics, Inc., including the Zia(R) Natural Skincare brand, a respected leader in therapeutic products for healthy, beautiful skin sold mainly through natural food retailers.
- o On June 3, 2004, we acquired Jason Natural Products, Inc., a California-based manufacturer and marketer of natural personal care products.
- o On May 27, 2004, we acquired the Rosetto and Ethnic Gourmet brands of H.J. Heinz Company, L.P. ("Heinz"), which produce and market frozen pasta and natural ethnic frozen meals, respectively. Heinz owned approximately 16.7% of our common stock at the time of the transaction.
- o On February 25, 2004, we acquired Natumi AG, a German producer and marketer of soymilk and other non-dairy products.
- o On June 17, 2003, we acquired Acirca, Inc., a New York based manufacturer, distributor and marketer of natural and organic juices, pasta sauces, soups and salsas under the Walnut Acres Organic(TM) brand.
- o On May 14, 2003, we acquired Grains Noirs, N.V., a Belgian producer and marketer of fresh prepared organic appetizers, salads, sandwiches and other full-plated dishes.

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- o On December 2, 2002, we acquired the assets and brands of Imagine Foods, Inc. ("Imagine") in the United States and the United Kingdom. Imagine is a non-dairy beverage brand specializing in aseptic and refrigerated rice and soymilks, organic aseptic soups and broths, and organic non-dairy frozen desserts under the Rice Dream(R), Soy Dream(R) and Imagine(R) brands.

Our brand names are well recognized in the various market categories they serve. We have acquired numerous brands since our formation (in addition to those

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mentioned above) and we will seek future growth through internal expansion as well as the acquisition of complementary brands.

Our overall mission is to be a leading marketer and seller of natural and organic food products and natural personal care products by anticipating and exceeding consumer expectations and providing quality, innovation, value and convenience. Our business strategy is to integrate all of our brands under one management team and employ a uniform marketing, sales and distribution program. We capitalize on the brand equity and the distribution achieved through each of our acquired brands with strategic introductions of new product lines that complement existing product lines to enhance revenues and margins. We believe that by integrating our various brands, we will achieve economies of scale and enhanced market penetration. We consider the acquisition of natural and organic food companies and product lines as an integral part of our business strategy. To that end, we do, from time to time, review and conduct discussions with acquisition candidates.

As of June 30, 2005, we employed a total of 1,487 full-time employees. Of these employees, 165 were in sales and 792 in production, with the remaining 530 employees filling management, accounting, marketing, operations and clerical positions.

Products

Grocery

We develop, manufacture, market and distribute a comprehensive line of natural and organic grocery products consisting of over 1,500 branded items in numerous categories including non-dairy drinks (soy and rice milk), popcorn cakes, cookies, crackers, flour and baking mixes, hot and cold cereals, pasta, baby food, condiments, cooking oils, granolas, granola bars, cereal bars, canned, aseptic and instant soups, chilis, packaged grain, nut butters and nutritional oils, juices, frozen desserts, pastas and ethnic meals, as well as other food products. Our Hain(R), Westbrae(R), Westsoy(R), Imagine(R), Rice Dream(R), Soy Dream(R), Walnut Acres Organic(TM), Ethnic Gourmet(R), Bearitos(R), Arrowhead Mills(R), DeBoles(R), Health Valley(R), Hollywood(R), Casbah(R), Breadshop's(R), Nile Spice(R), Earth's Best(R) and Lima(R) brands comprise this full line of natural or organic grocery products. We are a leader in many of the top natural food categories. Natural foods are defined as foods that are minimally processed, largely or completely free of artificial ingredients, preservatives, and other non-naturally occurring chemicals, and are as near to their whole natural state as possible. Many of our products are also made with "organic" ingredients that are grown without dependence upon artificial pesticides, chemicals or fertilizers. Grocery accounted for approximately 55% of total net sales in 2005, 56% in 2004 and 53% in 2003.

Snacks

We develop, manufacture, market and distribute over 250 branded items including a variety of potato and vegetable chips, organic tortilla style chips, pretzels, popcorn and potato chips under the Terra Chips(R), Garden of Eatin'(R), Little Bear(R), Boston's Popcorn(R) and Harry's Premium Snacks(R) names. Terra Chips(R) natural food products consist of varieties of potato chips, potato sticks (known as Frites(R)), sweet potato chips and other vegetable chips. Garden of Eatin'(R) natural food products consist of organic tortilla chip products and other snacks. Boston Popcorn(R) and Harry's(R) products consist of popcorn, potato chips, tortilla chips and other snack food items. Snacks accounted for approximately 14% of total net sales in 2005, 14% in 2004 and 15% in 2003.

Teas

Our tea products are 100% natural and are made from high-quality, natural flavors and ingredients and are generally offered in 10, 20 and 40 count packages. We are the leading specialty tea brand in North America. Our teas are sold in grocery, natural foods and other retail stores. We develop flavorful, unique blends with attractive, colorful and thought-provoking packaging. Our products include herb teas such as Sleepytime(R), Lemon Zinger(R), Peppermint, Chamomile, Mandarin Orange Spice(R), Cinnamon Apple Spice, Red Zinger(R), Raspberry Zinger(R), Tension Tamer(R), Country Peach Passion(R) and Wild Berry Zinger(R), a line of green teas, a line of wellness teas, a line of organic teas, and a line of specialty black teas and chais. Our tea products include over 80 flavors made from 100% natural ingredients. The types of teas offered include herb, red (rooibos), honeybush, white, green, black and chai. Our teas are offered both with and without caffeine. We also offer Cool Brew iced teas, natural ciders, and Teahouse Chais. Tea beverages accounted for approximately 16% of total net sales in 2005, 18% in 2004 and 20% in 2003.

Personal Care Products

We manufacture and market a full line of personal care products including skin care, hair care, body care, oral care, and deodorants under the JASON(R), Zia(R), Orjene(R) and Shaman Earthly Organics(TM) brands. The majority of our products are under the JASON(R) brand, which consists of approximately 300 items across all five of the product categories that we participate in. We also manufacture and market a brand of natural cleaning products called Heather's(R), which consists of seven items.

Other

Fresh

We process, market and distribute fresh produce and prepared meals from our Biomarche and Grains Noirs facilities in Belgium. Products include fresh cut organic fruits and vegetables packaged for distribution to supermarkets and other retail outlets, and fresh appetizers and full-plated meals for distribution to retailers, caterers, and food service providers, principally transportation providers.

On July 1, 2005, we began processing natural and organic, antibiotic- and hormone-free chickens marketed and distributed to natural food stores, supermarkets, and food service providers. We market our chickens under a license agreement for use of the Raised Right(R) brand.

Meat Alternative Products

We manufacture, distribute and market a full line of soy protein meat alternative products under the Yves brand name including such well known products as The Good Dog(R), The Good Lunch(R) and The Good Slice(R), among others. Meat alternative products provide consumers with the health benefits of soy without the health concerns associated with traditional meat products. Yves meat alternative products consist of approximately 60 items including veggie burgers, veggie wieners, veggie slices, veggie entrees and veggie ground round. Our Yves meat alternative brand operates from its facility in Vancouver, British Columbia in Canada and is the principal brand of our operations in Canada.

Medically-Directed and Weight Management Products

Our Estee(R) and Featherweight(R) businesses market and distribute a full line of sugar-free, fructose-sweetened and low-sodium products targeted towards

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diabetic and health conscious consumers and persons on medically-restricted diets.

We continuously evaluate our existing products for taste, nutritional value and cost and make improvements where possible. We will discontinue products or stock keeping units when sales of those items do not warrant further production. During fiscal 2005, we initiated a stock keeping unit (SKU) rationalization program which resulted in the

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discontinuation of numerous SKUs, the elimination of which resulted in a pre-tax charge to fiscal 2005 earnings of approximately \$12.1 million.

New Product Initiatives Through Research and Development

We consider research and development of new products to be a significant part of our overall philosophy and we are committed to developing high-quality products. A team of professional product developers works with a sensory technologist to test product prototypes with consumers. Our Research and Development Department incorporates product ideas from all areas of our business in order to formulate new products. In addition to developing new products, the Research and Development Department routinely reformulates and revises existing products. We incurred approximately \$2.6 million in Company-sponsored research and development activities in 2005, \$2.0 million in 2004 and \$1.7 million in 2003.

Sales and Distribution

Our products are sold in all 50 states and in approximately 50 countries. Certain of our product lines have seasonal fluctuations (e.g., hot tea products, baking and cereal products and soup sales are stronger in cold months while sales of snack food products are stronger in the warmer months).

A majority of the products marketed by us are sold through independent food distributors. Over half of these sales orders are received from third-party food brokers. We utilize a direct sales force for sales into natural food stores that has allowed us to reduce our reliance on food brokers. Food brokers act as agents for us within designated territories, usually on a non-exclusive basis, and receive commissions. Food distributors purchase products from us for resale to retailers. Because food distributors take title to the products upon purchase, product pricing decisions on sales of our products by the distributors are generally made in their sole discretion, although we may participate in product pricing during promotional periods.

Our customer base consists principally of mass-market merchandisers, natural food distributors, supermarkets, drug store chains, club stores and grocery wholesalers. Recently, growth of natural and organic foods has shifted from the natural food channel to the grocery channels as mainstream grocery distributors and retailers provide these products to meet consumer demand and awareness. In fiscal 2005, one of our distributors, United Natural Foods, Inc., accounted for approximately 22% of net sales. Two of our distributors, United Natural Foods, Inc. and Tree of Life, accounted for approximately 20% and 12%, respectively, in 2004 and approximately 18% and 15%, respectively, in 2003. Net sales to export customers account for less than 5% of total net sales for each of the three years in the period ended June 30, 2005.

Our international subsidiaries in Canada and Europe sell to all channels of distribution in the countries they serve. International sales represented approximately 21.1% of total net sales in 2005, 20.3% in 2004 and 17.3% in 2003.

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Marketing

We use a mix of trade and consumer promotions as well as media advertising to market our products. We use trade advertising and promotion, including placement fees, cooperative advertising and feature advertising in distribution catalogs. We also utilize advertising and sales promotion expenditures via national and regional consumer promotion through television and magazine advertising, couponing and other trial use programs. In each of 2003, 2004 and 2005, we have increased our investment in consumer spending to enhance brand equity while closely monitoring our trade spending. These consumer spending categories include, but are not limited to, consumer advertising using television, radio and print, coupons, direct mailing programs and other forms of promotions. There is no guarantee that these promotional investments in consumer spending will be successful.

Manufacturing Facilities

We currently manage and operate the following manufacturing facilities located throughout the United States: Celestial Seasonings(R), in Boulder, Colorado, which produces specialty teas; Terra Chips(R), in Moonachie, New Jersey,

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which produces vegetable chips; Arrowhead Mills(R), in Hereford, Texas, which produces hot and cold cereals, baking goods and meal cups; DeBoles(R), in Shreveport, Louisiana, which produces organic pasta; Ethnic Gourmet(R), in Framingham, Massachusetts, which produces frozen meals; Rosetto(R), in West Chester, Pennsylvania, which produces frozen pasta; and JASON(R), in Culver City, California, which produces personal care products. We formerly operated a manufacturing facility in Irwindale, California, producing hot and cold cereals, baked goods, granola, granola bars, dry soups and other products under the Health Valley(R), Breadshop(R) and Casbah(R) labels. During fiscal 2003, we sold the manufacturing assets of our Irwindale facility to a co-pack manufacturer who continues to manufacture products for us at that facility. The co-pack manufacturer has entered into a lease directly with the landlord of the facility.

Outside the United States, we have the following manufacturing facilities: Yves Veggie Cuisine(R) in Vancouver, British Columbia, which produces soy-based meat alternative products; Hain Celestial Belgium, with its Lima, N.V. facility in Maldegem, Belgium, which manufactures natural and organic food products, its Biomarche(R) facility in Sombrefe, Belgium, which processes fresh organic produce and prepared salads, its Grains Noirs(R) facility in Brussels, Belgium, which prepares fresh organic appetizers, salads, sandwiches and other full-plated dishes, and its Natumi facility in Eitorf, Germany, which produces soymilk and other non-dairy products.

We own the manufacturing facilities in Moonachie, New Jersey; Boulder, Colorado; Hereford, Texas; Shreveport, Louisiana; West Chester, Pennsylvania and Vancouver, British Columbia. We also own the Lima and Biomarche(R) facilities in Belgium. During 2005, 2004 and 2003, approximately 47%, 39% and 42%, respectively, of our revenue was derived from products manufactured at our currently owned manufacturing facilities.

Suppliers of Ingredients and Packaging

Our natural and organic ingredients and our packaging materials and supplies are obtained from various sources and suppliers located principally in the United

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States and locally in Canada and Europe for our operations in these areas. Certain of our packaging and products are sourced from the Far East.

Our tea ingredients are purchased from numerous foreign and domestic manufacturers, importers and growers, with the majority of those purchases occurring outside of the United States.

We maintain long-term relationships with most of our suppliers. Purchase arrangements with ingredient suppliers are generally made annually and in the local currency of the country in which we operate. Purchases are made through purchase orders or contracts, and price, delivery terms and product specifications vary.

Our organic and botanical purchasers visit major suppliers around the world annually to procure ingredients and to assure quality by observing production methods and providing product specifications. We perform laboratory analyses on incoming ingredient shipments for the purpose of assuring that they meet both our own quality standards and those of the U.S. Food and Drug Administration (FDA) and the California Organic Foods Act of 1990.

Co-Packed Product Base

During 2005, 2004 and 2003, approximately 53%, 61% and 58%, respectively, of our revenue was derived from products manufactured at independent co-packers. Currently, independent food manufacturers, who are referred to in our industry as co-packers, manufacture many of our products, including our Health Valley(R), Breadshop's(R), Casbah(R), Bearitos(R), Nile Spice(R), Harry's Premium Snacks(R), Boston's(R), Alba Foods(R), Estee(R), Earth's Best(R), Garden of Eatin'(R), Hain Pure Foods(R), Hollywood(R), Little Bear Organic Foods(R), Westbrae(R), Westsoy(R), Rice Dream(R), Soy Dream(R), Imagine(R), Walnut Acres Organic(R), Lima(R) and some of our Terra Chips(R), Rosetto(R), Arrowhead Mills(R), Yves Veggie Cuisine(R) and Ethnic Gourmet(R) product lines.

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In the U.S., we presently obtain:

- o all of our requirements for non-dairy beverages from five co-packers, all of which are under contract or other arrangements;
- o all of our U.S. requirements for rice cakes from one co-packer;
- o all of our Health Valley(R) baked goods and cereal products from one co-packer, which is under contract;
- o all of our cooking oils from one co-packer;
- o principally all of our Garden of Eatin(R) and Little Bear Organic Foods(R) tortilla chips from three co-packers, one of which is under contract;
- o a portion of our requirements for Terra(R) Yukon Gold, Red Bliss™, Terra Blues™, and Potpourri™ potato chips and Frites™ from one co-packer, which is under contract;
- o the requirements for our canned soups from four co-packers, which are under contract;
- o all of our Earth's Best(R) baby food products from seven co-packers, which

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are under contract;

- o a portion of our Ethnic Gourmet(R) products from one co-packer, which is under contract; and
- o all of our Zia(R) natural skin care products from four co-packers, which are under contract or other arrangements.

Trademarks

We believe that brand awareness is a significant component in a consumer's decision to purchase one product over another in the highly competitive food and beverage industry. Our trademarks and brand names for the product lines referred to herein are registered in the United States and a number of foreign countries and we intend to keep these filings current and seek protection for new trademarks to the extent consistent with business needs. We also copyright certain of our artwork and package designs. We own the trademarks for our principal products, including Arrowhead Mills(R), Bearitos(R), Breadshop's(R), Casbah(R), Celestial Seasonings(R), DeBoles(R), Earth's Best(R), Estee(R), Ethnic Gourmet(R), Garden of Eatin'(R), Hain Pure Foods(R), Health Valley(R), Imagine(R), JASON(R), Zia(R), Orjene(R), Shaman Earthly Organics(TM), Heather's(R), Little Bear Organic Foods(R), Nile Spice(R), Rice Dream(R), Rosetto(R), Soy Dream(R), Terra(R), Walnut Acres Organic(TM), Westbrae(R), Westsoy(R), Lima(R), Biomarche(R) and Yves Veggie Cuisine(R). Celestial Seasonings(R) has trademarks for most of its best-selling teas, including Sleepytime(R), Lemon Zinger(R), Mandarin Orange Spice(R), Red Zinger(R), Wild Berry Zinger(R), Tension Tamer(R), Country Peach Passion(R) and Raspberry Zinger(R).

Competition

We operate in highly competitive geographic and product markets, and some of these markets are dominated by competitors with greater resources. In addition, we compete for limited retailer shelf space for our products. Larger competitors include mainstream food companies such as General Mills, Nestle S.A., Kraft Foods, Groupe Danone, Kellogg Company, Unilever PLC, and Sara Lee Corporation. Retailers also market competitive products under their own private labels.

The beverage markets for both tea and soy beverages are large and highly competitive. Competitive factors in the tea industry include product quality and taste, brand awareness among consumers, variety of specialty tea flavors, interesting or unique product names, product packaging and package design, supermarket and grocery store shelf space, alternative distribution channels, reputation, price, advertising and promotion. Celestial Seasonings currently

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competes in the specialty tea market segment which includes of herb tea, green tea, wellness tea and black tea. Celestial Seasonings specialty tea products, like other specialty tea products, are priced higher than most commodity black tea products.

The principal competitors of Celestial Seasonings(R) on a national basis in the specialty teas market are Thomas J. Lipton Company (a division of Unilever PLC), Twinings (a division of Associated British Grocers) and R.C. Bigelow, Inc. In addition, in April 2004, Tazo Tea Company (a subsidiary of Starbucks Corporation) and Kraft Foods. announced a licensing agreement whereby Tazo products might gain additional access to grocery channels through placement by Kraft. Additional competitors include a number of regional specialty tea companies.

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The soy beverage market, including both aseptic and refrigerated products, has shown sustained growth over the past several years. A statement by the FDA endorsing the heart healthy benefits of soy in October 1999 spurred the growth in both the aseptic and refrigerated segments. Aseptic soymilk is the more mature product category of the two and in recent years, additional larger competitors entered the category but have since exited the category after unsuccessful regional launches. Westsoy(R) has taken advantage of the shelf space which became available and continues to be the number one and largest growing brand of aseptic soymilk in the grocery and natural channels.

Government Regulation

Along with our manufacturers, brokers, distributors and co-packers, we are subject to extensive regulation by federal, state and local authorities. The federal agencies governing our business include the Federal Trade Commission (FTC), FDA, United States Department of Agriculture (USDA), and Occupational Safety and Health Administration (OSHA). These agencies regulate, among other things, the production, sale, safety, advertising, labeling of and ingredients used in our products. Under various statutes, these agencies prescribe the requirements and establish the standards for quality, purity and labeling. Among other requirements, the USDA, in certain circumstances, must not only approve our products, but also review the manufacturing processes and facilities used to produce these products before these products can be marketed in the United States. In addition, advertising of our business is subject to regulation by the FTC. Our activities are also regulated by state agencies as well as county and municipal authorities. We are also subject to the laws of the foreign jurisdictions in which we manufacture and sell our products.

Independent Certification

We rely on independent certification, such as certifications of our products as "organic" or "kosher," to differentiate our products in natural and specialty food categories. The loss of any independent certifications could adversely affect our market position as a natural and specialty food company, which could harm our business.

We must comply with the requirements of independent organizations or certification authorities in order to label our products as certified. We utilize organizations such as Quality Assurance International (QAI) and Oregon Tilth to certify our products as organic under the guidelines established by the USDA. Similarly, we utilize appropriate kosher supervision organizations, such as The Union of Orthodox Jewish Congregations, The Organized Kashruth Laboratories, "KOF-K" Kosher Supervision, Kosher Overseers Associated of America and Upper Midwest Kashruth.

Available Information

The following information can be found on our website at <http://www.hain-celestial.com>:

- o our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission (SEC);
- o our policies related to corporate governance, including our Code of Business Conduct and Ethics applying to our directors, officers and employees (including our principal executive officer and principal financial and ac-

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counting officer) that we have adopted to meet the requirements set forth in the rules and regulations of the SEC; and

- o the charters of the Audit, Compensation and Corporate Governance & Nominating Committees of our Board of Directors.

We intend to satisfy the applicable disclosure requirements regarding amendments to, or waivers from, provisions of our Code of Ethics by posting such information on our website.

Item 2. Properties.

Our corporate headquarters are located in approximately 35,000 square feet of leased office space located at 58 South Service Road, Melville, New York 11747. The lease on this facility expires in 2012 with a current annual rental of approximately \$1.3 million.

We own a manufacturing and office facility in Boulder, Colorado, built in 1990 on 42 acres of Company-owned land. The facility has approximately 167,000 square feet, of which 50,000 square feet is office space and 117,000 square feet is manufacturing space for our teas. We also lease 81,000 square feet of warehouse space nearby which is used for the storage and shipment of our tea products. The lease expires in 2012, and provides for a current annual rental of approximately \$500,000.

We own a 75,000 square foot manufacturing facility in Moonachie, New Jersey where we manufacture our Terra(R) vegetable chip products.

We own and operate manufacturing and distribution centers in Hereford, Texas (136,000 square feet) and Shreveport, Louisiana (37,000 square feet) for certain of our natural food product lines.

We own and operate a 105,000 square foot manufacturing facility in West Chester, Pennsylvania that manufactures our Rosetto(R) frozen pasta and co-packs similar products for Heinz and others.

We lease a 28,864 square foot manufacturing facility in Framingham, Massachusetts which is used to manufacture Ethnic Gourmet(R) frozen meals. The lease on this facility expires in 2006 with a current annual rental of approximately \$300,000.

We lease a 24,275 square foot manufacturing facility in Culver City, California through 2011 that produces our JASON(R) personal care products. We also lease two nearby warehouse locations, a 39,000 square foot warehouse in Inglewood, California through 2007, and a 30,000 square foot warehouse in Culver City, California through 2007. The leases on these properties require aggregate annual rentals of approximately \$770,000.

We lease 375,000 square feet of warehouse space in a building located in Ontario, California. The lease provides for a minimum annual rental of approximately \$1.3 million and provides renewal options. The lease expires in 2008. This facility serves as one of our West Coast distribution centers for principally all of our product lines.

Outside the United States, we own and operate a 53,000 square foot manufacturing and office facility in Vancouver, British Columbia that produces soy protein meat alternative products; a 141,000 square foot manufacturing, distribution and office facility in Maldegem, Belgium, which produces natural and organic food

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products; and a 43,000 square foot processing and distribution center in Sombrefe, Belgium, which processes fresh organic produce. In addition, we lease a 30,000 square foot facility located in Brussels, Belgium, which produces fresh prepared appetizers and sandwiches. The lease on this property provides for annual rentals of approximately \$122,000 and expires in 2011. We also lease a 46,000 square foot manufacturing and office facility in Eitorf, Germany, which produces soymilk and other non-dairy products. The lease on this property provides for annual rentals of approximately \$211,000 and expires in 2013.

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In addition to the foregoing distribution facilities operated by us, we also utilize bonded public warehouses from which deliveries are made to customers.

Item 3. Legal Proceedings.

From time to time, we are involved in litigation incidental to the conduct of our business. Disposition of pending litigation is not expected by management to have a material adverse effect on our business, results of operations or financial condition.

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

None.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Outstanding shares of our Common Stock, par value \$.01 per share, are quoted on Nasdaq's National Market System (under the ticker symbol HAIN). The following table sets forth the reported high and low closing prices for our Common Stock for each fiscal quarter from July 1, 2003 through September 1, 2005.

	Common Stock			
	Fiscal 2005		Fiscal 2004	
	High	Low	High	Low
First Quarter	\$18.24	\$15.24	\$20.29	\$15.85
Second Quarter	20.69	16.18	24.02	18.10
Third Quarter	20.73	18.20	24.09	20.90
Fourth Quarter	20.17	17.20	22.14	17.13
July 1 - September 1, 2005	20.45	18.30	-	-

As of September 1, 2005, there were 481 holders of record of our Common Stock.

We have not paid any dividends on our Common Stock to date. We intend to retain all future earnings for use in the development of our business and do not anticipate declaring or paying any dividends in the foreseeable future. The payment of all dividends will be at the discretion of our Board of Directors and

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will depend on, among other things, future earnings, operations, capital requirements, contractual restrictions, including restrictions within our Credit Facility (as defined below), our general financial condition and general business conditions.

The table below sets forth information with respect to our equity compensation plans as of June 30, 2005:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Num Rema Future Com (exc refle
-----	-----	-----	-----
	(a)	(b)	
Equity compensation plans approved by security holders	8,098,104	\$ 18.37	
Equity compensation plans not approved by security holders	N/A	N/A	
Total	8,098,104	\$ 18.37	

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Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased Part of Publicly Announced Plans o Programs (a)
-----	-----	-----	-----
July 1-31, 2004			
August 1-31, 2004			
September 1-30, 2004			
October 1-31, 2004			
November 1-30, 2004			
December 1-31, 2004			
January 1-31, 2005			
February 1-29, 2005	80,000	\$ 18.82	80,000
March 1-31, 2005	10,000	18.40	10,000
April 1-30, 2005			
May 1-31, 2005	99,700	17.76	99,700
June 1-30, 2005			
Total	189,700	\$ 18.24	189,700
	=====	=====	=====

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(a) The Company's plan to repurchase up to one million shares of its common stock was first announced publicly on a conference call on August 29, 2002. At March 31, 2005, there remained authorization to repurchase 545,361 shares of our common stock. Effective April 18, 2005, the Board of Directors voted to refresh the authorization of shares to be repurchased to a total of one million.

Item 6. Selected Financial Data.

The following information has been summarized from our financial statements and should be read in conjunction with such financial statements and related notes thereto (in thousands, except per share amounts):

	Year Ended June 30			
	2005	2004	2003	2002
Operating results:				
Net sales	\$ 619,967	\$ 544,058	\$ 466,459	\$ 398,125
Net income (a)	\$ 21,870	\$ 27,008	\$ 27,492	\$ 27,492
Basic earnings per common share	\$.60	\$.77	\$.81	\$.81
Diluted earnings per common share	\$.59	\$.74	\$.79	\$.79
Financial Position:				
Working Capital	\$ 124,342	\$ 129,949	\$ 83,324	\$ 83,324
Total assets	707,136	684,231	581,548	581,548
Long-term debt	92,271	104,294	59,455	59,455
Stockholders' equity	528,290	496,765	440,797	440,797

(a) Amounts for 2001 include amortization of goodwill and indefinite-life intangible assets, net of tax, amounting to \$4 million, or \$0.12 per share. In subsequent years, no amortization expense has been incurred in accordance with SFAS No. 142, which was adopted by the Company effective at the beginning of 2002.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

General

We manufacture, market, distribute and sell natural, organic, specialty and snack food products and natural personal care products under brand names which are sold as "better-for-you" products. Our products are sold primarily to specialty and natural food distributors and are marketed nationally to supermarkets, natural food stores, and other retail classes of trade including mass-market stores, drug stores, food service channels and club stores.

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We made the following acquisitions during the three years ended June 30, 2005:

- o On April 4, 2005, we acquired Zia Cosmetics, Inc., including the Zia(R)

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Natural Skincare brand, a respected leader in therapeutic products for healthy, beautiful skin sold mainly through natural food retailers.

- o On June 3, 2004, we acquired Jason Natural Products, Inc., a California-based manufacturer and marketer of natural personal care products.
- o On May 27, 2004, we acquired the Rosetto(R) and Ethnic Gourmet(R) brands of Heinz, which produce and market frozen pasta and natural ethnic frozen meals, respectively.
- o On February 25, 2004, we acquired Natumi AG, a German producer and marketer of soymilk and other non-dairy products.
- o On June 17, 2003, we acquired Acirca, Inc., a New York based manufacturer, distributor and marketer of natural and organic juices, pasta sauces, soups and salsas under the Walnut Acres Organic(TM) brand.
- o On May 14, 2003, we acquired Grains Noirs, N.V., a Belgian producer and marketer of fresh prepared organic appetizers, salads, sandwiches and other full-plated dishes.
- o On December 2, 2002, we acquired the assets and brands of Imagine Foods, Inc. ("Imagine") in the United States and the United Kingdom. Imagine is a non-dairy beverage brand specializing in aseptic and refrigerated rice and soymilks, organic aseptic soups and broths, and organic non-dairy frozen desserts under the Rice Dream(R), Soy Dream(R) and Imagine(R) brands.

All of the foregoing acquisitions ("the acquisitions" or "acquired brands") have been accounted for as purchases. Consequently, the operations of the acquired brands are included in our results of operations from their respective dates of acquisition.

On June 30, 2005, we sold our Kineret(R) and Kosherific(R) brands, which marketed and distributed a line of frozen and dry kosher food products. We acquired these brands in fiscal 1994.

Critical Accounting Policies

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States. The accounting principles we use require us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and amounts of income and expenses during the reporting periods presented. We believe in the quality and reasonableness of our critical accounting policies; however, it is likely that materially different amounts would be reported under different conditions or using assumptions different from those that we have consistently applied. We believe our critical accounting policies are as follows, including our methodology for estimates made and assumptions used:

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Revenue Recognition and Sales Incentives

Sales are recognized when the earnings process is complete, which occurs when products are shipped in accordance with terms of agreements, title and risk of loss transfer to customers, collection is probable and pricing is fixed or determinable. Sales are reported net of sales incentives, which include trade discounts and promotions and certain coupon costs. Shipping and handling costs

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billed to customers are included in reported sales. Allowances for cash discounts are recorded in the period in which the related sale is recognized.

Valuation of Accounts and Chargebacks Receivable

We perform ongoing credit evaluations on existing and new customers daily. We apply reserves for delinquent or uncollectible trade receivables based on a specific identification methodology and also apply a general reserve based on the experience we have with our trade receivables aging categories. Credit losses have been within our expectations over the last few years. While one of our customers represented approximately 20% of our trade receivable balance at June 30, 2005, we believe there is no credit exposure at this time.

Based on cash collection history and other statistical analysis, we estimate the amount of unauthorized deductions that our customers have taken to be repaid and collectible in the near future in the form of a chargeback receivable. While our estimate of this receivable balance could be different had we used different assumptions and judgments, historically our cash collections of this type of receivable have been within our expectations and no significant write-offs have occurred; however, during the fourth quarter of 2003, we reduced our chargebacks receivable by \$1.5 million. As the result of our continuing focus on the monitoring of unauthorized deductions and successful collection efforts, our chargebacks receivable balance approximated only \$4.5 million at June 30, 2005, significantly lower than the \$6 million at June 30, 2004.

There can be no assurance that we would have the same experience with our receivables during different economic conditions, or with changes in business conditions, such as consolidation within the food industry and/or a change the way we market and sell our products.

Inventory

Our inventory is valued at the lower of actual cost or market, utilizing the first-in, first-out method. We provide write-downs for finished goods expected to become non-saleable due to age and specifically identify and provide for slow moving or obsolete raw ingredients and packaging.

Property, Plant and Equipment

Our property, plant and equipment is carried at cost and depreciated or amortized on a straight-line basis over the lesser of the estimated useful lives or lease life, whichever is shorter. We believe the asset lives assigned to our property, plant and equipment are within ranges/guidelines generally used in food manufacturing and distribution businesses. Our manufacturing plants and distribution centers, and their related assets, are periodically reviewed to determine if any impairment exists by analyzing underlying cash flow projections. At this time, we believe no impairment exists on the carrying value of such assets. Ordinary repairs and maintenance are expensed as incurred.

Intangibles

Goodwill is no longer amortized and the value of an identifiable intangible asset is amortized over its useful life unless the asset is determined to have an indefinite useful life. The carrying value of goodwill, which is allocated to the Company's five reporting units, and other intangible assets with indefinite useful lives are tested annually for impairment.

Segments

SFAS No. 131 defines an operating segment as that component of an enterprise (i) that engages in business activities from which it may earn revenues and incur expenses, (ii) whose operating results are regularly reviewed by the enterprise's chief operating decision maker (CODM) to make decisions about resources to be allocated to the segment and assess its performance, and (iii) for which discrete financial information is available. SFAS No. 142 defines a reporting unit as an operating segment or one level below an operating segment if the component constitutes a business for which discrete financial information is available and segment management regularly reviews the operating results of that component. The Company has determined that it operates in one segment, the sale of natural and organic products, including food, beverage and personal care products, and further that such single segment includes five reporting units in the annual test of Goodwill for impairment. Characteristics of the Company's operations which are relied on in making these determinations include the similarities apparent in the Company's products in the natural and organic consumer markets, the commonality of the Company's customers across brands, the Company's unified marketing strategy, and the nature of the financial information used by the CODM, described below, other than information on sales and direct product costs, by brand. The Company's five reporting units are Grocery (including snacks); Tea; Personal Care; Canada; and Europe. The Company has further determined that its Chairman of the Board and Chief Executive Officer is the Company's CODM as defined in SFAS No. 131, and is also the manager of the Company's single segment. In making decisions about resource allocation and performance assessment, the Company's CODM focuses on sales performance by brand using internally generated sales data as well as externally developed market consumption data acquired from independent sources, and further reviews certain data regarding standard costs and standard gross margins by brand. In making these decisions, the CODM receives and reviews certain Company consolidated quarterly and year-to-date information; however, the CODM does not receive or review any discrete financial information by geographic location, business unit, subsidiary, division or brand. The CODM reviews and approves capital spending on a Company consolidated basis rather than at any lower unit level. The Company's Board of Directors receives the same quarterly and year-to-date information as the Company's CODM.

Results of Operations

Fiscal 2005 Compared to Fiscal 2004

Net sales in 2005 were \$620.0 million, an increase of \$75.9 million or 14% over net sales of \$544.1 million in 2004. The increase came from volume increases, the phasing in of price increases and from sales generated by brands acquired in 2004, with increases offset by reduced sales due to the elimination of our CarbFit(R) brand, which experienced strong sales during the prior year, before the decline in consumer demand for low carbohydrate products. We experienced strong brand sales gains for Terra Chips(R), which was up 20.0%, Garden of Eatin'(R), which was up 14.7%, Earth's Best(R), which was up 39.6%, Imagine(R) soups, which was up 18.8%, and to a lesser extent increased sales of Celestial Seasoning(R) teas, which was up 6.1%. Sales of our brands in Europe increased 27.1%.

Gross profit in 2005 was 27.6% of net sales as compared to 29.5% of net sales in 2004. The decline in gross profit percentage was principally the result of a \$9.0 million charge for our Stock Keeping Unit ("SKU") rationalization program, which had the effect of reducing 2005 gross profit by 1.2 percentage points. After considering the effect of the SKU rationalization, our margins remained relatively flat as a result of the price increases we phased in begin-

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ning July 1, 2004 and June 1, 2005, which provided us with an almost equal offset to increases in ingredient and other input costs; increases in transportation costs resulting from higher fuel costs; the cost effects of new regulations on the U.S. trucking industry in effect for the full fiscal year; an increase in the percentage of our shipments that are delivered by us, which has stabilized since we first experienced such increases in our third quarter of fiscal 2004; and a change in the mix of products sold whereby our higher margin tea sales became a lower proportion of our consolidated sales.

Selling, general and administrative expenses increased by \$14.1 million to \$128.1 million in 2005 from \$114.0 million in 2004. Such expenses as a percentage of net sales amounted to 20.7% in 2005 as compared with 21.0% in 2004. Selling, general and administrative expenses have increased in overall dollars, primarily as a result of costs brought on by brands acquired in 2004, increased consumer marketing expenses needed to support our increased sales as well as increases across all levels of general and administrative expenses to support our growing business. General and administrative expenses for the year ended June 30, 2005 includes approximately \$3.1 million for the SKU rationalization program and approximately \$1.1 million of outside professional costs for Sarbanes-Oxley compliance.

Non-cash compensation expenses were \$4.7 million in 2005, an increase of \$4.3 million from \$0.4 million in 2004. The increase in non-cash compensation expenses primarily relate to the accelerated vesting of employee stock options in June 2005, when our board of directors approved the acceleration of the vesting of all outstanding unvested stock options held by employees. This action was taken in order to reduce future compensation charges for these stock options and to provide an incentive to employees in view of the uncertainty of future equity-based compensation with the pending implementation of SFAS No. 123(R). As a result of this action, approximately 1.2 million outstanding unvested stock options were accelerated (approximately 56,000 of which were at exercise prices greater than market price at the date of acceleration), substantially all of which were granted in August 2004 at an exercise price of \$16.01 per share with original vesting through August 2006. We recognized a charge to earnings for the difference between the market value of our stock on the date of acceleration and the exercise price of the options, such charge amounting to approximately \$3.7 million (\$3.1 million net of tax) for the year ended June 30, 2005. As a result of this action, there will be no stock option amortization expense in future periods unless additional stock options are granted.

Operating income was \$38.2 million or 6.2% in 2005 compared to \$45.9 million or 8.4% in 2004. The decline in operating income was the result of the aggregate of \$16.0 million of charges from SKU rationalization and the acceleration of vesting of stock options. After considering the effect of such \$16.0 million of charges, operating income was \$55.0 million in 2005, representing a 19.8% increase over 2004. This increase results principally from higher sales coupled by stable margins and lower selling, general and administrative expenses as a percentage of sales

Interest and other expenses, net, amounted to \$3.7 million in 2005 compared to \$2.5 million in 2004. Our interest expense was \$2.0 million higher in 2005 as compared to 2004, principally as a result of the higher interest rates on higher average borrowings we carried this year after our recent acquisitions. We had \$0.7 million in net currency exchange gains in the current year as compared to less than \$0.3 million in net currency exchange losses in the prior year, which partially offset the additional interest costs.

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Income before income taxes in 2005 amounted to \$34.5 million compared to \$43.4 million in 2004. This decrease is attributable to the aforementioned decrease in operating income and increase in interest and other expenses, net. After considering the effect of the aggregate of \$16.0 million of charges from SKU rationalization and the acceleration of vesting of stock options, income before income taxes was \$50.5 million representing an increase of \$7.1 million, or 16.4% over the prior year. This increase results principally from higher sales coupled by stable margins and lower selling, general and administrative expenses as a percentage of sales.

Our effective income tax rate approximated 36.7% of pre-tax income for 2005 compared to 37.8% for 2004. This decrease was attributable to a \$1.3 million reduction in tax liabilities resulting from the termination of certain outstanding tax matters and is equal to the amount charged against the Company's earnings when these arose in prior years.

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Net income in 2005 amounted to \$21.9 million, or \$0.59 per diluted share, compared to \$27.0 million, or \$0.74 per diluted share, in 2004. The decrease of \$5.1 million in net income was primarily attributable to the aforementioned decrease in income before income taxes offset by the decrease in our effective tax rate.

Fiscal 2004 Compared to Fiscal 2003

Net sales in 2004 were \$544.1 million, an increase of \$77.6 million or 17% over net sales of \$466.5 million in 2003. The increase in sales came from volume increases principally in our snacks brands, which were up 14.9%, our Earth's Best baby food brand, which was up 23.1%, our Celestial Seasonings tea brand, which was up 3.4%, and from the introduction of our new Carb Fit brand of low-carbohydrate products, as well as sales of brands acquired in 2004 and a full year of our operation of brands acquired in 2003. We believe that sales growth during the 2004 period was negatively impacted by our inability to fill orders for soup due to non-recurring manufacturing issues encountered at our independent soup co-packer, thereby causing out-of-stock positions on soup and, to a lesser extent, by the strike during our second and third quarters of fiscal 2004 of grocery workers in Southern California where we have a very strong market presence.

Gross profit in 2004 was 29.5% of net sales as compared to 30.3% of net sales in 2003. The decline in gross profit percentage was principally the result of the aggressive spending in the trade and with consumers, including spending on the launch of Carb Fit, as well as increases in transportation costs resulting from higher fuel costs, the cost effects of new regulations on the U.S. trucking industry, and an increase in the percentage of our shipments that were delivered by us. We also saw increases in the cost of ingredients.

Selling, general and administrative expenses increased by \$18.4 million to \$114.0 million in 2004 from \$95.6 million in 2003. Such expenses as a percentage of net sales amounted to 21.0% in 2004 as compared with 20.5% in 2003. Selling, general and administrative expenses increased in overall dollars and as a percentage of sales, primarily as a result of \$3.5 million of additional costs associated with brands acquired in 2004 as well as the full year of operations of brands acquired in 2003, \$4.1 million of increased consumer marketing to support our increased sales, including our new Carb Fit line of products, \$0.5 million of added costs relating to the implementation of required provisions of the Sarbanes Oxley Act, and increased costs relating to the management changes that have been made during the second half of our fiscal year.

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There were no restructuring and other non-recurring charges in 2004. During 2003, we recorded approximately \$0.4 million of additional restructuring and other non-recurring charges related to the sale of our Health Valley facility for severance liabilities and related employee costs and trade items that could not be accrued in 2002. In addition, at the time of lease termination in 2003, we were able to reduce our potential lease exit costs by \$0.9 million, which was recorded as a credit to restructuring and other non-recurring charges in 2003.

Operating income was \$45.9 million in 2004 compared to \$46.2 million in 2003. Operating income as a percentage of net sales was 8.4% in 2004, compared with 9.9% in 2003. These changes are a result of higher sales offset by the aforementioned decrease in gross profit and increase in selling, general and administrative expenses.

Interest and other expenses, net, amounted to \$2.5 million in 2004 compared to \$2.0 million in 2003. We incurred higher interest expense in 2004 resulting from borrowings for acquisitions which were outstanding for the full year in 2004 as compared to only part of the year in 2003.

Income before income taxes in 2004 amounted to \$43.4 million compared to \$44.2 million in 2003. This decrease is attributable to the aforementioned decrease in operating income and increase in interest and other expenses, net.

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Income taxes in 2004 amounted to \$16.4 million compared to \$16.7 million in 2003. Our effective tax rate was 37.8% in 2004 and 2003.

Net income in 2004 amounted to \$27.0 million compared to \$27.5 million in 2003. The decrease of \$0.5 million in net income was primarily attributable to the aforementioned decrease in income before income taxes.

Liquidity and Capital Resources

We finance our operations and growth primarily with the cash flows we generate from our operations and from borrowings under our Credit Facility.

On April 22, 2004, we entered into a new \$300 million credit facility (the "Credit Facility") with a bank group led by our existing bank agents for a five-year term expiring in April 2009. The Credit Facility provides for an uncommitted \$50 million accordion feature, under which the facility may be increased to \$350 million. The Credit Facility is secured only by a pledge of shares of certain of our foreign subsidiaries and is guaranteed by all of our current and future direct and indirect domestic subsidiaries. We are required to comply with customary affirmative and negative covenants for facilities of this nature. Revolving credit loans under this facility bear interest at a base rate (greater of the applicable prime rate or Federal Funds Rate plus an applicable margin) or, at our option, the reserve adjusted LIBOR rate plus an applicable margin. As of June 30, 2005, \$89,700 million was borrowed under the Credit Facility at an average interest rate of 3.7%.

This access to capital provides us with flexible working capital needs in the normal course of business and the opportunity to grow our business through acquisitions or develop our existing infrastructure through capital investment.

Net cash provided by operations was \$35.0 million and \$30.8 million for 2005 and 2004, respectively. Our working capital and current ratio were \$124.3 million and 2.8 to 1, respectively, at June 30, 2005 compared with \$130.0 million and

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2.9 to 1 respectively, at June 30, 2004. Our improvement in cash provided by operations was the result of higher sales and stable margins while incurring non-cash SKU rationalization and non-cash compensation charges.

Net cash (used in) provided by financing activities was (\$14.7) million for 2005 and \$48.9 million for 2004. During 2005 and 2004, we borrowed cash to fund acquisitions made during each year. During 2005, we received \$5.2 million of proceeds on the exercise of stock options and warrants and we acquired 189,700 shares of our common stock in open market purchases at a cost of approximately \$3.5 million. During 2004, we received \$19.8 million of proceeds on the exercise of stock options and warrants, and we acquired 64,397 shares of our common stock in open market purchases at a cost of approximately \$1.1 million.

Obligations for all debt instruments, capital and operating leases and other contractual obligations are as follows:

	Payments Due by Period			
	Total	Less than 1 year	1-3 years	3-5 years
Debt instruments	\$ 94,676	\$2,497	\$ 2,479	\$89
Capital lease obligations	386	294	92	
Operating leases	23,925	5,354	7,752	5
Purchase Obligations	20,865	18,358	2,507	
Total contractual cash obligations	\$139,852	\$26,503	\$12,830	\$95

We believe that cash on hand of \$24.1 million at June 30, 2005, as well as projected fiscal 2006 cash flows from operations and availability under our Credit Facility are sufficient to fund our working capital needs, anticipated capital expenditures of approximately \$12 million, and the \$8.1 million of debt and lease obligations described in

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the table above, during the next fiscal year. We currently invest our cash on hand in highly liquid short-term investments yielding approximately 3.1% interest.

Note Regarding Forward Looking Information

Certain statements contained in this Annual Report constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1934 (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"). Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, levels of activity, performance or achievements of the Company, or industry results, to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking

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statements. Such factors include, among others, the following:

- o general economic and business conditions;
- o the ability of the Company to implement its business and acquisition strategy;
- o the ability to effectively integrate its acquisitions;
- o the ability of the Company to obtain financing for general corporate purposes;
- o competition;
- o availability of key personnel; and
- o changes in, or the failure to comply with government regulations.

As a result of the foregoing and other factors, no assurance can be given as to the future results, levels of activity and achievements and neither the Company nor any person assumes responsibility for the accuracy and completeness of these statements.

Our Acquisition Strategy Exposes Us To Risk

We intend to continue to grow our business in part through the acquisition of new brands, both in the United States and internationally. Our acquisition strategy is based on identifying and acquiring brands with products that complement our existing product mix. We cannot be certain that we will be able to:

- o successfully identify suitable acquisition candidates;
- o negotiate identified acquisitions on terms acceptable to us; or
- o obtain the necessary financing to complete such acquisitions.

We may encounter increased competition for acquisitions in the future, which could result in acquisition prices we do not consider acceptable. We are unable to predict whether or when any prospective acquisition candidate will become available or the likelihood that any acquisition will be completed.

Our Future Success May Be Dependent on Our Ability to Integrate Companies That We Acquire

Our future success may be dependent upon our ability to effectively integrate new brands that we acquire, including our ability to realize potentially available marketing opportunities and cost savings, some of which may involve operational changes. We cannot be certain:

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- o as to the timing or number of marketing opportunities or amount of cost savings that may be realized as the result of our integration of an acquired brand;
- o that a business combination will enhance our competitive position and business prospects;

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- o that we will not experience difficulties with customers, personnel or other parties as a result of a business combination; or
- o that, with respect to our acquisitions outside the United States, we will not be affected by, among other things, exchange rate risk.

In addition, we cannot be certain that we will be successful in:

- o integrating an acquired brand's distribution channels with our own;
- o coordinating sales force activities of an acquired company or in selling the products of an acquired company to our customer base; or
- o integrating an acquired company into our management information systems or in integrating an acquired company's products into our product mix.

Additionally, integrating an acquired company into our existing operations will require management resources and may divert our management from our day-to-day operations. If we are not successful in integrating the operations of acquired companies, our business could be harmed.

Consumer Preferences for Our Products Are Difficult to Predict and May Change

A significant shift in consumer demand away from our products or our failure to maintain our current market position could reduce our sales or the prestige of our brands in our markets, which could harm our business. While we continue to diversify our product offerings, we cannot be certain that demand for our products will continue at current levels or increase in the future.

Our business is primarily focused on sales of natural and organic products in markets geared to consumers of natural foods, specialty teas, non-dairy beverages, cereals, breakfast bars, canned soups and vegetables, snacks and cooking oils, which, if consumer demand for such categories were to decrease, could harm our business. Consumer trends change based on a number of possible factors, including:

- o nutritional values, such as a change in preference from fat free to reduced fat to no reduction in fat; and
- o a shift in preference from organic to non-organic and from natural products to non-natural products.

In addition, we have other product categories, such as medically-directed food products, kosher foods and other specialty food items, as well as natural health and beauty care products. We are subject to evolving consumer preferences for these products.

Our Markets Are Highly Competitive

We operate in highly competitive geographic and product markets, and some of our markets are dominated by competitors with greater resources. We cannot be certain that we could successfully compete for sales to distributors or stores that purchase from larger, more established companies that have greater financial, managerial, sales and technical resources. In addition, we compete for limited retailer shelf space for our products. Larger competitors, such as mainstream food companies including General Mills, Nestle S.A., Kraft Foods, Groupe Danone, Kellogg Company and Sara Lee Corporation, also may be able to benefit from economies of scale, pricing advantages or the in-

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roduction of new products that compete with our products. Retailers also market competitive products under their own private labels.

The beverage market is large and highly competitive. The tea portion of the beverage market is also highly competitive. Competitive factors in the tea industry include product quality and taste, brand awareness among consumers, variety of specialty tea flavors, interesting or unique product names, product packaging and package design, supermarket and grocery store shelf space, alternative distribution channels, reputation, price, advertising and promotion. Our principal competitors on a national basis in the specialty tea market are Thomas J. Lipton Company, a division of Unilever PLC, and R.C. Bigelow, Inc. Unilever has substantially greater financial resources than us. In addition, in April 2004, Tazo Tea Company (a subsidiary of Starbucks Corporation) and Kraft Foods Global, Inc. announced a licensing agreement whereby Tazo products might gain additional access to grocery channels through placement by Kraft, which has substantially greater financial resources than we do. Additional competitors include a number of regional specialty tea companies. There may be potential entrants which are not currently in the specialty tea market who may have substantially greater resources than we have. Private label competition in the specialty tea category is currently minimal, but growing. In the future, competitors may introduce other products that compete with our products and these competitive products may have an adverse effect on our business, results of operations and financial condition.

We Are Dependent Upon the Services of Our Chief Executive Officer

We are highly dependent upon the services of Irwin D. Simon, our Chairman of the Board, President and Chief Executive Officer. We believe Mr. Simon's reputation as our founder and his expertise and knowledge in the natural and organic products market are critical factors in our continuing growth. The loss of the services of Mr. Simon could harm our business.

We Rely on Independent Brokers and Distributors for a Substantial Portion of Our Sales

We rely upon sales efforts made by or through non-affiliated food brokers to distributors and other customers. The loss of, or business disruption at, one or more of these distributors or brokers may harm our business. If we were required to obtain additional or alternative distribution and food brokerage agreements or arrangements in the future, we cannot be certain that we will be able to do so on satisfactory terms or in a timely manner. In fiscal 2005, one of our distributors, United Natural Foods, Inc., accounted for approximately 22% of our net sales. Two of our distributors, United Natural Foods, Inc. and Tree of Life, accounted for approximately 20% and 12%, respectively, of our net sales for the fiscal year ended June 30, 2004, and approximately 18% and 15%, respectively, for the year ended June 30, 2003. Our inability to enter into satisfactory brokerage agreements may inhibit our ability to implement our business plan or to establish markets necessary to develop our products successfully. Food brokers act as selling agents representing specific brands on a non-exclusive basis under oral or written agreements generally terminable at any time on 30 days' notice, and receive a percentage of net sales as compensation. Distributors purchase directly for their own account for resale. In addition, the success of our business depends, in large part, upon the establishment and maintenance of a strong distribution network.

Loss of One or More of Our Manufacturing Facilities Could Harm Our Business

For the years ended June 30, 2005, 2004 and 2003, approximately 47%, 39% and 42%, respectively, of our revenue was derived from products manufactured at our manufacturing facilities. An interruption in or the loss of operations at one or

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more of these facilities, or the failure to maintain our labor force at one or more of these facilities, could delay or postpone production of our products, which could have a material adverse effect on our business, results of operations and financial condition until we could secure an alternate source of supply.

We Rely on Independent Co-Packers to Produce Some or Most of Our Products

During 2005, 2004 and 2003, approximately 53%, 61% and 58%, respectively, of our revenue was derived from products manufactured at independent co-packers. In the U.S., we presently obtain:

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- o all of our requirements for non-dairy beverages from five co-packers, all of which are under contract or other arrangements;
- o all of our U.S. requirements for rice cakes from one co-packer;
- o all of our Health Valley(R) baked goods and cereal products from one co-packer, which is under contract;
- o all of our cooking oils from one co-packer;
- o principally all of our Garden of Eatin(R) and Little Bear Organic Foods(R) tortilla chips from three co-packers, one of which is under contract;
- o a portion of our requirements for Terra(R) Yukon Gold, Red BlissTM, Terra BluesTM, and Potpourri TM potato chips and FritesTM line from one co-packer, which is under contract;
- o the requirements for our canned soups from four co-packers, which are under contract;
- o all of our Earth's Best(R) baby food products from seven co-packers, which are under contract; and
- o a portion of our Ethnic Gourmet(R) products from one co-packer, which is under contract; and
- o all of our Zia(R) natural skincare products from four co-packers, which are under contract or other arrangements.

The loss of one or more co-packers, or our failure to retain co-packers for newly acquired products or brands, could delay or postpone production of our products, which could have a material adverse effect on our business, results of operations and financial condition until such time as an alternate source could be secured, which may be on less favorable terms.

Our Tea Ingredients Are Subject to Import Risk

Our tea brand purchases its ingredients from numerous foreign and domestic manufacturers, importers and growers, with the majority of those purchases occurring outside of the United States. We maintain long-term relationships with most of our suppliers. Purchase arrangements with ingredient suppliers are generally made annually and in U.S. currency. Purchases are made through purchase orders or contracts, and price, delivery terms and product specifications vary.

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Our botanical purchasers visit major suppliers around the world annually to procure ingredients and to assure quality by observing production methods and providing product specifications. Many ingredients are presently grown in countries where labor-intensive cultivation is possible, and where we often must educate the growers about product standards. We perform laboratory analysis on incoming ingredient shipments for the purpose of assuring that they meet our quality standards and those of the FDA and the California Organic Foods Act of 1990.

Our ability to ensure a continuing supply of ingredients at competitive prices depends on many factors beyond our control, such as foreign political situations, embargoes, changes in national and world economic conditions, currency fluctuations forecasting adequate need of seasonal raw material ingredients and unfavorable climatic conditions. We take steps and will continue to take steps intended to lessen the risk of an interruption of botanical supplies, including identification of alternative sources and maintenance of appropriate inventory levels. We have, in the past, maintained sufficient supplies for our ongoing operations.

Our failure to maintain relationships with our existing suppliers or find new suppliers, observe production standards for our foreign procured products or continue our supply of botanicals from foreign sources could harm our business.

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Our Future Results of Operations May be Adversely Affected by Escalating Fuel Costs.

Many aspects of our business have been, and continue to be, directly affected by the continuously rising cost of fuel. Increased fuel costs have translated into increased costs for the products and services we receive from our third party providers including, but not limited to, increased production and distribution costs for our products. As the cost of doing business increases, we may not be able to pass these higher costs on to our customers and, therefore, any such increase may adversely affect our earnings.

We Are Subject to Risks Associated with Our International Sales and Operations, Including Foreign Currency Risks

Operating in international markets involves exposure to movements in currency exchange rates, which are volatile at times. The economic impact of currency exchange rate movements is complex because such changes are often linked to variability in real growth, inflation, interest rates, governmental actions and other factors. Consequently, isolating the effect of changes in currency does not incorporate these other important economic factors. These changes, if material, could cause adjustments to our financing and operating strategies. During fiscal 2005, approximately 21.1% of our net sales were generated outside the United States, while such sales outside the United States were 20.3% of net sales in 2004 and 17.3% in 2003.

We expect sales from non-core U.S. markets to possibly represent an increasing portion of our total net sales in the future. Our non U.S. sales and operations are subject to risks inherent in conducting business abroad, many of which are outside our control, including:

- o periodic economic downturns and unstable political environments;
- o price and currency exchange controls;

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- o fluctuations in the relative values of currencies;
- o unexpected changes in trading policies, regulatory requirements, tariffs and other barriers;
- o compliance with applicable foreign laws; and
- o difficulties in managing a global enterprise, including staffing, collecting accounts receivable and managing distributors.

Our Inability to Use Our Trademarks Could Have a Material Adverse Effect on Our Business

Our inability to use our trademarks could have a material adverse effect on our business, results of operations and financial condition.

We believe that brand awareness is a significant component in a consumer's decision to purchase one product over another in the highly competitive food and beverage industry. Our failure to continue to sell our products under our established brand names could have a material adverse effect on our business, results of operations and financial condition. We believe that our trademarks and trade names are significant to the marketing and sale of our products and that the inability to utilize certain of these names could have a material adverse effect on our business, results of operations and financial condition.

Our Products Must Comply With Government Regulation

The USDA has adopted regulations with respect to a national organic labeling and certification program which became effective February 20, 2001, and fully implemented on October 21, 2002. We currently manufacture approximately 650 organic products which are covered by these regulations. Future developments in the regulation of labeling of organic foods could require us to further modify the labeling of our products, which could affect the sales of our products and thus harm our business.

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In addition, on January 18, 2001, the FDA proposed new policy guidelines regarding the labeling of genetically engineered foods. The FDA is currently considering the comments it received before issuing final guidance. These guidelines, if adopted, could cause us to modify the labeling of our products, which could affect the sales of our products and thus harm our business.

The FDA published the final rule amending the Nutritional Labeling regulations to require declaration of "Trans Fatty Acids" in the nutritional label of conventional foods and dietary supplements on July 11, 2003. The final rule will be effective on January 1, 2006. Additionally, an allergen labeling law was passed and signed on August 3, 2004. This law requires certain allergens to be clearly labeled by January 1, 2006. We are in the process of revising our labels to comply with the final rules. Additionally, Canada has adopted new food labeling regulations that must be implemented by December 12, 2005, which require a Nutritional Facts panel to be on most food packages. Yves products will be subject to these regulations, as will all our other products sold into Canada.

Furthermore, new government laws and regulations may be introduced in the future that could result in additional compliance costs, seizures, confiscations, recalls or monetary fines, any of which could prevent or inhibit the development, distribution and sale of our products. If we fail to comply with

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applicable laws and regulations, we may be subject to civil remedies, including fines, injunctions, recalls or seizures, as well as potential criminal sanctions, which could have a material adverse effect on our business, results of operations and financial condition.

Product Recalls Could Have a Material Adverse Effect on Our Business

Manufacturers and distributors of products in our industry are sometimes subject to the recall of their products for a variety of reasons, including for product defects, such as ingredient contamination, packaging safety and inadequate labeling disclosure. If any of our products are recalled due to a product defect or for any other reason, we could be required to incur the expense of the recall or the expense of any resulting legal proceeding. Additionally, if one of our significant brands were subject to recall, the image of that brand and our company could be harmed, which could have a material adverse effect on our business.

Product Liability Suits, If Brought, Could Have a Material Adverse Effect On Our Business

If a product liability claim exceeding our insurance coverage were to be successfully asserted against us, it could harm our business. We cannot assure you that such coverage will be sufficient to insure against claims which may be brought against us, or that we will be able to maintain such insurance or obtain additional insurance covering existing or new products. As a marketer of food products, we are subject to the risk of claims for product liability. We maintain product liability insurance and generally require that our co-packers maintain product liability insurance with us as a co-insured.

We Rely on Independent Certification For a Number of Our Natural and Specialty Food Products

We rely on independent certification, such as certifications of our products as "organic" or "kosher," to differentiate our products from others. The loss of any independent certifications could adversely affect our market position as a natural and specialty food company, which could harm our business.

We must comply with the requirements of independent organizations or certification authorities in order to label our products as certified. For example, we can lose our "organic" certification if a manufacturing plant becomes contaminated with non-organic materials, or if not properly cleaned after a production run. In addition, all raw materials must be certified organic. Similarly, we can lose our "kosher" certification if a manufacturing plant or raw materials do not meet the requirements of the appropriate kosher supervision organization.

Due to the Seasonality of Many of Our Products, Including Our Tea Products, and Other Factors, Our Operating Results Are Subject to Quarterly Fluctuations

Our tea brand manufactures and markets hot tea products and as a result its quarterly results of operations reflect seasonal trends resulting from increased demand for its hot tea products in the cooler months of the year. In addi-

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tion, some of our other products (e.g., baking and cereal products and soups) also show stronger sales in the cooler months while our snack food product lines are stronger in the warmer months. Quarterly fluctuations in our sales volume and operating results are due to a number of factors relating to our business,

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including the timing of trade promotions, advertising and consumer promotions and other factors, such as seasonality, inclement weather and unanticipated increases in labor, commodity, energy, insurance or other operating costs. The impact on sales volume and operating results due to the timing and extent of these factors can significantly impact our business. For these reasons, you should not rely on our quarterly operating results as indications of future performance.

Our Officers and Directors May Be Able to Control Our Actions

Our officers and directors beneficially own approximately 10.5% of our common stock as of June 30, 2005. In addition, two of these directors currently serve as a designee and a jointly appointed designee of an affiliate of H.J. Heinz Company, or Heinz, which owns approximately 16.6% of our common stock as of June 30, 2005. Accordingly, our officers and directors may be in a position to influence the election of our directors and otherwise influence stockholder action.

Our Ability to Issue Preferred Stock May Deter Takeover Attempts

Our board of directors is empowered to issue, without stockholder approval, preferred stock with dividends, liquidation, conversion, voting or other rights which could decrease the amount of earnings and assets available for distribution to holders of our common stock and adversely affect the relative voting power or other rights of the holders of our common stock. In the event of issuance, the preferred stock could be used as a method of discouraging, delaying or preventing a change in control. Our certificate of incorporation authorizes the issuance of up to 5,000,000 shares of "blank check" preferred stock with such designations, rights and preferences as may be determined from time to time by our board of directors. Although we have no present intention to issue any shares of our preferred stock, we may do so in the future under appropriate circumstances.

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Supplementary Quarterly Financial Data:

Unaudited quarterly financial data (in thousands, except per share amounts) for fiscal 2005 and 2004 is summarized as follows:

	Three Months Ended		
	September 30, 2004	December 31, 2004	March 31, 2005
Net sales	\$ 137,604	\$169,753	\$ 161,753
Gross profit (a)	38,975	53,231	45,231
Operating income (loss) (b)	10,790	18,058	11,058
Income (loss) before income taxes (b)	10,135	17,505	10,135
Net income (loss) (b)	6,182	10,678	7,182
Basic earnings per common share	\$.17	\$.29	\$.29
Diluted earnings per common share	\$.17	\$.29	\$.29

Three Months Ended

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	September 30, 2003	December 31, 2003	March 31, 2004
Net sales	\$ 127,053	\$142,792	\$ 136,000
Gross profit	37,162	47,099	38,000
Operating income	11,343	17,052	9,000
Income before income taxes	10,552	16,702	8,000
Net income	6,542	10,372	5,000
Basic earnings per common share	\$.19	\$.30	\$.25
Diluted earnings per common share	\$.19	\$.29	\$.25

- (a) Gross profit was negatively impacted by approximately \$1.2 million (\$.7 million net tax) for the three months ended March 31, 2005 and approximately \$7.8 million (\$4.8 million net of tax) for the three months ended June 30, 2005 as the result of charges relative to the Company's SKU Rationalization.
- (b) Operating income (loss) and income (loss) before income taxes for the three months ended June 30, 2005 were negatively impacted by a charge of approximately \$3.9 million (\$3.3 million net of tax) resulting from non-cash compensation, including the acceleration of the vesting of outstanding stock options.

Seasonality

Our tea brand manufactures and markets hot tea products and as a result its quarterly results of operations reflect seasonal trends resulting from increased demand for its hot tea products in the cooler months of the year. In addition, some of our other products (e.g., baking and cereal products and soups) also show stronger sales in the cooler months while our snack food product lines are stronger in the warmer months. Quarterly fluctuations in our sales volume and operating results are due to a number of factors relating to our business, including the timing of trade promotions, advertising and consumer promotions and other factors, such as seasonality, inclement weather and unanticipated increases in labor, commodity, energy, insurance or other operating costs. The impact on sales volume and operating results due to the timing and extent of these factors can significantly impact our business. For these reasons, you should not rely on our quarterly operating results as indications of future performance.

Inflation

Management does not believe that inflation had a significant impact on our results of operations for the periods presented.

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Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Market Risk

The principal market risks (i.e., the risk of loss arising from adverse changes in market rates and prices) to which the Company is exposed are:

- o interest rates on debt and cash equivalents, and

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- o foreign exchange rates, generating translation and transaction gains and losses.

Interest Rates

We centrally manage our debt and cash equivalents considering investment opportunities and risks, tax consequences and overall financing strategies. Our cash equivalents consist primarily of commercial paper and obligations of U.S. Government agencies. Assuming year-end 2005 variable debt and cash equivalents levels, a one-point change in interest rates would have the effect of increasing our interest expense by approximately \$.8 million, thereby reducing our net income by approximately \$.01 per share.

Foreign Operations

Operating in international markets involves exposure to movements in currency exchange rates, which are volatile at times. The economic impact of currency exchange rate movements is complex because such changes are often linked to variability in real growth, inflation, interest rates, governmental actions and other factors. Consequently, isolating the effect of changes in currency does not incorporate these other important economic factors. These changes, if material, could cause adjustments to our financing and operating strategies. During fiscal 2005, approximately 21.1% of our net sales were generated from sales outside the United States, while such sales outside the United States were 20.3% of net sales in 2004 and 17.3% in 2003.

We expect sales from non-core U.S. markets to possibly represent an increasing portion of our total net sales in the future. Our non U.S. sales and operations are subject to risks inherent in conducting business abroad, many of which are outside our control, including:

- o periodic economic downturns and unstable political environments;
- o price and currency exchange controls;
- o fluctuations in the relative values of currencies;
- o unexpected changes in trading policies, regulatory requirements, tariffs and other barriers;
- o compliance with applicable foreign laws; and
- o difficulties in managing a global enterprise, including staffing, collecting accounts receivable and managing distributors.

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Item 8. Financial Statements and Supplementary Data.

The following consolidated financial statements of The Hain Celestial Group, Inc. and subsidiaries are included in Item 8:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets - June 30, 2005 and 2004

Consolidated Statements of Income - Years ended June 30, 2005, 2004 and 2003

Consolidated Statements of Stockholders' Equity - Years ended June 30, 2005,

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2004 and 2003

Consolidated Statements of Cash Flows - Years ended June 30, 2005, 2004 and 2003

Notes to Consolidated Financial Statements

The following consolidated financial statement schedule of The Hain Celestial Group, Inc. and subsidiaries is included in Item 15 (a):

Schedule II Valuation and qualifying accounts

All other schedules for which provision is made in the applicable accounting regulation of the SEC are not required under the related instructions or are inapplicable and therefore have been omitted.

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Report of Independent Registered Public Accounting Firm

The Stockholders and Board of Directors of
The Hain Celestial Group, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of The Hain Celestial Group, Inc. (the Company) and Subsidiaries as of June 30, 2005 and 2004, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended June 30, 2005. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Hain Celestial Group, Inc. and Subsidiaries at June 30, 2005 and 2004, and the consolidated results of their operations and their cash flows for each of the three years in the period ended June 30, 2005, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of The Hain Celestial Group, Inc.'s internal control over financial reporting as of June 30, 2005, based on criteria established in Internal Control-Integrated Framework

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issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated August 31, 2005 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Melville, New York
August 31, 2005

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THE HAIN CELESTIAL GROUP, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS (In thousands, except per share and share amounts)

	June
	----- 2005 -----
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 24,139
Accounts receivable, less allowance for doubtful accounts of \$2,074 and \$2,185	67,148
Inventories	76,497
Recoverable income taxes, net	2,575
Deferred income taxes	5,671
Other current assets	18,164

Total current assets	194,194
Property, plant and equipment, net of accumulated depreciation and amortization of \$49,035 and \$40,799	88,204
Goodwill	350,833
Trademarks and other intangible assets, net of accumulated amortization of \$9,142 and \$8,349	61,010
Other assets	12,895

Total assets	\$707,136 =====
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Accounts payable and accrued expenses	\$ 65,922
Income taxes payable	1,139
Current portion of long-term debt	2,791

Total current liabilities	69,852
Long-term debt, less current portion	92,271
Deferred income taxes	16,723

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Total liabilities	178,846
Stockholders' equity:	
Preferred stock - \$.01 par value, authorized 5,000,000 shares, no shares issued	--
Common stock - \$.01 par value, authorized 100,000,000 shares, issued 37,475,998 and 37,064,648 shares	375
Additional paid-in capital	404,517
Deferred compensation	(1,872)
Retained earnings	127,967
Foreign currency translation adjustment	10,048
	541,035
Less: 861,256 and 671,556 shares of treasury stock, at cost	(12,745)
Total stockholders' equity	528,290
Total liabilities and stockholders' equity	\$707,136
See notes to consolidated financial statements.	

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THE HAIN CELESTIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share amounts)

	Year Ended June 3	
	2005	2004
Net sales	\$619,967	\$544,058
Cost of sales	449,010	383,794
Gross profit	170,957	160,264
Selling, general and administrative expenses	128,119	114,014
Restructuring and other non-recurring charges	--	--
Non-cash compensation	4,650	372
Operating income	38,188	45,878
Interest expense, net and other expenses	3,677	2,490
Income before income taxes	34,511	43,388
Provision for income taxes	12,641	16,380

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Net income	\$ 21,870	\$ 27,008
	=====	=====
Earnings per share:		
Basic	\$.60	\$.77
	=====	=====
Diluted	\$.59	\$.74
	=====	=====
Weighted average common shares outstanding:		
Basic	36,407	35,274
	=====	=====
Diluted	37,153	36,308
	=====	=====

See notes to consolidated financial statements.

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THE HAIN CELESTIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED JUNE 30, 2003, 2004 AND 2005 (In thousands, except per share and share data)

	Common Stock		Additional	Unamort
	Shares	Amount at \$.01	Paid-In Capital	Non-Ca Compensa
	-----	-----	-----	-----
Balance at June 30, 2002	34,075,639	\$341	\$354,822	
Exercise of stock options	67,521	1	623	
Purchase of treasury shares				
Issuance of common stock	667,562	6	9,206	
Non-cash compensation charge			46	
Tax benefit from stock options			180	
Comprehensive income:				
Net income				
Translation adjustments				
	-----	-----	-----	-----
Total comprehensive income				
Balance at June 30, 2003	34,810,722	348	364,877	
Exercise of stock options and warrants	2,103,926	21	19,787	
Purchase of treasury shares				
Restricted stock grant	150,000	2	3,133	\$ (3,
Non-cash compensation charge			46	
Tax benefit from stock options			6,897	
Comprehensive income:				

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Net income				
Translation adjustments				
Total comprehensive income				
Balance at June 30, 2004	37,064,648	371	394,740	(2,
Exercise of stock options and warrants	411,350	4	5,237	
Purchase of treasury shares				
Restricted stock grant				
Non-cash compensation charge			3,713	
Tax benefit from stock options			827	
Comprehensive income:				
Net income				
Translation adjustments				
Total comprehensive income				
Balance at June 30, 2005	37,475,998	\$375	\$404,517	\$ (1,

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	Treasury Shares	Stock Amount	Foreign Currency Translation Adjustment	Total
Balance at June 30, 2002	306,917	\$ (3,875)	\$ 963	\$403,84
Exercise of stock options				62
Purchase of treasury shares	299,702	(4,281)		(4,28
Issuance of common stock				9,21
Non-cash compensation charge				4
Tax benefit from stock options				18
Comprehensive income:				
Net income				27,49
Translation adjustments			3,676	3,67
Total comprehensive income				
Balance at June 30, 2003	606,619	(8,156)	4,639	440,79
Exercise of stock options and warrants				19,80
Purchase of treasury shares	64,937	(1,129)		(1,12
Restricted stock grant				--
Non-cash compensation charge				37
Tax benefit from stock options				6,89
Comprehensive income:				
Net income				27,00
Translation adjustments			3,012	3,01

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Total comprehensive income	-----	-----	-----	-----
Balance at June 30, 2004	671,556	(9,285)	7,651	496,76
Exercise of stock options and warrants				5,24
Purchase of treasury shares	189,700	(3,460)		(3,46
Non-cash compensation charge				4,65
Tax benefit from stock options				82
Comprehensive income:				
Net income				21,87
Translation adjustments			2,397	2,39
Total comprehensive income	-----	-----	-----	-----
Balance at June 30, 2005	861,256	\$ (12,745)	\$ 10,048	\$ 528,29
	=====	=====	=====	=====
See notes to consolidated financial statements.				

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THE HAIN CELESTIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended J	
	2005	2004
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$21,870	\$ 27,
Adjustments to reconcile net income to net cash provided by operating activities:		
SKU Rationalization charges	12,142	
Depreciation and amortization	13,838	9,
Provision for doubtful accounts	68	
Deferred income taxes	(644)	3,
Non-cash compensation	4,650	
Increase (decrease) in cash attributable to changes in operating assets and liabilities, net of amounts applicable to acquired brands:		
Accounts receivable	2,577	(5,
Inventories	496	(11,
Other current assets	(6,977)	(2,
Other assets	(5,936)	1,
Accounts payable and accrued expenses	(4,015)	(1,
Accrued restructuring and non-recurring charges	-	
Recoverable income taxes	(3,923)	
Tax benefit of nonqualified stock options	827	6,
Net cash provided by operating activities	-----	-----