HAIN CELESTIAL GROUP INC
Form 10-K
August 31, 2009
**Table of Contents**

# UNITED STATES

## SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-K

(Mark One)

x **Annual Report Pursuant to Section 13 or 15(d) of the Securities and Exchange Act of 1934**
For The Fiscal Year Ended June 30, 2009

¨ **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** | **22-3240619** |
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |
| **58 South Service Road Melville, New York** | **11747** |
| **(Address of principal executive offices)** | **(Zip Code)** |

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

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

| **(Title of Each Class)** | **(Name of Each Exchange on which registered)** |
|---|---|

| | |
|---|---|
| **Common Stock, par value $.01 per share** | **The NASDAQ Stock Market®** |

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ¨ No x

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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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 a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of accelerated filer and large accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller Reporting Company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

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 System on December 31, 2008, the last business day of the registrant s most recently completed second fiscal quarter, was $757,977,000.

As of August 25, 2009, there were 40,700,911 shares outstanding of the registrant s Common Stock, par value $.01 per share.

Documents Incorporated by Reference: Portions of The Hain Celestial Group, Inc. Definitive Proxy Statement for the 2009 Annual Meeting of Shareholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

## Table of Contents

## PART I

## THE HAIN CELESTIAL GROUP, INC.

### Item 1. Business

Unless otherwise indicated, references in this Annual Report to 2009, 2008, 2007 or fiscal 2009, 2008, 2007 or other years refer to our fiscal year ended June 30 of that year and references to 2010 or fiscal 2010 refer to our fiscal year ending June 30, 2010.

### General

The Hain Celestial Group, Inc. was incorporated in Delaware on May 19, 1993. Our worldwide headquarters office is located at 58 South Service Road, Melville, New York 11747.

The Hain Celestial Group, Inc. and its subsidiaries (collectively, the Company, and herein referred to as we, us, and our ) manufacture, market, distribute and sell natural and organic products under brand names which are sold as better-for-you products, providing consumers with the opportunity to lead A Healthy Way of Life. We are a leader in many natural and organic food categories, with such well-known food brands as Earth s Best®, Celestial Seasonings®, Hain Pure Foods®, Westbrae Natural®, WestSoy®, Rice Dream®, Soy Dream® , Imagine®, Walnut Acres Organic®, Ethnic Gourmet®, Rosetto®, Gluten Free Café, Little Bear Organic Foods®, Bearitos®, Arrowhead Mills®, MaraNatha®, SunSpire®, Health Valley®, Breadshop s®, Casbah®, Spectrum Naturals®, Spectrum Essentials®, Hollywood®, Garden of Eatin®, Terra®, Boston s The Best You ve Ever Tasted®, Lima®, Grains Noirs®, Natumi®, Yves Veggie Cuisine®, DeBoles®, Nile Spice®, Linda McCartney® (under license), Daily Bread , Realeat® and Granose®. Our natural personal care products are marketed under the Avalon Organics®, Alba Botanica®, JASON®, Zia®, Queen Helene®, Batherapy®, Shower Therapy®, Footherapy®, Tushies® and TenderCare® brands. The Company s principal specialty product lines include Estee® sugar-free products and Alba® non-fat dry milk and flavored shakes. Hain Pure Protein Corporation ( HPP or Hain Pure Protein ) markets its natural antibiotic-free chicken under the FreeBird brand, its antibiotic-free turkey under the Plainville Farms® brand and its kosher antibiotic-free chicken and turkey under the Kosher Valley brand. We operate in one segment, the manufacturing, distribution, marketing and sale of natural and organic products. See Notes 1 and 20 to the Consolidated Financial Statements included in Item 15 of this Form 10-K for additional information about our segment, as well as information about our geographic operations.

Our brand names are well recognized in the various market categories they serve. We have acquired numerous companies and brands since our formation and intend to seek future growth through internal expansion as well as the acquisition of complementary brands.

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

Our products are sold to specialty and natural food distributors and are marketed nationally to supermarkets, natural food stores, and other retail classes of trade including mass-market retailers, drug store chains, food service channels and club stores. During 2009, 2008 and 2007, approximately 49%, 47% and 46%, respectively, of our revenues were derived from products manufactured within our own facilities. The remaining 51%, 53% and 54%, for 2009, 2008 and 2007, respectively, of our revenues were derived from products which are produced by independent manufacturers ( co-packers ) using proprietary formulas and specifications.

Table of Contents

As of June 30, 2009, we employed a total of 2,022 full-time employees. Of these employees, 174 were in sales and 1,300 in production, with the remaining 548 employees filling management, accounting, marketing, operations and clerical positions.

**Products**

*Grocery*

We develop, manufacture, market and distribute a comprehensive line of branded natural and organic grocery products in numerous categories including non-dairy beverages and frozen desserts (such as soy, rice, oat and almond), infant and toddler food, flour and baking mixes, hot and cold cereals, pasta, condiments, cooking and culinary oils, granolas, granola bars, cereal bars, canned, aseptic and instant soups, chilis, packaged grain, chocolate, nut butters and nutritional oils, juices, frozen desserts, popcorn cakes, cookies, crackers, gluten-free frozen entrees and cereal bars, frozen pastas and ethnic meals, as well as other food products. Our Hain®, Westbrae Natural®, WestSoy®, Imagine® , Rice Dream®, Soy Dream®, Walnut Acres Organic®, Ethnic Gourmet®, MaraNatha®, SunSpire®, Bearitos®, Arrowhead Mills®, DeBoles®, Rosetto®, Ethnic Gourmet®, Health Valley®, Hollywood®, Casbah® , Spectrum Naturals®, Spectrum Essentials®, Lima®, Breadshop ®s, Nile Spice® , Earth s Best® and Gluten-Free Café® brands comprise this full line of natural or organic grocery products. We are a leader in many 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 not genetically modified and 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 products accounted for approximately 48% of total net sales in 2009 and 51% in 2008 and 2007.

*Snacks*

We develop, manufacture, market and distribute a full line of branded natural and organic snack products including a variety of potato and vegetable chips, organic tortilla style chips, whole grain chips and popcorn under the Terra®, Garden of Eatin®, Little Bear Organic Foods®, Boston s The Best You ve Ever Tasted® and Bearitos® names. Terra natural snack food products consist of varieties of potato chips, sweet potato chips and other vegetable chips. Garden of Eatin snack food products consist of organic tortilla chip products and other snacks. Boston s The Best You ve Ever Tasted Popcorn products consist of popcorn and other snack food items. Snacks accounted for approximately 8% of total net sales in 2009, 9% in 2008 and 11% in 2007.

*Tea*

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 a leading manufacturer and marketer of specialty tea in North America. Our teas are sold in mass-market retailers, drugstore chains, 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®, Lemon Zinger®, Peppermint, Chamomile, Mandarin Orange Spice®, Cinnamon Apple Spice , Red Zinger®, Raspberry Zinger®, Tension Tamer®, Country Peach Passion® and Wild Berry Zinger®, a line of green teas, a line of wellness teas, a line of organic teas, a line of specialty black teas and chai . Our tea products include over 90 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. Tea beverages accounted for approximately 8% of total net sales in 2009, 9% 2008 and 10% in 2007.

*Personal Care Products*

We develop, manufacture, market and distribute a full line of personal care products including skin care, hair care, body care, oral care, deodorants and sunscreens under the Avalon Organics®, Alba Botanica®, JASON®, Zia®, Queen Helene®, Batherapy®, Shower Therapy® and Footherapy® brands. We also develop, manufacture, market and distribute a full line of personal care products made especially for infants and toddlers including hair and body wash, lotions, sunscreens, diaper ointment, diapers and wipes under the Earth s Best Organic® Baby Body Care,

**Table of Contents**

Tushies® and TenderCare® brands. Our personal care products are sold in mass-market retailers, drug store chains, grocery, natural foods and other retail stores. Personal care products accounted for approximately 11% of total net sales in 2009 and 2008, and 10% in 2007.

*Protein*

HPP, which processes, markets and distributes natural, organic and antibiotic-free chicken under the FreeBird brand, was formed in July, 2005. In August 2007 HPP acquired the assets of Plainville Turkey Farm, Inc., a leading supplier of natural and antibiotic-free whole turkeys and turkey deli products in the Northeast and Mid-Atlantic, and in March 2008, HPP expanded its turkey operations with the acquisition of a facility in New Oxford, Pennsylvania. In April 2009, HPP commenced operations of the Kosher Valley brand, a new certified kosher brand of all-natural, antibiotic-free, vegetarian fed and humanely raised chicken and turkey products. Today HPP offers a complete line of natural and antibiotic-free poultry products including FreeBird chicken, Plainville Farms® turkey and Kosher Valley chicken and turkey products. HPP s poultry products accounted for approximately 15% of total net sales in 2009, 9% in 2008 and 4% in 2007.

On June 30, 2009, the minority owner in HPP acquired a controlling interest in the joint venture through the purchase of newly issued shares of HPP. As a result, the Company s equity interest was reduced to 48.7% and effective June 30, 2009, the Company deconsolidated HPP and began accounting for its investment in HPP under the equity method of accounting. Beginning on July 1, 2009, the revenues and expenses of HPP will no longer be consolidated and the Company s 48.7% share of HPP s results will be reported as a separate line on the consolidated statement of operations. The Company s consolidated statements of operations for all periods prior to July 1, 2009 include the revenues and expenses of HPP.

*Other*

Meat Alternative Products

We manufacture, market and distribute a full line of soy protein meat alternative products under the Yves Veggie Cuisine® brand name including such well-known products as The Good Dog®, among others. We produce a line of tofu, seitan and tempeh products which are sold under the WestSoy® brand. We also manufacture, market and distribute a full line of meat-free frozen products under the Linda McCartney® (under license), Realeat® and Granose® brands. Meat alternative products provide consumers with the health benefits of soy without the health concerns associated with traditional meat products. Our meat alternative products and other meat-free ingredients include veggie burgers, veggie dogs and brats, veggie slices, veggie entrees, veggie ground round, veggie skewers and frozen meat-free entrees. Our Yves Veggie Cuisine® meat alternative brand operates from our facility in Vancouver, British Columbia in Canada. Our WestSoy® brand is produced in our Boulder, Colorado facility. Our Linda McCartney®, Realeat® and Granose® brands are manufactured in our facility in Fakenham, England.

Fresh

We process, market and distribute fresh prepared foods from our facilities in London and Luton, England and from our Grains Noirs facility in Brussels, Belgium. Our meals-to-go products include fresh sandwiches, appetizers and full-plated meals for distribution to retailers, caterers, and food service providers, such as those in the transportation business.

Medically-Directed Products

We market and distribute a line of sugar-free, fructose-sweetened and low-sodium products under the Estee® brand targeted towards diabetic and health conscious consumers and persons on medically-restricted diets.

We continuously evaluate our existing products for quality, taste, nutritional value and cost and make improvements where possible. We discontinue products or stock keeping units ( SKUs ) when sales of those items do not warrant further production.

Table of Contents

Household

On February 4, 2009, we entered into a license agreement with Martha Stewart Living Omnimedia, Inc. ( MSLO ) to develop, manufacture, market, sell and distribute a new line of natural home cleaning solutions under the Martha Stewart Clean brand. In collaboration with the MSLO design team, Hain Celestial has developed the products for this line, which are primarily derived from plants and minerals. It is expected that the products will launch in the fall of 2009.

**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, including microbiologists, nutritionists, food scientists, chefs and chemists, work to develop products to meet consumers changing needs. Our Research and Development staff 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 staff routinely reformulates and revises existing products. We incurred approximately $1.4 million in Company-sponsored research and development activities in 2009, $1.7 million in 2008 and $1.5 million in 2007. Our research and development expenditures do not include the expenditures on such activities undertaken by co-packers and suppliers who develop numerous products based on ideas we generate and on their own initiative with the expectation that we will accept their new product ideas and market them under our brands. These efforts by co-packers and suppliers have resulted in a substantial number of our new product introductions. We are unable to estimate the amount of expenditures made by co-packers and suppliers on research and development; however, we believe such activities and expenditures are important to our continuing ability to introduce new products.

**Sales and Distribution**

Our products are sold in all 50 states and in more than 50 countries. Our customer base consists principally of natural food distributors, mass-market retailers, supermarkets, drug store chains, club stores and grocery wholesalers.

In the United States, our products are sold through a combination of our retail direct sales force and internal sales professionals, supported by third-party food brokers. Food brokers act as agents for us within designated territories, usually on a non-exclusive basis, and receive commissions. We utilize our retail direct sales force for sales into natural food stores, which has allowed us to reduce our reliance on food brokers.

A majority of the products marketed by us are sold through independent food distributors. 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 to the retailers are generally made in their sole discretion. We may influence product pricing with the use of promotional incentives. In fiscal 2009, 2008 and 2007, one of our distributors, United Natural Foods, Inc., accounted for approximately 19%, 20% and 20% of net sales, respectively. No other customer represents more than 10% of our net sales.

Our subsidiaries in Canada and Europe sell to all major channels of distribution in the countries they serve. International sales represented approximately 18.3% of total net sales in 2009, 22.0% in 2008 and 24.9% in 2007.

Certain of our product lines have seasonal fluctuations. Hot tea, baking, hot cereal and soup sales are stronger in colder months while sales of snack foods and certain of our prepared food products are stronger in the warmer months. Sales of HPP turkey products are strongest in the second quarter of our fiscal year, coinciding with seasonal holidays.

**Marketing**

We use a combination 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 2009, 2008 and 2007 we have increased our investment in consumer spending to enhance brand equity while closely

Table of Contents

monitoring our trade spending. These consumer spending categories include, but are not limited to, coupons, consumer advertising using television, radio and print, direct mailing and e-consumer relationship programs and other forms of promotions. We utilize sponsorship programs including Earth s Best® with PBS Kids and Sesame Street, and Terra® as The Official Chip of Madison Square Garden. Hain Celestial Canada has been named the official supplier of natural and organic packaged grocery products for the 2010 Olympic Winter Games and Paralympic Winter Games to be held in Vancouver, Canada. As the official supplier, Hain Celestial Canada has been granted the right to use the Olympic logo on the packaging of certain of its brands for sale in Canada through December 2012. 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: Boulder, Colorado, which produces Celestial Seasonings® specialty teas; Moonachie, New Jersey, which produces Terra® potato and vegetable chips; Hereford, Texas, which produces Arrowhead Mills® cereals, flours and baking ingredients; Shreveport, Louisiana, which produces DeBoles® organic and gluten-free pasta; a frozen foods facility in West Chester, Pennsylvania, which produces Ethnic Gourmet® frozen meals and Rosetto® and Gluten Free Café frozen entrees; Ashland, Oregon, which produces MaraNatha® nut butters, Boulder, Colorado, which produces our WestSoy® fresh tofu products; and Culver City, California, which produces personal care products. HPP currently manages and operates facilities in Fredericksburg and New Oxford, Pennsylvania, and Plainville, New York, which process natural and organic antibiotic-free chickens and turkeys.

Outside the United States, we have the following manufacturing facilities: Vancouver, British Columbia, which produces Yves Veggie Cuisine® soy-based meat alternative products; Brussels, Belgium, which prepares Grains Noirs® fresh organic appetizers, salads, sandwiches and other full-plated dishes; Eitorf, Germany, which produces Natumi soymilk and other non-dairy beverages; Luton, England, where we produce fresh prepared foods; Fakenham, England, where we produce meat-free frozen foods; and Manchester, England, where we produce soy beverages.

We own the manufacturing facilities in Moonachie, New Jersey; Boulder, Colorado; Hereford, Texas; Shreveport, Louisiana; West Chester, Pennsylvania; Ashland, Oregon; Vancouver, British Columbia and Fakenham, England. During 2009, 2008 and 2007, approximately 49%, 47% and 46%, respectively, of our revenue was derived from products manufactured at our own 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, a limited number of ingredients not available domestically and items purchased to complement our domestic supply not sufficient to meet our demand, are purchased from Asia.

All of our ingredients are purchased based upon requirements designed to meet rigid specifications for food safety and comply with applicable regulations. The Company works with reputable suppliers who assure the quality and safety of their ingredients. These assurances are supported by signed affidavits, certificates of analysis and analytical testing. Additionally, many of our food products receive independent third-party organic and kosher certification.

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 selected 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 ), the U.S. Department of Agriculture ( USDA ) and the U.S. Environmental Protection Agency ( EPA ), as well as the equivalent international regulatory agencies in the countries in which we operate. Our quality assurance staff audits significant suppliers on a regular basis to ensure adherence to our requirements.

**Co-Packed Product Base**

Currently, independent 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®, Boston s The Best You ve Ever Tasted®, Alba®, Estee®, Earth s Best®, Garden of Eatin®, Hain Pure Foods®, Hollywood®, Little Bear Organic Foods®, Westbrae Natural®, WestSoy®, Rice Dream®, Soy Dream® , Imagine®, Walnut Acres Organic®, Spectrum Naturals®, Spectrum Essentials®, SunSpire®, MaraNatha® fruit spreads, Lima®, Avalon Organics®, Alba Botanica®, Queen Helene®, Batherapy® , Shower Therapy®, Footherapy®, Zia® and some of our Terra®, Rosetto® , Arrowhead Mills®, Yves Veggie Cuisine® and Ethnic Gourmet® product lines. During 2009, 2008 and 2007, approximately 51%, 53% and 54%, respectively, of our revenue was derived from products manufactured at independent co-packers.

Key co-packers are audited by our quality assurance staff to ensure our products are manufactured in accordance with our specifications.

**Trademarks**

We believe that brand awareness is a significant component in a consumer s decision to purchase one product over another in highly competitive consumer products industries. 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®, Spectrum Naturals®, Spectrum Essentials®, MaraNatha®, SunSpire®, Celestial Seasonings®, DeBoles® , Earth s Best®, Estee®, Ethnic Gourmet®, Garden of Eatin®, Hain Pure Foods®, Health Valley®, Imagine®, JASON®, Zia®, Little Bear Organic Foods®, Nile Spice® , Boston s The Best You ve Ever Tasted®, Rice Dream®, Rosetto®, Gluten Free Café, Soy Dream® , Terra®, Walnut Acres Organic®, Westbrae Natural®, WestSoy®, Lima®, Grains Noirs®, Natumi®, Granose® , Realeat®, Yves Veggie Cuisine®, Avalon Organics®, Alba Botanica®, Queen Helene®, Batherapy®, Shower Therapy®, Footherapy® , Tushies® and TenderCare® brands.

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®.

HPP owns the trademarks for its natural and antibiotic-free poultry products including FreeBird, Plainville Farms® and Kosher Valley.

We market the Linda McCartney® brand under license. In addition, we license the right from Sesame Workshop to utilize the Sesame Street name and logo, as well as other Sesame Street intellectual property, on certain of our Earth s Best® products. We have also entered into a license agreement with MSLO to market, sell and distribute environmentally-friendly cleaning products under the Martha Stewart Clean brand, which is expected to launch in the fall of 2009.

**Competition**

We operate in highly competitive geographic and product markets, and some of these markets are dominated by competitors with greater resources. For example, we compete for limited retailer shelf space for our products. Larger competitors include mainstream food companies such as Campbell Soup Company, Dean Foods Company, General Mills, Inc., Groupe Danone, The J. M. Smucker Company, Kellogg Company, Kraft Foods, Inc., Nestlé S.A., Pepsico, Inc., Sara Lee Corporation and Unilever PLC. The principal competitors in natural personal care products include The Clorox Company s Burt s Bees, Colgate-Palmolive s Tom s of Maine, Kiss My Face and Nature s

Table of Contents

Gate. These products also compete with natural and conventional personal care products from much larger competitors such as Estee Lauder Inc. and Johnson & Johnson. Retailers also market competitive products under their own private labels.

The beverage market for tea is 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 herb tea, green tea, wellness tea, black tea and organic 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. Additional competitors include a number of regional specialty tea companies such as Golden Temple of Oregon, Inc., with its Yogi brand, Traditional Medicinals, Tazo and The Stash Tea Company.

**Government Regulation**

Along with our manufacturers, brokers, distributors and co-packers, we are subject to extensive regulation in the United States by federal, state and local authorities. The federal agencies governing our business include the Federal Trade Commission ( FTC ), FDA, 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.

Internationally, we are subject to the laws of the foreign jurisdictions in which we manufacture and sell our products. In Europe, we must comply with the requirements of the European Commission, as well as the local requirements in each of the countries in which our products are sold.

**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.

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 ), Certsys, QC&I International Services and Oregon Tilth to certify our products as organic under the guidelines established by the USDA and international agencies.

We also utilize appropriate kosher supervision organizations, such as The Union of Orthodox Jewish Congregations, The Organized Kashruth Laboratories, KOF-K Kosher Supervision, Star K Kosher Certification, Kosher Overseers Associated of America and Upper Midwest Kashruth.

**Available Information**

The following information can be found on our corporate 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 ( Code of 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 Nasdaq; and

the charters of the Audit, Compensation and Corporate Governance and 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. The information contained on our website or connected to our website is not incorporated by reference into this Annual Report on Form 10-K and should not be considered part of this report.

**Item 1A. Risk Factors.**

*Our business, operations and financial condition are subject to various risks and uncertainties. The most significant of these risks include those described below; however, there may be additional risks and uncertainties not presently known to us or that we currently consider immaterial. If any of the following risks and uncertainties develop into actual events, our business, financial condition or results of operations could be materially adversely affected. In such case, the trading price of our common stock could decline, and you may lose all or part of your investment. These risk factors should be read in conjunction with the other information in this Annual Report on Form 10-K and in the other documents that we file from time to time with the SEC.*

***The Recent Disruptions in the Worldwide Economy and the Financial Markets May Adversely Impact Our Business and Results of Operations***

Economic and market conditions have deteriorated significantly in the locations in which we operate, particularly the United States, Canada and Europe, and these difficult conditions may continue to exist. This deterioration has impacted and may continue to impact customer and consumer demand for our products and our ability to manage normal commercial relationships with our customers, suppliers and creditors. Consumers may shift purchases to lower-priced or other value offerings during economic downturns, which may adversely affect our results of operations. Consumers may also reduce the number of organic products that they purchase where there are conventional alternatives, given that organic products generally have higher retail prices than do their conventional counterparts. In addition, consumers may choose to purchase private label products rather than branded products, which generally have higher retail prices than do their private label counterparts. Additionally, distributors and retailers may become more conservative in response to these conditions and seek to reduce their inventories. Our results of operations depend upon, among other things, our ability to maintain and increase sales volumes with existing customers, our ability to attract new customers and the financial condition of our customers. If the unfavorable economic conditions continue, our sales and profitability could continue to be adversely affected.

***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 compete based on product quality, brand recognition and loyalty, price, product innovation and promotional activity, among other things. We cannot be certain that we will 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 but not limited to Campbell Soup Company, Dean Foods Company, General Mills, Inc., Groupe Danone, The J.M. Smucker Company, Kellogg Company, Kraft Foods Inc., Nestle S.A., PepsiCo, Inc., Sara Lee Corporation and Unilever, PLC, and mainstream personal care products companies including but not limited to Estee Lauder Inc. and Johnson & Johnson, 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. We may need to increase our marketing, advertising and promotional spending to protect our existing market share, which may result in an adverse impact on our profitability.

**Table of Contents**

One example of the competitiveness of the markets in which we participate is in the tea portion of the beverage market. 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 U.S. 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 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 do. 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 also compete with other manufacturers in the procurement of natural and organic product ingredients, which may be less plentiful in the open market than conventional product ingredients. This competition may increase in the future along with increasing public demand for natural and organic products. This could cause our expenses to increase or could limit the amount of product that we can manufacture and sell.

***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, including specialty teas, non-dairy beverages, infant and toddler foods, cereals, breakfast bars, canned and aseptic soups, nut butters, cooking oils and personal care products which, if consumer demand for such categories were to decrease, could harm our business. Consumer trends could 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,
- a shift in preference from organic to non-organic and from natural products to non-natural products; and
- the availability of competing private label products offered by retailers.

In addition, we have other product categories, such as meat alternative products, medically-directed food products and other specialty food items which are subject to evolving consumer preferences.

***Our Growth is Dependent on Our Ability to Introduce New Products and Improve Existing Products***

Our growth depends in large part on our ability to generate and implement improvements to our existing products and to introduce new products to consumers. The innovation and product improvements are affected by the level of funding that can be made available, the technical capability of our Research and Development Department in developing and testing product prototypes, and the success of our management in rolling out the resulting improvements in a timely manner. If we are unsuccessful in implementing product improvements that satisfy the demands of consumers, our business could be harmed.

***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

integrate acquisitions that we complete.

Table of Contents

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 Brands 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 brand or in selling the products of an acquired brand to our customer base; or
- integrating an acquired brand into our management information systems or integrating an acquired brand s products into our product mix.

Additionally, integrating an acquired brand 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 brands, our business could be harmed.

***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, in addition to our own retail sales organization. The loss of, or business disruption at, one or more of these distributors or brokers may harm our business. If we are 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. One of our distributors, United Natural Foods, Inc., which redistributes products to natural foods supermarkets, independent natural retailers and other retailers, accounted for approximately 19%, 20% and 20% of our net sales for the fiscal years ended June 30, 2009, 2008, and 2007, respectively. Our inability to enter into satisfactory brokerage agreements may inhibit our ability to implement our business plan or to establish markets necessary to develop 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.

***Consolidation of Customers or the Loss of a Significant Customer Could Negatively Impact our Sales and Profits***

Consolidation of distributors and/or retailers may produce larger, more sophisticated organizations that could resist price increases or demand increased promotional programs, as well as operate with lower inventories and increase their emphasis on private label products, which could negatively impact our business.

Our largest customer, United Natural Foods, Inc., accounted for approximately 19% of our net sales for the fiscal year ended June 30, 2009. These customers do not typically enter into long-term sales contracts. The loss of any large customer or the cancellation of any business from a large customer for an extended length of time could negatively impact our sales and profits.

***Loss of One or More of Our Manufacturing Facilities or Independent Co-Packers Could Harm Our Business***

For the fiscal years ended June 30, 2009, 2008 and 2007, approximately 49%, 47% and 46%, respectively, of our revenue was derived from products manufactured at our own 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 such time as an alternate source of production could be secured.

During fiscal 2009, 2008 and 2007, approximately 51%, 53% and 54%, respectively, of our revenue was derived from products manufactured at independent co-packers. In some cases an individual co-packer may produce all of our requirements for a particular brand. The success of our business depends, in part, on maintaining a strong sourcing and manufacturing platform. We believe there are a limited number of competent, high-quality co-packers in the industry, and if we were required to obtain additional or alternative co-packing agreements or arrangements in the future, we can provide no assurance that we would be able to do so on satisfactory terms in a timely manner. Therefore, 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.

***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 analyses on incoming ingredient shipments for the purpose of assuring that they meet our quality standards and those of the FDA.

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 climate 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 to find new suppliers, observe production standards for our foreign-procured products or continue our supply of botanicals from foreign sources could harm our business.

Table of Contents

***Our Future Results of Operations May be Adversely Affected by Increased Fuel and Commodity Costs and the Availability of Organic Ingredients***

Many aspects of our business have been, and may continue to be, directly affected by the rising cost of fuel and commodities. Increased fuel costs translate into increased costs for the products and services we receive from our third party providers including, but not limited to, increased distribution costs for our products and increased packaging costs. Commodities are subject to price volatility which can be caused by commodity market fluctuations, crop yields, changes in currency exchange rates, imbalances between supply and demand and government programs among other factors. Increased demand for organic ingredients may result in our inability to procure adequate supplies, which may result in our inability to satisfy customer orders. 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 cost 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 2009, approximately 18.3% of our net sales were generated outside the United States, while such sales outside the U.S. were 22.0% of net sales in 2008 and 24.9% in 2007.

Sales from outside our U.S. markets may continue to represent a significant 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***

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, beverage and personal care industry. Although we endeavor to protect our trademarks and trade names, there can be no assurance that these efforts will be successful, or that third parties will not challenge our right to use one or more of our trademarks or trade names. 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 adopted regulations with respect to a national organic labeling and certification program which were fully implemented in October 2002. Amendments to Canada s Organic Products regulations as administered by the Canada Organic Office of the Canadian Food Inspection Agency will be implemented beginning June 30, 2009. We are making the necessary changes and expect that our organic products and packaging will be in compliance by the required date. In addition, similar regulations and requirements exist in the other countries in which we market our products. We currently manufacture over 1,400 organic products worldwide which are covered by these various 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.

We continually monitor and modify packaging to be in compliance with the rules of the various countries where we sell our products. Our ability to meet local packaging regulations may impact our ability to sell products in these regions. Any change in labeling requirements for our products may lead to an increase in packaging costs or interruptions or delays in packaging deliveries.

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.

There has been increased state legislative activity since May 2009 to ban Bis-Phenol A (BPA) from the packaging material of infant formula or baby food effective January 2011. These legislative decisions are predominantly driven by consumer perception that BPA may be carcinogenic. These actions have been taken despite the scientific evidence and general consensus of US and international government agencies that BPA is safe and does not pose a risk to human health. The state legislative actions may require us to change some of our packaging materials. Failure to do so could result in a loss of sales in the states affected. The FDA will re-review the scientific data on BPA and is expected to announce its findings by the end of November 2009. The Company has decided not to wait for these findings and is actively taking steps to find BPA-free package alternatives for its products. However, there can be no assurance that these steps will be successful.

Legislation titled The Food Safety and Enhancement Act of 2009 has been proposed in the Unites States House of Representatives. The proposed bill provides that food manufacturing facilities adhere to stricter food safety standards than is currently required. The bill has other provisions including the granting of power to the FDA to mandate product recalls. The proposed legislation will likely undergo modification in the House and the Senate before being passed and presented to the President for signature. Since our food manufacturing facilities already adhere to the stricter standards being proposed, the legislation is expected to have a minimal effect on our costs or manufacturing practices, although there can be no assurance that the proposed standards will not be changed.

***If the reputation of one or more of our leading brands erodes significantly, it could have a material impact on our financial results.***

Our financial success is directly dependent on the success of our brands. The success of our brands may suffer if our marketing plans or product initiatives do not have the desired impact on a brand s image or its ability to attract consumers. Further, our results could be negatively impacted if one of our brands suffers a substantial impediment to its reputation due to real or perceived quality issues.

***We may be subject to significant liability should the consumption of any of our products cause illness or physical harm.***

The sale of food products for human consumption involves the risk of injury or illness to consumers. Such injuries may result from inadvertent mislabeling, tampering by unauthorized third parties or product contamination or spoilage. Under certain circumstances, we may be required to recall products, which may lead to a material adverse effect on our business. Even if a situation does not necessitate a recall, product liability claims might be asserted against us. While we are subject to governmental inspection and regulations and believe our facilities and those of our co-packers comply in all material respects with all applicable laws and regulations, if the consumption of any of our products causes, or is alleged to have caused, a health-related illness in the future we may become subject to claims or lawsuits relating to such matters. Even if a product liability claim is unsuccessful or is not fully pursued, the negative publicity surrounding any assertion that our products caused illness or physical harm could adversely affect our reputation with existing and potential customers and consumers and our corporate and brand image. Moreover, claims or liabilities of this sort might not be covered by our insurance or by any rights of indemnity or contribution that we may have against others. We maintain product liability insurance in an amount that we believe to be adequate. However, we cannot be sure that we will not incur claims or liabilities for which we are not insured or that exceed the amount of our insurance coverage. A product liability judgment against us or a product recall could have a material adverse effect on our business, consolidated financial condition, results of operations or liquidity.

Table of Contents

***We Rely on Independent Certification for a Number of Our 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 organic 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 it is 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 and raw materials do not meet the requirements of the appropriate kosher supervision organization.

***Due to the Seasonality of Many of Our 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, our quarterly results of operations reflect seasonal trends resulting from increased demand for our 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 and certain of our prepared food products 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 our future performance.

***The Profitability of Our Operations is Dependent on Our Ability to Manage Our Inventory***

Our profit margins depend on our ability to manage our inventory efficiently. As part of our effort to manage our inventory more efficiently, we carried out SKU rationalization programs in fiscal 2009 and 2008, which resulted in the discontinuation of numerous lower-margin or low-turnover SKUs. However, a number of factors, such as changes in customers inventory levels, access to shelf space and changes in consumer preferences, may lengthen the number of days we carry certain inventories, hence impeding our effort to manage our inventory efficiently.

***Our Officers and Directors May Be Able to Control Our Actions***

Our officers and directors beneficially owned (assuming the exercise of all stock options held by them) approximately 11.6% of our common stock as of June 30, 2009. 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 amended and restated 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.

**Table of Contents**

***An Impairment in the Carrying Value of Goodwill or Other Intangible Assets Could Materially and Adversely Affect our Consolidated Operating Results and Net Worth***

We have made many acquisitions since our inception. As a result of these acquisitions, we had approximately $456 million of goodwill and intangible assets on our balance sheet at the end of fiscal 2009. Pursuant to generally accepted accounting principles in the United States, we are required to perform impairment tests on our goodwill and certain other intangible assets annually or at any time when events occur which could impact the value of our reporting units. Our determination of whether an impairment has occurred is based on a comparison of each of our reporting units estimated fair market value with its carrying value. Significant and unanticipated changes could require a charge for impairment in a future period that could substantially affect our consolidated earnings in the period of such charge. In addition, such charges would reduce our consolidated net worth.

As a result of our interim impairment analysis performed in the third quarter of fiscal 2009, we recorded a pre-tax non-cash goodwill impairment charge of $49.6 million, net of $7.6 million attributed to the minority interest of Hain Pure Protein. In addition, in the third quarter of fiscal 2009, the Company recognized a non-cash impairment charge of $3.0 million related to a customer relationship in the United Kingdom. During the fourth quarter of fiscal 2009, the Company finalized its goodwill impairment with no further adjustment required. For further details, see Note 10 ( Goodwill and Other Intangible Assets ) to our consolidated financial statements for the year ended June 30, 2009.

Goodwill impairment analysis and measurement is a process that requires considerable judgment. If our common stock price trades below book value per share, if there are changes in market conditions or a future downturn in our business, or if future interim or annual goodwill impairment tests indicate an impairment of our goodwill, we may have to recognize additional non-cash impairment charges for goodwill which may materially adversely affect our consolidated results of operations and net worth.

***The Ongoing Government Inquiry Relating to our Historical Stock Option Practices is Time Consuming and Expensive and Could Result in Additional Litigation, Regulatory Proceedings and Government Enforcement Actions.***

As a result of an inquiry by the SEC into our historical stock option granting practices and the related accounting and disclosures, four of our independent directors, with the assistance of independent counsel, conducted an investigation into the Company s historical stock option granting practices. The findings of the investigation resulted in revisions to the measurement dates for certain options granted in prior years, requiring us to restate our fiscal 2006 and prior financial statements as filed in our Annual Report on Form 10-K for the year ended June 30, 2007. This has exposed us to greater risks associated with litigation, regulatory proceedings and government enforcement actions. While we intend to continue to cooperate with the SEC, we do not know what further actions the SEC may take or what may be required of us in order to resolve this inquiry.

No assurance can be given regarding the outcomes from litigation, regulatory proceedings or government enforcement actions relating to our past stock option practices. The resolution of these matters has been and may continue to be time consuming and expensive, and may distract management from the conduct of our business. We have incurred substantial expenses for legal, accounting and other professional services related to the investigation, restatement and related activities to date. Furthermore, if we are subject to adverse findings in litigation, regulatory proceedings or government enforcement actions, we could be required to pay damages or penalties or have other remedies imposed, which could harm our business, financial condition, results of operations and cash flows.

***We Have Civil Litigation Pending that Relates to our Stock Option Granting Practices, and We Cannot Predict the Ultimate Outcome of this Litigation, or Whether Additional Similar Lawsuits will be Filed.***

Two purported shareholder derivative actions were filed in September and October 2006 against the Company (solely as a nominal defendant) and certain current and former officers and directors in the Supreme Court of the State of New York, County of Suffolk, alleging breaches of fiduciary duties and unjust enrichment in connection with the Company s past stock option practices. The complaints seek unspecified damages, disgorgement of options, attorneys fees and expenses, and other unspecified equitable relief from the defendants. These actions have been consolidated into one action. We could be required to pay significant legal fees and damages in connection with this litigation. We could also become subject to additional lawsuits in the future relating to our stock option practices.

Table of Contents

**Item 1B. Unresolved Staff Comments.**
None.

**Item 2. Properties.**
Our primary facilities, which are leased except where otherwise indicated, are as follows:

| Primary Use | Location | Approximate Square Feet | Expiration of Lease |
|---|---|---|---|
| Headquarters Office | Melville, NY | 35,000 | 2012 |
| Manufacturing and offices (Tea) | Boulder, CO | 158,000 | Owned |
| Manufacturing & Distribution (Grocery) | Hereford, TX | 136,000 | Owned |
| Manufacturing (Frozen foods) | West Chester, PA | 105,000 | Owned |
| Manufacturing (Vegetable chips) | Moonachie, NJ | 75,000 | Owned |
| Manufacturing & distribution (Grocery) | Shreveport, LA | 37,000 | Owned |
| Manufacturing (Personal care) | Culver City, CA | 24,000 | 2010 |
| Manufacturing (Meat alternatives) | Boulder, CO | 21,000 | Owned |
| Manufacturing (Nut butters) | Ashland, OR | 13,000 | Owned |
| Distribution center (Grocery & snacks) | Ontario, CA | 375,000 | 2012 |
| Distribution center (Tea) | Boulder, CO | 81,000 | 2011 |
| Distribution center (Meat alternatives) | Boulder, CO | 45,000 | 2009 |
| Distribution center (Personal care) | Culver City, CA | 26,000 | 2010 |
| Manufacturing and offices (Meat alternatives) | Vancouver, B.C., Canada | 76,000 | Owned |
| Manufacturing and offices (Soymilk & other non-dairy products) | Eitorf, Germany | 46,000 | 2012 |
| Manufacturing (Fresh prepared appetizers and sandwiches) | Brussels, Belgium | 20,000 | 2010 |
| Distribution center and offices (Natural & organic food products) | Maldegem, Belgium | 94,000 | 2009 |
| Operations & marketing offices | Maldegem, Belgium | 26,000 | Owned |
| Manufacturing & offices (Meat-free frozen products) | Fakenham, England | 101,000 | Owned |
| Manufacturing & offices (Fresh prepared food products) | Luton, England | 97,000 | 2011 |

We also lease space for other smaller offices and facilities in the United States, Canada and Europe.

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

For further information regarding our lease obligations, see Note 18 to the Consolidated Financial Statements.

**Item 3. Legal Proceedings.**
From time to time, we are involved in litigation incidental to the ordinary conduct of our business.

A purported shareholder derivative action was filed against the Company (solely as a nominal defendant) and certain current and former officers and directors on September 21, 2006 in the Supreme Court of the State of New York, County of Suffolk, alleging breaches of fiduciary duties and unjust enrichment in connection with the Company s past stock option practices. The plaintiff seeks unspecified damages, disgorgement of options, attorneys fees and expenses, and other unspecified equitable relief from the defendants. A second purported shareholder derivative action was filed on October 31, 2006 in the same court, against substantially the same defendants and containing substantially the same allegations, adding a claim of breach of fiduciary duty. The two actions were consolidated by

Table of Contents

a Court Order dated March 3, 2008. In the consolidated complaint served on or about April 18, 2008, the defendant s time to respond to the consolidated complaint was extended, with the understanding that a date for such response would be set at a conference with the Court scheduled for October 22, 2008. On January 7, 2009, Defendants moved to dismiss the consolidated complaint. On February 23, 2009, the motion was withdrawn on consent and without prejudice pursuant to a court order in order to allow the parties to engage in settlement discussions. The parties have now arrived at a settlement in principle of their disputes and continue to work toward finalizing that understanding.

Disposition of pending litigation related to these matters is not expected by management to have a material adverse effect on our business, results of operations or financial condition.

Beginning June 15, 2007, the Company has disclosed that the SEC has been investigating its stock option practices. The Company is cooperating with the SEC s investigation.

**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 listed on the NASDAQ Global Select Market under the ticker symbol HAIN . The following table sets forth the reported high and low sales prices for our Common Stock for each fiscal quarter from July 1, 2007 through June 30, 2009.

| | Common Stock | | | |
|---|---|---|---|---|
| | Fiscal Year 2009 | | Fiscal Year 2008 | |
| | High | Low | High | Low |
| First Quarter | $ 31.26 | $ 22.83 | $ 32.33 | $ 26.09 |
| Second Quarter | 29.04 | 14.09 | 35.14 | 29.69 |
| Third Quarter | 20.31 | 11.18 | 32.34 | 24.20 |
| Fourth Quarter | 18.68 | 13.95 | 30.86 | 23.46 |

As of August 24, 2009, there were 428 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 under our Credit Facility (as defined below) and our outstanding senior notes, our general financial condition and general business conditions.

Table of Contents

**Issuer Purchases of Equity Securities**

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

| Period | (a) Total number of shares purchased | (b) Average price paid per share | (c) Total number of shares purchased as part of publicly announced plans | (d) Maximum number of shares that may yet be purchased under the plans[2] |
|---|---|---|---|---|
| April 2009 | 47,780[1] | $ 14.55 | | 900,300 |
| May 2009 | 689[1] | $ 17.17 | | |
| June 2009 | 5,365[1] | $ 15.61 | | |
| Total | 53,834 | $ 14.69 | | 900,300 |

(1) Shares surrendered for payment of employee payroll taxes due on shares vested and issued under stockholder approved stock based compensation plans.

(2) 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, of which 99,700 were subsequently repurchased.

**Equity Compensation Plan Information**

The following table sets forth certain information, as of June 30, 2009, concerning shares of common stock authorized for issuance under all of the Company s equity compensation plans.

| Plan Category | (A) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights | (B) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights | (C) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in column (A)) (1) |
|---|---|---|---|
| Equity compensation plans approved by security holders | 5,568,667 | $ 20.64 | 736,140 |
| Equity compensation plans not approved by security holders | None | None | None |
| Total | 5,568,667 | $ 20.64 | 736,140 |

(1) Of the 736,140 shares available for future issuance under our equity compensation plans, 555,640 shares are available for grant under the Amended and Restated 2002 Long Term Incentive and Stock Award Plan and 180,500 shares are available for grant under the 2000 Directors Stock Option Plan.

**Table of Contents**

**Performance Graph**

The following graph compares the performance of our common stock to the S&P 500 Index and to the Standard & Poor s Packaged Foods and Meats Index (in which we are included) for the period from June 30, 2004 through June 30, 2009. The comparison assumes $100 invested on June 30, 2004.

**Unregistered Sales of Equity Securities and Use of Proceeds**

None.

**Item 6. Selected Financial Data.**

The following information has been summarized from our financial statements. The information set forth below is not necessarily indicative of results of future operations, and should be read in conjunction with Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, and the consolidated financial statements and related notes thereto included in Item 8 of this Form 10-K to fully understand factors that may affect the comparability of the information presented below. Beginning on July 1, 2009, the revenues and expenses of HPP will no longer be consolidated. See Note 2 of Notes to Consolidated Financial Statements.

| | Year Ended June 30, | | | | |
|---|---|---|---|---|---|
| | **2009** | **2008** | **2007** | **2006** | **2005** |
| Operating results: | | | | | |
| Net sales | $ 1,135,306 | $ 1,056,371 | $ 900,432 | $ 738,557 | $ 619,967 |
| Net income (loss) (a) | $ (24,723) | $ 41,221 | $ 47,482 | $ 36,367 | $ 24,061 |
| Basic income (loss) per common share (a) | $ (0.61) | $ 1.03 | $ 1.21 | $ .97 | $ .66 |
| Diluted income (loss) per common share (a) | $ (0.61) | $ .99 | $ 1.16 | $ .93 | $ .65 |
| Financial position: | | | | | |
| Working capital | $ 212,592 | $ 246,726 | $ 198,524 | $ 172,933 | $ 123,541 |
| Total assets | $ 1,123,496 | $ 1,259,384 | $ 1,058,456 | $ 877,684 | $ 707,136 |
| Long-term debt | $ 258,372 | $ 308,220 | $ 215,446 | $ 151,229 | $ 92,271 |
| Stockholders equity | $ 701,323 | $ 742,811 | $ 696,956 | $ 618,092 | $ 531,206 |

(a) The net loss in fiscal 2009 includes goodwill and other intangibles impairment charges of $52.6 million, or $1.20 per share. See Note 10 to the Consolidated Financial Statements.

Table of Contents

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

We manufacture, market, distribute and sell natural and organic specialty and snack food products and natural personal care products, under brand names which are sold as better-for-you products, providing consumers with the opportunity to lead A Healthy Way of Life . We are a leader in many natural food and personal care products categories, with an extensive portfolio of well known brands. We operate in one segment, the manufacturing, distribution, marketing and sale of natural and organic products, including food, beverage and personal care products. Our business strategy is to integrate all of our brands under one management team and employ a uniform marketing, sales and distribution program. Our products are sold to specialty and natural food distributors, as well as to supermarkets, natural food stores, and other retail classes of trade including mass-market retailers, drug store chains, food service channels and club stores. We manufacture internationally and our products are sold in more than 50 countries. Our brand names are well recognized in the various market categories they serve.

We have acquired numerous brands since our formation and we intend to seek future growth through internal expansion as well as the acquisition of complementary brands. We consider the acquisition of natural and organic food and personal care products companies and product lines an integral part of our business strategy. We believe that by integrating our various brands, we will achieve economies of scale and enhanced market penetration. We seek to capitalize on our brand equity and the distribution achieved through each of our acquired businesses with strategic introductions of new products that complement existing lines to enhance revenues and margins. Our continuing investments in the operational performance of our business units and our focused execution on cost containment, productivity, cash flow and margin enhancement positions us to offer innovative new products with healthful attributes and enables us to build on the foundation of our long-term strategy of sustainable growth. We are committed to creating and promoting A Healthy Way of Life for the benefit of consumers, our customers, shareholders and employees.

The United States as well as worldwide economies have recently experienced adverse conditions, which may further decline. These economic uncertainties have caused, and may continue to cause, customers and consumers to take a conservative position and further reduce their inventories and modify their spending habits. In response, we continue to introduce new, innovative products, seeking to provide consumers with healthful, better-for-you products at reasonable prices. In addition, we utilized and have recently increased our marketing support, using consumption-orientated programs and consumer coupons to drive sales. We have also been challenged in recent quarters by rising input costs. Although we have seen input costs begin to moderate, we strive to offset any continuing impact of input cost increases with a combination of cost savings initiatives and efficiencies and price increases to our customers. During the past two years, we implemented workforce reductions and other productivity initiatives aimed at lowering our operating expenses in response to the current environment. We will continue to monitor our costs and evaluate the need for additional actions. In light of these economic conditions, we have experienced moderated sales growth, which we expect will continue, but may be subject to further fluctuation.

Our net sales increased 7.5% in fiscal 2009. The net sales increase was driven by modest growth achieved in our core brands in North America and an increase in sales by HPP, which were partially offset by reduced sales volume and the impacts of unfavorable changes in exchange rates in our European operations. Our continent-based European operations achieved modest sales growth measured in local currency, while local currency sales in our United Kingdom-based operations declined in fiscal 2009. In addition to the ongoing weak global economic conditions, the significant strengthening of the U.S. dollar since the end of our last fiscal year has had an adverse impact on our results.

Our core grocery, snacks, tea and personal care brands are sold via multiple channels throughout North America. Our primary focus is to deliver healthful, innovative products that provide value to the consumer. In the United States, we introduced over 100 new products across our core categories in the last year. We have been able to successfully expand our Earth s Best brand from its original jarred baby foods into infant formula, toddler snacks, frozen products and diapers. We are aggressively pursuing expansion of our healthful, better for you product offerings, including, for example, over 300 gluten-free products. We have re-launched our Celestial Seasonings line of green teas with enhanced taste and expanded the flavors offered by our leading Sleepytime herbal tea. Despite the challenging economic conditions, our results at these reporting units remained profitable.

**Table of Contents**

Hain Pure Protein recorded a loss before income tax. In addition to an impairment charge for goodwill, HPP s results were severely impacted by higher feed costs and an unfavorable sales mix skewed to conventional poultry products, which suffered lower market prices for much of the year.

In Europe we had a loss before income tax as a result of the impairment charges for goodwill and other intangibles and a loss from operations in the United Kingdom. In the United Kingdom, we are addressing the challenges of the under-utilization of our Fakenham production facility with new frozen meat-free and dessert products, which we expect will bring new sales into that plant. We are also undertaking to recover the volume decline resulting from the phased reduction of a supply arrangement with the exclusive customer for products from our fresh-prepared food-to-go factory. We have introduced a new brand, Pick-Me (under license) targeted at new retail customers and seek to further expand our recently acquired Daily Bread brand, whose production is currently being consolidated into our Luton food-to-go facility. We are also in discussions with numerous British retailers to become a supplier of their food-to-go products.

**Recent Developments**

The Company periodically assesses its operations to ensure that they are efficient, aligned with market conditions and responsive to customer needs. During fiscal 2009, the Company undertook several actions to improve performance and position the Company for future growth. We implemented a Stock Keeping Unit ( SKU ) rationalization, principally in our Celestial Seasonings tea products, to eliminate SKUs based on low sales volume or insufficient margins and position the Celestial Seasonings line for increased consumption and sales growth and improved profitability. We also initiated a plan to streamline and integrate the back office and warehousing operations of our personal care operations into other locations we operate. With this activity, we also completed the SKU rationalization of our personal care products begun in fiscal 2008. These actions collectively resulted in pre-tax charges of $12.7 million, which includes $8.6 million charged to cost of sales for inventory and related items and $4.1 million charged to general and administrative expenses for severance and other costs.

On February 4, 2009, we entered into a license agreement with Martha Stewart Living Omnimedia, Inc. ( MSLO ) to develop, manufacture, market, sell and distribute a new line of natural home cleaning solutions under the Martha Stewart Clean brand. In collaboration with the MSLO design team, Hain Celestial has developed the products for this line, which are primarily derived from plants and minerals. It is expected that the products will launch in the fall of 2009.

During the quarter ended March 31, 2009, based on a combination of factors, including a sustained decline in the Company s market capitalization below the Company s carrying value during the fiscal quarter ended March 31, 2009, and coupled with challenging macro-economic conditions, we concluded that sufficient indicators existed to require us to perform an interim goodwill impairment analysis. As a result of the interim impairment analysis performed in the third quarter and the annual analysis performed in the fourth quarter of fiscal 2009, we recorded non-cash impairment charges for goodwill and other intangibles of $52.6 million.

On June 30, 2009, the minority owner in HPP acquired a controlling interest in the joint venture through the purchase of newly issued shares of HPP. As a result, the Company s equity interest was reduced to 48.7% and, effective June 30, 2009, the Company deconsolidated HPP and began accounting for its investment in HPP under the equity method of accounting. Beginning on July 1, 2009, the revenues and expenses of HPP will no longer be consolidated and the Company s 48.7% share of HPP s results will be reported as a separate line on the consolidated statement of operations. The Company s consolidated statements of operations for all periods prior to July 1, 2009 include the revenues and expenses of HPP.

**Results of Operations**

***Fiscal 2009 Compared to Fiscal 2008***

NET SALES

Table of Contents

Net sales for the year ended June 30, 2009 were $1.135 billion, an increase of $78.9 million, or 7.5%, over net sales of $1.056 billion for the year ended June 30, 2008.

Our net sales in the United States increased 12.5% to $927.2 million in fiscal 2009 from $824.1 million in the prior year. Net sales in the United States excluding HPP increased 3.7%, reflecting the strong performance of many of our core grocery and snacks brands. Our Earth s Best brand continued to grow at a double digit rate, along with increases across several other brands, including Imagine Soup, Rice Dream non-dairy beverages, Garden of Eatin snacks, Arrowhead Mills flours and bake mixes, DeBoles pasta, Spectrum Naturals and Rosetto frozen pasta. We also had a full year of sales of the MaraNatha and SunSpire brands, acquired in March 2008. These increases were partially offset by lower full year sales of our Celestial Seasonings tea brand and our personal care brands. After recent years of slowing growth in tea, we focused on our core SKUs at Celestial Seasonings, which resulted in restarting consumption growth and producing increased shipments in this fiscal year s fourth quarter. For the full year, Celestial Seasonings sales were impacted by foreign exchange rates and a change in promotional spending to increase the use of consumer coupons, the redemption of which is recorded as a reduction of sales, as well as reductions of inventory generally in the distribution and retail industries. The recently implemented SKU rationalization is expected to better position Celestial Seasonings to build on this improvement. Our sales of our personal care brands have been impacted by weakness in the drugstore channel. We have a full complement of new products for personal care, highlighted by the introduction of our Rainforest skin and hair care products.

Sales in the United States also included $165.7 million of sales from HPP, an increase of $75.1 million from sales of $90.6 million in 2008. Approximately 80% of HPP s sales were conventional poultry, which carry lower margins. HPP intends its future product mix to emphasize antibiotic-free and kosher antibiotic-free products, which it expects will return it to profitability. As a result of the deconsolidation of Hain Pure Protein, beginning in fiscal 2010 those revenues and expenses will no longer be consolidated in our results, but will be included in our net income under the equity method of accounting.

Our international sales were $208.1 million, accounting for 18.3% of our consolidated sales. Our international sales were significantly impacted by unfavorable changes in foreign exchange rates, the discontinuation of a co-pack agreement in the United Kingdom and the phasing out of the supply of fresh sandwiches to a major United Kingdom retailer. The weakening of foreign currencies decreased reported sales by $35.6 million, or 3.0%.

GROSS PROFIT

Gross profit for the year ended June 30, 2009 was $259.0 million, a decrease of $25.3 million, or 8.9%, from last year s gross profit of $284.3 million. Gross profit in fiscal 2009 was 22.8% of net sales compared to 26.9% of net sales for 2008.

Gross profit was impacted by $8.6 million in fiscal 2009 and $6.9 million in fiscal 2008 for SKU rationalization, severance and other reorganization costs as we continued to focus on cost reduction and production efficiencies. With the implementation in this year s fourth quarter of the SKU rationalization of our Celestial Seasonings products and last year s personal care products SKU rationalization and other reorganization activities, we believe we have positioned these brands for improved profitability and growth. Gross margin was also unfavorably impacted by increased sales at HPP, coupled with an unfavorable sales mix between antibiotic-free and conventional product and severely decreased gross margins resulting from higher feed costs and lower market prices for conventional poultry. HPP s gross margins declined in the current year, resulting in a 422 basis point unfavorable impact on consolidated gross margin, and which was 287 basis points greater than HPP s dilutive effect on fiscal 2008 consolidated gross margin. We experienced an unfavorable impact related to under-absorbed overhead at our Fakenham frozen meat-free facility as a result of the expiration of a co-pack agreement with the former owner, impacting gross profit by approximately $8.2 million, or 72 basis points. In response to the weakening economic conditions, we selectively increased the rate of our spending in fiscal 2009 on consumer coupons, advertising, promotional and other discounts in some of our markets to maintain sales, which had an 84 basis point unfavorable effect on gross margin. The increases in input costs we experienced at the end of last fiscal year and into the beginning of this year have begun to ease and have been offset by favorable pricing and productivity improvements.

**Table of Contents**

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses increased by $7.5 million, or 3.6%, to $215.0 million in 2009 from $207.6 million in 2008. Selling, general and administrative expenses as a percentage of net sales improved to 18.9% in fiscal 2009 compared to 19.6% in fiscal 2008.

Selling, general and administrative expenses in fiscal 2009 include increased equity compensation costs recorded in accordance with SFAS No. 123R of approximately $5.1 million compared to fiscal 2008. We also incurred increased costs for other legal and professional services of approximately $1.2 million. Fiscal 2009 s expenses include a $1.4 million charge to settle a personal injury litigation matter. These increases were partially offset by a reduction in the costs we incurred for professional fees related to the review of our stock option practices and defense of the related derivative lawsuits of $4.4 million, including a $3.0 million insurance reimbursement received. We incurred $4.1 million of charges related to our SKU rationalization and reorganization in fiscal 2009 compared to $3.9 million of charges recorded in fiscal 2008.

IMPAIRMENT OF GOODWILL AND OTHER INTANGIBLES

We recognized non-cash impairment charges for goodwill and other intangibles of $52.6 million during the third quarter of fiscal 2009. The charges included $49.6 million for goodwill, net of $7.6 million attributed to the minority interest of our HPP joint venture, and $3.0 million for other intangibles, as described below.

In accordance with SFAS No. 142, Goodwill and Other Intangible Assets, the Company performs its annual goodwill impairment test on the first day of its fiscal fourth quarter. In addition, if and when events or circumstances change that would more likely than not reduce the fair value of any of its reporting units below its carrying value, an interim test is performed. The Company completed its annual impairment analysis during the fourth quarter of fiscal year 2008 and determined that no impairment existed as of the date of that analysis. Based upon a combination of factors including a sustained decline in the Company s market capitalization below the Company s carrying value during the fiscal quarter ended March 31, 2009, coupled with challenging macro-economic conditions, the Company concluded that sufficient indicators existed to require it to perform an interim goodwill impairment analysis at March 1, 2009. Accordingly, the Company performed an interim first step of its goodwill impairment test for each of its six reporting units. For purposes of this analysis, our estimates of fair values were based on a combination of the income approach, which estimates the fair value of each reporting unit based on the future discounted cash flows, and the market approach, which estimates the fair value of the reporting units based on comparable market prices of each such unit. The income approach requires that assumptions be made for, among others, forecasted revenues, gross profit margins, operating profit margins, working capital cash flow, perpetual growth rates and long-term discount rates, all of which require significant judgments by management. As a result of this step one analysis, the Company determined that the carrying value of its Protein and Europe reporting units exceeded their estimated fair values, indicating potential goodwill impairment existed. Having determined that the goodwill of these two reporting units was potentially impaired, the Company began performing the second step of the goodwill impairment analysis which involved calculating the implied fair value of its goodwill by allocating the estimated fair value of a reporting unit to its assets and liabilities other than goodwill (including both recognized and unrecognized intangible assets) and comparing the residual amount to the carrying value of goodwill. Accordingly, during the third quarter of fiscal 2009, the Company recognized an estimated pre-tax non-cash goodwill impairment charge of $49.6 million, net of $7.6 million attributed to the minority interest of its HPP joint venture, to write off all of the goodwill related to its Protein and Europe reporting units. During the fourth quarter of fiscal 2009, the Company finalized its goodwill impairment analysis with no further adjustment required. The non-cash charge has no impact on the Company s compliance with debt covenants, its cash flows or available liquidity.

In April 2009, the Company was informed by the exclusive customer of its fresh prepared sandwich business in the United Kingdom that the customer s purchases from the Company would be significantly reduced in phases with reductions through April 2010, after which the Company could potentially supply certain specialty food-to-go products which are currently in a test phase with this customer. In accordance with the provisions of SFAS No. 144, Accounting for the Disposal or Impairment of Long-Lived Assets, the Company performed an impairment test on the intangible asset associated with the customer relationship, which was being amortized. The projected undiscounted future cash flows related to this customer relationship were determined to be less than the carrying value, and as a result, the Company recognized a full impairment loss of $3.0 million in the third quarter of fiscal 2009.

**Table of Contents**

OPERATING INCOME (LOSS)

We had a loss from operations of $8.7 million in 2009 compared to operating income of $76.8 million in 2008. The decrease in operating income was primarily a result of the impairment charges for goodwill and other intangibles and the losses at HPP and in Europe.

INTEREST AND OTHER EXPENSES, NET

Interest and other expenses, net were $7.8 million for the year ended June 30, 2009 compared to $11.3 million for fiscal 2008.

Interest expense increased in fiscal 2009 to $14.3 million from $13.8 million in the prior year. Our interest expense was primarily related to the $150 million of 5.98% senior notes outstanding and borrowings under our revolving credit facility. The increase resulted from interest on higher average borrowings for the first three quarters of the current year, partially offset by reduced borrowings in the fourth quarter and lower interest rates on the borrowings under our revolving credit facility during the second half of the fiscal year. Interest income on invested funds decreased to $0.6 million from $1.7 million in the prior year as a result of lower interest rates and reduced available cash. We recorded approximately $0.5 million of foreign currency losses during fiscal 2009 compared to $2.3 million of foreign currency gains during fiscal 2008. The losses incurred by HPP in fiscal 2009 resulted in a minority interest credit of $7.3 million as compared to expense of $2.7 million related to the Hain Pure Protein income earned in fiscal 2008. We recognized a gain of approximately $2.0 million in the first quarter of fiscal 2008 on the sale of an equity interest in a joint venture which manufactures rice cakes in Belgium.

INCOME BEFORE INCOME TAXES

We had a loss before income taxes of $16.5 million in fiscal 2009 compared to income before taxes of $65.4 million in 2008. The decrease is primarily attributable to the impairment charges for goodwill and other intangible assets and the losses incurred at HPP and in Europe.

INCOME TAXES

The provision for income taxes includes Federal, foreign, state and local income taxes. Our income tax expense was $8.2 million in fiscal 2009 compared to $24.2 million in 2008.

The effective rate differs from statutory rates due to the effect of state and local taxes, tax rates in foreign jurisdictions and certain nondeductible expenses. Our effective tax rate will change from year to year based on factors including, but not limited to, the geographical mix of earnings, enacted tax legislation and tax audit settlements. We had a negative effective tax rate in fiscal 2009, wherein we recorded an income tax provision despite the loss before taxes as a result of a significant portion of the goodwill and intangible impairment not deductible for tax purposes. Our effective tax rate was 37.0% in 2008. Our effective tax rate in 2008 was higher than the United States statutory rate as a result of state income taxes and non-deductible expenses, partially offset by a favorable mix of the Company s income in foreign jurisdictions and a higher utilization of available foreign tax credits.

NET INCOME (LOSS)

We had a net loss of $24.7 million, or $0.61 per diluted share in fiscal 2009 compared to net income in 2008 of $41.2 million, or $0.99 per diluted share. The decrease was attributable to the factors noted above.

***Fiscal 2008 Compared to Fiscal 2007***

NET SALES

Net sales for the year ended June 30, 2008 were $1.056 billion, an increase of $155.9 million, or 17.3%, over net sales of $900.4 million for the year ended June 30, 2007.

**Table of Contents**

Net sales of our grocery brands increased 15.5% to $534.0 million, as a result of strong performance from our Earth s Best, Arrowhead Mills, Imagine Soup and Rice Dream and Spectrum brands, successful new product introductions and the inclusion of sales of the MaraNatha and SunSpire brands acquired in March 2008. Sales of our snacks brands increased 3.4% to $99.8 million, led by increased sales of our Garden of Eatin and Terra brands. Net sales of our Celestial Seasonings tea brand increased modestly to $93.1 million despite sluggish consumption and a highly competitive environment for shelf space. Net sales of our personal care brands increased almost 25% in fiscal 2008 to $117.2 million. Sales growth of our Alba and Avalon brands have accelerated since we acquired them at the beginning of the third quarter of fiscal 2007, as we have successfully expanded the distribution of these brands into additional channels.

Sales by Hain Pure Protein increased to $90.6 million, from $34.7 million in 2007, as they expanded their product offerings with the acquisition of Plainville Turkey Farms in early fiscal 2008. In March 2008, HPP significantly increased its capacity to process turkeys with the acquisition of a New Oxford, Pennsylvania processing facility.

Sales of our products in the United States increased 21.8% to $824.1 million in fiscal 2008 from $676.5 million in the prior year.

Sales of our brands in Canada increased 17.1%, as we recorded sales growth for almost all of our brands. We saw strong sales growth in our snacks, tea, soups and our Spectrum brands. Sales in Europe increased 8.5%, to $180.2 million, including sales in the fourth quarter from our newly-acquired Daily Bread brand.

GROSS PROFIT

Gross profit for the year ended June 30, 2008 was $284.3 million, an increase of $22.9 million, or 8.8%, from last year s gross profit of $261.4 million. Gross profit in fiscal 2008 was 26.9% of net sales compared to 29.0% of net sales for 2007.

The decrease in gross profit percentage resulted from a number of factors, including $6.9 million, or 70 basis points, of charges recorded in connection with our personal care SKU rationalization program. Increased sales of lower margin poultry products from the expanded Hain Pure Protein impacted our gross margin by approximately 60 basis points. Lower relative contribution from our Celestial Seasonings tea brand, approximately $7.5 million of start-up costs incurred associated with a new production line at our Fakenham, England frozen foods facility and higher ingredient and packaging costs, increasing health care costs, as well as higher energy, logistics and other transportation costs also impacted our gross profit unfavorably. We implemented price increases across all of our operating units which, together with ongoing cost savings initiatives, partially offset these cost increases.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses increased by $30.1 million, or 17.0%, to $207.6 million in 2008 from $177.5 million in 2007. Selling, general and administrative expenses as a percentage of net sales were 19.6% in fiscal 2008 as compared to 19.7% in fiscal 2007.

Selling, general and administrative expenses have increased as a result of costs brought on with the acquisitions we made in fiscal 2008 and 2007, including increased amortization expense on purchased intangibles. Selling, general and administrative expense in fiscal 2008 includes $2.1 million of equity compensation expense recorded in accordance with SFAS No. 123R. We recorded $3.9 million of charges related to our personal care SKU rationalization and reorganization activities during fiscal 2008. We also incurred $5.8 million of additional professional fees related to the review of our stock option practices and defense of the related derivative lawsuits during the year ended June 30, 2008.

OPERATING INCOME

Operating income was $76.8 million in 2008 compared to $84.0 million in 2007. Operating income as a percentage of net sales was 7.3% in 2008 compared to 9.3% in 2007. The decrease in operating income was primarily a result of the personal care SKU rationalization charges, the professional fees incurred in connection with our stock options review and litigation and the equity compensation expenses recognized.

Table of Contents

INTEREST AND OTHER EXPENSES, NET

Interest and other expenses, net were $11.3 million for the year ended June 30, 2008 compared to $6.9 million for fiscal 2007.

Interest expense in fiscal 2008 was approximately $13.8 million and was partially offset by interest income earned of $1.7 million. Interest expense totaled $11.3 million in 2007 and was partially offset by $2.5 million of interest income earned. Our interest expense was primarily related to the $150 million of 5.98% senior notes we issued in the fourth quarter of fiscal 2006 and borrowings under our revolving credit facility. We realized approximately $2.3 million of foreign currency gains during fiscal 2008. We recognized a gain of approximately $2.0 million in the first quarter of fiscal 2008 on the sale of an equity interest in a joint venture which manufactures rice cakes in Belgium. At the end of August 2006 we sold Biomarché, our Belgium-based provider of fresh organic fruits and vegetables, and recognized a gain on the disposal of approximately $3.4 million, net of a $3.3 million charge for goodwill allocated to that component of the reporting unit.

INCOME BEFORE INCOME TAXES

Income before income taxes in 2008 amounted to $65.4 million compared to $77.1 million in 2007. The decrease is attributable to the aforementioned decrease in operating income and the increase in interest and other expenses, net.

INCOME TAXES

The provision for income taxes includes Federal, foreign, state and local income taxes. Our income tax expense was $24.2 million in fiscal 2008 compared to $29.6 million in 2007. Our effective tax rate was 37.0% in 2008 compared to 38.4% in 2007.

The effective rate differs from statutory rates due to the effect of state and local taxes, tax rates in foreign jurisdictions and certain nondeductible expenses. Our effective tax rate will change from year to year based on factors including, but not limited to, the geographical mix of earnings, enacted tax legislation and tax audit settlements. Our effective tax rate in 2008 decreased as a result of the mix of the Company s income in foreign jurisdictions and a higher utilization of available foreign tax credits. Our effective tax rate in 2007 included the unfavorable impact of the $3.3 million of nondeductible goodwill expensed in connection with the sale of Biomarché.

NET INCOME

Net income in 2008 was $41.2 million, or $0.99 per diluted share, compared to $47.5 million, or $1.16 per diluted share in 2007. The decrease was 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 both long-term fixed-rate borrowings and borrowings available to us under our Credit Facility.

Our working capital was $212.6 million at June 30, 2009, a decrease of $34.1 million from $246.7 million at the end of fiscal 2008. The deconsolidation of Hain Pure Protein as of June 30, 2009 accounted for $22.4 million of the decrease. The remainder was due principally to a $4.3 million increase in accounts payable and other current liabilities, a $3.5 million decrease in other current assets and a decrease of $12.6 million in cash, offset by a $3.1 million increase in inventories and a $5.2 million increase in accounts receivable. Our cash balances decreased primarily as a result of the repayments we made during the year on the outstanding borrowings under our credit facility. The inventory increase occurred in the United States and was primarily related to higher levels of ingredient inventory carried for our Earth s Best brand. Accounts receivable increased as a result of the timing of our sales in the period. Our days sales in receivables increased to 47 days compared to 41 days in the year-ago period.

Table of Contents

Our cash balance decreased $17.1 million during the year ended June 30, 2009 to $41.4 million as of June 30, 2009. We maintain our cash and cash equivalents primarily in money market funds or their equivalent. As of June 30, 2009, all of our investments mature in less than three months. Accordingly, we do not believe that our investments have significant exposure to interest rate risk. Cash provided by (used in) operating, investing and financing activities is summarized below.

| **Years ended June 30,** | **2009** | **2008** | **2007** |
|---|---|---|---|
| Cash flows provided by (used in): | | | |
| Operating activities | $ 21,625 | $ 24,486 | $ 66,431 |
| Investing activities | 3,205 | (116,092) | (139,708) |
| Financing activities | (39,736) | 91,925 | 83,608 |
| Exchange rate changes | (2,199) | (2,324) | 1,312 |
| Net increase (decrease) in cash | ($17,105) | ($2,005) | $ 11,643 |

Net cash provided by operating activities was $21.6 million for the year ended June 30, 2009, compared to $24.5 million provided in fiscal 2008 and $66.4 million provided in fiscal 2007. The decrease in cash provided by operating activities in 2009 resulted from the decrease in our net income and other non-cash items and the increases in our operating assets.

We had cash flows from investing activities in fiscal 2009 of $3.2 million, principally as a result of $18.5 million of funds repaid to us by HPP from the proceeds of their new credit facility. This was partially offset by $13.0 million of capital expenditures made, and $1.0 million of payments made related to previous acquisitions. We used $116.1 million of cash in investing activities in fiscal 2008, principally for acquisitions and capital additions. We acquired Daily Bread Ltd., a turkey processing facility in New Oxford, Pennsylvania, nSpired Natural Foods, Inc., Tendercare International, Inc. and the assets and business of Plainville Turkey Farms during 2008, using a total of $102.2 million of cash. We used $19.8 million in cash for capital additions. These uses were partially offset by proceeds of dispositions totaling $3.0 million. We used $139.7 million of cash in investing activities in the year ended June 30, 2007. We used $137.8 million of cash in connection with the acquisitions of Avalon Natural Products, Inc. ( Avalon ) in January 2007, the assets and business of Haldane Foods in the United Kingdom in December 2006 and the tofu and meat-alternative business of WhiteWave Foods Company in June 2007, $11.4 million for capital expenditures and $1.9 million for a loan to an affiliated joint venture (subsequently repaid in August 2007). This was partially offset by $8.2 million of proceeds from the sale of Biomarché, our Belgium-based provider of fresh organic fruits and vegetables, and $3.3 million of proceeds from the disposals of fixed assets.

We used cash of $39.7 million in financing activities for the year ended June 30, 2009, principally as a result of repaying $47.2 million of outstanding borrowings under our credit facility. This was partially offset by $5.3 million of cash proceeds from stock option exercises. Net cash of $91.9 million was provided by financing activities for the year ended June 30, 2008 and $83.6 million was provided for the year ended June 30, 2007. During the previous two fiscal years, we incurred borrowings to fund acquisitions. During the year ended June 30, 2008, we borrowed $90.5 million under our Credit Facility and received proceeds of $2.4 million from the exercise of stock options. Treasury stock increased by 84,334 shares ($2.7 million) in the second quarter of fiscal 2008 as a result of stock surrendered to pay employee payroll withholding taxes in connection with stock-based compensation transactions. During fiscal 2007, we borrowed $75.0 million under our Credit Facility and received $18.4 million of proceeds from the exercise of stock options.

We have outstanding $150 million in aggregate principal amount of 10-year senior notes due May 2, 2016, issued in a private placement. The notes bear interest at 5.98%, payable semi-annually on November 2 and May 2. We also have a credit agreement which provides us with a $250 million revolving credit facility (the Credit Facility ) expiring in May 2011. The Credit Facility provides for an uncommitted $100 million accordion feature, under which the facility may be increased to $350 million. The Credit Facility and the senior notes are guaranteed by substantially all of our current and future direct and indirect domestic subsidiaries. Loans under the Credit 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, 2009, there were $108.3 million and as of June 30, 2008, there were $155.5 million of borrowings outstanding under the Credit Facility. We are required by the terms of the Credit Facility and the senior notes to comply with customary affirmative and negative covenants for facilities and notes of this nature.

**Table of Contents**

Obligations for all debt instruments, capital and operating leases and other contractual obligations as of June 30, 2009 are as follows:

| | Payments Due by Period | | | | |
|---|---|---|---|---|---|
| | Total | Less than 1 year | 1-3 years | 3-5 years | Thereafter |
| Long-term debt obligations | $ 258,330 | | $ 108,330 | | $ 150,000 |
| Capital lease obligations | 86 | $ 44 | 35 | $ 7 | |
| Operating lease obligations | 20,988 | 7,314 | 11,084 | 1,951 | 639 |
| Purchase obligations | 115,779 | 55,296 | 24,603 | 17,940 | 17,940 |
| Other long-term liabilities | 5,939 | 1,250 | 4,689 | | |
| Total contractual obligations | $ 401,122 | $ 63,904 | $ 148,741 | $ 19,898 | $ 168,579 |

We believe that our cash on hand of $41.4 million at June 30, 2009, as well as projected cash flows from operations and availability under our Credit Facility are sufficient to fund our working capital needs in the ordinary course of business, anticipated fiscal 2010 capital expenditures of approximately $15 million, and the $7.4 million of debt and lease obligations described in the table above, during the 2010 fiscal year.

**Critical Accounting Estimates**

The discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements, which are prepared in accordance with accounting principles generally accepted in the United States. Our significant accounting policies are described in Note 2 to the consolidated financial statements. The policies below have been identified as the critical accounting policies we use which require us to make estimates and assumptions and exercise judgment 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 possible that materially different amounts would be reported under different conditions or using assumptions, estimates or making judgments different from those that we have applied. 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 in recent years. While United Natural Foods, Inc. represented approximately 22% of our trade receivable balance at June 30, 2009, we believe there is no significant or unusual 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 made different judgments, historically our cash collections of this type of receivable have been within our expectations and no significant write-offs have occurred during the most recent three fiscal years.

**Table of Contents**

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 in 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 the 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.

*Accounting for Acquisitions*

Part of our growth strategy has included the acquisition of numerous businesses. The purchase price of these acquisitions has been determined after due diligence of the acquired business, market research, strategic planning, and the forecasting of expected future results and synergies. Estimated future results and expected synergies are subject to judgment as we integrate each acquisition and attempt to leverage resources.

Our acquisitions have been accounted for using the purchase method of accounting as defined under SFAS No. 141, Business Combinations. We estimated the fair values of the assets acquired in each acquisition as of the date of acquisition and these estimates are subject to adjustment. These estimates are subject to final assessments of the fair value of property, plant and equipment, intangible assets, operating leases and deferred income taxes. In determining the fair values of property, plant and equipment as well as intangible assets we often obtain the assistance of third party valuation firms. We complete these assessments as soon as practical. See Note 7 of the Notes to Consolidated Financial Statements.

In connection with some of our acquisitions, we have undertaken certain restructurings of the acquired businesses to realize efficiencies and potential cost savings. Our restructuring activities include the elimination of duplicate facilities, reductions in staffing levels, and other costs associated with exiting certain activities of the businesses we acquire. The estimated cost of these restructuring activities are included as costs of the acquisition and, as such, affect the ultimate recording of goodwill consistent with the guidance of Emerging Issues Task Force ( EITF ) Issue No. 95-3, Recognition of Liabilities in Connection with a Purchase Business Combination.

It is typical for us to rationalize the product lines of businesses acquired within the first year or two after an acquisition. These rationalizations often include elimination of portions of the product lines acquired, the reformulation of recipes and formulas used to produce the products, and the elimination of customers that do not meet our credit standards. In certain instances, it is necessary to change co-packers used to produce the products. Each of these activities soon after an acquisition may have the effect of reducing sales to a level lower than that of the business acquired and operated prior to our acquisition. As a result, pro forma information regarding sales cannot and should not be construed as representative of our growth rates.

*Stock Based Compensation*

We provide compensation benefits in the form of stock options and restricted stock to employees and non-employee directors under several stock based plans. We account for stock based awards in accordance with the provisions of SFAS No. 123(R), Share Based Payment. SFAS No. 123(R) requires that stock based compensation be measured at fair value at the date of grant and expensed in the consolidated statement of operations over the requisite service period. The fair value of stock option awards is estimated on the date of grant using the Black-Scholes option pricing model and is recognized in expense over the vesting period of the options using the straight-line method. The Black-Scholes option pricing model requires various assumptions, including the expected volatility of our stock, the expected term of the option, the risk-free interest rate and the expected dividend yield. Expected volatility is based on historical volatility of our common stock. The risk-free rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The fair value of restricted stock awards is equal to the market value of the Company s common stock on the date of grant and is recognized in expense over the vesting period using the straight-line method.

SFAS No. 123(R) also requires that we recognize compensation expense for only that portion of stock based awards that are expected to vest. We utilize historical employee termination behavior to determine our estimated forfeiture rates. If the actual forfeitures differ from those estimated by management, adjustments to compensation expense will be made in future periods.

*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 six 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 six reporting units were Grocery (including snacks); Tea; Personal Care; Protein; 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.

*Goodwill and Intangible Assets*

In accordance with SFAS No. 142, Goodwill and Other Intangible Assets, goodwill is not 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 values of goodwill, which is allocated to the Company s reporting units, and other intangible assets with indefinite useful lives are tested annually for impairment in the fourth quarter of each fiscal year, or earlier if indications of impairment exist. The impairment test requires us to estimate the fair value of our reporting units. If the carrying value of a reporting unit exceeds its fair value, the goodwill of that reporting unit is potentially impaired. At this point we proceed to a step two analysis, wherein we measure the excess, if any, of the carrying value of a reporting unit s goodwill over its implied fair value, and record the impairment loss indicated.

The estimate of the fair values of our reporting units are based on the best information available as of the date of the assessment. We generally use a blended analysis of the present value of discounted cash flows and the market valuation approach. The discounted cash flow model uses the present values of estimated future cash flows. Considerable management judgment is necessary to evaluate the impact of operating and external economic factors in estimating

Table of Contents

our future cash flows. The assumptions we use in our evaluations include projections of growth rates and profitability, our estimated working capital needs, as well as our weighted average cost of capital. The market valuation approach indicates the fair value of a reporting unit based on a comparison to comparable publicly traded firms in similar businesses. Estimates used in the market value approach include the identification of similar companies with comparable business factors. Changes in economic and operating conditions impacting the assumptions we made could result in additional goodwill impairment in future periods.

Indefinite-lived intangible assets consist primarily of acquired trade names and trademarks. The measurement of fair value for these assets is based on the relief from royalty method. This method assumes that the trade names and trademarks have value to the extent their owner is relieved from paying royalties for the benefits received. We estimate the future revenues for the associated brands, the appropriate royalty rate and the weighted average cost of capital.

**Recent Accounting Pronouncements**

See Note 2 of the Notes to Consolidated Financial Statements for information regarding recently issued accounting pronouncements.

**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:

- our ability to achieve our guidance for sales and earnings per share in fiscal year 2010 given the recession in the U.S. and other markets that we sell products as well as economic and business conditions generally and their effect on our customers and consumers product preferences, and our business, financial condition and results of operations;
- changes in estimates or judgments related to our impairment analysis of goodwill and other intangible assets;
- our ability to implement our business and acquisition strategy, including our strategy for improving results in Europe;
- our ability to realize sustainable growth generally and from investments in core brands, offering new products and our focus on containment, productivity, cash flow and margin enhancement in particular;
- our ability to effectively integrate our acquisitions;
- competition;
- the success and cost of introducing new products as well as our ability to increase prices on existing products;
- availability and retention of key personnel;
- our reliance on third party distributors, manufacturers and suppliers;

our ability to maintain existing contracts and secure and integrate new customers;

our ability to respond to changes and trends in customer and consumer demand, preferences and consumption;

international sales and operations;

changes in fuel and commodity costs;

the continuing adverse effects on our results of operations from the impacts of foreign exchange;

the resolution of the SEC inquiry and litigation regarding our stock option practices;

changes in, or the failure to comply with, government regulations; and

the other risk factors described in Item 1A above.

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.

**Supplementary Quarterly Financial Data:**

Unaudited quarterly financial data (in thousands, except per share amounts) for fiscal 2009 and 2008 is summarized as follows:

| | Three Months Ended | | | |
|---|---|---|---|---|
| | September 30, 2008 | December 31, 2008 | March 31, 2009 | June 30, 2009 |
| Net sales | $ 289,317 | $ 315,561 | $ 267,723 | $ 262,705 |
| Gross profit (a) | 71,366 | 73,723 | 62,790 | 51,083 |
| Operating income (loss) (b) | 14,896 | 19,511 | (39,731) | (3,352) |
| Income (loss) before income taxes (a) (b) | 11,327 | 13,227 | (40,803) | (269) |
| Net income (loss) (a) (b) | 7,022 | 8,140 | (41,150) | 1,265 |
| Basic income (loss) per common share (a) (b) | $ 0.17 | $ 0.20 | $ (1.01) | $ 0.03 |
| Diluted income (loss) per common share (a) (b) | $ 0.17 | $ 0.20 | $ (1.01) | $ 0.03 |

| | Three Months Ended | | | |
|---|---|---|---|---|
| | September 30, 2007 | December 31, 2007 | March 31, 2008 | June 30, 2008 |
| Net sales | $ 237,245 | $ 276,233 | $ 264,632 | $ 278,261 |
| Gross profit (c) | 68,851 | 79,144 | 68,722 | 67,592 |
| Operating income (d) | 18,305 | 29,262 | 17,431 | 11,758 |
| Income before income taxes (c) (d) (e) | 17,346 | 24,950 | 13,903 | 9,246 |
| Net income (c) (d) (e) | 10,820 | 15,582 | 8,315 | 6,504 |
| Basic earnings per common share (c) (d) (e) | $ 0.27 | $ 0.39 | $ 0.21 | $ 0.16 |
| Diluted earnings per common share (c) (d) (e) | $ 0.26 | $ 0.37 | $ 0.20 | $ 0.16 |

(a) Gross profit was negatively impacted by approximately $2.5 million ($1.7 million net of tax) for the three months ended September 30, 2008, $2.6 million ($2.0 million net of tax) for the three months ended December 31, 2008, $1.5 million ($1.1 million net of tax) for the three months ended March 31, 2009 and $1.5 million ($1.1 million net of tax) for the three months ended June 30, 2009 as a result of unabsorbed overhead costs resulting from the loss of a co-pack contract at our Fakenham, UK frozen foods factory. Gross profit was also negatively impacted by approximately $1.0 million ($0.6 million net of tax) for the three months ended March 31, 2009 and $7.1 million ($4.5 million net of tax) for the three months ended June 30, 2009 as a result of SKU rationalization and reorganization actions.

(b) Operating income was also impacted by approximately $1.8 million ($1.1 million net of tax) for the three months ended September 30, 2008, $2.0 million ($1.3 million net of tax) for the three months ended December 31, 2008 and $(2.3) million ($(1.4) million net of tax) for the three months ended March 31, 2009 as a result of expenses incurred in connection with the review of the Company s stock option practices and defense of the related derivative lawsuits and $1.5 million ($0.9 million net of tax) for the three months ended September 30, 2008, $1.5 million ($1.0 million net of tax) for the three months ended December 31, 2008, $1.6 million ($1.0 million net of tax) for the three months ended March 31, 2009 and $2.8 million ($1.8 million net of tax) for the three months ended June 30, 2009 for stock compensation related expenses. Operating income was negatively impacted by approximately $1.9 million ($1.2 million net of tax) for the three months ended March 31, 2009 and $0.7 million ($0.5 million net of tax) for the three months ended June 30, 2009 as a result of SKU rationalization and reorganization actions.

(c) Gross profit was negatively impacted by approximately $1.1 million ($0.7 million net of tax) for the three months ended September 30, 2007, $2.1 million ($1.3 million net of tax) for the three months ended December 31, 2007, $1.8 million ($1.1 million net of tax) for the three months ended March 31, 2008 and $2.5 million ($2.3 million net of tax) for the three months ended June 30, 2008 as a result of start-up and integration costs at our Fakenham, UK frozen foods factory. Gross profit was also negatively impacted by approximately $6.0 million ($3.7 million net of tax) for the three months ended March 31, 2008 and $0.9 million ($0.6 million net of tax) for the three months ended June 30, 2008 as a result of personal care SKU rationalization and reorganization actions.

(d) Operating income was also negatively impacted by approximately $2.3 million ($1.4 million net of tax) for the three months ended September 30, 2007, $1.7 million ($1.1 million net of tax) for the three months ended December 31, 2007, $0.7 million ($0.4 million net of tax) for the three months ended March 31, 2008 and $1.1 million ($0.6 million net of tax) for the three months ended June 30, 2008 as a result of expenses incurred in connection with the review of the Company s stock option practices and defense of the related derivative lawsuits and $0.4 million ($0.3 million net of tax) for the three months ended September 30, 2007, $(0.1) million ($(0.1) million net of tax) for the three months ended December 31, 2007, $(0.5) million ($(0.3) million net of tax) for the three months ended March 31, 2008 and $2.3 million ($2.9 million net of tax) for the three months ended June 30, 2008 for stock compensation related expenses. Operating income was negatively impacted by approximately $2.5 million ($1.5 million net of tax) for the three months ended March 31, 2008 and $1.4 million ($0.8 million net of tax) for the three months ended June 30, 2008 as a result of personal care SKU rationalization and reorganization actions.

(e) Income before income taxes includes a gain of $2.0 million ($1.2 million net of tax) in the three months ended September 30, 2007 on the disposal of the Company s investment in a rice cake manufacturing joint venture.

**Seasonality**

Our tea brand primarily 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 and certain of our prepared food product lines are stronger in the warmer months. In years where there are warm winter seasons, our sales of cooler weather products, which typically increase in our second and third fiscal quarters, may be negatively impacted.

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.

**Off-Balance Sheet Arrangements**

At June 30, 2009, we did not have any off-balance sheet arrangements as defined in item 303(a)(4) of Regulation S-K that have had or are likely to have a material current or future effect on our consolidated financial statements.

**Impact of Inflation**

Inflation has caused increased ingredient, fuel, labor and benefits costs and in some cases has materially increased our operating expenses. For more information regarding ingredient costs, see Item 7A., Quantitative and Qualitative Disclosures About Market Risk Ingredient Inputs Price Risk. To the extent permitted by competition, we seek to recover increased costs through a combination of price increases, new product innovation and by implementing process efficiencies and cost reductions.

Table of Contents

**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,
- foreign exchange rates, generating translation and transaction gains and losses, and
- ingredient inputs.

**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. As of June 30, 2009, we had $108.3 million of variable rate debt outstanding. Assuming current cash equivalents and variable rate borrowings, a hypothetical change in average interest rates of one percentage point would not have a material effect on our financial position, results of operations or cash flows over the next fiscal year.

**Foreign Currency Exchange Rates**

Operating in international markets involves exposure to movements in currency exchange rates, which are volatile at times, and the impact of such movements, if material, could cause adjustments to our financing and operating strategies.

During fiscal 2009, approximately 18.3% of our net sales were generated from sales outside the United States, while such sales outside the United States were 22.0% of net sales in 2008 and 24.9% of net sales in 2007. These revenues, along with related expenses and capital purchases are conducted in British Pounds Sterling, Euros and Canadian Dollars.

In June 2009, we entered into forward contracts for the purpose of reducing the effect of exchange rate changes on forecasted intercompany purchases by our Canadian subsidiary, which we have designated as cash flow hedges. We had approximately $13.5 million in notional amounts of forward contracts at June 30, 2009. See Note 17 of the Notes to Consolidated Financial Statements.

Fluctuations in currency exchange rates may also impact the Stockholders Equity of the Company. Amounts invested in our non-U.S. subsidiaries are translated into U.S. dollars at the exchange rates in effect at fiscal year-end. Any resulting cumulative translation adjustments are recorded in Stockholders Equity as Accumulated Other Comprehensive Income. The cumulative translation adjustments component of Accumulated Other Comprehensive Income decreased $29.9 million during the fiscal year ended June 30, 2009.

**Ingredient Inputs Price Risk**

The Company purchases ingredient inputs such as wheat, corn, soybeans, canola oil and fruit as well as packaging materials, to be used in its operations. These inputs are subject to price fluctuations that may create price risk. We do not attempt to hedge against fluctuations in the prices of the ingredients by using future, forward, option or other derivative instruments. As a result, the majority of our future purchases of these items are subject to changes in price. We may enter into fixed purchase commitments in an attempt to secure an adequate supply of specific

**Table of Contents**

ingredients. These agreements are tied to specific market prices. Market risk is estimated as a hypothetical 10% increase or decrease in the weighted-average cost of our primary inputs as of June 30, 2009. Based on our cost of goods sold during the twelve months ended June 30, 2009, such a change would have resulted in an increase or decrease to cost of sales of approximately $44 million. We attempt to offset the impact of input cost increases with a combination of cost savings initiatives and efficiencies and price increases to our customers.

**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:



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



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.

Table of Contents

**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, 2009 and 2008, and the related consolidated statements of income, stockholders equity, and cash flows for each of the three years in the period ended June 30, 2009. 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, 2009 and 2008, and the consolidated results of their operations and their cash flows for each of the three years in the period ended June 30, 2009, 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.

As described in Note 6 to the consolidated financial statements, during the fourth quarter of 2007, the Company adopted Securities and Exchange Commission Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in the Current Year Financial Statements* ( SAB No. 108 ). In accordance with the transition provisions of SAB No. 108, the Company recorded an adjustment to retained earnings effective July 1, 2006 for the correction of prior period misstatements.

As described in Note 2 to the consolidated financial statements, during the first quarter of 2008, the Company adopted Financial Accounting Standards Board Financial Interpretation No. 48, Accounting for Uncertainty in Income Taxes ( FIN No. 48 ). In accordance with the provisions of FIN No. 48, the Company recorded an adjustment to retained earnings effective July 1, 2007.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), The Hain Celestial Group, Inc. s internal control over financial reporting as of June 30, 2009, 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, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Melville, New York

August 31, 2009

**Table of Contents**

THE HAIN CELESTIAL GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

JUNE 30, 2009 and 2008

(In thousands, except share amounts)

| | June 30 2009 | June 30 2008 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 41,408 | $ 58,513 |
| Accounts receivable, less allowance for doubtful accounts of $1,175 and $2,068 | 114,506 | 118,867 |
| Inventories | 158,590 | 175,667 |
| Deferred income taxes | 13,028 | 12,512 |
| Prepaid expenses and other current assets | 21,599 | 27,482 |
| Total current assets | 349,131 | 393,041 |
| Property, plant and equipment, net of accumulated depreciation and amortization of $84,306 and $79,743 | 102,135 | 159,089 |
| Goodwill | 456,459 | 550,238 |
| Trademarks and other intangible assets, net of accumulated amortization of $18,410 and $12,913 | 149,196 | 136,861 |
| Investment in and advances to affiliate | 49,061 | |
| Other assets | 17,514 | 20,155 |
| Total assets | $ 1,123,496 | $ 1,259,384 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Accounts payable | $ 95,999 | $ 94,864 |
| Accrued expenses and other current liabilities | 38,619 | 50,322 |
| Income taxes payable | 1,877 | 907 |
| Current portion of long-term debt | 44 | 222 |
| Total current liabilities | 136,539 | 146,315 |
| Long-term debt, less current portion | 258,372 | 308,220 |
| Deferred income taxes | 24,615 | 26,524 |
| Other noncurrent liabilities | 2,647 | 5,012 |
| Total liabilities | 422,173 | 486,071 |
| Commitments and contingencies | | |
| Minority interest | | 30,502 |
| 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 41,699,509 and 41,106,078 shares | 417 | 411 |
| Additional paid-in capital | 503,161 | 488,650 |
| Retained earnings | 212,285 | 237,008 |
| Accumulated other comprehensive income | 1,769 | 32,215 |
| | 717,632 | 758,284 |
| Less: 1,001,898 and 945,590 shares of treasury stock, at cost | (16,309) | (15,473) |
| Total stockholders equity | 701,323 | 742,811 |

| | | |
|---|---|---|
| Total liabilities and stockholders equity | $ 1,123,496 | $ 1,259,384 |

See notes to consolidated financial statements.

**Table of Contents**

THE HAIN CELESTIAL GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

YEARS ENDED JUNE 30, 2009, 2008 and 2007

(In thousands, except per share amounts)

| | Year Ended June 30 | | |
|---|---|---|---|
| | **2009** | **2008** | **2007** |
| Net sales | $ 1,135,306 | $ 1,056,371 | $ 900,432 |
| Cost of sales | 876,344 | 772,062 | 639,002 |
| Gross profit | 258,962 | 284,309 | 261,430 |
| Selling, general and administrative expenses | 215,008 | 207,553 | 177,453 |
| Impairment of goodwill and other intangibles | 52,630 | | |
| Operating income (loss) | (8,676) | 76,756 | 83,977 |
| Interest and other expenses, net | 7,842 | 11,311 | 6,885 |
| Income (loss) before income taxes | (16,518) | 65,445 | 77,092 |
| Provision for income taxes | 8,205 | 24,224 | 29,610 |
| Net income (loss) | $ (24,723) | $ 41,221 | $ 47,482 |
| Net income (loss) per share: | | | |
| Basic | $ (0.61) | $ 1.03 | $ 1.21 |
| Diluted | $ (0.61) | $ 0.99 | $ 1.16 |
| Weighted average common shares outstanding: | | | |
| Basic | 40,483 | 40,077 | 39,315 |
| Diluted | 40,483 | 41,765 | 41,108 |

See notes to consolidated financial statements.

**Table of Contents**

THE HAIN CELESTIAL GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

YEARS ENDED JUNE 30, 2009, 2008 and 2007

(In thousands, except per share and share data)

| | Common Stock | | Additional | |
|---|---|---|---|---|
| | Shares | Amount at $.01 | Paid-In Capital | Retained Earnings |
| Balance at June 30, 2006 | 39,583,671 | $ 396 | $ 459,712 | $ 153,332 |
| Cumulative effect of adjustments from the adoption of SAB No. 108, net of taxes | | | | (5,156) |
| Adjusted balance at June 30, 2006 | 39,583,671 | 396 | 459,712 | 148,176 |
| Exercise of stock options | 1,102,518 | 11 | 18,396 | |
| Issuance of common stock | 196,464 | 2 | 5,607 | |
| Non-cash compensation charge | | | 1,031 | |
| Tax benefit from stock options | | | 3,004 | |
| Net income | | | | 47,482 |
| Translation adjustments | | | | |
| Balance at June 30, 2007 | 40,882,653 | 409 | 487,750 | 195,658 |
| Adoption of FIN No. 48 | | | | 129 |
| Exercise of stock options | 223,425 | 2 | 2,414 | |
| Non-cash compensation charge | | | (1,871) | |
| Tax benefit from stock options | | | 357 | |
| Shares withheld for payment of employee payroll taxes due on shares issued under stock-based compensation plans | | | | |
| Net income | | | | 41,221 |
| Translation adjustments | | | | |
| Balance at June 30, 2008 | 41,106,078 | 411 | 488,650 | 237,008 |
| Issuance of common stock pursuant to stock compensation plans | 467,795 | 5 | 5,278 | |
| Non-cash compensation charge | | | 7,211 | |
| Tax benefit from stock options | | | 223 | |
| Shares withheld for payment of employee payroll taxes due on shares issued under stock-based compensation plans | | | | |
| Issuance of common stock in connection with license agreement | 125,636 | 1 | 1,799 | |
| Net loss | | | | (24,723) |
| Translation adjustments | | | | |
| Deferred gains on cash flow hedging instruments, net of tax | | | | |
| Unrealized loss on available for sale investment, net of tax | | | | |
| Balance at June 30, 2009 | 41,699,509 | $ 417 | $ 503,161 | $ 212,285 |

See notes to consolidated financial statements.

Table of Contents

| | Treasury Stock | | Accumulated Other Comprehensive | |
|---|---|---|---|---|
| | Shares | Amount | Income | Total |
| Balance at June 30, 2006 | 861,256 | $ (12,745) | $ 17,397 | $ 618,092 |
| Cumulative effect of adjustments from the adoption of SAB No. 108, net of taxes | | | | (5,156) |
| Adjusted balance at June 30, 2006 | 861,256 | (12,745) | 17,397 | 612,936 |
| Exercise of stock options | | | | 18,407 |
| Issuance of common stock | | | | 5,609 |
| Non-cash compensation charge | | | | 1,031 |
| Tax benefit from stock options | | | | 3,004 |
| Net income | | | | 47,482 |
| Translation adjustments | | | 8,487 | 8,487 |
| Balance at June 30, 2007 | 861,256 | (12,745) | 25,884 | 696,956 |
| Adoption of FIN No. 48 | | | | 129 |
| Exercise of stock options | | | | 2,416 |
| Non-cash compensation charge | | | | (1,871) |
| Tax benefit from stock options | | | | 357 |
| Shares withheld for payment of employee payroll taxes due on shares issued under stock-based compensation plans | 84,334 | (2,728) | | (2,728) |
| Net income | | | | 41,221 |
| Translation adjustments | | | 6,331 | 6,331 |
| Balance at June 30, 2008 | 945,590 | (15,473) | 32,215 | 742,811 |
| Issuance of common stock pursuant to stock compensation plans | | | | 5,283 |
| Non-cash compensation charge | | | | 7,211 |
| Tax benefit from stock options | | | | 223 |
| Shares withheld for payment of employee payroll taxes due on shares issued under stock-based compensation plans | 56,308 | (836) | | (836) |
| Issuance of common stock in connection with license agreement | | | | 1,800 |
| Net loss | | | | (24,723) |
| Translation adjustments | | | (29,902) | (29,902) |
| Deferred gains on cash flow hedging instruments, net of tax | | | 201 | 201 |
| Unrealized loss on available for sale investment, net of tax | | | (745) | (745) |
| Balance at June 30, 2009 | 1,001,898 | $ (16,309) | $ 1,769 | $ 701,323 |

See notes to consolidated financial statements.

**Table of Contents**

THE HAIN CELESTIAL GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2009, 2008 and 2007

(In thousands)

| | Year Ended June 30 | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net income (loss) | $ (24,723) | $ 41,221 | $ 47,482 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | | |
| Depreciation and amortization | 21,354 | 19,980 | 15,692 |
| Impairment of goodwill and other intangibles | 52,630 | | |
| Gain on dispositions | 804 | (2,003) | (3,401) |
| Deferred income taxes | (2,599) | 3,496 | 10,877 |
| Tax benefit of nonqualified stock options | 223 | 357 | 3,140 |
| Minority interest in earnings of subsidiary | (7,303) | 2,692 | 887 |
| Non-cash compensation | 7,211 | (1,871) | 1,031 |
| Other non-cash items, net | (101) | (415) | 280 |
| Increase (decrease) in cash attributable to changes in operating assets and liabilities, net of amounts applicable to acquired brands: | | | |
| Accounts receivable | (7,889) | (13,326) | (9,365) |
| Inventories | (26,623) | (31,335) | (9,793) |
| Other current assets | 1,769 | (5,766) | 4,984 |
| Other assets | (4,692) | (3,167) | (2,702) |
| Accounts payable and accrued expenses | 11,668 | 12,942 | 9,014 |
| Income taxes, net | (104) | 1,681 | (1,695) |
| Net cash provided by operating activities | 21,625 | 24,486 | 66,431 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Acquisitions of brands, net of cash acquired | (1,024) | (102,206) | (137,849) |
| Proceeds from dispositions | | 3,031 | 8,160 |
| Purchases of property and equipment | (12,990) | (19,811) | (11,411) |
| Proceeds from disposals of property and equipment | 952 | 869 | 3,303 |
| (Loan to) repayment from affiliate | 18,500 | 2,025 | (1,911) |
| Deconsolidation of subsidiary | (2,233) | | |
| Net cash provided by (used in) investing activities | 3,205 | (116,092) | (139,708) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds (payments) from bank revolving credit facility, net | (47,170) | 90,500 | 65,000 |
| Repayments of other long-term debt, net | (34) | (631) | (907) |
| Costs in connection with bank financing | | | (28) |
| Shares withheld for payment of employee payroll taxes | (836) | (2,728) | |
| Investments by and advances from minority shareholder in joint venture | 2,906 | 2,368 | |
| Proceeds from exercise of stock options, net of related expenses | 5,281 | 2,416 | 18,407 |
| Excess tax benefits from share-based compensation | 117 | | 1,136 |
| Net cash provided by (used in) financing activities | (39,736) | 91,925 | 83,608 |