



A Healthy  
Way of Life™

THE HAIN  
CELESTIAL  
GROUP 

The Hain Celestial Group, Inc.  
2005 Annual Report

# Our Company



The Hain Celestial Group is a leading natural and organic food and personal care products company in North America and

Europe. We participate in almost all natural food categories with well-known brands that include **Celestial Seasonings**®, **Terra Chips**®, **Garden of Eatin'**®, **Health Valley**®, **WestSoy**®, **Earth's Best**®, **Arrowhead Mills**®, **Hain Pure Foods**®, **Raised Right**™, **Hollywood**®, **Walnut Acres Organic**™, **Imagine Foods**®, **Rice Dream**®, **Soy Dream**®, **Rosetto**®, **Ethnic Gourmet**®, **Yves Veggie Cuisine**®, **Lima**®, **Biomarché**™, **Grains Noirs**®, **Natumi**®, **JASON**® and **Zia**® **Natural Skincare**.

With an integrated portfolio of natural and organic food and personal care products, we strive to meet consumer demand for convenient, innovative products that taste good, are better for you and provide **A Healthy Way of Life**™.

Our Mission is to be the leading manufacturer, marketer and seller of natural and organic food and personal care products by anticipating and exceeding consumer expectations in 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 our brand equity and the distribution achieved by each of our acquired businesses with strategic introductions of new products that complement existing lines to enhance revenues and margins.

The Hain Celestial Group common stock trades on the NASDAQ® National Market under the symbol HAIN.



## A Healthy Way of Life

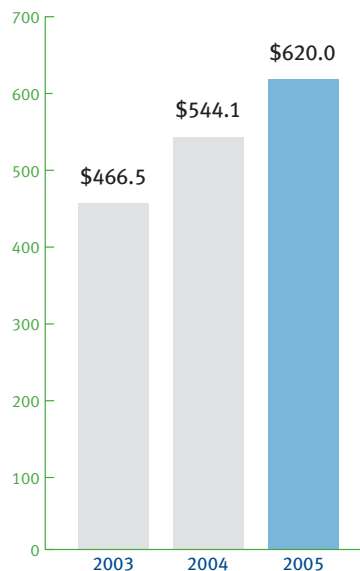


# Financial Highlights

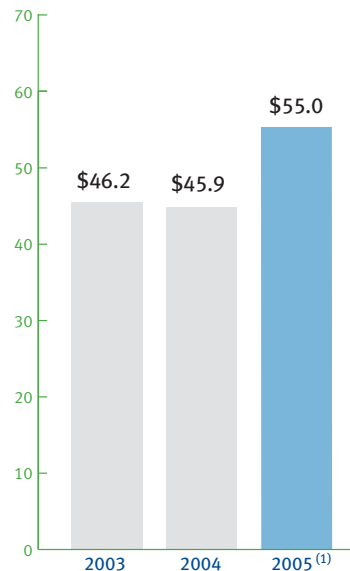
The following information has been summarized from our financial statements and should be read in conjunction with such financial statements and related notes:

(dollars in thousands, except per share amounts)	Years Ended June 30		
	2005 <sup>(1)</sup>	2004	2003
Net sales	\$ 619,967	\$ 544,058	\$ 466,459
Operating income	54,981	45,878	46,159
Net income	33,116	27,008	27,492
Net income per share — diluted	\$ 0.89	\$ 0.74	\$ 0.79
Capital expenditures	\$ 9,890	\$ 9,918	\$ 9,157
Depreciation and amortization	13,838	9,763	8,619
Property, plant and equipment, net	88,204	87,002	68,665
Working capital	\$ 124,342	\$ 129,949	\$ 83,324
Long-term debt	92,271	104,294	59,455
Stockholders' equity	528,290	496,765	440,797
Average shares outstanding — diluted	37,153	36,308	34,722
Current ratio	2.8	2.9	2.3
Debt/equity	18.0%	22.4%	15.5%
Stockholders' equity per share — end of year	\$ 14.43	\$ 13.65	\$ 12.89

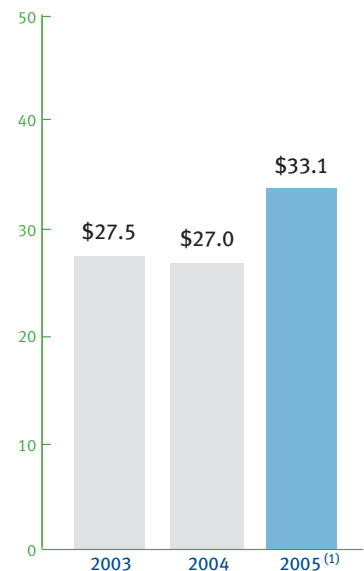
**NET SALES**  
(dollars in millions)



**OPERATING INCOME**  
(dollars in millions)



**NET INCOME**  
(dollars in millions)



<sup>(1)</sup> Operating results adjusted to exclude the effect of \$16.7 million (\$11.2 million net of tax), or \$0.30 per share, of charges for stock keeping unit rationalization and non-cash compensation.

# My Fellow Shareholders:

When the 2005 Dietary Guidelines for Americans were unveiled earlier this year, the United States Department of Agriculture promoted a healthy diet and exercise with MyPyramid.gov. In September, MyPyramid for Kids was launched with the slogan “Eat Right. Exercise. Have Fun.” Well, we’ve been doing that at The Hain Celestial Group since 1993, and since 2004, we’ve been working strategically with the Sesame Workshop® and their Healthy Habits for Life™ initiative to prepare kids for a future of healthy eating and living. We’re glad to see that a growing number of consumers are increasingly enjoying natural and organic products that are made with whole grains, low in fat and naturally sweetened, that have no trans fat and that are free from artificial colors, flavors, preservatives and genetically engineered ingredients.

**Natural and Organic.** Our core focus is the natural and organic sector, where sales of natural and organic beverages, food and personal care products through natural product channels increased to \$19.7 billion in the United States in 2004. Our distribution channels expanded domestically and internationally with increased penetration beyond the natural products industry into traditional supermarkets, club stores, mass retailers, drug stores, convenience stores and foodservice.

Helping to increase the awareness of the natural and organic sector are the United States Department of Agriculture and the United States Department of Health and Human Services with the food guidance system designed to encourage healthy food choices and an active lifestyle. The guidelines emphasize a variety of whole grains, vegetables high in nutritional values, lean proteins and healthy oils—available in many of our products. These categories are also some of the fastest-growing categories in the natural and organic sector, where this year we increased the scope of our products in frozen and refrigerated meats, poultry and seafood; cooking oils; refrigerated sauces, salsas and dips; ethnic foods; and personal care.

**Financial Overview.** In fiscal year 2005, our net sales grew 14% from \$544 million to \$620 million through internal growth and acquisitions driven by core growth brands—Terra Chips®, Garden of Eatin’®, Earth’s Best®, Imagine® and Celestial Seasonings®. In addition, the brands we acquired in 2004—Rosetto®, Ethnic Gourmet® and JASON®, and in Europe, Natumi®—contributed for the full year in fiscal year 2005. We streamlined the business and focused on key growth opportunities.

Our net income, adjusted for the implementation of our stock keeping unit rationalization program and non-cash compensation,

was \$33.1 million or \$0.89 a share, a 23% increase from \$27 million or \$0.74 a share, while our diluted shares increased by 2.3 million. We faced an operating environment of warehouse consolidations and inventory reductions by our primary distributors and paid increasingly higher input prices for natural and organic ingredients used in our products, and fuel and transportation. Nonetheless, our margins remained relatively stable, aided by a price increase we implemented as well as operating efficiencies.

We intensified our focus on balance sheet management and cash measurements and succeeded in increasing our operating free cash flow and reducing the number of days in our cash conversion cycle since last year. We will continue to manage our operating free cash flow and cash conversion cycle with intensity as we look for further improvements in fiscal year 2006.

**New Products.** This year, we introduced new and improved products reflecting substantial innovation across many of our key categories in the natural and organic foods sector, and expanded several of our trusted brands into new areas.

Our new products include Celestial Seasonings Tea Dreams™ frozen non-dairy desserts, Blueberry Ice Cool Brew Iced Tea and a line of new Organic Teas; and from JASON, Earth’s Best Baby Body Care, Red Elements™ skin care and Lip Temptations™. Terra® introduced Sweets & Beets chips and Terra Tapas, while Garden of Eatin’ launched a restaurant-style tortilla chip in a resealable bag and Pita Chips made with organic wheat flour. Health Valley® unveiled a contemporary look across its product line of soups, cereals, bars, cookies and crackers, while Hain Pure Foods® introduced frozen vegetable medleys and soups. Ethnic Gourmet broadened its offerings with a Taste of Italy and a Taste of Santa Fe varieties. Yves Veggie Cuisine® launched a line of Brats, along with Veggie Chicken and Veggie Beef Tenders. Earth’s Best expanded its traditional line of infant and toddler foods with variety and starter packs as well as Earth’s Best Sesame Street® products in conjunction with the Sesame Workshop® Healthy Habits for Life™ initiative.

**Acquisitions and Divestitures.** In April, we expanded our Personal Care offerings with the addition of Zia® Natural Skincare, a respected leader in therapeutic products for healthy, beautiful skin, and a premium skincare line to complement our JASON line. To streamline our business and focus on our core competency, the natural and organic market, we divested the Kineret® and Kosherific® brands in June.

**New Alliances.** In July, we established the Hain Pure Protein Corporation, a platform for growth with the Raised Right™ brand of antibiotic-free, natural and organic free-range chicken. Industry veteran Joseph A. DePippo joined us as President of this joint venture. We also completed an equity exchange with Yeo Hiap Seng Limited in September, the first stage of an Asian alliance that

is expected to result in the pursuit of joint interests in marketing and distribution of food and beverages and product development.

In August, we announced that we plan to acquire Spectrum Organic Products, a leading manufacturer and marketer of natural and organic culinary oils, vinegars, condiments and butter substitutes under the Spectrum Naturals® brand, which generated approximately \$50 million of sales in its last fiscal year. The transaction is expected to close late in 2005, subject to Spectrum shareholder approval.

**Management.** We strengthened our management team in Canada, Europe and the United States. In addition to his responsibilities as President—Celestial Seasonings, Steve List became President—Hain Celestial Canada, and Cecilia Atkinson was promoted to General Manager—Celestial Seasonings. Beena Goldenberg joined us as General Manager—Hain Celestial Canada and established a Sales and Marketing office in Toronto.

John Carroll expanded his responsibilities beyond the Grocery and Frozen brands to include Snacks as President—Grocery and Snacks. Adam Levit was promoted to Chief Sales Officer—Grocery and Snacks, Maureen Putman was promoted to Chief Marketing Officer—Grocery and Snacks, and Matt Cooper was promoted to General Manager—Oils and Condiments in anticipation of the pending Spectrum Organic Products acquisition. Rounding out the Grocery and Snacks team is Jim Meiers, who joined us as Vice President—Operations earlier this year.

In Personal Care, Andy Jacobson was promoted to President. Denise Faltischek joined us as Associate General Counsel in our corporate headquarters.

**Governance.** We successfully completed the implementation of our initial annual review of internal controls pursuant to Sarbanes-Oxley Section 404, and received an unqualified report that our company maintains effective internal controls over financial reporting. The successful implementation of this effort, which cost significant dollars and thousands of hours expended by our people, was led by our Finance Team and Audit Committee. Congratulations are due to each and every Hain Celestial employee for this accomplishment.

**Social Responsibility.** While many were affected by worldwide tragedies, the impact of Hurricane Katrina hit close to home, even though our Louisiana facility was largely unaffected. In response, our employees channeled our resources to contribute truckloads of our products to displaced persons. We continue to contribute our time and resources directly as a company and through our brands to many not-for-profit organizations. We strive to be a leader in the natural and organic industry in complying with the governing regulations of the country of origin and import as well as United States Department of Agriculture and Food and Drug Administration regulations, including those related to health claims.



Photo by Richard Termine. TM/© Sesame Workshop®

*“We’re glad to see that a growing number of consumers are increasingly enjoying natural and organic products.”*

**In Appreciation.** I would like to express my sincere gratitude to our worldwide employees for their important contributions to The Hain Celestial Group, and to our co-packers, distributors and other partners for their help in producing high-quality products that are widely available to consumers. I would also like to thank the Board of Directors, whose time and effort is invaluable to the success of The Hain Celestial Group. Each member of the Board shares our vision of making products that are healthful and contribute to general well-being, and their advice and direction are genuinely appreciated.

**Looking Ahead.** We have the right management in place to position The Hain Celestial Group to capitalize on growth opportunities through our superior brands, effective sales and marketing programs as well as the continued increasing demand for natural and organic products. As the world’s largest natural and organic products company, we are focused on executing our strategy to benefit shareholders, customers, consumers and employees.

We continue to wish you and yours a good year and  
*A Healthy Way of Life,*™

**IRWIN D. SIMON**  
Chairman, President and Chief Executive Officer

# Natural and Organic Products: A Healthy Market



## ENTERING THE MAINSTREAM

As a producer of natural and organic foods and personal care products, The Hain Celestial Group is enjoying greater market opportunities as consumer interest in products grown or manufactured without artificial ingredients or chemicals increases. What were once niche products sold exclusively in natural foods stores are now available through a number of sources, including traditional supermarkets, natural foods supermarkets, drug and convenience stores, mass retailers, club stores and foodservice locations.



The more than 60,000 traditional supermarkets, drug stores and mass retailers in the United

States represent a large majority of natural products sales, which reached over \$45 billion across all channels in 2004. Over the next five years, natural and organic foods are expected to win a greater share of the total retail foods market and significantly outpace the growth of overall grocery food sales nationally.

## What's Driving the Growth?

Traditional supermarkets continue to drive growth primarily through increases in natural products distribution and are also seeing increases in same-store velocity. With a greater selection of natural and organic products, both traditional supermarkets and natural foods stores are attracting a broader consumer base that is purchasing healthy natural or organic versions of more traditional grocery and personal care items.

Today, most natural foods consumers indicate that they are purchasing more natural and organic products than they did a year ago. The increasing demand for natural and organic foods and products is driven by a variety of sources, but is most directly attributable to greater awareness of healthful, good-tasting products that are produced using environmentally friendly processes.





*“Over the next five years, natural and organic foods are expected to win a greater share of the total retail foods market.”*

*Good for My Family and for Me*

Health and wellness concerns play a large role in consumer motivation to purchase natural products. Aging baby boomers are expected to live longer with more active and healthier lifestyles, and the health and safety benefits of natural products are increasingly important to these consumers, who tend to be more highly educated and possess more purchasing power than the generation before them. The new USDA Food Guide Pyramid, released in 2005, also emphasizes the importance of whole grains and the risks of processed foods and simple sugars to a healthy diet. Many natural products consumers cite general health and wellness, specific health issues or diet as their primary reason for using natural products.



*Good Tasting*

More and more consumers are purchasing natural foods because they just taste better than their highly processed counterparts. Both traditional supermarkets and natural foods stores are increasingly focusing on providing this discerning consumer with delicious options across all product categories.

*Good for the Earth*

Environmentally and socially active consumers contribute to the growth of the natural and organic products industry through demand for natural household cleaners, natural personal care products and packaging made with recycled materials.



# The Hain Celestial Group in the Marketplace



## THE BRANDS CONSUMERS TRUST

As more and more consumers make the switch to natural and organic products, the importance of established, trusted brands becomes critical: natural products consumers are emotionally connected to the brands they buy. Whether they purchase natural and organic products because they are better tasting, more healthful or environmentally friendly, consumers have particularly high expectations from natural and organic products and brands. As these products are increasingly sold in traditional supermarkets—where they directly compete in the mainstream grocery aisle with less expensive products made with artificial ingredients, or are sold in a store within a store that offers a wide variety of natural and organic products—leveraging consumer trust is more important than ever.



For over a decade, The Hain Celestial Group has been committed to promoting health and well-being by marketing brands that meet today's growing consumer demand for better beverages, snacks, grocery and personal care products. We are also committed to making access to our products as broad and convenient as possible.

Our products are distributed and marketed primarily to specialty and natural foods distributors and to natural and traditional supermarkets, natural food stores, mass retailers and other retail and foodservice channels. A Hain Celestial brand, Celestial Seasonings®, was one of the first natural food brands to cross over into the mainstream grocery aisle and be sold in traditional supermarkets.

We are also pioneering products that are broadening the definition of the natural foods consumer and addressing the needs of the Hispanic consumer—the fastest-growing consumer segment in the United States. In 2004, Celestial Seasonings launched four herb tea flavors specifically developed for and marketed to this consumer. In 2005, we introduced Rice Dream® Horchata—a non-dairy beverage blend of cinnamon, vanilla and rice—which has already shown strong acceptance from retailers and consumers.

The Hain Celestial Group offers brands and products that are known and valued by a broad range of consumers across all sections of the store—beverages, snacks, grocery and personal care products.

## BEVERAGES

Beverages are a large category of the natural and organic foods market. **Celestial Seasonings** offers over 90 unique and delicious varieties of herb, green, white, black, rooibos, wellness, organic and chai teas, many of which can be enjoyed hot or iced. **Rice Dream** and **Soy Dream**® non-dairy beverages are available in many flavors in both shelf-stable and refrigerated packaging, while **Mountain Sun**® pure juices and **Walnut Acres Organic**™ juices round out our beverage offerings with delicious, crisp, clean, pure flavors made from sun-ripened fruit.





*“We are also committed to making access to our products as broad and convenient as possible.”*



### Every Moment of Every Day

At The Hain Celestial Group, we strive to help consumers lead A Healthy Way of Life™ by providing high-quality products made with all-natural and organic ingredients they can use every moment of every day.

Consumers can greet each new morning with delicious juices from Walnut Acres Organic, enjoy Health Valley® cereals with Rice Dream non-dairy beverage for breakfast and brush their teeth with JASON® PowerSmile® toothpaste. At lunchtime, Ethnic Gourmet® authentic frozen dishes make an exotic and convenient meal. Throughout the day, toddlers enjoy many healthful options from both our Earth’s Best® and Sesame Street® products. For dinner, Raised Right™ antibiotic-free chicken is delicious served with Westbrae Natural® organic vegetables and DeBoles® organic whole-wheat pasta. Terra Chips® provide a tasty and healthful evening or anytime snack, and there’s no better way to end the day than sipping a steaming cup of Celestial Seasonings tea at bedtime.

### Good for My Family and for Me

Most consumers who choose natural and organic products do so because they are concerned about health and wellness. Many Hain Celestial food products have always been whole grain based, certified organic, low in fat and naturally sweetened, with no trans fat or cholesterol, and completely free from artificial colors, flavors and preservatives and genetically engineered ingredients. Our personal care products are made only with ingredients that are proven to be safe for people, pets and the environment.

To help guide families looking to incorporate healthier foods into their lives, the USDA has released a revised Food Guide Pyramid, which encourages consumers to protect their health and reduce the risk of chronic disease by making wise food choices such as:

### Include More Whole Grains

The Hain Celestial Group makes it easy to follow this recommendation with our many whole-grain products such as Rosetto® whole-wheat cheese ravioli and



### SNACKS

Our Snacks continue to delight consumers and produce standout results by delivering innovative, premium quality, all-natural and organic treats for every palate. With category leaders **Terra Chips** and **Garden of Eatin’**, and discerning snackers’ favorites **Bearitos**, **Boston’s**, **Hain** PureSnax, **Harry’s Premium Snacks** and **Little Bear**, all complemented by our **Terra Tapas**, **Bearitos** bean dips and **Garden of Eatin’** salsas, we take pride in delivering delectable treats. Our snacks are all-natural and Kosher certified, with no artificial colors or flavors, no genetically engineered ingredients, no preservatives, no hydrogenated oils and no trans fats.





*“We use only pure, natural, heart-healthy oils such as olive and canola oil—and never any trans fats—in our products.”*

Arrowhead Mills® whole-grain cereals, flours and mixes. The success of the Earth’s Best® Sesame Street® line of good-tasting and nutritious foods for children as well as the introduction of Earth’s Best Wholesome Breakfasts, makes establishing whole grains as an essential part of a child’s diet convenient, flavorful and fun.

#### **Eliminate Trans Fats**

Trans fats contained in hydrogenated and partially hydrogenated oils increase the risk of heart disease because they raise total cholesterol and bad cholesterol (LDL), and lower good cholesterol (HDL). We use only pure, natural, heart-healthy oils such as olive and canola oil—and never any trans fats—in our products. Consumers can enjoy all varieties of Terra Chips® and Garden of Eatin’® snacks, and all Health Valley® cereals, including our successful HeartWise® cereal, knowing that they are taking in no trans fats.

#### **Reduce Intake of Saturated Fats**

Saturated fats, like those present in animal products such as dairy and meat, are also linked to increased risk of heart disease. The Hain Celestial Group offers the market’s most popular shelf-stable non-dairy beverages with our rice, soy and vegetable milks sold under the Rice Dream®, Soy Dream®, WestSoy® and, in Europe, Natumi® brands. There’s something for everyone with our wide variety of sweetened and unsweetened flavors, and non-dairy frozen desserts and novelties. Yves Veggie Cuisine® produces leading meat alternative products ranging from Ground Round to Veggie Sausages, Brats and deli-style cold cuts. For a healthy source of protein that tastes good and is relatively low in saturated fat compared to red meat, we offer Raised Right™ antibiotic- and hormone-free natural and organic chicken.

#### **Eat More Vegetables and Fruits**

While vegetables and fruits have always formed a large and important part of the USDA Food Guide Pyramid,

### **GROCERY**

Eating natural and organic foods is increasingly recognized as one path to better health. The Hain Celestial Group delivers a variety of ways to enjoy good food and good health with packaged grocery products including breakfast cereal, infant and toddler food, pasta, canned vegetables, soup, baked goods and ingredients such as flours, mixes and oils. Our grocery offerings are sold under the well-known brands **Health Valley, Arrowhead Mills, Earth’s Best, Hain Pure Foods®, Imagine®, DeBoles®, Casbah®, Nile Spice®, Hollywood®** and **Westbrae Natural®**. We also offer convenience and quality with a wide selection of frozen meals, pasta, vegetables and desserts from **Ethnic Gourmet®, Rosetto®, Hain Pure Foods, Rice Dream, Soy Dream** and **Celestial Seasonings®**.





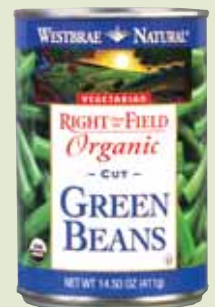
their role as a critical component of a healthy diet is emphasized in the revised pyramid. Our Walnut Acres Organic™ and Mountain Sun® juices, Hain Pure Foods frozen vegetable selections, Imagine and Health Valley soups, and Ethnic Gourmet frozen meals make getting enough vegetables and fruits a pure pleasure. In Europe, fresh organic fruits, vegetables, salad mixes and steamed vegetables from Biomarché™ are a convenient and delicious way to include more of these healthful foods in the diet.

### Enjoy a Variety of Foods

A balanced, healthy diet requires a wide variety of foods to ensure the proper mix of vitamins, minerals, essential elements and other important nutrients. The Hain Celestial Group offers natural and organic products in almost every food category to meet the taste and lifestyle needs of health-conscious consumers.

With today's active lifestyles, more and more meals are consumed outside the home. In Europe, Grains Noirs® supplies supermarkets with a wide variety of ultra-fresh prepared meals, and has introduced Food Attitude, its first branded offering, which is a range of healthful salads, sandwiches and desserts.

In other foodservice channels, SYSCO®, one of the world's largest suppliers to foodservice providers, has extended its offering of Yves Veggie Cuisine private-label meat alternative products. Terra Blues® potato chips continue to be a best seller and The Official Snack of JetBlue Airways®.





### *Good Tasting*

Consumers demand good-tasting foods and snacks, and as consumers learn more about the benefits of natural and organic ingredients, the demand for satisfying natural and organic products continues to grow. We believe that natural and organic products should provide the same level of satisfaction with aroma, taste and texture that other products do, and are committed to educating consumers that our products deliver these sensory elements with every purchase.

Many Hain Celestial brands hold leadership positions in their categories, due in large part to their superior taste. For 35 years, Celestial Seasonings® has been providing tea lovers with a wide variety of unique and delicious tea flavors. A recent reformulation of our Soy Dream® enriched soy milk has resulted in a better flavor and lower processing costs. Ethnic Gourmet® frozen dishes are truly authentic, flavorful and time-honored chefs' recipes, carefully prepared using the rich, aromatic spices; bold, unique flavors; and bright, colorful ingredients that give each cuisine its truly distinctive taste.

### *Good for the Earth*

The natural and organic products industry has always been concerned with the environmental impact of product ingredients and packaging materials. At The Hain Celestial Group, we take our responsibility to our environment and all who inhabit it very seriously, and we use recycled materials in our packaging. Personal care items like JASON® Red Elements™ Skin Care and Earth's Best® Baby Body Care were developed using botanicals, plants, roots, herbs, proteins, vitamins and minerals to be effective for the consumer with minimal harm to the earth.

We also employ innovative packaging processes that conserve resources. Celestial Seasonings saves thousands of metric tons of waste from entering landfills each year by eliminating strings and tags from our consumer tea bags. The Hain Celestial Group is an active participant in making the world a better place, and we support sustainable agriculture and family-owned farms to safeguard the land.



## PERSONAL CARE

As consumers become more aware of the important role natural and organic foods play in a healthy lifestyle, they understand that what they put on their bodies contributes to physical health and well-being, along with what they put in their bodies. Our bath and body products sold under the **JASON**, **Zia® Natural Skincare**, **Shaman Earthly Organics™** and **Orjene® Organics™** brands include facial scrubs and moisturizers, cosmetics, toothpastes, soaps, deodorants and hair care products for men, women and children. We also produce a line of 70% organic baby body care products co-branded by **Earth's Best** and **JASON**. For the home, we offer **Heather's® Natural & Organic Cleaning Products**—a unique line of non-toxic, natural household cleaning products.



*“We support sustainable agriculture and family-owned farms to safeguard the land.”*



### A Healthy Way of Life™

At The Hain Celestial Group, our commitment to helping consumers lead A Healthy Way of Life is our driving force. Ours are powerful brands with leadership positions that are growing strongly. Investments in new products and marketing programs are designed to reach and educate consumers interested in improving the quality of their lives through improved nutrition and increased physical activity—the cornerstones of the USDA Food Guide Pyramid and the advice of medical practitioners worldwide.

We continue to invest in our research and development efforts to bring exciting and timely new products to market. We use the latest developments in natural food and nutrition technology and bio-vegetal science to ensure that we maintain category leadership through innovation. Because natural and organic foods and personal care products are often more expensive than those made with artificial ingredients, we continually pursue new product innovations that enable us to

encourage loyalty and repeat purchases by delivering products that meet our standards for quality and health, yet remain affordable.

In conjunction with the Sesame Workshop® and their Healthy Habits for Life™ initiative, Earth’s Best offers a line of products that help caregivers teach children healthy eating habits with fun, delicious, healthful alternatives. This year, our Terra Chips® “Whirl’d Tour” campaign promoted an active lifestyle by pairing our popular vegetable chips with a cycling tour giveaway. To raise awareness of heart disease among women, Celestial Seasonings is a proud partner of *The Heart Truth* campaign, a program of the United States National Heart, Lung, and Blood Institute. JASON, a corporate partner of the Susan G. Komen Breast Cancer Foundation, is contributing a portion of the proceeds from the sale of its Pink Hope Lip Temptations™ to the fight against breast cancer.



### HAIN CELESTIAL CANADA

With a leading meat alternative brand, **Yves Veggie Cuisine**®, and the sales of many other Hain Celestial brands in the beverage, snack, cereal, baby food, soup and personal care categories, our products are the premier choice for an increasing number of Canadians who are seeking healthy, natural alternatives to traditional products. **Yves Veggie Cuisine** products have enjoyed increased distribution in the United States, and are increasingly being adopted by foodservice providers using meat alternatives in their recipes.





As the world's largest natural and organic products company, we are focused on executing our strategy to benefit shareholders, customers, consumers and employees.

We wish you *A Healthy Way of Life.*<sup>™</sup>



### HAIN CELESTIAL EUROPE

Long a foundation of the European lifestyle, natural, organic and functional health foods continue to grow in popularity across Europe. Hain Celestial Europe is securing its position in the natural and organic sector by continuing to support our well-known brands **Lima**<sup>®</sup>, **Biomarché**<sup>™</sup>, **Grains Noirs**<sup>®</sup>, **Natumi**<sup>®</sup> and now, **Yves Cuisine**<sup>™</sup>, and by introducing many Hain Celestial brands to the European market.



**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 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

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### 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.



**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® teas, Hain Pure Foods®, Westbrae®, Westsoy®, Rice Dream®, Soy Dream®, Imagine®, Walnut Acres Organic™, Ethnic Gourmet®, Rosetto®, Little Bear Organic Foods®, Bearitos®, Arrowhead Mills®, Health Valley®, Breadshop’s®, Casbah®, Garden of Eatin’®, Terra Chips®, Harry’s Premium Snacks®, Boston’s®, Lima®, Biomarche®, Grains Noirs®, Natumi®, Milkfree, Yves Veggie Cuisine®, DeBoles®, Earth’s Best®, and Nile Spice®. The Company’s principal specialty product lines include Hollywood® cooking oils, Estee® sugar-free products, Boston Better Snacks®, and Alba Foods®. Our natural personal care products line is marketed under the JASON®, Zia®, Orjene®, Shaman Earthly Organics™, and Heather’s® 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:

- On April 4, 2005, we acquired Zia Cosmetics, Inc., including the Zia® Natural Skincare brand, a respected leader in therapeutic products for healthy, beautiful skin sold mainly through natural food retailers.
- On June 3, 2004, we acquired Jason Natural Products, Inc., a California-based manufacturer and marketer of natural personal care products.
- 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.
- On February 25, 2004, we acquired Natumi AG, a German producer and marketer of soymilk and other non-dairy products.
- 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™ brand.
- 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.

- 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®, Soy Dream® and Imagine® 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 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®, Westbrae®, Westsoy®, Imagine®, Rice Dream®, Soy Dream®, Walnut Acres Organic™, Ethnic Gourmet®, Bearitos®, Arrowhead Mills®, DeBoles®, Health Valley®, Hollywood®, Casbah®, Breadshop’s®, Nile Spice®, Earth’s Best® and Lima® 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®, Garden of Eatin’®, Little Bear®, Boston’s Popcorn® and Harry’s Premium Snacks® names. Terra Chips® natural food products consist of varieties of potato chips, potato sticks (known as Frites®), sweet potato chips and other vegetable chips. Garden of Eatin’® natural food products consist of organic tortilla chip products and other snacks. Boston Popcorn® and Harry’s® 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<sup>®</sup>, Lemon Zinger<sup>®</sup>, Peppermint, Chamomile, Mandarin Orange Spice<sup>®</sup>, Cinnamon Apple Spice, Red Zinger<sup>®</sup>, Raspberry Zinger<sup>®</sup>, Tension Tamer<sup>®</sup>, Country Peach Passion<sup>®</sup> and Wild Berry Zinger<sup>®</sup>, 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<sup>®</sup>, Zia<sup>®</sup>, Orjene<sup>®</sup> and Shaman Earthly Organics<sup>™</sup> brands. The majority of our products are under the JASON<sup>®</sup> 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<sup>®</sup>, which consists of seven items.

## *Other*

### *Fresh*

We process, market and distribute fresh produce and prepared meals from our Biomarché 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<sup>®</sup> 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<sup>®</sup>, The Good Lunch<sup>®</sup> and The Good Slice<sup>®</sup>, 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<sup>®</sup> and Featherweight<sup>®</sup> businesses market and distribute a full line of sugar-free, fructose-sweetened and low-sodium products targeted towards 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 discontinuation of numerous SKU's, 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.

### **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®, in Boulder, Colorado, which produces specialty teas; Terra Chips®, in Moonachie,

New Jersey, which produces vegetable chips; Arrowhead Mills®, in Hereford, Texas, which produces hot and cold cereals, baking goods and meal cups; DeBoles®, in Shreveport, Louisiana, which produces organic pasta; Ethnic Gourmet®, in Framingham, Massachusetts, which produces frozen meals; Rosetto®, in West Chester, Pennsylvania, which produces frozen pasta; and JASON®, 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®, Breadshop® and Casbah® 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® 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® facility in Sombrefe, Belgium, which processes fresh organic produce and prepared salads, its Grains Noirs® 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® 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 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®, Breadshop's®, Casbah®, Bearitos®, Nile Spice®, Harry's Premium Snacks®, Boston's®, Alba Foods®, Estee®, Earth's Best®, Garden of Eatin'®, Hain Pure Foods®, Hollywood®, Little Bear Organic Foods®, Westbrae®, Westsoy®, Rice Dream®, Soy Dream®, Imagine®, Walnut Acres Organic®, Lima® and some of our Terra Chips®, Rosetto®, Arrowhead Mills®, Yves Veggie Cuisine® and Ethnic Gourmet® product lines.

In the U.S., we presently obtain:

- all of our requirements for non-dairy beverages from five co-packers, all of which are under contract or other arrangements;
- all of our U.S. requirements for rice cakes from one co-packer;
- all of our Health Valley® baked goods and cereal products from one co-packer, which is under contract;
- all of our cooking oils from one co-packer;
- principally all of our Garden of Eatin'® and Little Bear Organic Foods® tortilla chips from three co-packers, one of which is under contract;
- a portion of our requirements for Terra® Yukon Gold, Red Bliss™, Terra Blues™, and Potpourri™ potato chips and Frites™ from one co-packer, which is under contract;
- the requirements for our canned soups from four co-packers, which are under contract;
- all of our Earth's Best® baby food products from seven co-packers, which are under contract;
- a portion of our Ethnic Gourmet® products from one co-packer, which is under contract; and
- all of our Zia® 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®, Bearitos®, Breadshop's®, Casbah®, Celestial Seasonings®, DeBoles®, Earth's Best®, Estee®, Ethnic Gourmet®, Garden of Eatin'®, Hain Pure Foods®, Health Valley®, Imagine®, JASON®, Zia®, Orjene®, Shaman Earthly Organics®, Heather's®, Little Bear Organic Foods®, Nile Spice®, Rice Dream®, Rosetto®, Soy Dream®, Terra®, Walnut Acres Organic™, Westbrae®, Westsoy®, Lima®, Biomarche® and Yves Veggie Cuisine®. Celestial Seasonings® has trademarks for most of its best-selling teas, including Sleepytime®, Lemon Zinger®, Mandarin Orange Spice®, Red Zinger®, Wild Berry Zinger®, Tension Tamer®, Country Peach Passion® and Raspberry Zinger®.

### **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 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® 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.

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® 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>:

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

- 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® 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® 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® 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® 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 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.

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 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:

<u>Plan Category</u>	<u>Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights</u>	<u>Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights</u>	<u>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in column (a))</u>
	(a)	(b)	(c)
Equity compensation plans approved by security holders	8,098,104	\$18.37	315,532
Equity compensation plans not approved by security holders	N/A	N/A	N/A
Total	8,098,104	\$18.37	315,532

### Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(a)	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
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	555,361
March 1-31, 2005	10,000	18.40	10,000	545,361
April 1-30, 2005				
May 1-31, 2005	99,700	17.76	99,700	900,300
June 1-30, 2005				
Total	189,700	\$18.24	189,700	900,300

(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	2001
Operating results:					
Net sales	\$619,967	\$544,058	\$466,459	\$395,954	\$345,661
Net income (a)	\$ 21,870	\$ 27,008	\$ 27,492	\$ 2,971	\$ 23,589
Basic earnings per common share	\$ .60	\$ .77	\$ .81	\$ .09	\$ .71
Diluted earnings per common share	\$ .59	\$ .74	\$ .79	\$ .09	\$ .68
Financial Position:					
Working Capital	\$124,342	\$129,949	\$ 83,324	\$ 70,942	\$ 92,312
Total assets	707,136	684,231	581,548	481,183	461,693
Long-term debt	92,271	104,294	59,455	10,293	10,718
Stockholders' equity	528,290	496,765	440,797	403,848	396,653

(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.

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

- On April 4, 2005, we acquired Zia Cosmetics, Inc., including the Zia® Natural Skincare brand, a respected leader in therapeutic products for healthy, beautiful skin sold mainly through natural food retailers.
- On June 3, 2004, we acquired Jason Natural Products, Inc., a California-based manufacturer and marketer of natural personal care products.
- On May 27, 2004, we acquired the Rosetto® and Ethnic Gourmet® brands of Heinz, which produce and market frozen pasta and natural ethnic frozen meals, respectively.
- On February 25, 2004, we acquired Natumi AG, a German producer and marketer of soymilk and other non-dairy products.
- 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™ brand.
- 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.
- 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®, Soy Dream® and Imagine® 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® and Kosherific® 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:

### *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 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® 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®, which was up 20.0%, Garden of Eatin'®, which was up 14.7%, Earth's Best®, which was up 39.6%, Imagine® soups, which was up 18.8%, and to a lesser extent increased sales of Celestial Seasoning® 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 beginning 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.

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.

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.

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.

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 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	Thereafter
Debt instruments	\$ 94,676	\$ 2,497	\$ 2,479	\$89,700	\$ —
Capital lease obligations	386	294	92	—	—
Operating leases	23,925	5,354	7,752	5,431	5,388
Purchase Obligations	20,865	18,358	2,507	—	—
Total contractual cash obligations	<u>\$139,852</u>	<u>\$26,503</u>	<u>\$12,830</u>	<u>\$95,131</u>	<u>\$5,388</u>

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

- general economic and business conditions;
- the ability of the Company to implement its business and acquisition strategy;
- the ability to effectively integrate its acquisitions;
- the ability of the Company to obtain financing for general corporate purposes;
- competition;
- availability of key personnel; and
- 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:

- successfully identify suitable acquisition candidates;
- negotiate identified acquisitions on terms acceptable to us; or
- 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:

- 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;

- that a business combination will enhance our competitive position and business prospects;
- that we will not experience difficulties with customers, personnel or other parties as a result of a business combination; or
- 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:

- integrating an acquired brand's distribution channels with our own;
- coordinating sales force activities of an acquired company or in selling the products of an acquired company to our customer base; or
- 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:

- nutritional values, such as a change in preference from fat free to reduced fat to no reduction in fat; and
- 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 introduction 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 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:

- all of our requirements for non-dairy beverages from five co-packers, all of which are under contract or other arrangements;

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

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.

*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:

- periodic economic downturns and unstable political environments;
- price and currency exchange controls;
- fluctuations in the relative values of currencies;
- unexpected changes in trading policies, regulatory requirements, tariffs and other barriers;
- compliance with applicable foreign laws; and
- 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.

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 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 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.

*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.

### 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	June 30, 2005
Net sales	\$137,604	\$169,753	\$161,261	\$151,349
Gross profit (a)	38,975	53,231	45,468	33,283
Operating income (loss)(b)	10,790	18,058	11,728	(2,388)
Income (loss) before income taxes (b)	10,135	17,505	10,546	(3,675)
Net income (loss)(b)	6,182	10,678	7,698	(2,688)
Basic earnings per common share	\$ .17	\$ .29	\$ .21	\$ (.07)
Diluted earnings per common share	\$ .17	\$ .29	\$ .21	\$ (.07)

	Three Months Ended			
	September 30, 2003	December 31, 2003	March 31, 2004	June 30, 2004
Net sales	\$127,053	\$142,792	\$136,862	\$137,351
Gross profit	37,162	47,099	38,546	37,457
Operating income	11,343	17,052	9,019	8,464
Income before income taxes	10,552	16,702	8,087	8,047
Net income	6,542	10,372	5,014	5,080
Basic earnings per common share	\$ .19	\$ .30	\$ .14	\$ .14
Diluted earnings per common share	\$ .19	\$ .29	\$ .14	\$ .14

(a) Gross profit was negatively impacted by approximately \$1.2 million (\$0.7 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.



## **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:

- interest rates on debt and cash equivalents, and
- 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 \$0.8 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:

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

**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, 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.

## **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 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

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

	<u>June 30</u>	
	<u>2005</u>	<u>2004</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 24,139	\$ 27,489
Accounts receivable, less allowance for doubtful accounts of \$2,074 and \$ 2,185	67,148	69,392
Inventories	76,497	86,873
Recoverable income taxes, net	2,575	—
Deferred income taxes	5,671	3,111
Other current assets	18,164	11,449
Total current assets	<u>194,194</u>	<u>198,314</u>
Property, plant and equipment, net of accumulated depreciation and amortization of \$49,035 and \$ 40,799	88,204	87,002
Goodwill	350,833	333,218
Trademarks and other intangible assets, net of accumulated amortization of \$9,142 and \$ 8,349	61,010	55,793
Other assets	12,895	9,904
Total assets	<u>\$707,136</u>	<u>\$684,231</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 65,922	\$ 59,031
Income taxes payable	1,139	2,489
Current portion of long-term debt	2,791	6,845
Total current liabilities	<u>69,852</u>	<u>68,365</u>
Long-term debt, less current portion	92,271	104,294
Deferred income taxes	16,723	14,807
Total liabilities	<u>178,846</u>	<u>187,466</u>
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	371
Additional paid-in capital	404,517	394,740
Deferred compensation	(1,872)	(2,809)
Retained earnings	127,967	106,097
Foreign currency translation adjustment	10,048	7,651
	<u>541,035</u>	<u>506,050</u>
Less: 861,256 and 671,556 shares of treasury stock, at cost	<u>(12,745)</u>	<u>(9,285)</u>
Total stockholders' equity	<u>528,290</u>	<u>496,765</u>
Total liabilities and stockholders' equity	<u>\$707,136</u>	<u>\$684,231</u>

See notes to consolidated financial statements.

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

	Year Ended June 30		
	2005	2004	2003
Net sales	\$619,967	\$544,058	\$466,459
Cost of sales	449,010	383,794	325,054
Gross profit	170,957	160,264	141,405
Selling, general and administrative expenses	128,119	114,014	95,635
Restructuring and other non-recurring charges	—	—	(435)
Non-cash compensation	4,650	372	46
Operating income	38,188	45,878	46,159
Interest expense, net and other expenses	3,677	2,490	1,995
Income before income taxes	34,511	43,388	44,164
Provision for income taxes	12,641	16,380	16,672
Net income	<u>\$ 21,870</u>	<u>\$ 27,008</u>	<u>\$ 27,492</u>
Earnings per share:			
Basic	<u>\$ .60</u>	<u>\$ .77</u>	<u>\$ .81</u>
Diluted	<u>\$ .59</u>	<u>\$ .74</u>	<u>\$ .79</u>
Weighted average common shares outstanding:			
Basic	<u>36,407</u>	<u>35,274</u>	<u>33,910</u>
Diluted	<u>37,153</u>	<u>36,308</u>	<u>34,722</u>

See notes to consolidated financial statements.

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 Paid-In Capital	Unamortized Non-Cash Compensation	Retained Earnings	Treasury Stock		Foreign Currency Translation Adjustment	Total	Compre- hensive Income
	Shares	Amount at \$.01				Shares	Amount			
Balance at June 30, 2002	34,075,639	\$341	\$354,822		\$ 51,597	306,917	\$ (3,875)	\$ 963	\$403,848	
Exercise of stock options	67,521	1	623						624	
Purchase of treasury shares						299,702	(4,281)		(4,281)	
Issuance of common stock	667,562	6	9,206						9,212	
Non-cash compensation charge			46						46	
Tax benefit from stock options			180						180	
Comprehensive income:										
Net income					27,492				27,492	\$27,492
Translation adjustments								3,676	3,676	3,676
Total comprehensive income										\$31,168
Balance at June 30, 2003	34,810,722	348	364,877		79,089	606,619	(8,156)	4,639	440,797	
Exercise of stock options and warrants	2,103,926	21	19,787						19,808	
Purchase of treasury shares						64,937	(1,129)		(1,129)	
Restricted stock grant	150,000	2	3,133	\$(3,135)					—	
Non-cash compensation charge			46	326					372	
Tax benefit from stock options			6,897						6,897	
Comprehensive income:										
Net income					27,008				27,008	\$27,008
Translation adjustments								3,012	3,012	3,012
Total comprehensive income										\$30,020
Balance at June 30, 2004	37,064,648	371	394,740	(2,809)	106,097	671,556	(9,285)	7,651	496,765	
Exercise of stock options and warrants	411,350	4	5,237						5,241	
Purchase of treasury shares						189,700	(3,460)		(3,460)	
Restricted stock grant										
Non-cash compensation charge			3,713	937					4,650	
Tax benefit from stock options			827						827	
Comprehensive income:										
Net income					21,870				21,870	\$21,870
Translation adjustments								2,397	2,397	2,397
Total comprehensive income										\$24,267
Balance at June 30, 2005	37,475,998	375	\$404,517	\$(1,872)	\$127,967	861,256	\$(12,745)	\$10,048	\$528,290	

See notes to consolidated financial statements.

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

	Year Ended June 30		
	2005	2004	2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income	\$ 21,870	\$ 27,008	\$ 27,492
Adjustments to reconcile net income to net cash provided by operating activities:			
SKU Rationalization charges	12,142	—	—
Depreciation and amortization	13,838	9,763	8,619
Provision for doubtful accounts	68	438	103
Deferred income taxes	(644)	3,968	7,864
Non-cash compensation	4,650	372	46
Increase (decrease) in cash attributable to changes in operating assets and liabilities, net of amounts applicable to acquired brands:			
Accounts receivable	2,577	(5,230)	(4,973)
Inventories	496	(11,436)	(2,742)
Other current assets	(6,977)	(2,086)	(1,167)
Other assets	(5,936)	1,888	(1,745)
Accounts payable and accrued expenses	(4,015)	(1,403)	(9,320)
Accrued restructuring and non-recurring charges	—	—	(5,805)
Recoverable income taxes	(3,923)	622	3,389
Tax benefit of nonqualified stock options	827	6,897	180
Net cash provided by operating activities	<u>34,973</u>	<u>30,801</u>	<u>21,941</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisitions of brands, net of cash acquired	(11,098)	(50,734)	(57,528)
Purchases of property and equipment	(9,890)	(9,918)	(9,157)
Net cash used in investing activities	<u>(20,988)</u>	<u>(60,652)</u>	<u>(66,685)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
(Payments) proceeds from bank revolving credit facility, net	(9,500)	45,350	49,450
Payments on economic development revenue bonds	(3,550)	(558)	(500)
Costs in connection with bank financing	(34)	(985)	(220)
Purchase of treasury stock	(3,460)	(1,129)	(4,281)
Proceeds from exercise of options and warrants, net of related expenses	5,241	19,808	624
(Repayments) proceeds of other long-term debt, net	(3,412)	(13,612)	4,100
Net cash (used in) provided by financing activities	<u>(14,715)</u>	<u>48,874</u>	<u>49,173</u>
Effect of exchange rate changes on cash	(2,620)	(2,518)	(983)
Net (decrease) increase in cash and cash equivalents	(3,350)	16,505	3,446
Cash and cash equivalents at beginning of year	27,489	10,984	7,538
Cash and cash equivalents at end of year	<u>\$ 24,139</u>	<u>\$ 27,489</u>	<u>\$ 10,984</u>

See notes to consolidated financial statements.

## **1. BUSINESS**

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® teas, Hain Pure Foods®, Westbrae®, Westsoy®, Rice Dream®, Soy Dream®, Imagine®, Walnut Acres Organic™, Ethnic Gourmet®, Rosetto®, Little Bear Organic Foods®, Bearitos®, Arrowhead Mills®, Health Valley®, Breadshop’s®, Casbah®, Garden of Eatin’®, Terra Chips®, Harry’s Premium Snacks®, Boston’s®, Lima®, Biomarche®, Grains Noirs®, Natumi®, Milkfree, Yves Veggie Cuisine®, DeBoles®, Earth’s Best®, and Nile Spice®. The Company’s principal specialty product lines include Hollywood® cooking oils, Estee® sugar-free products, Boston Better Snacks®, and Alba Foods®. Our natural personal care product line is marketed under the JASON®, Zia®, Orjene®, Shaman Earthly Organics™, and Heather’s® brands.

We operate in one business segment: the sale of natural and organic food and personal care products. During the three years ended June 30, 2005, approximately 47%, 39% and 42% of our revenues were derived from products that are manufactured within our own facilities with 53%, 61% and 58% produced by various co-packers. In fiscal 2005, 2004 and 2003, there were no co-packers who manufactured 10% or more of our products.

## **2. BASIS OF PRESENTATION**

Our consolidated financial statements include the accounts of The Hain Celestial Group, Inc. and all wholly-owned subsidiaries. In the Notes to Consolidated Financial Statements, all dollar amounts, except per share data, are in thousands unless otherwise indicated.

## **3. SUMMARY OF SIGNIFICANT AND CRITICAL ACCOUNTING POLICIES**

### **Consolidation Policy**

Our accompanying consolidated financial statements include the accounts of the Company and all of its wholly-owned subsidiaries. Material intercompany accounts and transactions have been eliminated in consolidation.

### **Use of Estimates**

The 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.

### **Valuation of Accounts and Chargebacks Receivable and Concentration of Credit Risk**

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 an additional reserve based on the experience we have with our trade receivables aging categories. Credit losses have been within our expectations in recent years. While one of our customers represents 20% of our trade receivables balance as of June 30, 2005 and two of our customers represent 28% and 25% of our trade receivables balance as of June 30, 2004 and 2003, respectively, 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 our customers have taken that we expect to be repaid and collectible in the near future in the form of a chargeback receivable. Our estimate of this receivable balance (\$4.5 million at June 30, 2005 and \$6 million at June 30, 2004) could be different had we used different assumptions and judgments.



During the year ended June 30, 2005, sales to one customer and its affiliates approximated 22% of net sales. In fiscal 2004 and 2003, two customers accounted for approximately 20% and 12% of net sales and approximately 18% and 15% of net sales, respectively.

### **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 estimated useful lives or lease life, whichever is shorter. We believe the asset lives assigned to our property, plant and equipment are within ranges 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. We utilize the following ranges of asset lives:

Buildings and improvements	10-31 years
Machinery and equipment	5-15 years
Furniture and fixtures	3-7 years
Leasehold improvements	3-10 years

### **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 reporting units, and other intangible assets with indefinite useful lives are tested annually for impairment.

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

### **Foreign Currency Translation**

Financial statements of foreign subsidiaries are translated into U.S. dollars at current rates, except that revenues, costs and expenses are translated at average rates during each reporting period. Net exchange gains or losses resulting from the translation of foreign financial statements and the effect of exchange rate changes on intercompany transactions of a long-term investment nature are accumulated and credited or charged directly to a separate component of stockholders' equity and other comprehensive income.

### **Advertising Costs**

Media advertising costs, which are included in selling, general and administrative expenses, amounted to \$4.0 million for fiscal 2005 and \$5.6 million for each of the two fiscal years 2004 and 2003. Such costs are expensed as incurred.

## **Income Taxes**

We follow the liability method of accounting for income taxes. Under the liability method, deferred taxes are determined based on the differences between the financial statement and tax bases of assets and liabilities at enacted rates in effect in the years in which the differences are expected to reverse.

## **Shipping and Handling Costs**

We include the costs associated with shipping and handling of our inventory as a component of cost of sales.

## **Fair Values of Financial Instruments**

At June 30, 2005 and 2004, we had \$10.0 and \$10.9 million invested in corporate money market securities, including commercial paper, repurchase agreements, variable rate instruments and bank instruments. These securities are classified as cash equivalents as their maturities when purchased are less than three months. At June 30, 2005 and 2004, the carrying values of these money market securities approximate their fair values.

We believe that the interest rates charged on our debt instruments approximate current borrowing rates and, accordingly, the carrying amounts of such debt at June 30, 2005 and 2004 approximate fair value.

## **Accounting For Stock Issued to Employees**

We have elected to follow APB Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related Interpretations, in accounting for stock options because, as discussed below, the alternative fair value accounting provided for under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"), requires use of option valuation models that were not developed for use in valuing employee stock options. Under APB 25, when the exercise price of our employee stock options at least equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.

Pro forma information regarding earnings and earnings per share is required by SFAS No. 123, and has been determined as if we have accounted for our stock options under the fair value method of that Statement. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions: risk free interest rates ranging from 4% to 6.77%; no dividend yield; volatility factors of the expected market price of our common stock of approximately 45% for fiscal 2005, 51% for fiscal 2004, and 55% for fiscal 2003; and a weighted-average expected life of the options of approximately 7 years in fiscal 2005 and five years in both 2004 and 2003.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because our stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of our employee stock options.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting periods. Our pro forma information is as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Net income, as reported	\$21,870	\$27,008	\$ 27,492
Non-cash compensation charge net of related tax effects	3,759	232	30
Stock-based employee compensation expense determined under fair value method, net of related tax effects	<u>(8,886)</u>	<u>(3,921)</u>	<u>(11,365)</u>
Pro forma net income	<u>\$16,743</u>	<u>\$23,319</u>	<u>\$ 16,157</u>
Basic net income per common share:			
As reported	\$ .60	\$ .77	\$ .81
Pro forma	\$ .46	\$ .66	\$ .48
Diluted net income per common share:			
As reported	\$ .59	\$ .74	\$ .79
Pro forma	\$ .45	\$ .64	\$ .47

In December 2004, the Financial Accounting Standards Board issued SFAS No. 123(R), "Share-Based Payment" ("SFAS No. 123-R"). SFAS No. 123(R) requires the Company to measure compensation cost for all share-based payments at fair value for interim and annual periods beginning with the Company's fiscal year commencing July 1, 2005. As all outstanding unvested stock options were accelerated in June 2005 (see Note 12), there will be no stock option amortization expense in future periods unless additional stock options are granted.

#### **Accounting for the Impairment of Long-Lived Assets**

Effective July 1, 2002, we adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144"). SFAS No. 144 supersedes SFAS No. 121; however, it retains fundamental provisions related to the recognition and measurement of the impairment of long-lived assets to be "held and used." In addition, SFAS No. 144 provides more guidance on estimating cash flows when performing a recoverability test, requires that a long-lived assets group to be disposed of other than by sale (e.g., abandoned) be classified as "held and used" until disposed of, and establishes more restrictive criteria regarding classification of an asset group as "held for sale."

SFAS No. 144 also supersedes the accounting and reporting provisions of Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations" ("APB 30"), for the disposal of a segment of a business, and extends the reporting of a discontinued operation to a "component of an entity." Further, SFAS No. 144 requires operating losses from a "component of an entity" to be recognized in the period in which they occur rather than as of the measurement date as previously required by APB 30.

There have been no disposal activities since adoption of SFAS No. 144 and, therefore, the adoption of that statement had no effect on our financial statements.

#### **Deferred Financing Costs**

Eligible costs associated with obtaining debt financing are capitalized and amortized over the related term of the applicable debt instruments, which approximates the effective interest method.

#### **Earnings Per Share**

We report basic and diluted earnings per share in accordance with SFAS No. 128, "Earnings Per Share" ("SFAS No. 128"). Basic earnings per share excludes the dilutive effects of options and warrants. Diluted earnings per share includes only the dilutive effects of common stock equivalents such as stock options and warrants.

The following table sets forth the computation of basic and diluted earnings per share pursuant to SFAS No. 128.

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Numerator:			
Net income	<u>\$21,870</u>	<u>\$27,008</u>	<u>\$27,492</u>
Denominator (in thousands):			
Denominator for basic earnings per share - weighted average shares outstanding during the period	36,407	35,274	33,910
Effect of dilutive securities:			
Stock options and awards	745	940	653
Warrants	<u>1</u>	<u>94</u>	<u>159</u>
	<u>746</u>	<u>1,034</u>	<u>812</u>
Denominator for diluted earnings per share - adjusted weighted average shares and assumed conversions	<u>37,153</u>	<u>36,308</u>	<u>34,722</u>
Basic net income per share	<u>\$ 0.60</u>	<u>\$ 0.77</u>	<u>\$ 0.81</u>
Diluted net income per share	<u>\$ 0.59</u>	<u>\$ 0.74</u>	<u>\$ 0.79</u>

Options totaling 3,119,203 in 2005, 2,964,303 in 2004 and 4,528,953 in 2003, were excluded from our earnings per share computations as their effects would have been anti-dilutive.

#### **Reclassifications**

We have made certain reclassifications to the prior years' consolidated financial statements and notes thereto to conform to the current year presentation.

#### **4. STOCK KEEPING UNIT RATIONALIZATION**

During 2005, we evaluated the portfolio of stock keeping units ("SKUs") we maintained on our active list of products sold to our customers, and determined that there were numerous underperforming SKUs that should be eliminated based on their low volume of sales or insufficient margins due to disproportionate manufacturing and other costs. As a result, cost of sales for 2005 includes a charge for approximately \$9.0 million of ingredient and finished goods inventories, including the costs of disposal, for SKUs eliminated, and selling, general and administrative expenses includes a charge for approximately \$3.1 million for the write-off of deferred packaging design and other costs related to these SKUs. While the SKU rationalization impacted products across virtually all of our brands, approximately 20% of the charges were related to the discontinuance of our CarbFit line of low-carbohydrate products.

#### **5. GOODWILL AND OTHER INTANGIBLE ASSETS**

At June 30, 2005, included in trademarks and other intangible assets on the balance sheet, is approximately \$6.3 million of intangible assets deemed to have a finite life which are being amortized over their estimated useful lives. Goodwill and indefinite-life intangible assets must be tested for impairment at the beginning of the fiscal year in which SFAS No. 142 is adopted and at least annually thereafter. We perform a test for impairment during the fourth quarter of our fiscal year. Effective with Fiscal 2005, we changed the date of our annual impairment test to April 1st. Previously, we performed this annual impairment test on May 31st, with the most recent prior test occurring on May 31, 2004. We determined this change in accounting principle is preferable because the timing of the test is now aligned with quarterly financial accounting procedures and financial information, and provides additional time for completing the impairment testing given current and expected future accelerated Form 10-K filing dates. In accordance with SFAS No. 142, we have evaluated the fair value of our goodwill and indefinite-life intangible assets, and based on such evaluations, no impairment existed at July 1, 2002 or through June 30, 2005. Additionally, the change in accounting principle had no effect on the 2005 financial statements because the inputs to the impairment calculations at April 1st are similar to those that would have been used at May 31st. Amounts assigned to indefinite-life intangible assets primarily represent the values of trademarks.

The following table reflects the components of trademarks and other intangible assets:

	2005		2004	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Other intangibles	\$ 6,290	\$2,657	\$ 4,189	\$1,865
Non-amortized intangible assets:				
Trademarks	63,861	6,484	59,953	6,484

Amortization of amortized intangible assets amounted to \$0.6 million in each of 2005 and 2004 and \$0.4 million in 2003, and is expected to approximate \$0.6 million in each of the next five fiscal years.

## 6. ACQUISITIONS

### Fiscal 2005

On April 4, 2005, we acquired 100% of the stock of privately held Zia Cosmetics, Inc., including the Zia® Natural Skincare brand, a respected leader in therapeutic products for healthy, beautiful skin sold mainly through natural food retailers. The purchase price consisted of approximately \$10 million in cash as well as the assumption of certain liabilities. The purchase price excludes the amount of contingency payments we may be obligated to pay. The contingency payments are based on the achievement by Zia of certain financial targets over an approximate two-year period following the date of acquisition. Such payments, which could total approximately \$1.3 million, will be charged to goodwill if and when paid. No such contingency payments have been made since the acquisition. The net assets acquired, as well as the sales and operations of Zia, are not material to the Company's consolidated financial position or the results of operations.

### Fiscal 2004

On June 3, 2004, we acquired 100% of the stock of privately-held Jason Natural Products, Inc., a California-based manufacturer and marketer of natural personal care products. In recent years, Jason Natural Products has expanded its lines of natural personal care products by integrating a series of brands including Orjene®, Shaman Earthly Organics™, and Heather's® into its portfolio. The purchase price consisted of approximately \$23.9 million in cash, plus the assumption of certain liabilities. At June 30, 2005, goodwill (not deductible for tax purposes) from this transaction approximated \$25.9 million.

On May 27, 2004, we acquired substantially all of the assets and assumed certain liabilities of the Rosetto® and Ethnic Gourmet® brands of H.J. Heinz Company, LP, which owned approximately 16.7% of our common stock at the time of the transaction. These brands produce and market frozen pasta and natural ethnic frozen meals, respectively. The purchase price consisted of approximately \$22.8 million in cash, plus the assumption of certain liabilities. At June 30, 2005, goodwill (deductible for tax purposes) from this transaction approximated \$3.3 million, trademarks and other non-amortizable intangibles were \$3.1 million, and other amortizable intangibles were valued at \$0.7 million.

The following table summarizes the estimated fair values of assets acquired and liabilities assumed of Jason Natural Products, Rosetto, and Ethnic Gourmet at the dates of the acquisitions:

Current assets	\$12,358
Property and equipment	12,871
Other assets	<u>102</u>
Total assets	25,331
Liabilities assumed	<u>4,321</u>
Net assets acquired	<u>\$21,010</u>

The balance sheet at June 30, 2005, includes the assets acquired and liabilities assumed valued at fair market value at the date of purchase. We have completed all of the procedures required to finalize the purchase price allocation for Jason, Rosetto, and Ethnic Gourmet.

Our results of operations for the year ended June 30, 2005 includes the results of the above described fiscal 2004 acquisitions for the complete period. The following table presents information about sales and net income had the operations of the acquired brands been combined with our business as of the first day of each of the periods shown. This information has not been adjusted to reflect any changes in the operations of these brands subsequent to their acquisition by us. Changes in operations of these acquired brands include, but are not limited to, integration of systems and personnel, discontinuation of products (including discontinuation resulting from the integration of acquired and existing brands with similar products), changes in trade practices, application of our credit policies, changes in manufacturing processes or locations, and changes in marketing and advertising programs. Had any of these changes been implemented by the former management of the brands acquired prior to acquisition by us, the sales and net income information might have been materially different than the actual results achieved and from the pro forma information provided below.

	<u>2004</u>	<u>2003</u>
Net sales	\$599,599	\$529,612
Net income	28,930	29,197
Earnings per share:		
Basic	\$ .82	\$ .86
Diluted	.80	.84
Weighted average shares:		
Basic	35,274	33,910
Diluted	36,308	34,722

In management's opinion, the unaudited pro forma results of operations is not indicative of the actual results that would have occurred had the JASON®, Rosetto® and Ethnic Gourmet® acquisitions been consummated at the beginning of the periods presented or of future operations of the combined companies under our management.

On February 25, 2004, our subsidiary in Belgium acquired Natumi, AG, a German producer of non-dairy beverages and desserts marketed principally in retail channels in Europe. The purchase price consisted of approximately \$1.75 million in cash as well as the assumption of certain liabilities. The purchase price excludes the amount of contingency payments we may be obligated to pay the former owner of Natumi. The contingency payments are based on the achievement by Natumi of certain financial targets over an approximate 3.5 year period following the date of acquisition. Such payments, which could total approximately 9 million euros, will be charged to goodwill if and when paid. No such contingency payments have been made since the acquisition. The net assets acquired, as well as the sales and operations of Natumi, are not material to the Company's consolidated financial position or results of operations and, therefore, have not been included in the detailed information about our acquisitions.

## Fiscal 2003

On June 17, 2003, we acquired 100% of the stock of privately-held Acirca, Inc., the owner of the Walnut Acres Organic™ brand of organic fruit juices, soups, pasta sauces and salsas. Since June 2000, the financial and investment group Acirca, Inc. had expanded Walnut Acres, its premier certified organic food and beverage brand, by integrating a series of organic brands including Mountain Sun®, ShariAnn's®, Millina's Finest®, and Frutti di Bosco® into its Walnut Acres flagship. The acquisition of these product lines allows us to add natural and organic juices and sauces to our product offerings, and enhance our offerings of soups and salsas. The purchase price consisted of approximately \$9.0 million in cash, 134,797 shares of our common stock valued at \$2.2 million, plus the assumption of certain liabilities. At June 30, 2005, goodwill (not deductible for tax purposes) from this transaction approximated \$11.3 million.

On December 2, 2002, we acquired substantially all of the assets and assumed certain liabilities of privately-held Imagine Foods, Inc. ("Imagine") in the United States and the United Kingdom. Imagine is a non-dairy beverage company specializing in aseptic and refrigerated rice and soymilks, organic aseptic soups and broths, and organic frozen desserts in the U.S., Canada, and Europe. The acquisition of these product lines is expected to enhance our existing market positions in non-dairy beverages and soups while adding frozen dessert products to our offerings to customers. The purchase price consisted of approximately \$44.2 million in cash, 532,765 shares of our common stock valued at \$7.0 million, plus the assumption of certain liabilities. At June 30, 2005, goodwill (deductible for tax purposes) from this transaction was valued at \$40.0 million, trademarks and other non-amortizable intangibles were \$15.7 million, and patents and other amortizable intangibles were valued at \$1.0 million.

The following table summarizes the estimated fair values of assets acquired and liabilities assumed of Acirca and Imagine at the dates of the acquisitions:

Current assets	\$17,714
Property and equipment	<u>2,409</u>
Total assets	20,123
Liabilities assumed	<u>14,937</u>
Net assets acquired	<u>\$ 5,186</u>

The balance sheet at June 30, 2005 includes the assets acquired and liabilities assumed valued at fair market value at the date of purchase. We have completed all of the procedures required to finalize the purchase price allocation for Imagine and Acirca.

Our results of operations for the years ended June 30, 2005 and 2004 include the results of the above described fiscal 2003 acquisitions for the complete period. The following table presents information about sales and net income had the operations of the acquired brands been combined with our business as of the first day of the period shown. This information has not been adjusted to reflect any changes in the operations of these brands subsequent to their acquisition by us. Changes in operations of these acquired brands include, but are not limited to, integration of systems and personnel, discontinuation of products (including discontinuation resulting from the integration of acquired and existing brands with similar products), changes in trade practices, application of our credit policies, changes in manufacturing processes or locations, and changes in marketing and advertising programs. Had any of these changes been implemented by the former management of the brands acquired prior to acquisition by us, the sales and net income information might have been materially different than the actual results achieved and from the pro forma information provided below.

	<u>2003</u>
Net sales	\$524,176
Net income	20,142
Earnings per share:	
Basic	\$ 0.59
Diluted	0.57
Weighted average shares:	
Basic	34,261
Diluted	35,073

In management's opinion, the unaudited pro forma results of operations is not indicative of the actual results that would have occurred had the Acirca and Imagine® acquisitions been consummated at the beginning of the periods presented or of future operations of the combined companies under our management.

On May 14, 2003, our subsidiary in Belgium acquired Grains Noirs, N.V., a Belgian producer and marketer of fresh prepared organic appetizers, salads, sandwiches and other full-plated dishes. The purchase price paid was approximately \$2.2 million in cash. The net assets acquired, as well as the sales and results of operations of Grains Noirs, are not material and, therefore, have not been included in the detailed information about our acquisitions.

## 7. INVENTORIES

Inventories consist of the following at June 30:

	<u>2005</u>	<u>2004</u>
Finished goods	\$48,240	\$56,132
Raw materials, work-in-process and packaging	28,257	30,741
	<u>\$76,497</u>	<u>\$86,873</u>

## 8. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following at June 30:

	<u>2005</u>	<u>2004</u>
Land	\$ 7,481	\$ 8,113
Buildings and improvements	31,766	29,867
Machinery and equipment	89,331	79,275
Furniture and fixtures	2,542	2,527
Leasehold improvements	2,955	3,478
Construction in progress	3,164	4,541
	<u>137,239</u>	<u>127,801</u>
Less:		
Accumulated depreciation and amortization	49,035	40,799
	<u>\$ 88,204</u>	<u>\$ 87,002</u>

Assets held under capital leases, which are included within machinery and equipment at June 30, 2005 and 2004, are not material.



## 9. LONG-TERM DEBT

Long-term debt at June 30 consists of the following:

	<u>2005</u>	<u>2004</u>
Senior Revolving Credit Facilities payable to banks	\$89,700	\$ 99,200
Capital leases on machinery and equipment	386	1,881
Other debt instruments	4,976	6,508
Economic Development Revenue Bonds, repaid November 2004	—	3,550
	<u>95,062</u>	<u>111,139</u>
Current Portion	2,791	6,845
	<u>\$92,271</u>	<u>\$104,294</u>

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%.

### Capital Leases

Capital leases on machinery and equipment of \$0.4 million bear interest at rates ranging from 2.0% to 12.3% and are due in monthly installments through July 2007.

The aggregate minimum future lease payments for all capital leases at June 30, 2005 are as follows:

2006	\$294
2007	85
2008	<u>7</u>
	<u>\$386</u>

### Other Debt Instruments

Other debt instruments consist of borrowings by our European operations under several arrangements with a member of the group of banks that provide our Credit Facility. These borrowings include \$1.9 million under revolving credit facilities with interest rates approximating 3.9%, and notes payable of \$1.5 million, the majority of which is payable in quarterly installments plus interest at 4.85% over a three year period through May 2008.

### Economic Development Bonds

Borrowings related to Economic Development Revenue Bonds (the “Bonds”) bear interest at a variable rate (1.3% at June 30, 2004) and are secured by a letter of credit. The Bonds, which would have matured November 1, 2009, were repaid in 2005.

Maturities of all debt instruments at June 30, 2005, are as follows:

2006	\$ 2,791
2007	2,081
2008	490
2009	<u>89,700</u>
	<u>\$95,062</u>

Interest paid (which approximates the related expense) during the years ended June 30, 2005, 2004 and 2003 amounted to \$3,899, \$2,484 and \$1,566, respectively.

## 10. INCOME TAXES

The provision for income taxes for the years ended June 30, 2005, 2004 and 2003 is presented below.

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Current:			
Federal	\$ 8,790	\$ 7,418	\$ 4,906
State	1,841	1,612	2,372
Foreign	<u>2,639</u>	<u>3,580</u>	<u>1,530</u>
	13,270	12,610	8,808
Deferred Federal and State	<u>(629)</u>	<u>3,770</u>	<u>7,864</u>
Total	<u>\$12,641</u>	<u>\$16,380</u>	<u>\$16,672</u>

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Components of our deferred tax asset/(liability) as of June 30 are as follows:

	<u>2005</u>	<u>2004</u>
Current deferred tax assets:		
Basis difference on inventory	\$ 4,240	\$ 2,007
Allowance for doubtful accounts	224	732
Net operating loss carryforwards	191	191
Reserves not currently deductible	<u>1,016</u>	<u>181</u>
Current deferred tax assets	<u>5,671</u>	<u>3,111</u>
Noncurrent deferred tax liabilities:		
Difference in amortization	(13,899)	(12,486)
Basis difference on property and equipment	<u>(6,420)</u>	<u>(5,667)</u>
Noncurrent deferred tax assets:		
Net operating loss carryforwards	3,024	3,346
Stock options as compensation	<u>572</u>	<u>—</u>
Noncurrent deferred tax liabilities, net	<u>(16,723)</u>	<u>(14,807)</u>
	<u>\$ (11,052)</u>	<u>\$ (11,696)</u>

Reconciliations of expected income taxes at the U.S. federal statutory rate to the Company's provision for income taxes for the years ended June 30 are as follows:

	<u>2005</u>	<u>%</u>	<u>2004</u>	<u>%</u>	<u>2003</u>	<u>%</u>
Expected U.S. federal income tax at statutory rate	\$12,079	35%	\$15,185	35.0%	\$15,457	35.0%
State income taxes, net of federal benefit	997	2.9	1,501	3.5	1,653	3.7
Stock options	766	2.2	—	—	—	—
Foreign income at different rates	160	0.5	448	1.0	297	0.7
Other	(1,361)	(3.9)	(754)	(1.7)	(735)	(1.7)
Provision for income taxes	<u>\$12,641</u>	<u>36.7%</u>	<u>\$16,380</u>	<u>37.8%</u>	<u>\$16,672</u>	<u>37.7%</u>

Income taxes paid during the years ended June 30, 2005, 2004 and 2003 amounted to \$14.6 million, \$4.7 million and \$5.2 million, respectively.

## 11. STOCKHOLDERS' EQUITY

### Restricted Stock Grant

In accordance with the terms of the employment agreement with our Chief Executive Officer ("CEO"), on February 24, 2004, we granted 150,000 shares of restricted common stock to our CEO. On the grant date, the market value of our common stock was \$20.90 per share and, therefore, the total market value of the grant approximated \$3.1 million. These shares will vest ratably from the date of grant through expiration of the employment agreement on June 30, 2007. Through June 30, 2005, 60,414 shares have vested. For the years ended June 30, 2005 and 2004, approximately \$0.9 million and \$0.3 million are included in non-cash compensation.

### Preferred Stock

We are authorized to issue "blank check" preferred stock (up to 5 million shares) with such designations, rights and preferences as may be determined from time to time by the Board of Directors. Accordingly, the 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. At June 30, 2005 and 2004, no preferred stock was issued or outstanding.

### Warrants

In connection with an acquisition in 1997, we issued warrants to Argosy Investment Corp. ("Argosy") to acquire 100,000 shares of our common stock at an exercise price of \$12.688. In fiscal 2003 and 2002, Argosy exercised no warrants. In fiscal 2001, Argosy exercised 26,666 of these warrants, resulting in proceeds of \$0.3 million. In fiscal 2004, Argosy exercised 36,667 of the warrants resulting in proceeds of \$0.5 million. During fiscal 2005, the remaining 36,667 warrants were exercised resulting in proceeds of \$0.5 million.

In fiscal 2001, Argosy exercised warrants previously granted in 1994 to acquire 104,100 of our common stock at an exercise price of \$3.25. During fiscal 2004, the remaining 322,764 warrants were exercised resulting in proceeds of \$1.0 million.

## 12. STOCK OPTION PLANS

### Acceleration of Vesting of Stock Options

In June 2005, 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.

## **Hain**

In December 1994, we adopted the 1994 Long-Term Incentive and Stock Award Plan, which amended and restated our 1993 stock option plan. On December 9, 1997, the stockholders of Hain approved an amendment to increase the number of shares issuable under the 1994 Long Term Incentive and Stock Award Plan by 345,000 to 1,200,000 shares. In December 1998, the plan was further amended to increase the number of shares issuable by 1,200,000 bringing the total shares issuable under this plan to 2,400,000. In December 1999, the plan was further amended to increase the number of shares issuable by 1,000,000 bringing the total shares issuable under this plan to 3,400,000. In May 2000, the plan was further amended to increase the number of shares issuable by 3,000,000 bringing the total shares issuable under this plan to 6,400,000. The plan provides for the granting of incentive stock options to employees, directors and consultants to purchase shares of our common stock. All of the options granted to date under the plan have been incentive and non-qualified stock options providing for exercise prices equivalent to the fair market price at date of grant, and expire ten years after date of grant. Vesting terms are determined at the discretion of the Company. During 2003, options to purchase 565,000 shares were granted at prices ranging from \$12.13 to \$16.30 per share. During 2004, options to purchase 195,550 shares were granted at prices ranging from \$18.25 to \$20.90. During 2005, options to purchase 212,500 shares were granted at a price of \$16.01. At June 30, 2005, 5,832 options were available for grant under this plan.

In October 2002, we adopted a new Long-Term Incentive and Stock Award Plan. The plan provides for the granting of stock options and other equity awards to employees, directors and consultants to purchase shares of our common stock. An aggregate of 1,600,000 shares of common stock were originally reserved for issuance under this plan. In December 2003, the plan was amended to increase the number of shares issuable by 1,500,000 shares to 3,100,000 shares. All of the options granted to date under the plan have been incentive and non-qualified stock options providing for exercise price equivalent to the fair market price at the date of grant and expire ten years after the date of grant. Vesting terms are determined at the discretion of the Company. During 2003, options to purchase 1,471,200 shares were granted at prices ranging from \$11.84 to \$16.24 per share. During 2004, options to purchase 116,300 shares were granted at prices ranging from \$15.85 to \$18.63 per share. During 2005, options to purchase 1,545,400 shares were granted at prices ranging from \$16.01 to \$20.57 per share. At June 30, 2005, 92,200 options were available for grant under this plan.

Our CEO was granted options to purchase 125,000 shares of common stock at \$4.8125 per share on the date of grant (June 30, 1997) pending approval of an increase in the number of shares available for grant (approved by shareholders on December 9, 1997). We incur a straight line non-cash compensation charge of \$46,000 annually over the ten-year vesting period based on the excess (\$0.5 million) of the market value of the stock options (\$8.50 per share) on December 9, 1997 over the \$4.8125 per share market value on the date of grant.

In December 1995, we adopted a Directors Stock Option Plan. The plan provides for the granting of stock options to non-employee directors to purchase up to an aggregate of 300,000 shares of our common stock. In December 1998, the plan was amended to increase the number of shares issuable from 300,000 to 500,000. In December 1999, the plan was amended to increase the number of shares issuable by 250,000, bringing the total shares issuable under this plan to 750,000. The remaining available shares in this plan have been canceled and no future grants are available on this plan effective January 2001.

In May 2000, we adopted a new Directors Stock Option Plan. The plan originally provided for the granting of stock options to non-employee directors to purchase up to an aggregate of 750,000 shares of our common stock.

In December 2003, the plan was amended to increase the number of shares issuable by 200,000 shares to 950,000 shares. At June 30, 2001, no options were granted under this plan. During 2003, options for an aggregate of 300,000 shares were granted at prices ranging from \$12.13 to \$17.88 per share. During 2004, options for an aggregate of 163,000 shares were granted at prices ranging from \$18.03 to \$22.08. During 2005, options to purchase 67,500 shares were granted at a price of \$18.11 per share. At June 30, 2005, 219,500 options were available for grant under this plan.

We also have a 1993 Executive Stock Option Plan pursuant to which we granted our CEO options to acquire 600,000 shares of our common stock. The exercise price of options designed to qualify as incentive options was \$3.58 per share and the exercise price of non-qualified options was \$3.25 per share. No exercises were made during 2003. During fiscal 2004, the remaining outstanding 535,000 options were exercised. As of June 30, 2004, no additional shares are available for grant under this plan.

### **Celestial Seasonings**

In 1991, Celestial Seasonings granted options to an executive officer of Celestial Seasonings to purchase 241,944 shares of common stock in connection with capital contributions made by the officer and certain other agreements. Such options were immediately vested at the grant date, are exercisable at a weighted average price per share of \$3.90 and expire in 2031.

During 1993, Celestial Seasonings adopted an incentive and non-qualified stock option plan that provided for the granting of awards for up to 331,430 shares of Celestial Seasonings common stock. Options granted at the time of Celestial Seasonings initial public offering in 1993 vested over one-year and five-year periods. Options granted subsequent to Celestial Seasonings initial public offering generally vested over a five-year period. Options expire ten years from the grant date.

In 1993, Celestial Seasonings granted options to purchase 25,300 shares of Celestial Seasonings common stock to a director of Celestial Seasonings. The options vested over a three-year period and expire ten years from the grant date. During fiscal 2001, all of these options were exercised.

In 1995, Celestial Seasonings adopted a non-qualified stock option plan for non-employee directors. The plan provides for up to 189,750 shares of Celestial Seasonings common stock for issuance upon exercise of options granted to non-employee directors and in lieu of meeting fees paid to non-employee directors. The options vest over a one-year period and expire ten years from the grant date.

During 1998, Celestial Seasonings amended this plan to provide each non-employee director an initial grant of an option to purchase 12,650 shares and an annual grant, commencing in 1999, of an option to purchase 5,060 shares. Effective May 30, 2000, no further grants are available under this plan.

In 1997, Celestial Seasonings granted options to an executive officer of Celestial Seasonings to purchase 417,450 shares of Celestial Seasonings common stock. The options were granted in connection with the officer's employment agreement, initially vested over a five-year period, are exercisable at \$8.70 per share and expire ten years from the grant date. During 2001, all of these options were exercised.

A summary our stock option plans' activity for the three years ended June 30, 2005 follows:

	2005		2004		2003	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at beginning of year	6,769,437	\$18.67	8,266,721	\$17.05	6,023,383	\$18.72
Granted	1,829,900	16.35	474,850	20.23	2,347,700	12.92
Exercised	(374,683)	12.75	(1,744,495)	10.92	(67,821)	9.24
Terminated	(126,550)	21.57	(227,639)	20.95	(36,541)	23.17
Outstanding at end of year	<u>8,098,104</u>	<u>\$18.37</u>	<u>6,769,437</u>	<u>\$18.67</u>	<u>8,266,721</u>	<u>\$17.75</u>
Exercisable at end of year	<u>8,098,104</u>	<u>\$18.37</u>	<u>6,162,554</u>	<u>\$19.09</u>	<u>6,675,738</u>	<u>\$18.18</u>
Weighted average fair value of options granted during year	<u>\$ 16.35</u>		<u>\$ 9.77</u>		<u>\$ 12.95</u>	

The following table summarizes information for stock options outstanding at June 30, 2005:

Options Outstanding				Options Exercisable	
Range of Exercise Prices	Options Outstanding as of 06/30/2005	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Options Exercisable as of 06/30/2005	Weighted Average Exercise Price
\$ 2.94 - \$ 6.75	420,644	15.8	\$ 4.18	420,644	\$ 4.18
6.76 - 12.50	663,145	7.3	11.79	663,145	11.79
12.51 - 17.65	3,030,412	7.5	15.95	3,030,412	15.95
17.66 - 19.19	922,700	6.6	18.10	922,700	18.10
19.20 - 22.73	1,456,830	6.0	21.07	1,456,830	21.07
22.74 - 25.68	160,930	3.7	23.50	160,930	23.50
25.69 - 29.35	1,227,193	5.1	26.78	1,227,193	26.78
29.36 - 33.01	216,250	5.2	31.54	216,250	31.54
	<u>8,098,104</u>	<u>6.4</u>	<u>\$18.37</u>	<u>8,098,104</u>	<u>\$18.37</u>

There were 8,413,636 shares of Common Stock reserved for future issuance as of June 30, 2005.

### Common Stock Issued – Business Acquisitions

As part of the Imagine and Acirca acquisitions consummated during fiscal 2003, 667,562 common shares were issued to the sellers, valued at approximately \$9.2 million in the aggregate.

### 13. LEASES

Our corporate headquarters are located in approximately 35,000 square feet of leased office space in Melville, New York, under a lease which expires in December 2012. In addition, the Company leases manufacturing and warehouse space under leases which expire through 2013. These leases provide for additional payments of real estate taxes and other operating expenses over a base period amount.

The aggregate minimum future lease payments for these operating leases at June 30, 2005, are as follows:

2006	\$ 5,354
2007	4,813
2008	2,939
2009	2,812
2010	2,619
Thereafter	5,388
	<u>\$23,925</u>

Rent expense charged to operations for the years ended June 30, 2005, 2004 and 2003 was approximately \$5,491, \$4,087 and \$4,200, respectively.

#### 14. SEGMENT INFORMATION

Our company is engaged in one business segment: the manufacturing, distribution and marketing of natural and organic food and personal care products. We define business segments as components of an enterprise about which separate financial information is available that is evaluated on a regular basis by our chief operating decision maker.

The Company's sales by product category are as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Grocery	\$343,445	\$303,377	\$247,315
Snacks	87,207	78,554	69,036
Tea	100,871	95,786	92,048
Other	88,444	66,341	58,060
	<u>\$619,967</u>	<u>\$544,058</u>	<u>\$466,459</u>

Outside the United States, we primarily conduct business in Canada and Europe. Selected information related to our operations by geographic area are as follows:

	<u>2005</u>			<u>2004</u>			<u>2003</u>		
	<u>United States</u>	<u>Canada</u>	<u>Europe</u>	<u>United States</u>	<u>Canada</u>	<u>Europe</u>	<u>United States</u>	<u>Canada</u>	<u>Europe</u>
Net sales	\$489,096	\$46,833	\$84,038	\$433,787	\$48,326	\$61,945	\$385,569	\$41,498	\$39,392
Earnings before income taxes	26,743	3,291	4,477	34,437	4,670	4,281	37,287	5,460	1,417
Long lived assets	426,571	50,082	36,289	425,563	43,424	16,930	374,957	39,541	17,342

#### 15. DEFINED CONTRIBUTION PLANS

We have a 401(k) Employee Retirement Plan ("Plan") to provide retirement benefits for eligible employees. All full-time employees of Hain and our domestic subsidiaries who have attained the age of 21 are eligible to participate upon completion of 30 days of service. The subsidiary Yves Veggie Cuisine has its own separate Registered Retirement Employee Savings Plan for those employees residing in Canada. Employees of Yves who meet eligibility requirements may participate in that plan. On an annual basis, we may, in our sole discretion, make certain matching contributions. For the years ended June 30, 2005, 2004 and 2003, we made contributions to the Plan of \$295, \$244 and \$228, respectively.

## **16. LITIGATION**

From time to time, the Company is involved in litigation, incidental to the conduct of its business. In the opinion of management, disposition of pending litigation will not have a material adverse effect on the Company's business, results of operations or financial condition.

## **17. SUBSEQUENT EVENTS**

### **Hain Pure Protein Corporation**

On July 1, 2005, the Company acquired a 50.1% controlling interest in Hain Pure Protein Corporation ("HPP"), with the remaining minority interest of 49.9% acquired by Pegasus Capital Advisors, LP, a private equity firm. On the same date, HPP acquired the business and assets, subject to certain liabilities, of College Hill Poultry, a processor of natural and organic, antibiotic and hormone free chickens. The Company's investment in HPP is not, and the sales and operating results of HPP are not expected to be, material to the Company's consolidated financial position or results of operations.

### **Alliance with Yeo Hiap Seng Limited**

On August 3, 2005, the Company and Yeo Hiap Seng Limited ("YHS"), a Singapore based natural food and beverage company listed on the Singapore Stock Exchange, entered into an agreement to exchange, and subsequently did exchange, \$2 million in equity investments in each other resulting in the issuance of 100,482 shares of the Company's common stock to YHS and the issuance of 1,326,938 ordinary shares of YHS (representing less than 1% of the outstanding shares) to the Company. These investments represent the completion of the first stage of an alliance established between the Company and YHS which is expected to result in the pursuit of joint interests in marketing and distribution of food and beverages and product development.

### **Spectrum Organic Products, Inc.**

On August 23, 2005, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with Spectrum Organic Products, Inc. ("Spectrum") whereby the Company will acquire all of the issued and outstanding stock of Spectrum.

Spectrum is a California-based leading manufacturer and marketer of natural and organic culinary oils, vinegars, condiments and butter substitutes under the Spectrum Naturals® brand and essential fatty acid nutritional supplements under the Spectrum Essentials® brand, sold mainly through natural food retailers. Spectrum reported sales of \$49.9 million for its last fiscal year.

Upon the effective time of the merger, the Company will pay approximately \$0.705 per share, adjusted to reflect Spectrum's estimate of their expenses and the price adjustment provisions set forth in the Merger Agreement. The total consideration to be paid by the Company to Spectrum's shareholders is expected to be approximately \$34,500,000, which shall be comprised of 50% cash and 50% of the Company's common stock. The value of the common stock portion of the consideration is subject to an adjustment based upon the closing price of the Company's common stock immediately prior to the closing of the merger, which is expected to take place in November 2005. The transaction has been approved by the boards of directors of both companies and is subject to approval by Spectrum's shareholders and other customary conditions.



**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

There were no changes in or disagreements with accountants on accounting and financial disclosure.

**Item 9A. Controls and Procedures.**

**Evaluation of Disclosure Controls and Procedures**

Our Chief Executive Officer and Chief Financial Officer have reviewed our disclosure controls and procedures as of the end of the period covered by this report. Based upon this review, these officers concluded that, as of the end of the period covered by this report, our disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is (1) recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and (2) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

**Management's Report on Internal Control over Financial Reporting**

Management, including our Chief Executive Officer and our Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control system was designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation and fair presentation of the published financial statements in accordance with generally accepted accounting principles.

Management assessed the effectiveness of our internal control over financial reporting as of June 30, 2005. In making this assessment, management used the criteria set forth by the Committee on Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control—Integrated Framework*. Based on our assessment, we believe that, as of June 30, 2005, our internal control over financial reporting is effective based on those criteria.

Management's assessment of the effectiveness of internal control over financial reporting as of June 30, 2005 has been audited by Ernst & Young LLP, the independent registered public accounting firm who also audited the Company's consolidated financial statements. Ernst & Young's attestation report on management's assessment of the Company's internal control over financial reporting follows.

## **Report of Independent Registered Public Accounting Firm**

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

We have audited management's assessment, included in the accompanying The Hain Celestial Group, Inc.'s (the Company) Management Assessment Report, that the Company maintained effective internal control over financial reporting as of June 30, 2005, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of June 30, 2005, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2005, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of The Hain Celestial Group, Inc. 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 of the Company and our report dated August 31, 2005 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Melville, New York  
August 31, 2005

**Changes in Internal Controls over Financial Reporting.**

There was no change in our internal control over financial reporting that occurred during the fourth fiscal quarter of the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Item 9B. Other Information.**

Not applicable.

**PART III**

Item 10, "Directors and Executive Officers of the Registrant", Item 11, "Executive Compensation", Item 12, "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters", Item 13, "Certain Relationships and Related Transactions", and Item 14, "Principal Accountant Fees and Services" have been omitted from this report inasmuch as the Company will file with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after the end of the fiscal year covered by this report a definitive Proxy Statement for the Annual Meeting of Stockholders of the Company to be held on December 1, 2005, at which meeting the stockholders will vote upon election of the directors. This information in such Proxy Statement is incorporated herein by reference.

**PART IV**

**Item 15. Exhibits and Financial Statement Schedules.**

(a) (1) List of Financial Statements

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, 2004 and 2003

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

Notes to Consolidated Financial Statements

(2) List of Financial Statement Schedules

Valuation and Qualifying Accounts (Schedule II)

(3) List of Exhibits

3.1 Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 of Amendment No. 1 to the Registrant's Registration Statement on Form S-4 (Commission File No. 333-33830) filed with the Commission on April 24, 2000).

3.2 Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 of Amendment No. 1 to the Registrant's Registration Statement on Form S-4 (Commission File No. 333-33830) filed with the Commission on April 24, 2000).

4.1 Specimen of common stock certificate (incorporated by reference to Exhibit 4.1 of Amendment No. 1 to the Registrant's Registration Statement on Form S-4 (Commission File No. 333-33830) filed with the Commission on April 24, 2000).

4.2 1993 Executive Stock Option Plan (incorporated by reference to Exhibit 4.2 of Amendment No. 1 to the Registrant's Registration Statement on Form SB-2 (Commission File No. 33-68026) filed with the Commission on October 21, 1993).

4.3 Amended and Restated 1994 Long Term Incentive and Stock Award Plan (included as Annex F to the Joint Proxy Statement/Prospectus contained in the Registrant's Registration Statement on Form S-4 (Commission File No. 333-33830) filed with the Commission on April 24, 2000).

4.4 1996 Directors Stock Option Plan (incorporated by reference to Appendix A to the Registrant's Notice of Annual Meeting of Stockholders and Proxy Statement dated November 4, 1996).

4.5 2000 Directors Stock Option Plan (included as Annex G to the Joint Proxy Statement/Prospectus contained in the Registrant's Registration Statement on Form S-4 (Commission File No. 333-33830) filed with the Commission on April 24, 2000).

4.5.1 Amendment No. 1 to 2000 Directors Stock Option Plan (incorporated by reference to Exhibit 4.4 to the Registrant's Registration Statement on Form S-8 (Commission File No. 333-111881) filed with the Commission on January 13, 2004).

4.6 2002 Long Term Incentive and Stock Award Plan (incorporated by reference to Appendix A of the Registrant's Notice of annual Meeting of Stockholders and Proxy Statements dated October 14, 2002).

4.6.1 Amendment No. 1 to 2002 Long Term Incentive and Stock Award Plan (incorporated by reference to Exhibit 4.3 to the Registrant's Registration Statement on Form S-8 (Commission File No. 333-111881) filed with the Commission on January 13, 2004).

10.1 Amended and Restated Credit Agreement dated as of April 22, 2004, by and among the Registrant and Fleet National bank, as administrative agent, SunTrust Bank and KeyBank National Association, as co-syndication agents, HSBC Bank USA and First Pioneer Farm Credit, ACA, as co-documentation agents, and the lenders party thereto (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed with the Commission on April 30, 2004).

10.3 Investor's Agreement among the Registrant, Boulder Inc. (formerly Earth's Best, Inc.) and Irwin D. Simon dated September 24, 1999 (incorporated by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8-K filed with the Commission on September 30, 1999).

10.4 Registration Rights Agreement between the Registrant and Boulder Inc. (formerly Earth's Best, Inc.), dated September 24, 1999 (incorporated by reference to Exhibit 10.3 of the Registrant's Current Report on Form 8-K filed with the Commission on September 30, 1999).

10.5 Employment Agreement between the Registrant and Irwin D. Simon, dated July 1, 2003 (incorporated by reference to Exhibit 10.1 of the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2003, filed with the Commission on November 14, 2003).

10.6 Form of Indemnification Agreement (incorporated by reference to Exhibit 10.1 of the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2004, filed with the Commission on February 9, 2005).

10.7 Form of Change in Control Agreement (incorporated by reference to Exhibit 10.2 of the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2004, filed with the Commission on February 9, 2005).

10.8 Amendment and Waiver, dated as of March 7, 2005, to Amended and Restated Credit Agreement dated as of April 22, 2004 by and among the Company, the lenders which from time to time are parties thereto, Fleet National Bank, a Bank of America company, as administrative agent, SunTrust Bank and KeyBank National Association, as co-syndication agents, and HSBC Bank USA, National Association and First Pioneer Farm Credit, ACA, as co-documentation agents (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed with the Commission on March 11, 2005).

10.9 Agreement and Plan of Merger dated as of August 23, 2005, by and between The Hain Celestial Group, Inc. and Spectrum Organic Products, Inc. (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed with the Commission on August 26, 2005).

10.10 Voting and Support Agreement dated as of August 23, 2005, by and between The Hain Celestial Group, Inc. and Jethren Phillips (incorporated by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8-K filed with the Commission on August 26, 2005).

18.1(a) Letter from Independent Registered Public Accounting Firm - Ernst & Young LLP.

21.1(a) Subsidiaries of Registrant.

23.1(a) Consent of Independent Registered Public Accounting Firm - Ernst & Young LLP.

31.1(a) Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended.

31.2(a) Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended.

32.1(a) Certification by CEO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2(a) Certification by CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

a - Filed herewith

**The Hain Celestial Group, Inc. and Subsidiaries**

**Schedule II - Valuation and Qualifying Accounts**

<u>Column A</u>	<u>Column B</u>	<u>Column C</u>		<u>Column D</u>	<u>Column E</u>
		<u>Additions</u>			
	<u>Balance at beginning of period</u>	<u>Charged to costs and expenses</u>	<u>Charged to other accounts - describe</u>	<u>Deductions - describe</u>	<u>Balance of end of period</u>
Year Ended June 30, 2005 Deducted from asset accounts:					
Allowance for doubtful accounts	\$2,185	\$ 68	\$ —	\$179 (2)	\$2,074
Year Ended June 30, 2004 Deducted from asset accounts:					
Allowance for doubtful accounts	\$1,748	\$437	\$ 10 (1)	\$ 10 (2)	\$2,185
Year Ended June 30, 2003 Deducted from asset accounts:					
Allowance for doubtful accounts	\$1,002	\$610	\$190 (1)	\$ 54 (2)	\$1,748

(1) Allowance for doubtful accounts at dates of acquisitions of acquired brands.

(2) Uncollectible accounts written off, net of recoveries.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**THE HAIN CELESTIAL GROUP, INC.**

By: /s/ Irwin D. Simon  
Irwin D. Simon  
President, Chief Executive Officer and  
Chairman of the Board of Directors

By: /s/ Ira J. Lamel  
Ira J. Lamel  
Executive Vice President and  
Chief Financial Officer

Date: November 1, 2005

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Irwin D. Simon</u> Irwin D. Simon	President, Chief Executive Officer and Chairman of the Board of Directors	November 1, 2005
<u>/s/ Ira J. Lamel</u> Ira J. Lamel	Executive Vice President and Chief Financial Officer	November 1, 2005
<u>/s/ Barry J. Alperin</u> Barry J. Alperin	Director	November 1, 2005
<u>/s/ Beth L. Bronner</u> Beth L. Bronner	Director	November 1, 2005
<u>/s/ Jack Futterman</u> Jack Futterman	Director	November 1, 2005
<u>/s/ Daniel R. Glickman</u> Daniel R. Glickman	Director	November 1, 2005
<u>/s/ Marina Hahn</u> Marina Hahn	Director	November 1, 2005
<u>/s/ Andrew R. Heyer</u> Andrew R. Heyer	Director	November 1, 2005
<u>/s/ Roger Meltzer</u> Roger Meltzer	Director	November 1, 2005
<u>/s/ Mitchell A. Ring</u> Mitchell A. Ring	Director	November 1, 2005
<u>/s/ Lewis D. Schiliro</u> Lewis D. Schiliro	Director	November 1, 2005
<u>/s/ D. Edward I. Smyth</u> D. Edward I. Smyth	Director	November 1, 2005
<u>/s/ Larry S. Zilavy</u> Larry S. Zilavy	Director	November 1, 2005



**CERTIFICATION**

I, Irwin D. Simon, certify that:

1. I have reviewed this Amendment No. 1 to the Annual Report on Form 10-K for the fiscal year ended June 30, 2005 of The Hain Celestial Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2005

/s/ Irwin D. Simon

\_\_\_\_\_  
Irwin D. Simon  
President and Chief Executive Officer

**CERTIFICATION**

I, Ira J. Lamel, certify that:

1. I have reviewed this Amendment No. 1 to the Annual Report on Form 10-K for the fiscal year ended June 30, 2005 of The Hain Celestial Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2005

/s/ Ira J. Lamel

\_\_\_\_\_  
Ira J. Lamel  
Executive Vice President and Chief Financial Officer

**CERTIFICATION FURNISHED PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED  
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with Amendment No. 1 to the Annual Report on Form 10-K for the fiscal year ended June 30, 2005 (the "Report") filed by The Hain Celestial Group, Inc. (the "Company") with the Securities and Exchange Commission, I, Irwin D. Simon, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 1, 2005

/s/ Irwin D. Simon

---

Irwin D. Simon  
President and Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to The Hain Celestial Group, Inc. and will be retained by The Hain Celestial Group, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION FURNISHED  
PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 906  
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with Amendment No. 1 to the Annual Report on Form 10-K for the fiscal year ended June 30, 2005 (the "Report") filed by The Hain Celestial Group, Inc. (the "Company") with the Securities and Exchange Commission, I, Ira J. Lamel, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 1, 2005

/s/ Ira J. Lamel

---

Ira J. Lamel

Executive Vice President and Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to The Hain Celestial Group, Inc. and will be retained by The Hain Celestial Group, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

## CORPORATE DATA

**The Hain Celestial Group, Inc.** The Hain Celestial Group, headquartered in Melville, NY, is a leading natural and organic food and personal care products company in North America and Europe. Hain Celestial is a leader in almost all natural food categories—Beverages, Specialty Tea, Snacks, Grocery, Frozen Foods—and the natural Personal Care category with well-known brands that include: *Celestial Seasonings*®, *Terra Chips*®, *Garden of Eatin'*®, *Health Valley*®, *WestSoy*®, *Earth's Best*®, *Arrowhead Mills*®, *Hain Pure Foods*®, *Raised Right*™, *Boston Better Snacks*™, *Breadshop's*®, *Casbah*®, *DeBoles*®, *Hollywood*®, *Nile Spice*®, *Westbrae Natural*®, *Rice Dream*®, *Imagine*®, *Soy Dream*®, *Walnut Acres Organic*™, *Rosetto*®, *Ethnic Gourmet*® and *Yves Veggie Cuisine*®, and in Europe, *Lima*®, *Biomarché*™ and *Natumi*®. The Company's personal care product lines consist primarily of *JASON*® pure, natural and organic products, and *Zia*® *Natural Skincare*. The Company's principal specialty product lines include *Estee*® sugar-free products and *Alba Foods*®.

**Annual Meeting** The 2005 Annual Meeting of Shareholders will be held at 11:00 AM Thursday, December 1, 2005, in the Amphitheater at the Hain Celestial Group Corporate Headquarters at 58 South Service Road, Melville, NY 11747.

**Investor Relations** Securities analysts and investors seeking more information about the Company should direct their inquiries to Mary Celeste Anthes in the Investor Relations Department at 631-730-2460 or by email at [investorrelations@hain-celestial.com](mailto:investorrelations@hain-celestial.com).

**Media Relations** Members of the media seeking more information about the Company should direct their inquiries to the Media Relations Department at 631-730-2200 or by email at [mediarelations@hain-celestial.com](mailto:mediarelations@hain-celestial.com).

**Consumer Relations** Consumers seeking more information about our products should direct their inquiries to the Consumer Relations Department at 800-434-HAIN (4246) or by email at [consumerrelations@hain-celestial.com](mailto:consumerrelations@hain-celestial.com).

**Equal Employment Opportunity** The Hain Celestial Group hires, trains, promotes, compensates and makes all other employment decisions without regard to race, color, sex, age, religion, national origin, disability or other protected conditions or characteristics. We have affirmative action programs in place at all domestic locations to provide equal opportunity for every employee.

The Hain Celestial Group provides employment for approximately 1,700 people full time, plus others on a part-time basis during seasonal periods.

### **Transfer Agent & Registrar**

Continental Stock Transfer & Trust Co.  
17 Battery Place  
New York, NY 10004  
212-509-4000

### **Independent Registered Public Accounting Firm**

Ernst & Young LLP  
395 North Service Road  
Melville, NY 11747

### **Counsel**

Cahill Gordon & Reindel LLP  
80 Pine Street  
New York, NY 10005

### **Common Stock**

NASDAQ® National Market System  
Ticker symbol: HAIN

**Website** An overview of the Company, links to our brands and products, and Investor Relations information are available on our corporate website at [www.hain-celestial.com](http://www.hain-celestial.com).

To learn more about our brands and products, or to find a store near you that carries our products, visit our website at [www.hain-celestial.com](http://www.hain-celestial.com) or call Consumer Relations at 800-434-HAIN (4246).

## **THE HAIN CELESTIAL GROUP, INC. AND SUBSIDIARIES**

### **WORLD HEADQUARTERS**

#### *THE HAIN CELESTIAL GROUP*

58 South Service Road  
Melville, NY 11747-2342  
+1-631-730-2200

### **SALES, MARKETING and OPERATIONS OFFICES**

#### *GROCERY and SNACKS*

58 South Service Road  
Melville, NY 11747-2342  
+1-631-730-2200

#### *PERSONAL CARE*

3515 Eastham Drive  
Culver City, CA 90232-2440  
+1-310-838-7543

#### *EUROPE*

Industrielaan 9  
B 9990 Maldegem  
Belgium  
+32 (0) 50-729130

#### *CELESTIAL SEASONINGS*

4600 Sleepytime Drive  
Boulder, CO 80301-3292  
+1-303-530-5300

#### *CANADA*

170 Attwell Drive, Suite 410  
Toronto, ON M9W 5Z5  
+1-416-849-6210

### **MANUFACTURING FACILITIES**

#### **NORTH AMERICA**

#### *ARROWHEAD MILLS*

110 South Lawton  
Hereford, TX 79045-5802

#### *ETHNIC GOURMET*

190 Fountain Street  
Framingham, MA 01702-6213

#### *ROSETTO PASTA*

700 Old Fern Hill Road  
West Chester, PA 19380-4274

#### *CELESTIAL SEASONINGS*

4600 Sleepytime Drive  
Boulder, CO 80301-3292

#### *HAIN PURE PROTEIN*

220 North Pine Grove Street  
Fredericksburg, PA 17026

#### *TERRA CHIPS*

60 Knickerbocker Road  
Moonachie, NJ 07074-1613

#### *DEBOLES PASTA*

104 North Common Street  
Shreveport, LA 71101-2614

#### *JASON NATURAL PRODUCTS*

8468 Warner Drive  
Culver City, CA 90232-2429

#### *YVES VEGGIE CUISINE*

1638 Derwent Way  
Delta, BC V3M 6R9

### **EUROPE**

#### *BIOMARCHÉ*

Rue de la Basse Sambre 24  
B 5140 Sombrefe  
Belgium

#### *LIMA*

Industrielaan 9  
B 9990 Maldegem  
Belgium

#### *TERRA CHIPS*

Spoorstraat 16  
NL 4431 NK's.-Gravenpolder  
Holland

#### *GRAINS NOIRS*

Rue Joseph Schols 13-15  
B 1080 Brussels  
Belgium

#### *NATUMI*

Im Auel 88  
D 53783 Eitorf  
Germany

# Directors and Management

## BOARD OF DIRECTORS

### IRWIN D. SIMON

*Chairman of the Board, President and Chief Executive Officer*

### BARRY J. ALPERIN <sup>2,3</sup>

*Consultant  
Retired Vice Chairman  
Hasbro, Inc.*

### BETH L. BRONNER <sup>1</sup>

*Senior Vice President and  
Chief Marketing Officer  
Jim Beam Brands Worldwide*

### JACK FUTTERMAN <sup>3</sup>

*Retired Chairman and  
Chief Executive Officer  
Pathmark Stores, Inc.*

### DANIEL R. GLICKMAN <sup>3</sup>

*President and Chief Executive Officer  
Motion Picture Association of America, Inc.  
Former U.S. Secretary of Agriculture*

### MARINA HAHN <sup>1</sup>

*Marketing Consultant  
Marina Hahn and Associates*

### ANDREW R. HEYER <sup>1,3</sup>

*Vice Chairman  
CIBC World Markets Corp.*

### ROGER MELTZER

*Partner  
Cabill Gordon & Reindel LLP*

### MITCHELL A. RING

*Senior Vice President—  
Business Development  
H.J. Heinz Company*

### LEWIS D. SCHILIRO <sup>2</sup>

*Retired Assistant Director in Charge  
New York Office, Federal Bureau  
of Investigation*

### D. EDWARD I. SMYTH

*Senior Vice President—Corporate  
and Government Affairs and  
Chief Administrative Officer  
H.J. Heinz Company*

### LARRY S. ZILAVY <sup>2</sup>

*Consultant  
Retired Executive Vice President  
Corporate Finance and Strategic Planning  
Barnes & Noble, Inc.*

## SENIOR MANAGEMENT

### IRWIN D. SIMON

*Chairman of the Board, President and Chief Executive Officer*

### IRA J. LAMEL

*Executive Vice President,  
Chief Financial Officer,  
Treasurer and Secretary*

### JOHN CARROLL

*Executive Vice President,  
President—Grocery and Snacks*

### FRANCIS W. DAILY

*Executive Vice President—Strategic  
Planning and Development*

### STEVEN LIST

*Executive Vice President,  
President—Celestial Seasonings  
and Hain Celestial Canada*

### MARY CELESTE ANTHES

*Vice President—Investor Relations*

### CECILIA G. ATKINSON

*General Manager—Celestial Seasonings*

### BENJAMIN BRECHER

*Senior Vice President—Special Projects*

### JOSEPH A. DEPIPPO

*President—Hain Pure Protein*

### ELLEN B. DEUTSCH

*Senior Vice President and  
Chief Growth Officer*

### BEENA G. GOLDENBERG

*General Manager—Hain Celestial Canada*

### ANDREW H. JACOBSON

*President—Personal Care*

### JAMES R. LEMSKY

*Senior Vice President—  
Sales, Marketing and Operations  
Hain Celestial Europe*

### ADAM S. LEVIT

*Chief Sales Officer—  
Grocery and Snacks*

### MAUREEN M. PUTMAN

*Chief Marketing Officer—  
Grocery and Snacks*

### PHILIPPE WOITRIN

*Chief Executive Officer—  
Hain Celestial Europe*

1 Member of the Compensation Committee

2 Member of the Audit Committee

3 Member of the Corporate Governance and Nominating Committee

## COMMON STOCK

The outstanding shares of our common stock, par value \$.01 per share, are traded on the NASDAQ® National Market System under the ticker symbol HAIN. The following table sets forth the reported high and low closing prices for the 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		



The Hain Celestial Group  
58 South Service Road  
Melville, NY 11747

[www.hain-celestial.com](http://www.hain-celestial.com)

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Printed on recycled 10% total recovered fiber and 100% post-consumer fiber paper.  
Printed alcohol-free with soy-based inks.