THE HAIN CELESTIAL GROUP, INC. • ANNUAL REPORT 2004


THE HAIN CELESTIAL GROUP

# A HEALTHY WAY OF LIFE™

# Our Promise of Quality

For over a decade, The Hain Celestial Group has been committed to promoting health and well-being through marketing brands that meet the growing consumer demand for better beverages, foods and snacks. This year, in response to consumer demand for natural personal care products, we added Jason to our family of companies. We rounded out our platform of frozen foods with **Rosetto**® frozen pasta and **Ethnic Gourmet**® natural frozen meals for our domestic market, and acquired **Natumi**®, a producer of soy milk and other soy-based products, to expand our international market.

Consumers today seek products that are better for their health, better tasting, better quality and better suited to their lifestyles. As one of the leading natural and organic beverage, snack, specialty food and personal care products companies in North America and Europe, we continue to anticipate and satisfy consumer demand by fulfilling our mission to be at the forefront of new product development. Our brands and products encompass natural, organic and specialty food and personal care categories sold in supermarkets, natural food stores, club stores, mass retailers, drug stores, convenience stores and foodservice outlets.

## Wholesome Taste and Texture

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

## Affordable Organics

We continue to invest in research and development efforts to bring exciting and timely new products to market. We use the latest advancements in food and nutrition technology and bio-vegetal science to ensure that we maintain category leadership through innovation. Because natural and organic foods and personal care products are often more expensive than those made with artificial ingredients, we constantly pursue new product innovations that encourage loyalty and repeat purchases by delivering to consumers products that meet our standards for quality, flavor and health, yet remain affordable.

Our goal is to build on the success of our brands to satisfy demand for more healthful beverages, foods, snacks and personal care items, here and around the globe—delivering value to our consumers as well as our shareholders, in the best interest of all our constituents.

# Our Company

The Hain Celestial Group, headquartered in Melville, NY, is a leading natural and organic beverage, snack, specialty food and personal care products company in North America and Europe. Hain Celestial is a leader in almost all natural food categories—Beverages, Specialty Tea, Snacks, Grocery, Frozen Foods—and the natural Personal Care category with well-known brands that include: **Celestial Seasonings®**, **Terra Chips®**, **Garden of Eatin'®**, **Health Valley®**, **WestSoy®**, **Earth's Best®**, **Arrowhead Mills®**, **Hain Pure Foods®**, **Breadshop's®**, **Casbah®**, **Carb Fit™**, **DeBoles®**, **Nile Spice®**, **Westbrae Natural®**, **Rice Dream®**, **Imagine®**, **Soy Dream®**, **Walnut Acres Certified Organic®**, **Rosetto®**, **Ethnic Gourmet®**, **Yves Veggie Cuisine®**, **The Good Dog®**, and in Europe, **Lima®**, **Biomarché®**, **Grains Noirs®**, **Natumi®** and **Milkfree®**. The Company's principal specialty product lines include **Hollywood®** cooking oils, **Estee®** sugar-free products, **Kineret®** kosher foods, **Boston Better Snacks™** and **Alba Foods®**. The Company's personal care products lines consist primarily of **JASON®** pure, natural and organic products. Hain Celestial's corporate website is www.hain-celestial.com. The Hain Celestial Group, Inc. common stock trades on the NASDAQ® National Market under the symbol HAIN.

# Financial Highlights

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

| | **Years Ended June 30** | | |
|---|---|---|---|
| (dollars in thousands, except per share amounts) | **2004** | **2003** | **2002** |
| Net sales | $544,058 | $466,459 | $395,954 |
| Operating income | 45,878 | 46,159 | 7,264 |
| Net income | 27,008 | 27,492 | 2,971 |
| Net income per share — diluted | $0.74 | $0.79 | $0.09 |
| Capital expenditures | $9,918 | $9,157 | $21,341 |
| Depreciation and amortization | 9,763 | 8,619 | 8,359 |
| Property, plant and equipment, net | 87,002 | 68,665 | 69,774 |
| Working capital | $129,949 | $83,324 | $70,942 |
| Long-term debt | 104,294 | 59,455 | 10,293 |
| Shareholders' equity | 496,765 | 440,797 | 403,848 |
| Average shares outstanding — diluted | 36,308 | 34,722 | 34,744 |
| Current ratio | 2.90 | 2.26 | 2.27 |
| Debt/equity | 21.0% | 13.5% | 2.5% |
| Shareholders' equity per share — end of year | $13.65 | $12.89 | $11.96 |

# My Fellow Shareholders:

Many years ago we made it Our Mission "to be the leading natural/organic and specialty food company, with an integrated portfolio of better-for-you natural, organic and medical diet products that meet consumer demand for convenient, innovative products that taste good." We were **Changing the Way the World Eats**.

We now know that natural and organic standards deliver benefits that go far beyond food to improve the quality of many of the products you use every day, including personal care items. We've revisited our goals as a company and today strive to provide more than just healthier foods—our goal today is to provide **A Healthy Way of Life™**. Our Mission is to be the leading manufacturer, marketer and seller of natural and organic beverages, snacks, specialty foods and personal care products by anticipating and exceeding consumer expectations in providing quality, innovation, value and convenience.

Our business strategy is to integrate all of our brands under one management team and employ a uniform marketing, sales and distribution program. We capitalize on our brand equity and the distribution achieved through each of our acquired businesses with strategic introductions of new products that complement existing lines to enhance revenues and margins. Our recent acquisition of Jason—a manufacturer of natural and organic personal care products—takes us one step further in spreading the message about the benefits of pure ingredients.

The market for natural and organic foods and beverages in the United States is expected to reach $28 billion by 2006, with the combination of Europe and the United States expected to reach $46.7 billion by 2007. The rising obesity rates across all demographics are expected to result in a revision of The Food Guide Pyramid in 2005 to support the consumption of healthy foods. Many Hain Celestial products have always been whole grain-based, certified organic, low in fat and naturally sweetened, with no *trans* fat or cholesterol and completely free from artificial colors, flavors, and preservatives and genetically engineered ingredients.

As our employees, investors and other constituents know, the key to our success is to enhance mainstream products for mass appeal—naturally and organically—with improved products and packaging. We look at trends and make better, all-natural and organic versions of what consumers desire in markets today.

**Financial Overview.** In a challenging year, our revenues grew 17% to $544.1 million from $466.5 million through internal growth and acquisitions. We faced the challenges of increased costs of raw materials, fuel and freight, and weathered production issues at a major co-packer for our soup business and a prolonged grocery strike in Southern California. These events resulted in a decline in our net income to $27.0 million, or $0.74 per share, from $27.5 million, or $0.79 per share, while diluted shares increased by approximately 1.6 million shares this year. Our cash flow from operations remained strong at $30.8 million. We ended the year with $27.5 million in cash and an increased $300 million credit facility, of which $99.2 million had been borrowed as of June 30, 2004.

Our sales growth came from our Snacks brands, Earth's Best® baby foods and Celestial Seasonings® teas as well as the launch of Carb Fit™ products. Sales also benefited from the integration of Imagine® Foods and Walnut Acres Certified Organic® brands and to a lesser extent, the newly acquired Natumi®, Rosetto®, Ethnic Gourmet® and JASON® brands. Our increase in expenses was attributable to higher costs of consumer and trade spending, regulatory requirements and personnel.

**New Products.** This year, *Stagnito's New Products Magazine* acknowledged Hain Celestial as the *Innovator of the Year* for our new product strategies. In Specialty Tea, we expanded our red, white, green, herb and dessert tea lines with delectable new flavors. In Snacks, Terra® Kettle Blends krinkle cut potato chips broadened our snacks offerings with three crispy and delicious flavors. In Grocery, we introduced Health Valley® functional medley cereals HeartWise™, BoneWise™, Empower™ and Slender™. Rosetto® pasta and Ethnic Gourmet® entrées, pizzas and wraps expanded our platform of convenient frozen foods. The Prima Veggie line from Yves Veggie Cuisine® was specifically formulated for health-conscious consumers seeking meat alternatives. Natumi® expanded our soy, rice and oat vegetable milk products for Non-Dairy in Europe. JASON established our presence with natural and organic personal care products for skin, body, oral and hair care. We utilized our core competencies to develop a line of low-carb products under the Carb Fit™ brand to meet consumer demand.

**Distribution Channels.** We have extended our distribution channels, domestically and internationally, beyond Health Food and Supermarket into Mass, Drug, Convenience, Foodservice, and Club Store. In the Foodservice market, McDonald's® Corporation has expanded the distribution of its McVeggie Burger®, co-branded with Yves, into selected stores in New York City. SYSCO® Corporation's MoonRose® brand now includes meat alternatives produced by Yves in its product offerings. Our travel and leisure business has taken flight with JetBlue Airways, which named Terra Blues® its official chip, as well as with Song, Delta Airlines' low-fare carrier, which enhanced its organic food buy-on-board offerings on all flights with the addition of Earth's Best Organic Applesauce. Ted, United Airlines' low-fare carrier, is now featuring Terra Exotic Vegetable Chips® and Garden of Eatin'® Blue Chips tortilla chips.

**Integration**. We integrated last year's acquisitions, which contributed to sales and earnings this year. Non-Dairy added Imagine Foods' Rice Dream® and Imagine aseptic shelf-stable soups, which expanded this year into broths and cooking stocks. Walnut Acres Certified Organic brand established the juice category for us and our Mountain Sun® Pure Cranberry juice outpaced category growth.

**Acquisitions.** We acquired three businesses this year: Natumi, which increased our production capabilities for Non-Dairy in Europe; Rosetto and Ethnic Gourmet, which broadened the Frozen Food platform for convenience foods; and Jason, which created an entry for us into the fast-growing Personal Care category.

**Management.** Seasoned industry professionals from Grocery and Frozen Food brands, John Carroll and Matt Cooper, joined us, broadening our base of talent in these areas, and we repositioned several managers in areas of strategic focus and growth opportunities for Hain Celestial in the coming years.

**New Credit Facility.** We renewed our credit facility and increased our borrowing capability, improving the terms and duration of the agreement. This agreement supplements our strong balance sheet and provides increased flexibility for future growth and acquisitions.

**Corporate Governance**. Our reputational capital, an intangible asset, is as valuable to us as our tangible assets, and we implemented several changes to our corporate governance this year. We are pleased to have added four new individuals to our Board of Directors—Barry J. Alperin and Lewis D. Schiliro, as well as Mitchell A. Ring and D. Edward I. Smyth, as representatives of H.J. Heinz Company—all of whom bring diverse backgrounds and valuable contributions to our Company. Through the Audit, Compensation, and Nominating and Governance Committees, the Board of Directors is intimately involved with the governance of our business activities. We also implemented a Code of Business Conduct and Ethics applicable to every director, officer and employee and formalized our existing corporate business practices, including Investor Relations, where Mary Anthes joined us to demonstrate our increased commitment to shareholder communication and corporate citizenship.

**Social Responsibility.** For many years the Company and its employees, directly and through our brands, have contributed to various not-for-profit organizations with our time and resources, through monetary and product contributions and informational brochures on health and well-being. This year we published our Policy on the Use of Genetically Engineered Ingredients, which explains our goal to detect and avoid the use of these ingredients in our products. All our products are labeled in compliance with the governing regulations of the country of origin and import as well as the United States Department of Agriculture and the Food and Drug Administration health claims and regulations.

> *"We strive to provide more than just healthier foods—our goal is to provide* ***A Healthy Way of Life.****"*

**Looking Ahead.** We have implemented a review of our practices and processes to drive profitable growth in all core categories. Margin enhancement has become our new way of life. Key initiatives for cost savings include production and turnkey operations, transportation and product rationalization. Although our price increase at the beginning of the fiscal year has offset the recent increased costs of commodities, we strive for cost efficiencies with escalating fuel and health care costs, costs associated with Sarbanes-Oxley and regulatory mandates, and other unknown variables that could impact our business.

**In Appreciation.** As in the past, we appreciate the support of our varied constituents, who make the success of The Hain Celestial Group possible. My thanks to our 1,500 employees worldwide, our Board of Directors and other advisors, our suppliers and distributors, the investment community, our shareholders and, of course, our consumers—all of whom share our vision of a natural and organic company making products that are healthier and contribute to general well-being. Through our collective efforts at The Hain Celestial Group, **A Healthy Way of Life** has, and will continue to have, a positive impact on people while creating value for all our stakeholders.

Wishing you a good year and A Healthy Way of Life,

Irwin D. Simon
Chairman, President and Chief Executive Officer

# Tea

For almost 35 years, Celestial Seasonings has been one of the most successful tea companies in the world with flavorful blends and attractive, colorful and thought-provoking packaging. Our full line of products fulfills the taste trends and wellness needs of our consumers and includes over 80 flavors of green, black, white and herb teas, as well as **TeaHouse™ Chais** and **Lattes**, **Natural Ciders**, **Cool Brew Iced Teas** and **Zingerade™**, refrigerated beverages combining herb tea, fruit juice and lemonade.

Despite increasingly aggressive competition, Celestial Seasonings continues to lead the growing Specialty Tea category in North America, including holding the #1 share in herb and green teas. In addition, Celestial Seasonings showed the largest share growth in black teas, and maintains the #1 share in almost every distribution channel and product segment in which we compete. We continue to expand into international markets and our products are now sold in more than 60 countries.

This year, our brand growth was driven by new tea and beverage products, channel expansion and product revitalizations. We also debuted a dual-panel package across several product lines, allowing the retailer to display the product either horizontally or vertically while retaining all of the whimsy, art and imagination consumers have come to appreciate from Celestial Seasonings.

> *"Our full line of products fulfills the taste trends and wellness needs of our consumers and includes over 80 flavors of green, black, white and herb teas."*


# Bagged Teas

Our strong commitment to innovation continues with the expansion of leading-edge red, white, dessert and chai products as well as new offerings in the core herb, green, black and wellness lines. These successful product introductions capitalized on the convergence of two major trends: growing consumer awareness of the health benefits of tea and increasing interest in new and unique varieties and flavors.

White tea has received significant media attention and with good reason—recent studies show that white tea contains the highest level of antioxidants of any tea. To deliver these healthful benefits to consumers, we followed up last year's successful White Tea launch with new items: **Decaf China Pearl**™ and **Imperial White Peach**™.

Rooibos (red tea)—a caffeine-free, antioxidant-rich herb from South Africa—continues to drive substantial growth in the Specialty Tea category. Celestial Seasonings is poised to capture a substantial part of this segment with two unique and flavorful new items: **Moroccan Pomegranate Red** and **Red Safari Spice**™.

A major factor at retail in terms of size and growth, chai—a traditional spiced black tea from East India—is expected to be one of the most important segments in Specialty Tea over the next few years. Celestial Seasonings has already made an impact with original and decaffeinated chais and now new items, **Chocolate Caramel Enchantment**™ **Chai** and **Honey Vanilla White Tea Chai**, should strengthen our position.


Celestial Seasonings core Green Tea and Herb Tea segments received a big boost with two delicious and uniquely-flavored new items, **Blueberry Breeze**™ **Green Tea** and **Tropic of Strawberry**™ **Herb Tea**. Our well-received **Black Teas of the World** line added **Marrakesh Express Vanilla Spice** and **Persian Mint Spice Decaf**—two exotic and antioxidant-rich flavors that are unique in the category.

The Holiday Tea program continues to generate significant growth, and remains an area in which Celestial Seasonings truly differentiates itself from the competition. A fourth holiday tea, **Candy Cane Lane**™ **Decaf Green**, was launched, offering consumers another delicious and healthy way to celebrate. In addition, we introduced **Rudolph's® Rockin' Raspberry**™ and **Santa's Candy Apple**™, holiday teas for children—a previously untapped market for the brand.

This year, Celestial Seasonings addressed the needs of the fastest growing consumer segment in the United States by launching four tea flavors specifically developed for and marketed to the Hispanic consumer: **Linden Mint**, **Apple Banana Chamomile**, **Cinnamon Apple** and **Honey Lemon Diet** teas. These products also mark the introduction of a new package format: the 10-count box, which has the potential for expansion to other consumer segments both domestically and internationally.

# New Beverages

Celestial Seasonings continues to extend our brand beyond tea bags with innovative and consumer-validated products. We are expanding and refining our **TeaHouse Latte** and **Chai** lines of powdered tea-based products, and this year we began a market test of **Zingerade**.

Celestial Seasonings is committed to strengthening our market leadership and building our brand equity with innovative new products and compelling consumer support.


# Snacks

With nearly 100 products in this highly competitive category, our Snacks continue to delight consumers and produce standout results by delivering innovative, premium quality, all-natural snacks for every palate. With category leaders **Terra Chips**® and **Garden of Eatin'**®, and discerning snackers' favorites **Bearitos**®, **Boston's**™, **Hain PureSnax**®, **Harry's Premium Snacks**® and **Little Bear**®, all complemented by our **Bearitos** bean dips and **Garden of Eatin'** and **Walnut Acres Certified Organic**® salsas, we take pride in delivering delectable treats. From vegetable chips to pretzels, potato chips to cheese puffs, popcorn to tortilla chips, our snacks are all natural, with no artificial colors or flavors, no genetically engineered ingredients, no preservatives, no hydrogenated oils and no *trans* fat.

We use a three-pronged approach to maintain our leadership position by developing innovative new products, increasing the number of product displays on the retail floor, and expanding our direct-store-delivery distribution network of snack route drivers that service key grocery stores on a daily basis. This strategy is particularly successful in the chips category, where our brands consistently outperform the competition.

*"Our snacks are all natural, with no artificial colors or flavors, no genetically engineered ingredients, no preservatives, no hydrogenated oils and no* trans *fat."*

# Terra Chips

Building upon the growing momentum of **Terra Chips**, we have become a major national snacks player. After the successful launch of the Zesty Tomato and Mediterranean flavors of **Terra Exotic Vegetable Chips**®, demand continues to grow with the introduction of three exciting new **Terra**® **Kettle Blends** krinkle cut potato chips: Sea Salt with white, russet and sweet potato chips; Sea Salt with white, russet and blue potato chips; and Sea Salt & Pepper with white and russet potato chips.

Our dedicated sales team of career snack professionals continues to aggressively drive distribution in the Mass, Drug and Convenience markets and has made significant inroads into the Club Store market. Our Foodservice distribution has expanded, including the designation of **Terra Blues**® as the official snack of JetBlue Airways (over 3 million travelers served each year), and we have launched four **Terra** products with multilingual packaging in the international market.

Our second year of the powerful *Live Colorfully*™ **Terra Chips** advertising campaign builds on our leadership position in the Natural Snacks category with a targeted outdoor effort in key markets, a national print campaign and a concentrated sampling initiative.

# Garden of Eatin’

While other snack companies have only recently begun to address the rising health concerns of consumers, **Garden of Eatin’** has always been known as THE authentic organic tortilla chip. Despite increased competition, **Garden of Eatin’** maintained its #1 tortilla chip rank in the Natural Snacks category.

This year, we will launch several innovative products including **Garden of Eatin’ Organic Microwave Popcorn** and several varieties of **Taco Dinner Kits**. More exciting line extensions and product launches that go beyond salty snacks are planned for next year.

# Other Snacks

Our snacks serve up treats beyond chips to offer a variety of savory, healthy snacks with organic ingredients that are not genetically engineered, and contain no *trans* fat.

**Bearitos** features popcorn and tortilla chips as well as mouth-watering chilis and sauces.

**Boston’s** offers its famous kettle-popped and tasty cheese popcorn.

**Hain PureSnax** are as fun to eat as they are healthy.

**Harry’s** premium pretzels, tortilla and potato chips are made using old-fashioned recipes.

**Little Bear** brings healthy snacks to children of all ages.

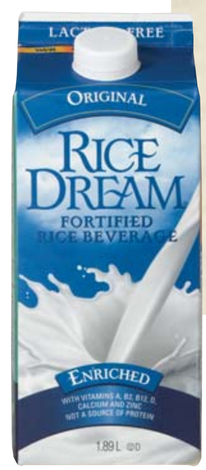
**Walnut Acres Certified Organic** salsas are full of flavor and the perfect accompaniment to our full line of chips.


# Grocery

At Hain Celestial, we understand the importance of delivering products that meet the health and lifestyle needs of our valued consumers. Eating natural and organic foods is increasingly recognized as one path to better health, and Hain Celestial grocery products sold under such well-known brands as **Health Valley**®, **Arrowhead Mills**®, **Earth's Best**®, **Hain Pure Foods**®, **Imagine**® and **WestSoy**® deliver a variety of ways to enjoy good food and good health.

One of this year's highlights is **Earth's Best's**® new products for children that are co-branded with Sesame Street®, the award-winning preschool series. The products feature the most popular Muppets™ from Sesame Street and are part of Sesame Workshop's® *Healthy Habits for Life*™ corporate initiative. *Healthy Habits for Life* is a multi-year program that harnesses the power and reach of Sesame Street to encourage healthy eating, physical activity and good hygiene. To accomplish these objectives, Sesame Street will incorporate a variety of media about healthy habits in its 36th television season, which debuts in April 2005.

*"Our grocery products deliver a variety of ways to enjoy good food and good health."*



## Non-Dairy

Our aseptic products deliver the same great taste as refrigerated products with the added benefit of an extended shelf life. Sales of **WestSoy** aseptic soy milks continue to outpace the category, with sales of the **Soy Slender**™ line of sugar-free soy milks increasing by triple digits over last year, in part due to the successful introduction of both a larger, value size and a convenient, single-serve size. In response to concerns over childhood obesity, we developed and introduced two low-fat products in 8.45-ounce, single-serve containers. With the success of the unsweetened line, we launched a half-gallon Unsweetened Original soy product, soon to be followed by Unsweetened Almond. Rounding out the **WestSoy** beverage line is a new rice beverage with improved packaging, flavor, color and texture.

Our **Rice Dream**® aseptic product also performed well, gaining share in both the Grocery and Natural Foods markets. This year, we launched half-gallon sizes of **Rice Dream Enriched**, and launched **Rice Dream HeartWise**™—the first and only rice drink to carry a heart healthy claim approved by the U.S. Food and Drug Administration.

In the refrigerated segment, **Rice Dream** showed double-digit growth in both the Grocery and Natural Foods markets, and all **Soy Dream** refrigerated products have been converted to meet the U.S. Department of Agriculture 95% (or better) organic standard.

## Cookies and Bars

Continuing our long commitment to better-for-you products, **Health Valley** will leverage our expertise to educate consumers that our products have never contained *trans* fat and to gain a competitive advantage over other brands. **Health Valley** will continue to grow distribution of new bar and cookie products, including **Peanut Butter and Jelly Bars**, **Sandwich Crèmes**, new **Mini Cookies** and **Cookie Bars**, each available in several tempting flavors. We will also launch other **HeartWise** products, providing consumers with key heart health benefits through the use of CoroWise™ plant sterols, a naturally sourced ingredient that may reduce the risk of heart disease when consumed as part of a diet low in saturated fat and cholesterol.

In addition, our **Carb Fit**™ cookies won the American Culinary Institute *Best Taste Award* this year as we brought great-tasting, low-carb snack alternatives to the Cookie category. All-natural **Chocolate Bars** and **Cobbler Bars** are next in this product line.

## Soups

**Health Valley** is excited about our new and improved soups, with better taste, appearance and texture, including top-selling flavors 14 Garden Vegetable, Minestrone and Vegetable Barley. The products are labeled with visually appealing graphics highlighting the product improvements.

To increase our leadership position in the soup category, we will launch new **Health Valley Creamy Soups** in the growing Aseptic Soup category. These three great-tasting varieties—Roasted Pepper Tomato, Creamy Tomato and Butternut Squash—are packaged in containers with eye-catching graphics to stand out on the shelf.

Our **Imagine** line will build on the success of its **Asian Broth** products to introduce a line of chef-inspired cooking stocks in three delicious flavors—Beef, Chicken and Vegetable.

## Juices

The success of our **Mountain Sun**® **Pure Cranberry** juice, which gained the #2 position in the Natural category and is outpacing category growth in Grocery, will be leveraged to produce two new delicious and healthy products—Blueberry, which is the #1 fruit for antioxidant activity; and Black Cherry, a natural anti-inflammatory. Last year, we established a targeted print advertising campaign to increase consumer awareness of our **Walnut Acres Certified Organic** juices and variety of fruit blends.


*CoroWise™ is a licensed trademark of Cargill, Incorporated.*


# Cereal and Infant & Toddler Foods

**Health Valley**® will continue to grow the distribution of its new functional medley cereals: **Slender**™ for weight management, **Empower**™ for active individuals, **HeartWise**™, the most heart-healthy cold cereal, and **BoneWise**™ for strong bones. We will launch **ImmuneWise**™, the first cereal designed to support a healthy immune system, which will contain **Celestial Seasonings**® green tea and blueberries, among other antioxidants. Expanding this line, we will introduce **HeartWise** hot cereal, the most heart-healthy oatmeal. These functional cereals are designed to contribute to the development and maintenance of a healthy body.

A new line of **Health Valley** organic cereals has been designed by a nutritionist to help children eat more healthy foods and address the growing problem of obesity.

**Earth's Best**® continues to command category leadership with double-digit growth over last year in the Natural Foods market, driven by the successful introduction of 11 new toddler foods and several new infant products.

Our most exciting news is our new relationship with Sesame Workshop®, the nonprofit educational organization behind Sesame Street®, to create a line of delicious and nutritious foods for young children that make eating healthy fun. Together, we are developing a product line that both parents and children can agree on by combining the trusted nutrition and great taste of **Earth's Best** with the fun and delight of everyone's favorite Sesame Street friends. This new line of breakfast and snack products is formulated with organic ingredients and whole grains and is free of hydrogenated oils, *trans* fat, artificial flavors and colors, preservatives and genetically engineered ingredients (GEIs).

All **Earth's Best** Sesame Street products will carry the *Healthy Habits for Life*™ logo on the package as well as tips for parents and children from the child development experts at Sesame Workshop on how to incorporate healthy practices into everyday life.

# Ingredients

**Arrowhead Mills**® offers a diverse selection of flours, grains and mixes for home-baked goodness. This year we added pizza crust, gluten-free pizza crust, ready-to-use pie crusts and cake mix to our product line.

We are also a leading manufactuer of naturally flavored and specialty cooking oils. Look for our four new expeller pressed oils: **Green Tea Seed Oil**, a versatile alternative to olive oil; **Avocado Oil**, ideal for Mexican and other cooking; **Grape Seed Oil** for stir frying or salad dressings; and **Oregano-flavored Soybean Oil** to liven up everyday cooking.

# Frozen Foods


Like most consumers today, those interested in what goes into their food and how it is processed are also interested in the ready-to-serve convenience of frozen foods. Our full line of frozen pasta, convenience items, and desserts offers health-conscious consumers great-tasting, natural and organic meals that reflect growing demand for a broad variety of ethnic cuisines that can be enjoyed at home. This year's acquisition of the **Rosetto**® and **Ethnic Gourmet**® brands expanded our platform of healthy, natural frozen foods further into the meal category, and along with our existing **Kineret**® and **Imagine**® product lines, established the foundation for further growth.

**Rosetto** is the country's #1 brand of frozen pasta, with eight of the top 10 products in the category. **Rosetto**—"Stuffed with the Good Stuff"—is all-natural, top-quality stuffed pasta the entire family looks forward to eating, and is available nationally in mainstream grocery stores.

**Ethnic Gourmet** is an all-natural line of restaurant-quality frozen entrées, pizzas and wraps made from authentic ethnic recipes. **Ethnic Gourmet** is the #1 brand of all-natural meat entrées in the Natural and Organic channels.

**Kineret** kosher frozen side dishes and ready-to-bake family fare assure consumers of compliance to the highest standards of kosher. In addition, Chef Jeff Nathan, host of the PBS cooking show *New Jewish Cuisine* advises us on the development of new kosher products. This year, **Kineret Onion Nuggets with Cheese** were awarded first prize for *Best New Israeli Item* in Kosherfest's 2004 New Product Competition.

*"Our full line of frozen pasta, convenience items, and desserts offers health-conscious consumers great-tasting, natural and organic meals that reflect growing demand for a broad variety of ethnic cuisines that can be enjoyed at home."*

**Imagine** frozen non-dairy confections and novelties, sold under the brand names **Soy Dream**® and **Rice Dream**®, offer health-conscious consumers more than 40 ways to enjoy a frozen treat. **Lil' Dreamers** frozen dessert sandwiches are the Frozen Novelty leader in the Natural and Organic category with Vanilla and Chocolate, the #1 and #4 selling products. This year, Strawberry and Mocha line extensions of **Lil' Dreamers** were successfully launched, and both lines were revitalized with new, fun packaging that uses the beverage logos to bring in loyal beverage users.

# Canada

With market-leading brands in the Meat Alternative, Cereal, Aseptic Beverage, Soup, Snacks, and Baby Food categories, Hain Celestial Canada is the premier choice for Canadians' natural and organic product needs. This year, we continued to grow in all segments of our natural and organic products portfolio. In the coming year, we will be aggressively pursuing distribution of our core products, continuing to improve and support our brands with consumer programs, and developing and introducing innovative new products to increase sales to our loyal consumer base. We also plan to introduce our natural and organic foods to the increasing number of Canadians who are seeking healthy, natural alternatives to traditional products.

*"This year, Hain Celestial Canada continued to grow in all segments of our natural and organic products portfolio."*

# Vegetarian Foods

**Yves Veggie Cuisine**® maintained its position as Canada's favorite vegetarian meat alternative brand. Building on the success of our **Veggie Ground Round** and deli slices, we introduced the **Prima Veggie**™ line of meatless foods, which includes **The Good Dog**® product and two new burger products. **Prima Veggie** was specifically formulated to expand our consumer base to mainstream, health-conscious non-vegetarians. Offered at all major supermarket chains in Canada, the **Prima Veggie** launch was supported by extensive consumer programs.

In the United States, **Yves** maintained its #2 brand status in the Refrigerated Meat Alternatives category. We relaunched the brand with more visually appealing packaging to increase consumer awareness, and at the same time received positive reviews from the trade for the more efficient use of shelf space.

In the coming year, we will be supporting the **Yves** brand across North America with continued consumer support programs. We will introduce innovative new products to meet the needs of loyal consumers and health-conscious mainstream consumers through various distribution channels, including Foodservice.

In addition to introducing our co-branded McDonald's® McVeggie Burger® into new U.S. markets, **Yves** embarked on a venture with SYSCO® Corporation to market vegetarian meat alternatives under SYSCO's MoonRose® brand with companies that provide full catering and fulfillment to corporate cafeterias, schools, hospitals and other outlets.

# Infant & Toddler Foods

Hain Celestial Canada made significant gains this year as **Earth's Best**® achieved double-digit growth in Canada, backed by new distribution and tactical consumer support programs that familiarized consumers with healthier food choices for infants and toddlers. Our efforts in this area resulted in **Earth's Best** becoming the #1 brand of jarred organic baby food in Canadian grocery stores this year.

In the coming year, we will be aggressively pursuing additional distribution in the Grocery, Drug, and Mass channels introducing a variety of unique new flavors to the Canadian marketplace, launching exciting new packaging graphics, and developing informative nationwide initiatives to introduce the benefits of **Earth's Best** organic baby food to a new generation of parents.

# Non-Dairy Beverages and Soups

**Rice Dream**® holds the dominant market share position in the Canadian Shelf-Stable, Non-Dairy Rice Beverage category. This year we capitalized on an emerging area and entered the refrigerated segment—an area we plan to expand—with the launch of two refrigerated **Rice Dream** products, Enriched Original and Enriched Vanilla.

We will be introducing new packaging graphics on **Soy Dream**®, which historically has led to increased sales among health-conscious consumers.

In addition to bilingual labeling, we made changes to bring our **Imagine**® soups and broths packaging into full compliance with the Canadian Food Inspection Agency's new labeling requirements and help further grow market share in this category.

# Snacks

We introduced a variety of new snacks aimed at expanding our shelf presence and encouraging incremental consumption. These products include two new flavors of the award-winning **Terra Exotic Vegetable Chips**®, Zesty Tomato and Mediterranean, and five varieties of low-carb snacks using the **Carb Fit**™ formulations and packaged under the **Resolutions**™ brand name—the first line of low-carb snacks in Canada.

We will continue to introduce innovative new products like **Garden of Eatin'**® **Guacamole Chips** and will be focusing efforts on building off-shelf displays to stimulate impulse purchases.

*McDonald's and McVeggie Burger are registered trademarks of McDonald's Corporation.*
*SYSCO and MoonRose are registered trademarks of SYSCO Corporation.*

# Europe


In seeking a healthy lifestyle, European consumers have been early adopters of the benefits of the natural and organic way of life. Hain Celestial Europe meets the needs of these health-conscious consumers with products from well-known European companies **Lima**®, **Biomarché**®, **Grains Noirs**® and the recently acquired **Natumi**®. Our European base also serves as a consolidated distribution center for our products originating in North America and distributed in Europe. Our brands will continue to capitalize on the growing popularity of natural and vegetarian foods, and concerns about genetically engineered and contaminated food products.

We will continue to grow our best-selling product lines and build on the platform created by the successful European introduction of **Rice Dream**® and **Terra**™ products to aggressively pursue the introduction of other Hain Celestial brands such as **Yves Veggie Cuisine**® and **Health Valley**™ into this attractive market. With new distribution resources and more products from North America, including **Celestial Seasonings**® new multilingual 10-count packaging, we look forward to an exceptional year of expansion in Europe.

## Grocery

Our flagship brand of grocery products is **Lima**, a pioneer in natural and organic foods since 1957. With a portfolio of over 200 products sold in grocery and specialty stores throughout Europe, and the continued introduction of promising new products, **Lima** is poised to experience yet another year of growth.

**Natumi**, a maker of soy, rice and oat vegetable milk products, will enable us to grow our non-dairy business in Europe by building upon our core competencies in soy production with a cost-effective production facility based in Germany. **Natumi** enjoys strong distribution in key retail markets, and its modern production facility gives us the capacity to launch additional new products.

## Organic Fresh Fruits and Vegetables

**Biomarché**, a leading distributor of fresh organic fruits, vegetables and convenience foods such as sandwich spreads and salad mixes, has strengthened its leadership in the Grocery market. In addition, exports elsewhere in Europe have delivered encouraging results this year.

## Prepared Foods

The fast pace of life today has created a demand for ready-to-eat foods, and we have a solution for health-conscious Europeans who will not sacrifice nutrition and food safety for convenience. **Grains Noirs**, a leading catering company, distributes ready-to-eat salads, appetizers, sandwiches and full-plated meals to restaurants and grocers throughout Belgium, as well as to high-speed trains servicing Paris, Amsterdam and Brussels. This year, **Grains Noirs** entered the French market and began supplying cafés with high-quality sandwiches made with the freshest ingredients.


*"In seeking a healthy lifestyle, European consumers have been early adopters of the benefits of the natural and organic way of life."*

# Personal Care

As consumers become more aware of the importance natural and organic foods play in a healthy lifestyle, they understand that what they put *on* their bodies contributes to physical health and well-being, along with what they put *in* their bodies.

Since its inception in 1959, Jason has led the effort to produce carefully balanced products containing the highest-quality, naturally sourced and proven effective ingredients without chemical irritants and harmful synthetics. In the fast-growing Personal Care category, JASON® offers the natural consumer a full line of high-quality natural and organic products for skin, body, oral and hair care.

Our award-winning bath and body products include facial scrubs and moisturizers, toothpastes, soaps, deodorants, shampoos, conditioners and styling products for men, women and children. For the third year in a row, our toothpaste received the *Best Taste Award* in the natural toothpaste category from the American Culinary Institute.

We continually reformulate our products based on the latest discoveries in bio-vegetal technology, and this year, we redesigned our packaging to enhance the **JASON** brand identity. We continue to develop innovative new products in several categories. We entered the Lip Care sub-segment by introducing three new products: **Lips Bee Plumper**™, an organic moisturizer and plumper product; **Lips Bee Better**™, an organic moisturizing lip balm in a tin; and **Lips Bee Healthier**™, an organic moisturizing lip balm.

We are also strengthening our position in the everyday hair care market by launching several new botanical products that address specific consumer needs in the coming year. **Shaman Earthly Organics**™, **Orjene Organics**® and products developed for private labeling round out our offering of personal care products.

Strong growth in baby care products in the Natural channel shows that today's parents are becoming more health and environmentally conscious and are seeking the purest and gentlest products possible for their babies. In response to this growing consumer demand, in the coming year we will launch a line of 70% organic baby body care products co-branded by **Earth's Best**™ and **JASON**. These two strong and trusted brands in the Natural and Organic categories bring credibility to organic baby body care, and will give consumers confidence in the quality and performance of the products.


*"Consumers understand that what they put* on *their bodies contributes to physical health and well-being, along with what they put* in *their bodies."*


# Future Innovations

*This year, expect to see continued innovations from us and expanded channels of distribution, including:*

## TEA

Dual-panel packaging for **Celestial Seasonings**® tea increases shelf space by allowing vertical or horizontal display of product, and new holiday teas for children—a previously untapped market for the brand—are launched.

## SNACKS

Expanded direct-store-delivery distribution and new product introductions like **Terra**® **Kettle Blends** krinkle cut potato chips and **Garden of Eatin'**® microwave popcorn and taco dinner kits enable us to maintain our leadership position.

## GROCERY

We design functional, whole-grain, medley cereals—**BoneWise**™, to build and maintain strong bones, and **ImmuneWise**™, to strengthen and support a healthy immune system. **Earth's Best**® partners with the Sesame Workshop® in their *Healthy Habits for Life*™ campaign and expands Foodservice distribution in partnership with Song, owned and operated by Delta Air Lines, Inc.

## NON-DAIRY

**WestSoy**®, **Soy Slender**™, **Rice Dream**® aseptic products deliver the same great taste as refrigerated products with the added benefit of an extended shelf life. **Rice Dream HeartWise**™ is co-branded with **Health Valley**® **HeartWise**, our heart-healthy cereal.

## FROZEN FOODS

**Rosetto**®, **Ethnic Gourmet**® and **Imagine**® foods broaden the platform of convenience meals and desserts with the same natural goodness consumers have come to expect from all our products. **Rosetto** plans to introduce 70% organic pasta.

## CANADA

**Yves** expands meat alternative products for non-vegetarians and vegetarians, and extends our distribution of **Earth's Best**, **Rice Dream**, **Imagine**, **Terra Chips** and **Garden of Eatin'** into Canada. A new venture with SYSCO® Corporation markets vegetarian meat alternatives under SYSCO's MoonRose® brand to the Foodservice channel.

## EUROPE

The recently acquired **Natumi** expands our offering of soy, rice, oat and vegetable milk products, and additional U.S. products from **Celestial Seasonings**, **Terra Chips** and **Rice Dream** are rolled out on the continent.

## PERSONAL CARE

Our most recent acquisition of Jason provides a range of natural and organic skin, oral and hair care products under the **JASON**® and private label brands, including spa products. Existing lines are revitalized and body care expands with **Earth's Best** and **Celestial Seasonings** products.




*SYSCO and MoonRose are registered trademarks of SYSCO Corporation.*

**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, 2004**

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

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

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

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

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

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant based upon the closing price of the registrant's stock, as quoted on the Nasdaq National Market on December 31, 2003, the last business day of the registrant's most recently completed second fiscal quarter, was $668,741,931.

As of September 1, 2004, there were 36,395,242 shares outstanding of the registrant's Common Stock, par value $.01 per share.

**Documents Incorporated by Reference**

| Document | Part of the Form 10-K into which Incorporated |
|---|---|
| The Hain Celestial Group, Inc. Definitive Proxy Statement for the Annual Meeting of Stockholders to be Held December 2, 2004 | Part III |

## Table of Contents

## PART I
## THE HAIN CELESTIAL GROUP, INC.

### Item 1. Business.

Unless otherwise indicated, references in this Annual Report to 2004, 2003, 2002 or "fiscal" 2004, 2003, 2002 or other years refer to our fiscal year ended June 30 of that year and references to 2005 or "fiscal" 2005 refer to our fiscal year ending June 30, 2005.

### General

The Hain Celestial Group, Inc., a Delaware corporation, and its subsidiaries (collectively, the "Company", and herein referred to as "we", "us", and "our") manufacture, market, distribute and sell natural, organic, specialty and snack food products and natural health and body care products under brand names which are sold as "better-for-you" products. We are a leader in many of the top natural food categories, with such well-known food brands as Celestial Seasonings® teas, Hain Pure Foods®, Westbrae®, Westsoy®, Rice Dream®, Soy Dream®, Imagine®, Walnut Acres Certified Organic®, Ethnic Gourmet®, Rosetto®, Little Bear Organic Foods®, Bearitos®, Arrowhead Mills®, Health Valley®, Breadshop's®, Casbah®, Garden of Eatin'®, Terra Chips®, Harry's Premium Snacks®, Boston's®, Lima®, Biomarche®, Grains Noirs®, Natumi®, Milkfree, Yves Veggie Cuisine®, DeBoles®, Earth's Best®, and Nile Spice®. The Company's principal specialty product lines include Hollywood® cooking oils, Estee® sugar-free products, Kineret® kosher foods, Boston Better Snacks®, and Alba Foods®. Our natural health and body care product line is marketed under the JASON®, Orjene®, Shaman Earthly Organics™, and Heather's® brands.

Our products are sold primarily to specialty and natural food distributors and are marketed nationally to supermarkets, natural food stores, and other retail classes of trade including mass-market stores, drug stores, food service channels and club stores. During 2004, 2003 and 2002, approximately 39%, 42% and 54%, respectively, of our revenues were derived from products manufactured within our own facilities. The remaining 61%, 58% and 46% for 2004, 2003 and 2002, respectively, of our revenues were derived from products which are produced by independent food manufacturers ("co-packers") using proprietary specifications controlled by us.

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

- On June 3, 2004, we acquired Jason Natural Products, Inc., a California-based manufacturer and marketer of natural health and body care products.
- On May 27, 2004, we acquired the Rosetto and Ethnic Gourmet businesses of H.J. Heinz Company, L.P. ("Heinz"), which produce and market frozen pasta and natural ethnic frozen meals, respectively. Heinz owned approximately 16.7% of our common stock at the time of the transaction.
- On February 25, 2004, we acquired Natumi AG, a German producer and marketer of soy milk and other soy based products.
- On June 17, 2003, we acquired Acirca, Inc., a New York based manufacturer, distributor and marketer of natural and organic juices, pasta sauces, soups and salsas under the Walnut Acres Certified Organic® brand.
- On May 14, 2003, we acquired Grains Noirs, N.V., a Belgian producer and marketer of fresh prepared organic appetizers, salads, sandwiches and other full-plated dishes.
- On December 2, 2002, we acquired the assets and business of Imagine Foods, Inc. ("Imagine") in the United States and the United Kingdom. Imagine is a non-dairy beverage business specializing in aseptic and refrigerated rice and soy milks, organic aseptic soups and broths, and organic non-dairy frozen desserts under the Rice Dream®, Soy Dream® and Imagine® brands.
- On December 10, 2001, we acquired Lima N.V., the leading Belgian natural and organic foods manufacturer and marketer, and its affiliated company Biomarche, a processor and marketer of fresh organic produce.

Our brand names are well recognized in the various market categories they serve. We have acquired numerous brands since our formation (in addition to those mentioned above) and we will seek future growth through internal expansion as well as the acquisition of complementary brands.

Our overall mission is to be a leading marketer and seller of natural, organic, beverage, snack and speciality food products and natural health and body care products by integrating all of our brands under one management team and employing a uniform marketing, sales and distribution program. Our business strategy is to capitalize on the brand equity and the distribution previously achieved by each of our acquired product lines and to enhance revenues by strategic introductions of new product lines that complement existing products. This strategy has been established through the acquisitions referred to above and the introduction of a number of new products that complement existing product lines. We believe that by integrating our various brand groups, we will achieve economies of scale and enhanced market penetration. We consider the acquisition of natural, organic and specialty food companies and product lines as an integral part of our business strategy. To that end, we do, from time to time, review and conduct preliminary discussions with acquisition candidates.

As of June 30, 2004, we employed a total of 1,463 full-time employees. Of these employees, 173 were in sales and 768 in production, with the remaining 522 employees filling management, accounting, marketing, operations and clerical positions.

**Products**

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

*Natural and Organic Food Products*

Our natural and organic food product lines consist of approximately 1,500 branded items and include non-dairy drinks (soy and rice milk), popcorn cakes, cookies, crackers, flour and baking mixes, hot and cold cereals, pasta, baby food, condiments, cooking oils, granolas, granola bars, cereal bars, canned and instant soups, chilis, packaged grain, nut butters and nutritional oils, juices, frozen desserts and ethnic meals, as well as other food products. Our Hain®, Westbrae®, Westsoy®, Imagine®, Rice Dream®, Soy Dream®, Walnut Acres Certified Organic®, Ethnic Gourmet®, Little Bear®, Bearitos®, Arrowhead Mills®, Terra Chips®, DeBoles®, Garden of Eatin'®, Health Valley®, Casbah®, Breadshop's®, Nile Spice®, Earth's Best®, Harry's Premium Snacks®, Lima®, Biomarche® and Grains Noirs® businesses market and distribute this full line of natural food products. We are a leader in many of the top natural food categories. Natural foods are defined as foods which are minimally processed, largely or completely free of artificial ingredients, preservatives, and other non-naturally occurring chemicals, and are as near to their whole natural state as possible. Many of our products are also made with "organic" ingredients which are grown without dependence upon artificial pesticides, chemicals or fertilizers. Non-dairy drinks accounted for approximately 15% of total net sales in 2004, 16% in 2003 and 12% in 2002.

*Tea and Beverage Products*

Our tea products are 100% natural and are made from high-quality, natural flavors and ingredients and are generally offered in 20 and 40 count packages. We are the leading specialty tea in North America and are sold in grocery, natural foods and other retail stores. We develop flavorful, unique blends with attractive, colorful and thought-provoking packaging. Our products include herb teas such as Sleepytime®, 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, and a line of specialty black teas and chais. We also offer Cool Brew iced teas, natural ciders, a line of Teahouse Lattes and Chais and a new line of Zingerades® which include herb tea, lemonade and juice.

Our beverage and tea products include over 80 flavors of tea made from 100% natural ingredients. The types of teas offered include herb, red (rooibos), honeybush, white, green, black, mate and chai. Our teas are offered both with and without caffeine. We also offer organic and iced teas. Recent beverage introductions include Natural Ciders and Teahouse Lattes and Chais, available in several flavors. Tea beverages accounted for approximately 17% of total net sales in 2004 and 20% in 2003 and 21% in 2002.

*Snack Food Products*

We manufacture, market and sell a variety of potato and vegetable chips, organic tortilla style chips, pretzels, popcorn and potato chips under the Terra Chips®, Garden of Eatin'®, Little Bear®, Boston's Popcorn® and Harry's Premium Snacks® names. Terra Chips® natural food products consist of approximately 40 items comprised of varieties of potato chips, potato sticks (known as Frites®), sweet potato chips and other vegetable chips. Garden of Eatin'® natural food products substantially consist of approximately 30 organic tortilla chip products. Boston Popcorn® and Harry's® products consist of approximately 25 varieties of popcorn, potato chips, tortilla chips and other snack food items.

*Meat Alternative Products*

We manufacture, distribute and market a full line of soy protein meat alternative products under the Yves brand name including such well known products as The Good Dog®, The Good Lunch® and The Good Slice®, among others. Meat alternative products provide consumers with an alternative product containing the health benefits of soy without the health concerns associated with traditional meat products. Yves meat alternative products consist of approximately 60 items including meat alternative choices among veggie burgers, veggie wieners, veggie slices, veggie entrees and veggie ground round.

*Frozen Food Products*

Our Rosetto®, Ethnic Gourmet®, Kineret®, and Imagine® Frozen businesses manufacture, market and distribute all-natural, organic, and specialty frozen food products. Rosetto® is the country's #1 brand of frozen pasta, with 8 of the top 10 SKU's in the category. Ethnic Gourmet® is an all-natural line of restaurant quality frozen entrees, bowls, and wraps made from authentic ethnic recipes. Kineret® is an all-Kosher line of frozen meals, side dishes and other items. Our Imagine® frozen businesses, the Soy Dream® and Rice Dream® lines of frozen non-dairy confections and novelties, offer more than 40 different products for consumers that want all-natural and organic soy and rice based alternatives to ice cream.

*Natural Health and Body Care Products*

We manufacture and market a full line of personal care products including skin care, hair care, body care, oral care, and deodorants under the JASON®, Orjene® and Shaman Earthly Organics( brands. The majority of our products are under the JASON® brand, which consists of approximately 250 items across all five of the product categories that we participate in. We also manufacture and market a brand of natural cleaning products called Heather's®, which consists of 7 items.

*Medically-Directed and Weight Management Products*

Our Estee® and Featherweight® businesses market and distribute a full line of sugar-free, fructose sweetened and low sodium products targeted towards diabetic and health conscious consumers and persons on medically-restricted diets.

*Specialty Cooking Oil Products*

Our Hollywood® business markets a line of specialty cooking oils, including safflower, canola, and peanut oils, that are enhanced with Vitamin E to maintain freshness and quality. The Hollywood® product line also includes carrot juice, mayonnaise and margarine. Hollywood® products are primarily sold directly to supermarkets and other mass market merchandisers.

*Kosher Food Products*

Our Kineret® business markets and distributes a line of frozen and dry kosher food products. Kosher foods are products that are prepared in a manner consistent with Kosher dietary laws. Kineret® offers a line of kosher frozen food products under the Kineret® and Kosherific® labels. The Kineret® products include fish products, potato pancakes, blintzes, challah bread, pastry dough, dry grocery products for Passover and assorted other food products.

### New Product Initiatives Through Research and Development

We consider research and development of new products to be a significant part of our overall philosophy and we are committed to developing high-quality products. A team of professional product developers works with a sensory technologist to test product prototypes with consumers. The research and development department incorporates product ideas from all areas of our business in order to formulate new products. In addition to developing new products, the research and development department routinely reformulates and revises existing products. We incurred approximately $2.0 million in Company-sponsored research and development activities in 2004, $1.7 million in 2003 and $1.0 million in 2002.

### Sales and Distribution

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

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

Our customer base consists principally of mass-market merchandisers, natural food distributors, supermarkets, drug store chains, club stores and grocery wholesalers. Recently, growth of natural and organic foods has shifted from the natural food channel to the grocery channels as mainstream grocery distributors and retailers provide these products to meet consumer demand and awareness. Two of the distributors we sell to, United Natural Foods and Tree of Life, accounted for approximately 20% and 12%, respectively, of net sales for 2004, approximately 18% and 15%, respectively, in 2003 and approximately 17% and 15%, respectively, in 2002. Net sales to export customers account for less than 5% of total net sales for each of the three years ended June 30, 2004.

Our international subsidiaries in Canada and Europe sell to all channels of distribution in the countries they serve. International sales represented approximately 20.3% of total net sales in 2004, 17.3% in 2003 and 14.3% in 2002.

### Marketing

We use a mix of trade and consumer promotions as well as media advertising to market our products. We use trade advertising and promotion, including placement fees, cooperative advertising and feature advertising in distribution catalogs. We also utilize advertising and sales promotion expenditures via national and regional consumer promotion through television and magazine advertising, couponing and other trial use programs. In each of 2002, 2003 and 2004, we have increased our investment in consumer spending to enhance brand equity while closely monitoring our trade spending. These consumer spending categories include, but are not limited to, consumer advertising using television, radio and print, coupons, direct mailing programs and other forms of promotions. There is no guarantee that these promotional investments in consumer spending will be successful.

### Manufacturing Facilities

We currently manage and operate the following manufacturing facilities located throughout the United States: Celestial Seasonings®, in Boulder, Colorado, which produces specialty teas; Terra Chips®, in Moonachie, New Jersey, which produces vegetable chips; Arrowhead Mills®, in Hereford, Texas, which produces hot and cold cereals, baked goods and meal cups; DeBoles®, in Shreveport, Louisiana, which produces organic pasta; Ethnic Gourmet®, in Framingham, Massachusetts, which produces frozen meals; Rosetto®, in West Chester, Pennsylvania, which produces frozen pasta; and JASON®, in Culver City, California, which produces health and body care products. We formerly operated a manufacturing facility in Irwindale, California, producing hot and cold cereals, baked goods, granola, granola bars, dry soups and other products under the Health Valley®, Breadshop® and Casbah® labels. During fiscal 2003, we sold the manufacturing assets of our Irwindale facility to a co-pack manufacturer who continues to manufacture products for us at that facility. The co-pack manufacturer has entered into a lease directly with the landlord of the facility.

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

We own the manufacturing facilities in Moonachie, New Jersey; Boulder, Colorado; Hereford, Texas; Shreveport, Louisiana; West Chester, Pennsylvania and Vancouver, British Columbia. We also own the Lima and Biomarche® facilities in Belgium. During 2004, 2003 and 2002, approximately 39%, 42% and 54%, respectively, of our revenue was derived from products manufactured at our currently owned manufacturing facilities.

**Suppliers of Ingredients and Packaging**

Our natural and organic ingredients and our packaging materials and supplies are obtained from various sources and suppliers located principally in the United States and locally in Canada and Europe for our businesses in these areas. Certain of our packaging and products are sourced from the Far East.

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

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

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

**Co-Packed Product Base**

During 2004, 2003 and 2002, approximately 61%, 58% and 46%, respectively, of our revenue was derived from products manufactured at independent co-packers. Currently, independent food manufacturers, who are referred to in our industry as co-packers, manufacture many of our products, including our Health Valley®, Breadshop's®, Casbah®, Alba Foods®, Estee®, Earth's Best®, Garden of Eatin'®, Hain Pure Foods®, Hollywood®, Kineret®, Little Bear Organic Foods®, Westbrae®, Westsoy®, Rice Dream®, Soy Dream®, Imagine®, Walnut Acres Certified Organic®, Lima® and some of our Terra Chips® and Ethnic Gourmet® product lines.

In the U.S., we presently obtain:

- all of our requirements for non-dairy beverages from five co-packers, all of which are under contract or other arrangements;
- all of our U.S. requirements for rice cakes from one co-packer;
- all of our Health Valley® baked goods and cereal products from one co-packer, which is under contract;
- all of our cooking oils from one co-packer;
- principally all of our tortilla chips from three co-packers, one of which is under contract;
- a portion of our requirements for Terra's Yukon Gold® line from one co-packer, which is under contract;
- the requirements for our canned soups from two co-packers, which are under contract;

- all of our Earth’s Best® baby food products from two co-packers, which are under contract; and
- a portion of our Ethnic Gourmet® products from one co-packer, which is under contract.

**Trademarks**

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

**Competition**

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

The beverage markets for both tea and soy beverages are large and highly competitive. Competitive factors in the tea industry include product quality and taste, brand awareness among consumers, variety of specialty tea flavors, interesting or unique product names, product packaging and package design, supermarket and grocery store shelf space, alternative distribution channels, reputation, price, advertising and promotion. Celestial Seasonings currently competes in the specialty tea market segment which consists of herb tea, green tea, wellness tea and black tea. Celestial Seasonings specialty tea products, like other specialty tea products, are priced higher than most commodity black tea products.

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

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

The refrigerated soy beverage market is primarily driven by one brand, Silk®, which is owned by Dean Foods and holds a significant share of refrigerated soymilk space through its strong national distribution system. In 2003, we switched our primary focus from our refrigerated Westsoy® product and redirected it to focus our efforts on our Soy Dream® and Rice Dream® refrigerated products, specifically targeting accounts that agree to partner with us in strong soy milk markets that distribute both aseptic and refrigerated products.

### Government Regulation

Along with our manufacturers, brokers, distributors and co-packers, we are subject to extensive regulation by federal, state and local authorities. The federal agencies governing our business include the Federal Trade Commission (FTC), FDA, United States Department of Agriculture (USDA), and Occupational Safety and Health Administration (OSHA). These agencies regulate, among other things, the production, sale, safety, advertising, labeling of and ingredients used in our products. Under various statutes, these agencies prescribe the requirements and establish the standards for quality, purity and labeling. Among other requirements, the USDA, in certain circumstances, must approve our products, including a review of the manufacturing processes and facilities used to produce these products before these products can be marketed in the United States. In addition, advertising of our business is subject to regulation by the FTC. Our activities are also regulated by state agencies as well as county and municipal authorities. We are also subject to the laws of the foreign jurisdictions in which we manufacture and sell our products.

### Independent Certification

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

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

### Available Information

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

- our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with the Securities and Exchange Commission (SEC);
- our policies related to corporate governance, including our Code of Business Conduct and Ethics applying to our directors, officers and employees (including our principal executive officer, and principal financial and accounting officer) that we have adopted to meet the requirements set forth in the rules and regulations of the SEC, and
- the charters of the Audit, Compensation and Corporate Governance & Nominating Committees of our Board of Directors.

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

## Item 2. Properties.

Our corporate headquarters are located in approximately 35,000 square feet of leased office space located at 58 South Service Road, Melville, New York 11747, to which we relocated in January 2002. The lease on this facility expires in 2012 with a current annual rental of approximately $1.2 million.

We own a manufacturing and office facility in Boulder, Colorado, built in 1990 on 42 acres of Company-owned land. The facility has approximately 167,000 square feet, of which 50,000 square feet is office space and 117,000 square feet is manufacturing space.

We own a 75,000 square foot manufacturing facility in Moonachie, New Jersey to manufacture our Terra® vegetable chip products.

We own and operate manufacturing and distribution centers in Hereford, Texas (134,000 square feet) and Shreveport, Louisiana (36,000 square feet) for certain of our natural food product lines.

We lease 81,000 square feet of warehouse space in Boulder, Colorado which is used for the storage and shipment of our tea and beverage products. The lease expires in 2012, and provides for a current annual rental of approximately $500,000.

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

We lease a 28,864 square foot manufacturing facility in Framingham, Massachusetts which is used to manufacture Ethnic Gourmet® frozen meals. The lease on this facility expires in 2006 with a current annual rental of approximately $0.3 million.

We lease a 24,275 square foot manufacturing facility in Culver City, California through 2011 that produces our JASON® health and body care products. We also lease two nearby locations, a 39,000 square foot warehouse in Inglewood, California used for storage and shipment of our health and body care products through 2007 and a 30,000 square foot warehouse in Culver City, California used for storage of raw materials for our health and body care products through 2005. The leases on our properties in Culver City require aggregate annual rentals of approximately $770,000.

We lease 375,000 square feet of warehouse space in a building located in Ontario, California. The lease provides for a minimum annual rental of approximately $1.3 million and provides renewal options. The lease expires in 2007. This facility serves as one of our West Coast distribution centers for principally all of our product lines.

We operate a 7,000 square foot warehouse and distribution center located in East Hills, New York which is utilized to distribute frozen kosher food products. The lease on this property provides for annual rentals of approximately $55,000 and expires in 2005.

Outside the United States, we own and operate a 53,000 square foot manufacturing and office facility in Vancouver, British Columbia that produces soy-based meat substitute products; a 135,000 square foot manufacturing, distribution and office facility in Maldegem, Belgium, which produces natural and organic food products; and a 30,000 square foot processing and distribution center in Sombreffe, Belgium, which processes fresh organic produce. In addition, we lease a 19,000 square foot facility located in Brussels, Belgium, which produces fresh prepared appetizers and sandwiches. The lease on this property provides for annual rentals of approximately $86,000 and expires in 2007. We also lease a 46,925 square foot manufacturing and office facility in Eitorf, Germany, which produces soy milk and other soy based products. The lease on this property provides for annual rentals of approximately $201,000 and expires in 2013.

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

### Item 3. Legal Proceedings.

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

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

None.

## PART II

### Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.

Outstanding shares of our Common Stock, par value $.01 per share, are traded on Nasdaq's National Market System (under the ticker symbol HAIN). The following table sets forth the reported high and low closing prices for our Common Stock for each fiscal quarter from July 1, 2002 through September 1, 2004.

| | Common Stock | | | |
|---|---|---|---|---|
| | Fiscal 2004 | | Fiscal 2003 | |
| | High | Low | High | Low |
| First Quarter | $20.29 | $15.85 | $17.88 | $12.13 |
| Second Quarter | 24.02 | 18.10 | 16.42 | 12.65 |
| Third Quarter | 24.09 | 20.90 | 15.82 | 11.84 |
| Fourth Quarter | 22.14 | 17.13 | 17.61 | 15.14 |
| July 1 - September 1, 2004 | 18.00 | 15.24 | | |

As of September 1, 2004, there were 514 holders of record of our Common Stock.

We have not paid any dividends on our Common Stock to date. We intend to retain all future earnings for use in the development of our business and do not anticipate declaring or paying any dividends in the foreseeable future. The payment of all dividends will be at the discretion of our Board of Directors and will depend on, among other things, future earnings, operations, capital requirements, contractual restrictions, including restrictions within our Credit Facility (as defined below), our general financial condition and general business conditions.

The table below sets forth information with respect to our equity compensation plans as of June 30, 2004:

| Plan Category | Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights | Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights | Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in column (a)) |
|---|---|---|---|
| | (a) | (b) | (c) |
| Equity compensation plans approved by security holders | 6,769,437 | $18.67 | 2,018,882 |
| Equity compensation plans not approved by security holders | N/A | N/A | N/A |
| Total | 6,769,437 | $18.67 | 2,018,882 |

**Issuer Purchases of Equity Securities**

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(a) | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| July 1-31, 2003 | | | | |
| August 1-31, 2003 | | | | |
| September 1-30, 2003 | 15,897 | $17.53 | 15,897 | 684,401 |
| October 1-31, 2003 | | | | |
| November 1-30, 2003 | | | | |
| December 1-31, 2003 | | | | |
| January 1-31, 2004 | | | | |
| February 1-29, 2004 | | | | |
| March 1-31, 2004 | | | | |
| April 1-30, 2004 | | | | |
| May 1-31, 2004 | 10,000 | 17.68 | 10,000 | 674,401 |
| June 1-30, 2004 | 39, 040 | 17.24 | 39,040 | 635,361 |
| Total | 64,937 | 17.38 | 64,937 | 635,361 |

(a) The Company's plan to repurchase up to one million shares of its common stock was first announced publicly on a conference call on August 29, 2002.

### Item 6. Selected Financial Data.

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

| | Year Ended June 30 | | | | |
|---|---|---|---|---|---|
| | 2004 | 2003 | 2002 | 2001 | 2000 |
| Operating results: | | | | | |
| Net sales | $544,058 | $466,459 | $395,954 | $345,661 | $ 332,436 |
| Income (loss) before extraordinary item and cumulative change in accounting principle (a) | 27,008 | 27,492 | 2,971 | 23,589 | (11,403) |
| Extraordinary item | — | — | — | — | (1,940) |
| Cumulative change in accounting principle | — | — | — | — | (3,754) |
| Net income (loss) (a) | $ 27,008 | $ 27,492 | $ 2,971 | $ 23,589 | $ (17,097) |
| Basic earnings per common share: | | | | | |
| Income (loss) before extraordinary item and cumulative change in accounting principle | $ .77 | $ .81 | $ .09 | $ .71 | $ (.41) |
| Extraordinary item | — | — | — | — | (.07) |
| Cumulative change in accounting principle | — | — | — | — | (.13) |
| Net income (loss) | $ .77 | $ .81 | $ .09 | $ .71 | $ (.61) |
| Diluted earnings per common share (b): | | | | | |
| Income (loss) before extraordinary item and cumulative change in accounting principle | $ .74 | $ .79 | $ .09 | $ .68 | $ (.41) |
| Extraordinary item | — | — | — | — | (.07) |
| Cumulative change in accounting principle | — | — | — | — | (.13) |
| Net income (loss) | $ .74 | $ .79 | $ .09 | $ .68 | $ (.61) |
| Financial Position: | | | | | |
| Working Capital | $129,949 | $ 83,324 | $ 70,942 | $ 92,312 | $ 89,750 |
| Total Assets | 684,231 | 581,548 | 481,183 | 461,693 | 416,017 |
| Long-term Debt | 104,294 | 59,455 | 10,293 | 10,718 | 5,622 |
| Stockholders' Equity | 496,765 | 440,797 | 403,848 | 396,653 | 351,724 |

(a) Amounts for 2001 and 2000 include amortization of goodwill and indefinite-life intangible assets, net of tax, amounting to $4 million, or $0.12 per share, and $3.8 million, or $0.13 per share, respectively. In subsequent years, no amortization expense has been incurred in accordance with SFAS No. 142, which was adopted by the Company effective at the beginning of 2002.

(b) As a result of the net loss for the year ended June 30, 2000, diluted earnings per share is the same as basic earnings per share since the effects of stock options and warrants are not included as the results would be antidilutive.

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

#### General

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

We made the following acquisitions during the three years ended June 30, 2004:

- On June 3, 2004, we acquired Jason Natural Products, Inc., a California-based manufacturer and marketer of natural health and body care products.
- On May 27, 2004, we acquired the Rosetto® and Ethnic Gourmet® businesses of Heinz, which produce and market frozen pasta and natural ethnic frozen meals, respectively.
- On February 25, 2004, we acquired Natumi AG, a German producer and marketer of soy milk and other soy based products.

- On June 17, 2003, we acquired Acirca, Inc., a New York based manufacturer, distributor and marketer of natural and organic juices, pasta sauces, soups and salsas under the Walnut Acres Certified Organic® brand.
- On May 14, 2003, we acquired Grains Noirs, N.V., a Belgian producer and marketer of fresh prepared organic appetizers, salads, sandwiches and other full-plated dishes.
- On December 2, 2002, we acquired the assets and business of Imagine Foods, Inc. ("Imagine") in the United States and the United Kingdom. Imagine is a non-dairy beverage business specializing in aseptic and refrigerated rice and soy milks, organic aseptic soups and broths, and organic non-dairy frozen desserts under the Rice Dream®, Soy Dream® and Imagine® brands.
- On December 10, 2001, we acquired Lima N.V., the leading Belgian natural and organic food manufacturer and marketer.

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

**Critical Accounting Policies**

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

*Valuation of Accounts and Chargebacks Receivable*

We perform ongoing credit evaluations on existing and new customers daily. We apply reserves for delinquent or uncollectible trade receivables based on a specific identification methodology and also apply a general reserve based on the experience we have with our trade receivables aging categories. Credit losses have been within our expectations over the last few years. While two of our customers represent approximately 28% of our trade receivable balance at June 30, 2004, we believe there is no credit exposure at this time.

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

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

*Inventory*

Our inventory is valued at the lower of cost or market. Cost has been derived principally using standard costs 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 reserve for slow moving or obsolete raw ingredients and packaging.

*Property, Plant and Equipment*

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

*Intangibles*

Goodwill is no longer amortized and the value of an identifiable intangible asset is amortized over its useful life unless the asset is determined to have an indefinite useful life. The carrying values of goodwill and other intangible assets with indefinite useful lives are tested annually for impairment.

*Revenue Recognition and Sales Incentives*

Sales are recognized upon the shipment of finished goods to customers and are reported net of sales incentives. Allowances for cash discounts and returns are recorded in the period in which the related sale is recognized. Shipping and handling costs are included as a component of cost of sales.

**Results of Operations**

*Fiscal 2004 Compared to Fiscal 2003*

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

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

Selling, general and administrative expenses increased by $18.7 million to $114.4 million in 2004 from $95.7 million in 2003. Such expenses as a percentage of net sales amounted to 21.0% in 2004 as compared with 20.5% in 2003. Selling, general and administrative expenses increased in overall dollars and as a percentage of sales, primarily as a result of $3.5 million of additional costs associated with businesses acquired in 2004 as well as the full year of operations of businesses acquired in 2003, $4.1 million of increased consumer marketing to support our increased sales, including our new Carb Fit line of products, $0.5 million of added costs relating to the implementation of required provisions of the Sarbanes Oxley Act, and increased costs relating to the management changes that have been made during the second half of our fiscal year.

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

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

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

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

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

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

*Fiscal 2003 Compared to Fiscal 2002*

Net sales in 2003 were $466.5 million, an increase of 17.8% over net sales of $396.0 million in 2002. The increase in sales came principally from the net sales of businesses acquired in 2003 as well as from the full year of our operation of businesses acquired in 2002. Net sales in 2003 were favorably impacted by the normal winter weather across the United States after the unusually warm winter of the prior year, which provided higher unit sales volumes for tea, soups and hot cereals while the net sales of our Terra Chips® products experienced declines during the year caused principally by weaker Frites® and Red Bliss® sales. Our sales were favorably impacted by approximately 1.8% due to the weaker U.S. dollar.

Gross profit in 2003 increased to $141.4 million, or 30.3% of net sales, as compared to $104.0 million, or 26.3% of net sales, in 2002. The 2002 gross profit adjusted for the restructuring and non-recurring charges in that year (see *2002 Restructuring and Non-recurring Charges* discussed below) was $116.4 million, or 29.4% of net sales. The improvement in gross profit as a percentage of sales in 2003 came from more efficient trade spending as a percentage of sales and improvements in our delivery and warehousing costs as a percentage of sales, offset by higher ingredient costs and the lower gross profits associated with businesses acquired in Europe.

Selling, general and administrative expenses increased by $7.8 million to $95.7 million, in 2003 from $87.9 million in 2002. The increase in spending in selling, general and administrative expenses came principally from $5.5 million of costs brought on by businesses acquired in 2003 as well as from the full year of our operation of businesses acquired in 2002, $0.6 million of increased consumer marketing, and increases across all levels of general and administrative expenses to support our growing business. As a percentage of sales, selling, general and administrative expenses decreased in 2003 to 20.5% from 22.2% in 2002. This decrease was caused principally by the increase in sales at a faster rate than the increase in general and administrative costs as we leverage the infrastructure in place as we acquire additional new businesses and add them to existing infrastructures, particularly in the United States.

Operating income increased to $46.2 million in 2003 from $7.3 million in 2002. The 2002 amount was reduced by the restructuring and non-recurring charges of $21.3 million in that year. The increase in operating income came from the elimination of those 2002 charges, and from the higher level of sales and gross profits, offset by higher selling, general and administrative expenses, all discussed above.

Interest and other expenses, net, decreased to $2.0 million in 2003 from $2.5 million in 2002. This decrease is principally comprised of an increase in interest expense by approximately $0.8 million in 2003, such increase coming from the increased borrowings during 2003 to fund the three acquisitions of businesses we made during the year, offset by the elimination of the $1.5 million charge we incurred in 2002 when we closed the Terra Chips former manufacturing facility in Brooklyn, NY.

Income before income taxes increased to $44.2 million in 2003 from $4.8 million in 2002. This increase is the result of the aforementioned increase in operating income and the overall reduction of interest and other expenses, net.

Income taxes increased to $16.7 million in 2003 from $1.8 million in 2002. Our effective tax rate was 37.8% in 2003 compared to 38.1% in 2002. The small reduction in our effective tax rate came principally from the departure of our Terra Chips manufacturing facility from New York City and the resulting elimination of the related local income taxes.

Net income for 2003 amounted to $27.5 million compared to $3.0 million in 2002. This $24.5 million increase in net income is primarily attributable to the aforementioned increase in income before income taxes offset by the increase in income tax expense.

*2002 Restructuring and Non-recurring Charges*

During the fourth quarter of fiscal 2002, we recorded charges aggregating $21.3 million, before taxes, related to the expected sale of the manufacturing assets of our Health Valley® facility in Irwindale, California ($11.3 million) and the discontinuance of our supplements business ($7.9 million) and Weight Watchers licenses ($2.1 million). Approximately $17.9 million of these charges were non-cash in nature.

During the second half of 2002, we decided to pursue and execute a plan to sell the Health Valley® Irwindale plant. During the fourth quarter of 2002, we entered into an agreement to sell the manufacturing assets of the facility to a co-packer. Our decision to dispose of this facility was largely the result of our inability to reach practical capacity at the facility. Accordingly, we identified a co-packer who can produce our products and bring more production into the plant by offering other branded and private label companies the opportunity to have their products manufactured by the co-packer.

As of June 30, 2002, with the expected sale of all plant assets and certain inventories to this co-packer, we recorded this restructuring and non-recurring charge. The charge included $7.6 million of charges associated with reduced values of inventories of raw ingredients and packaging, certain lease obligations and other items, none of which included employee severance costs. Of this $7.6 million of charges, our 2002 gross profit was reduced by $5.5 million charged to cost of sales as required by accounting rules. At June 2002, approximately $2.1 million of future costs were accrued, principally related to lease exit costs. In addition, we recorded $3.7 million of impairment charges to reduce the Health Valley® plant's manufacturing assets to their net realizable values. Additional restructuring charges of approximately $0.4 million were incurred during the year ended June 30, 2003, for severance liabilities and related employee costs and trade items that could not be accrued at June 30, 2002. In addition, at the time of lease termination in fiscal 2003, we were able to reduce our potential lease exit costs by $0.9 million, which was recorded as a credit to restructuring and other non-recurring charges. Through June 30, 2004, approximately $1.6 million was charged against the Health Valley® facility charge accrual in the aggregate.

In June 2002, we announced that we had discontinued our supplements business at Celestial Seasonings®, and that we would not renew our license to sell certain Weight Watchers products. These product lines did not represent our core product category of natural and organic foods, and further, the supplements business had faced increasing competition over the last few years along with reduced consumer interest. Our operating results and financial position have been only minimally enhanced in fiscal 2003 and fiscal 2004 without these non-core product lines. In addition, we can now better utilize our management resources away from these non-core product lines. In connection with these discontinuances, we recorded charges of $7.9 million related to supplements, principally for inventories, packaging and trade items. Of this $7.9 million charge, $6.2 million had the effect of reducing our 2002 gross profit. The charge for the non-renewal of the Weight Watchers license amounted to $2.1 million, principally for inventories, packaging and trade items, of which $0.7 million reduced our 2002 gross profit. Approximately $4.3 million had been accrued at June 30, 2002 associated with these future costs. At June 30, 2003, it was determined that $2 million of the accruals for sales returns and other trade incentives would no longer be required and, therefore, such amount was reversed. Through June 30, 2004, approximately $2.3 million has been charged against these accruals in the aggregate.

## Liquidity and Capital Resources

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

On April 22, 2004, we entered into a new $300 million Amended and Restated Credit Agreement (the "Credit Facility"), arranged by Fleet Securities, and led by Fleet National Bank, SunTrust Bank, HSBC Bank USA, KeyBank and First Pioneer Farm Credit, increasing our credit line by $60 million, and providing us with an accordion feature under which we can request a further increase of $50 million in the credit line. The credit facility is guaranteed by all of our direct and indirect domestic subsidiaries, and we have pledged some of the stock of our first-tier foreign subsidiaries. We are required to comply with customary affirmative and negative covenants for facilities of this nature. As of June 30, 2004, we had $99.2 million borrowed under the Credit Facility.

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

Net cash provided by operations was $30.8 million and $21.9 million for 2004 and 2003, respectively. Our working capital and current ratio were $130.0 million and 2.9 to 1, respectively, at June 30, 2004 compared with $83.3 million and 2.3 to 1 respectively, at June 30, 2003. Our improvement in working capital was derived principally from the net income earned during the year ended June 30, 2004 and the working capital acquired in business combinations.

Net cash provided by financing activities was $48.9 million for 2004 and $49.2 million for 2003. During 2004 and 2003, we borrowed cash to fund acquisitions made during each year. During Fiscal 2004, we received $19.8 million of proceeds on the exercise of stock options and warrants. During the year ended June 30, 2003, we acquired .3 million shares of our common stock in open market purchases at a cost of approximately $4.3 million.

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

| | Payments Due by Period | | | | |
|---|---|---|---|---|---|
| | Total | Less than 1 year | 1-3 years | 3-5 years | Thereafter |
| Debt instruments | $ 109,258 | $ 5,486 | $ 2,495 | $ 101,069 | $ 208 |
| Capital lease obligations | 1,881 | 1,359 | 522 | | |
| Operating leases | 25,313 | 4,619 | 8,735 | 4,789 | 7,170 |
| Total contractual cash obligations | $ 136,452 | $ 11,464 | $ 11,752 | $ 105,858 | $ 7,378 |

We believe that cash on hand of $27.5 million at June 30, 2004, as well as projected fiscal 2005 cash flows from operations, and availability under our Credit Facility are sufficient to fund our working capital needs, anticipated capital expenditures of approximately $12 million, and the $10.7 million of debt and lease obligations described in the table above, during the next fiscal year. We currently invest our cash on hand in highly liquid short-term investments yielding approximately .9% interest.

## Note Regarding Forward Looking Information

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

- general economic and business conditions;
- the ability of the Company to implement its business and acquisition strategy;

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

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

*Our Acquisition Strategy Exposes Us to Risk*

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

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

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

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

Our future success may be dependent upon our ability to effectively integrate new brands and businesses 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 or business;
- 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 or business's distribution channels with our own;
- coordinating sales force activities of an acquired company or in selling the products of an acquired company to our customer base; or
- integrating an acquired company into our management information systems or in integrating an acquired company's products into our product mix.

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

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

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

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

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

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

*Our Markets Are Highly Competitive*

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

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

In the future, competitors may introduce other products that compete with our products and these competitive products may have an adverse effect on our business, results of operations and financial condition.

*We Are Dependent Upon the Services of Our Chief Executive Officer*

We are highly dependent upon the services of Irwin D. Simon, our chairman of the board, president and chief executive officer. We believe Mr. Simon's reputation as our founder and his expertise and knowledge in the natural and specialty foods market are critical factors in our continuing growth. The loss of the services of Mr. Simon could harm our business.

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

We rely upon sales efforts made by or through non-affiliated food brokers to distributors and other customers. The loss of, or business disruption at, one or more of these distributors or brokers may harm our business. If we were required to obtain additional or alternative distribution and food brokerage agreements or arrangements in the future, we cannot be certain that we will be able to do so on satisfactory terms or in a timely manner. Two of our distributors, United Natural Foods and Tree of Life, accounted for approximately 20% and 12%, respectively, of our net sales for the fiscal year ended June 30, 2004, approximately 18% and 15%, respectively, for the year ended June 30, 2003, and approximately 17% and 15%, respectively, for the year ended June 30, 2002. Our inability to enter into satisfactory brokerage agreements may inhibit our ability to implement our business plan or to establish markets necessary to develop our products successfully. Food brokers act as selling agents representing specific brands on a non-exclusive basis under oral or written agreements generally terminable at any time on 30 days' notice, and receive a percentage of net sales as compensation. Distributors purchase directly for their own account for resale. In addition, the success of our business depends, in large part, upon the establishment and maintenance of a strong distribution network.

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

For the years ended June 30, 2004, 2003 and 2002, approximately 39%, 42% and 54%, respectively, of our revenue was derived from products manufactured at our manufacturing facilities. An interruption in or the loss of operations at one or more of these facilities, or the failure to maintain our labor force at one or more of these facilities, could delay or postpone production of our products, which could have a material adverse effect on our business, results of operations and financial condition until we could secure an alternate source of supply.

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

During 2004, 2003 and 2002, approximately 61%, 58% and 46%, respectively, of our revenue was derived from products manufactured at independent co-packers. In the U.S., we presently obtain:

- all of our requirements for non-dairy beverages from five co-packers, all of which are under contract or other arrangements;
- all of our U.S. requirements for rice cakes from one co-packer;
- all of our Health Valley® baked goods and cereal products from one co-packer, which is under contract;
- all of our cooking oils from one co-packer;
- principally all of our tortilla chips from three co-packers, one of which is under contract;
- a portion of our requirements for Terra's Yukon Gold® line from one co-packer, which is under contract;
- the requirements for our canned soups from two co-packers, which are under contract;
- all of our Earth's Best® baby food products from two co-packers, which are under contract; and
- a portion of our Ethnic Gourmet® products from one co-packer, which is under contract.

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

*Our Tea Ingredients Are Subject to Import Risk*

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

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

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

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

*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 2004, approximately 20.3% of our net sales were generated from sales outside the United States, while such sales outside the United States were 17.3% of net sales in 2003 and 14.3% in 2002.

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

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

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

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

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

*Our Products Must Comply With Government Regulation*

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

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

The FDA published the final rule amending the Nutritional Labeling regulations to require declaration of "Trans Fatty Acids" in the nutritional label of conventional foods and dietary supplements on July 11, 2003. The final rule will be effective on January 1, 2006. Additionally, an allergen labeling law was passed and signed on August 3, 2004. This law requires certain allergens to be clearly labeled by January 1, 2006. We are in the process of revising our labels to comply with the final rules.

Furthermore, new government laws and regulations may be introduced in the future that could result in additional compliance costs, seizures, confiscations, recalls or monetary fines, any of which could prevent or inhibit the development, distribution and sale of our products. If we fail to comply with applicable laws and regulations, we may be subject to civil remedies, including fines, injunctions, recalls or seizures, as well as potential criminal sanctions, which could have a material adverse effect on our business, results of operations and financial condition.

*Product Recalls Could Have a Material Adverse Effect on Our Business*

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

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

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

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

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

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

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

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

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

Our officers and directors beneficially own approximately 1.3% of our common stock as of June 30, 2004. In addition, two of these directors currently serve as a designee and a jointly appointed designee of an affiliate of H.J. Heinz Company, or Heinz, which owns approximately 16.7% of our common stock as of June 30, 2004. Accordingly, our officers and directors may be in a position to influence the election of our directors and otherwise influence stockholder action.

*Our Ability to Issue Preferred Stock May Deter Takeover Attempts*

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

**Supplementary Quarterly Financial Data:**

Unaudited quarterly financial data (in thousands, except per share amounts) for fiscal 2004 and 2003 is summarized as follows:

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

| | Three Months Ended | | | |
|---|---|---|---|---|
| | September 30, 2002 | December 31, 2002 | March 31, 2003 | June 30, 2003(a) |
| Net sales | $ 96,420 | $ 123,006 | $ 129,224 | $ 117,809 |
| Gross profit | 27,798 | 40,771 | 39,705 | 33,131 |
| Restructuring and non-recurring charges | — | 440 | — | (875) |
| Operating income | 7,703 | 13,356 | 13,804 | 11,296 |
| Income before income taxes | 7,533 | 13,150 | 12,620 | 10,861 |
| Net income | 4,689 | 8,186 | 7,856 | 6,761 |
| Basic earnings per common share | $ .14 | $ .24 | $ .23 | $ .20 |
| Diluted earnings per common share | $ .14 | $ .24 | $ .23 | $ .19 |

(a) Gross profit for the three months ended June 30, 2003 was positively impacted by the following offsetting items: a reduction by $1.5 million of chargebacks receivable from customers, and a $2.0 million reduction of reserves established last year in connection with similar items included in the charges recorded for supplements and other items. These offsetting items increased gross profit by $0.5 million.

## Seasonality

Our tea business consists primarily of manufacturing and marketing 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. This is also true for our soups and hot cereals businesses, but to a lesser extent. 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, abnormal and inclement weather patterns 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. In some future periods, our operating results may fall below the expectations of securities analysts and investors, which could harm our business.

## Inflation

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

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

### Market Risk

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

- interest rates on debt and cash equivalents, and
- foreign exchange rates, generating translation and transaction gains and losses.

### Interest Rates

We centrally manage our debt and cash equivalents considering investment opportunities and risks, tax consequences and overall financing strategies. Our cash equivalents consist primarily of commercial paper and obligations of U.S. Government agencies. Assuming year-end 2004 variable debt and cash equivalents levels, a one-point change in interest rates would have the effect of increasing our interest expense by approximately $1.0 million, thereby reducing our net income by approximately $.02 per share.

### Foreign Operations

Operating in international markets involves exposure to movements in currency exchange rates, which are volatile at times. The economic impact of currency exchange rate movements is complex because such changes are often linked to variability in real growth, inflation, interest rates, governmental actions and other factors. Consequently, isolating the effect of changes in currency does not incorporate these other important economic factors. These changes, if material, could cause adjustments to our financing and operating strategies. During fiscal 2004, approximately 20.3% of our net sales were generated from sales outside the United States, while such sales outside the United States were 17.3% of net sales in 2003 and 14.3% in 2002.

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

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

## Item 8. Financial Statements and Supplementary Data.

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

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets - June 30, 2004 and 2003

Consolidated Statements of Income - Years ended June 30, 2004, 2003 and 2002

Consolidated Statements of Stockholders' Equity - Years ended June 30, 2004, 2003 and 2002

Consolidated Statements of Cash Flows - Years ended June 30, 2004, 2003 and 2002

Notes to Consolidated Financial Statements

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

Schedule II Valuation and qualifying accounts

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

**Report of Independent Registered Public Accounting Firm**

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

We have audited the accompanying consolidated balance sheets of The Hain Celestial Group, Inc. and Subsidiaries as of June 30, 2004 and 2003, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended June 30, 2004. 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, 2004 and 2003, and the consolidated results of their operations and their cash flows for each of the three years in the period ended June 30, 2004, 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.

/s/ Ernst & Young LLP

Melville, New York
August 30, 2004

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

| | June 30, | |
|---|---|---|
| | **2004** | **2003** |
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 27,489 | $ 10,984 |
| Accounts receivable, less allowance for doubtful accounts of $2,185 and $1,748 | 69,392 | 61,215 |
| Inventories | 86,873 | 66,444 |
| Recoverable income taxes, net | — | 223 |
| Deferred income taxes | 3,111 | 3,171 |
| Other current assets | 11,449 | 7,671 |
| Total current assets | 198,314 | 149,708 |
| Property, plant and equipment, net of accumulated depreciation and amortization of $40,799 and $31,555 | 87,002 | 68,665 |
| Goodwill | 333,218 | 296,508 |
| Trademarks and other intangible assets, net of accumulated amortization of $8,349 and $7,377 | 55,793 | 55,975 |
| Other assets | 9,904 | 10,692 |
| Total assets | $684,231 | $581,548 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | $ 59,031 | $ 55,710 |
| Income taxes payable | 2,489 | 1,867 |
| Current portion of long-term debt | 6,845 | 8,807 |
| Total current liabilities | 68,365 | 66,384 |
| Long-term debt, less current portion | 104,294 | 59,455 |
| Deferred income taxes | 14,807 | 14,912 |
| Total liabilities | 187,466 | 140,751 |
| Stockholders' equity: | | |
| Preferred stock – $.01 par value, authorized 5,000,000 shares, no shares issued | — | — |
| Common stock – $.01 par value, authorized 100,000,000 shares, issued 37,064,648 and 34,810,722 shares | 371 | 348 |
| Additional paid-in capital | 394,740 | 364,877 |
| Deferred compensation | (2,809) | — |
| Retained earnings | 106,097 | 79,089 |
| Foreign currency translation adjustment | 7,651 | 4,639 |
| | 506,050 | 448,953 |
| Less: 671,556 and 606,619 shares of treasury stock, at cost | (9,285) | (8,156) |
| Total stockholders' equity | 496,765 | 440,797 |
| Total liabilities and stockholders' equity | $684,231 | $581,548 |

See notes to consolidated financial statements.

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

| | Year Ended June 30 | | |
|---|---|---|---|
| | **2004** | **2003** | **2002** |
| Net Sales | $ 544,058 | $ 466,459 | $ 395,954 |
| Cost of sales | 383,794 | 325,054 | 291,915 |
| Gross profit | 160,264 | 141,405 | 104,039 |
| Selling, general and administrative expenses | 114,386 | 95,681 | 87,920 |
| Restructuring and other non-recurring charges | — | (435) | 4,977 |
| Impairment of long-lived assets | — | — | 3,87 |
| Operating income | 45,878 | 46,159 | 7,264 |
| Interest expense, net and other expenses | 2,490 | 1,995 | 2,461 |
| Income before income taxes | 43,388 | 44,164 | 4,803 |
| Provision for income taxes | 16,380 | 16,672 | 1,832 |
| Net income | $ 27,008 | $ 27,492 | $ 2,971 |
| Earnings per share: | | | |
| Basic | $ .77 | $ .81 | $ .09 |
| Diluted | $ .74 | $ .79 | $ .09 |
| Weighted average common shares outstanding: | | | |
| Basic | 35,274 | 33,910 | 33,760 |
| Diluted | 36,308 | 34,722 | 34,744 |

See notes to consolidated financial statements.

THE HAIN CELESTIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED JUNE 30, 2002, 2003 AND 2004 (In thousands, except per share and share data)

| | Common Stock | | Additional Paid-In Capital | Unamortized Non-Cash Compensation | Retained Earnings | Treasury Stock | | Foreign Currency Translation Adjustment | Total | Compre-hensive Income (Loss) |
|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount at $.01 | | | | Shares | Amount | | | |
| Balance at June 30, 2001 | 33,771,124 | $338 | $348,942 | | $ 48,626 | 100,000 | $ (27) | $ (978) | $396,653 | |
| Exercise of stock options | 94,341 | 1 | 992 | | | | | | 993 | |
| Purchase of treasury shares | | | | | | 206,917 | (3,600) | | (3,600) | |
| Issuance of common stock | 210,174 | 2 | 4,507 | | | | | | 4,509 | |
| Non-cash compensation charge | | | 47 | | | | | | 47 | |
| Tax benefit from stock options | | | 334 | | | | | | 334 | |
| Comprehensive income: | | | | | | | | | | |
| Net income | | | | | 2,971 | | | | 2,971 | $ 2,971 |
| Translation adjustments | | | | | | | | 1,941 | 1,941 | 1,941 |
| Total comprehensive income | | | | | | | | | | $ 4,912 |
| Balance at June 30, 2002 | 34,075,639 | 341 | 354,822 | | 51,597 | 306,917 | (3,875) | 963 | 403,848 | |
| Exercise of stock options | 67,521 | 1 | 623 | | | | | | 624 | |
| Purchase of treasury shares | | | | | | 299,702 | (4,281) | | (4,281) | |
| Issuance of common stock | 667,562 | 6 | 9,206 | | | | | | 9,212 | |
| Non-cash compensation charge | | | 46 | | | | | | 46 | |
| Tax benefit from stock options | | | 180 | | | | | | 180 | |
| Comprehensive income: | | | | | | | | | | |
| Net income | | | | | 27,492 | | | | 27,492 | $27,492 |
| Translation adjustments | | | | | | | | 3,676 | 3,676 | 3,676 |
| Total comprehensive income | | | | | | | | | | $31,168 |
| Balance at June 30, 2003 | 34,810,722 | 348 | 364,877 | | 79,089 | 606,619 | (8,156) | 4,639 | 440,797 | |
| Exercise of stock options and warrants | 2,103,926 | 21 | 19,787 | | | | | | 19,808 | |
| Purchase of treasury shares | | | | | | 64,937 | (1,129) | | (1,129) | |
| Restricted stock grant | 150,000 | 2 | 3,133 | $ (3,135) | | | | | — | |
| Non-cash compensation charge | | | 46 | 326 | | | | | 372 | |
| Tax benefit from stock options | | | 6,897 | | | | | | 6,897 | |
| Net income for the period | | | | | | | | | | |
| Comprehensive income: | | | | | | | | | | |
| Net income | | | | | 27,008 | | | | 27,008 | $27,008 |
| Translation adjustments | | | | | | | | 3,012 | 3,012 | 3,012 |
| Total comprehensive income | | | | | | | | | | $30,020 |
| Balance at June 30, 2004 | 37,064,648 | $371 | $394,740 | $ (2,809) | $106,097 | 671,556 | $ (9,285) | $ 7,651 | $496,765 | |

See notes to consolidated financial statements.

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

| | Year Ended June 30 | | |
|---|---|---|---|
| | **2004** | **2003** | **2002** |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net income | $ 27,008 | $ 27,492 | $ 2,971 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Non-cash restructuring and non-recurring charges, including related inventory charges | — | — | 10,929 |
| Non-cash impairment of long-lived assets | — | — | 3,878 |
| Depreciation and amortization of property and equipment | 8,277 | 7,610 | 7,687 |
| Amortization of other intangible assets | 881 | 385 | 249 |
| Amortization of deferred financing costs | 605 | 624 | 423 |
| Provision for doubtful accounts | 438 | 103 | 551 |
| Deferred income taxes | 3,968 | 7,864 | (237) |
| Non-cash compensation | 372 | 46 | 47 |
| Increase (decrease) in cash attributable to changes in operating assets and liabilities, net of amounts applicable to acquired businesses: | | | |
| Accounts receivable | (5,230) | (4,973) | 1,824 |
| Inventories | (11,436) | (2,742) | (9,179) |
| Other current assets | (2,086) | (1,167) | (4,274) |
| Other assets | 1,888 | (1,745) | 1,836 |
| Accounts payable and accrued expenses | (1,403) | (9,320) | (7,494) |
| Accrued restructuring and non-recurring charges | — | (5,805) | 6,410 |
| Recoverable income taxes | 622 | 3,389 | 6,637 |
| Tax benefit of nonqualified stock options | 6,897 | 180 | 334 |
| Net cash provided by operating activities | 30,801 | 21,941 | 22,592 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Acquisitions of businesses, net of cash acquired | (50,734) | (57,528) | (13,568) |
| Purchases of property and equipment | (9,918) | (9,157) | (21,341) |
| Net cash used in investing activities | (60,652) | (66,685) | (34,909) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from bank revolving credit facility, net | 45,350 | 49,450 | — |
| Payments on economic development revenue bonds | (558) | (500) | (459) |
| Costs in connection with bank financing | (985) | (220) | (249) |
| Purchase of treasury stock | (1,129) | (4,281) | (3,600) |
| Proceeds from exercise of options and warrants, net of related expenses | 19,808 | 624 | 1,071 |
| Repayments (proceeds) of other long-term debt, net | (13,612) | 4,100 | (3,275) |
| Net cash provided by (used in) financing activities | 48,874 | 49,173 | (6,512) |
| Effect of exchange rate changes on cash | (2,518) | (983) | (276) |
| Net increase (decrease) in cash and cash equivalents | 16,505 | 3,446 | (19,105) |
| Cash and cash equivalents at beginning of year | 10,984 | 7,538 | 26,643 |
| Cash and cash equivalents at end of year | $ 27,489 | $ 10,984 | $ 7,538 |

See notes to consolidated financial statements.

## 1. BUSINESS

The Hain Celestial Group, Inc., a Delaware corporation, and its subsidiaries (collectively, the “Company”, and herein referred to as “we”, “us”, and “our”) manufacture, market, distribute and sell natural, organic, specialty and snack food products and natural health and body care products under brand names which are sold as “better-for-you” products. We are a leader in many of the top natural food categories, with such well-known food brands as Celestial Seasonings® teas, Hain Pure Foods®, Westbrae®, Westsoy®, Rice Dream®, Soy Dream®, Imagine®, Walnut Acres Certified Organic®, Ethnic Gourmet®, Rosetto®, Little Bear Organic Foods®, Bearitos®, Arrowhead Mills®, Health Valley®, Breadshop’s®, Casbah®, Garden of Eatin’®, Terra Chips®, Harry’s Premium Snacks®, Boston’s®, Lima®, Biomarche®, Grains Noirs®, Natumi®, Milkfree, Yves Veggie Cuisine®, DeBoles®, Earth’s Best®, and Nile Spice®. The Company’s principal specialty product lines include Hollywood® cooking oils, Estee® sugar-free products, Kineret® kosher foods, Boston Better Snacks®, and Alba Foods®. Our natural health and body care product line is marketed under the JASON®, Orjene®, Shaman Earthly Organics™ and Heather’s® brands.

We operate in one business segment: the sale of natural, organic and other food, beverage and body care products. During the three years ended 2004, approximately 39%, 42% and 54% of our revenues were derived from products that are manufactured within our own facilities with 61%, 58% and 46% produced by various co-packers. In fiscal 2004, 2003 and 2002, there were no co-packers who manufactured 10% or more of our products.

## 2. BASIS OF PRESENTATION

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

## 3. SUMMARY OF SIGNIFICANT AND CRITICAL ACCOUNTING POLICIES

### Consolidation Policy

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

### Use of Estimates

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

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

We perform ongoing credit evaluations on existing and new customers daily. We apply reserves for delinquent or uncollectible trade receivables based on a specific identification methodology and also apply an additional reserve based on the experience we have with our trade receivables aging categories. Credit losses have been within our expectations in recent years. While two of our customers represent 28%, 25% and 27% of our trade receivables balance as of June 30, 2004, 2003 and 2002, respectively, we believe there is no credit exposure at this time.

Based on cash collection history and other statistical analysis, we estimate the amount of unauthorized deductions our customers have taken that we expect to be repaid and collectible in the near future in the form of a chargeback receivable. While our estimate of this receivable balance ($6 million at June 30, 2004 and 2003) could be different had we used different assumptions and judgments, historically our cash collections of this type of receivable has been within our expectations and no significant write-offs have occurred; however, during the fourth quarter of 2003, we reduced our chargebacks receivable by $1.5 million.

During the year ended June 30, 2004, sales to two customers and their affiliates approximated 20% and 12%. These two customers accounted for approximately 18% and 15% of net sales in 2003 and approximately 17% and 15% of net sales in 2002.

### Inventory

Our inventory is valued at the lower of cost or market. Cost has been determined principally using standard costs utilized under the first-in, first-out method. We provide write-downs for finished goods expected to become non-saleable due to age and specifically identify and provide for slow moving or obsolete raw ingredients and packaging.

### Property, Plant and Equipment

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

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

### Intangibles

Goodwill is no longer amortized and the value of an identifiable intangible asset is amortized over its useful life unless the asset is determined to have an indefinite useful life. The carrying values of goodwill and other intangible assets with indefinite useful lives are tested annually for impairment.

### Revenue Recognition and Sales Incentives

Sales are recognized upon the shipment of finished goods to customers and are reported net of sales incentives. Allowances for cash discounts and returns are recorded in the period in which the related sale is recognized.

### Foreign Currency Translation

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

### Advertising Costs

Media advertising costs, which are included in selling, general and administrative expenses, amounted to $5.6 million for each of the two fiscal years 2004 and 2003 and $4.8 million for fiscal 2002. Such costs are expensed as incurred.

### Income Taxes

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

### Shipping and Handling Costs

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

**Fair Values of Financial Instruments**

At June 30, 2004 and 2003, we had $10.9 and $0.2 million invested in corporate money market securities, including commercial paper, repurchase agreements, variable rate instruments and bank instruments. These securities are classified as cash equivalents as their maturities when purchased are less than three months. At June 30, 2004 and 2003, the carrying values of these money market securities approximate their fair values.

We believe that the interest rates charged on our debt instruments approximate current borrowing rates and, accordingly, the carrying amounts of such debt at June 30, 2004 and 2003 approximate fair value.

**Accounting For Stock Issued to Employees**

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

Pro forma information regarding earnings and earnings per share is required by SFAS No. 123, and has been determined as if we have accounted for our stock options under the fair value method of that Statement. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions: risk free interest rates ranging from 4% to 6.77%; no dividend yield; volatility factors of the expected market price of our common stock of approximately 51% for fiscal 2004, 55% for fiscal 2003, and 93% for fiscal 2002; and a weighted-average expected life of the options of five years in each year.

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

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

| | **2004** | **2003** | **2002** |
|---|---|---|---|
| Net income, as reported | $ 27,008 | $ 27,492 | $ 2,971 |
| Non-cash compensation charge net of related tax effects | 232 | 30 | 30 |
| Stock-based employee compensation expense determined under fair value method, net of related tax effects | (3,921) | (11,365) | (15,165) |
| Pro forma net income (loss) | $ 23,319 | $ 16,157 | $(12,164) |
| Basic net income per common share: | | | |
| As reported | $ .77 | $ .81 | $ .09 |
| Pro forma | $ .66 | $ .48 | $ (.36) |
| Diluted net income per common share: | | | |
| As reported | $ .74 | $ .79 | $ .09 |
| Pro forma | **$ .64** | $ .47 | $ (.36) |

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

During 2002, we accounted for the impairment of long-lived assets, other than goodwill and other indefinite life intangibles, in accordance with Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" ("SFAS No. 121"). SFAS No. 121 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the recorded value of the asset may not be recoverable. We perform such a review at each balance sheet date whenever events and circumstances have occurred that indicate possible impairment. We consider continued operating losses and significant and long-term changes in prevailing market conditions to be the primary indicators of potential impairment. In accordance with SFAS No. 121, we use an estimate of the future undiscounted net cash flows of the related asset or asset grouping over the remaining life to measure whether the assets are recoverable. During fiscal 2002, as part of the expected Health Valley Irwindale manufacturing facility sale (see Note 5),we recorded a $3.7 million impairment charge to reduce the Health Valley plant's manufacturing assets to their net realizable value.

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

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

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

### Deferred Financing Costs

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

### Earnings Per Share

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

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

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Numerator: | | | |
| Net income | $27,008 | $27,492 | $ 2,971 |
| Denominator (in thousands): | | | |
| Denominator for basic earnings per share—weighted average shares outstanding during the period | 35,274 | 33,910 | 33,760 |
| Effect of dilutive securities: | | | |
| Stock options and awards | 940 | 653 | 802 |
| Warrants | 94 | 159 | 182 |
| | 1,034 | 812 | 984 |
| Denominator for diluted earnings per share—adjusted weighted average shares and assumed conversions | 36,308 | 34,722 | 34,744 |
| Basic net income per share | $ .77 | $ .81 | $ .09 |
| Diluted net income per share | $ .74 | $ .79 | $ .09 |

Options totaling 2,964,303 in 2004, 4,528,953 in 2003 and 4,068,369 in 2002, were excluded from our earnings per share computations as their effects would have been anti-dilutive.

**Reclassifications**

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

## 4. GOODWILL AND OTHER INTANGIBLE ASSETS

Our results for the year ended June 30, 2002, include the effect of adopting SFAS No. 141, "Business Combinations." SFAS No. 141 provides that all business combinations initiated after June 30, 2001 shall be accounted for using the purchase method. In addition, it provides that the cost of an acquired entity must be allocated to the assets acquired, including identifiable intangible assets and liabilities assumed, based on their estimated fair values at the date of acquisition. The excess of cost over the fair value of the net assets acquired must be recognized as goodwill. SFAS No. 142, "Goodwill and Other Intangible Assets" provides that goodwill is no longer amortized and the value of an identifiable intangible asset must be amortized over its useful life unless the asset is determined to have an indefinite useful life.

At June 30, 2004, included in trademarks and other intangible assets on the balance sheet, is approximately $4.2 million of intangible assets deemed to have a finite life which are being amortized over their estimated useful lives. Goodwill and indefinite-life intangible assets must be tested for impairment at the beginning of the fiscal year in which SFAS No. 142 is adopted and at least annually thereafter. We perform a test for impairment during the fourth quarter of our fiscal year. In accordance with SFAS No. 142, we have evaluated the fair value of our goodwill and indefinite-life intangible assets, and based on such evaluations, no impairment existed at July 1, 2001 or through June 30, 2004. The $6.1 million pre-tax reduction of intangible amortization expense recognized during the year ended June 30, 2002 represents the amount of amortization of goodwill and indefinite-life intangible assets that arose from acquisitions prior to July 1, 2001 and are no longer amortized. Amounts assigned to indefinite-life intangible assets primarily represent the values of trademarks.

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

| | 2004 | | 2003 | |
|---|---|---|---|---|
| | **Gross Carrying Amount** | **Accumulated Amortization** | **Gross Carrying Amount** | **Accumulated Amortization** |
| Amortized intangible assets: | | | | |
| Other intangibles | $ 4,189 | $ 1,865 | $ 3,041 | $ 893 |
| Non-amortized intangible assets: | | | | |
| Trademarks | 59,953 | 6,484 | 60,311 | 6,484 |

Amortization of amortized intangible assets is expected to approximate $0.9 million in each of the next five fiscal years; however, such amortization may vary upon completion of the procedures required to finalize the purchase price allocation for Fiscal 2004 acquisitions.

## 5. 2002 RESTRUCTURING AND OTHER NON-RECURRING CHARGES

During the fourth quarter of fiscal 2002, we recorded charges aggregating $21.3 million, before taxes, related to the expected sale of our Health Valley facility in Irwindale, California ($11.3 million) and the discontinuance of our supplements business ($7.9 million) and Weight Watchers license ($2.1 million). Approximately $17.9 million of these charges were noncash in nature.

Our Health Valley facility charge included $7.6 million of restructuring and non-recurring charges associated with reduced values of inventories of raw ingredients and packaging, certain lease obligations and other items. Of this $7.6 million of charges, our 2002 gross profit was reduced by $5.5 million charged to cost of sales as required by accounting rules. In addition, we recorded $3.7 million of impairment charges to reduce the Health Valley plant's manufacturing assets to their net realizable value. At June 30, 2002, we accrued $2.1 million of future costs associated with this charge primarily relating to lease exit costs relating to incremental costs and contractual obligations and other facility exit costs expected to be incurred as part of this sale. Additional restructuring charges of approximately $0.4 million were incurred during the year ended June 30, 2003 for severance liabilities and related employee costs and trade items that could not be accrued at June 30, 2002. In addition, at the time of lease termination in fiscal 2003, we were able to reduce our potential lease exit costs by $0.9 million, which was recorded as a credit to restructuring and other non-recurring charges. Through June 30, 2004, approximately $1.6 million was charged against the Health Valley facility charge accrual in the aggregate.

We also discontinued our supplements business at Celestial Seasonings, and did not renew our license to sell certain Weight Watchers products. In connection with these 2002 discontinuances, we recorded charges of $7.9 million related to supplements principally for inventories, packaging and trade items. Of this $7.9 million charge, $6.2 million had the effect of reducing our 2002 gross profit. The charge for the non-renewal of the Weight Watchers license amounted to $2.1 million, principally for inventories, packaging and trade items, of which $0.7 million reduced our 2002 gross profit. At June 30, 2002, we accrued $3.1 and $1.2 million for future costs associated with the Celestial Seasonings supplements and Weight Watchers license discontinuances, respectively. These future costs primarily related to anticipated sales returns resulting from the discontinuance notification, other trade incentives, employee severance costs and other items. At June 30, 2003, it was determined that $2 million of the accruals for anticipated sales returns and other trade incentives would no longer be required and therefore, such amount was reversed. Through June 30, 2004, approximately $2.3 million has been charged against these accruals in the aggregate.

At June 30, 2004, our balance sheet includes the above-described aggregate of $0.1 million of accrued restructuring and non-recurring charges, all of which are expected to be paid during 2005.

## 6. ACQUISITIONS

### Fiscal 2004

On June 3, 2004, we acquired 100% of the stock of privately-held Jason Natural Products, Inc., a California-based manufacturer and marketer of natural health and body care products. In recent years, Jason Natural Products has expanded its lines of natural health and body care products by integrating a series of brands including Orjene®, Shaman Earthly Organics™, and Heather's® into its portfolio. The purchase price consisted of approximately $23.9 million in cash, plus the assumption of certain liabilities. At June 30, 2004, goodwill (not deductible for tax purposes) from this transaction was estimated to be $20.9 million.

On May 27, 2004, we acquired substantially all of the assets and assumed certain liabilities of the Rosetto® and Ethnic Gourmet businesses of H.J. Heinz Company, LP, which owned approximately 16.7% of our common stock at the time of the transaction. These businesses produce and market frozen pasta and natural ethnic frozen meals, respectively. The purchase price consisted of approximately $22.8 million in cash, plus the assumption of certain liabilities. At June 30, 2004, goodwill (deductible for tax purposes) from this transaction was estimated to be $6.6 million.

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

| | |
|---|---|
| Current assets | $12,358 |
| Property and equipment | 12,871 |
| Other assets | 102 |
| Total assets | 25,331 |
| Liabilities assumed | 4,321 |
| Net assets acquired | $21,010 |

The balance sheet at June 30, 2004, includes the assets acquired and liabilities assumed valued at fair market value at the date of purchase. We are in the process of performing the procedures required to finalize the purchase price allocation for the above fiscal 2004 acquisitions; however, these procedures are in the early stages and are expected to be completed during fiscal 2005.

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

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

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

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

**Fiscal 2003**

On June 17, 2003, we acquired 100% of the stock of privately-held Acirca, Inc., the owner of the Walnut Acres Certified Organic® brand of organic fruit juices, soups, pasta sauces and salsas. Since June 2000, the financial and investment group Acirca, Inc. has expanded Walnut Acres, its premier certified organic food and beverage brand, by integrating a series of organic brands including Mountain Sun®, ShariAnn’s®, Millina’s Finest®, and Frutti di Bosco® into its Walnut Acres flagship. The acquisition of these product lines allows us to add natural and organic juices and sauces to our product offerings, and enhance our offerings of soups and salsas. The purchase price consisted of approximately $9.0 million in cash, 134,797 shares of our common stock valued at $2.2 million, plus the assumption of certain liabilities. At June 30, 2004, goodwill (not deductible for tax purposes) from this transaction approximated $13.1 million.

On December 2, 2002, we acquired substantially all of the assets and assumed certain liabilities of privately-held Imagine Foods, Inc. (“Imagine”) in the United States and the United Kingdom. Imagine is a non-dairy beverage company specializing in aseptic and refrigerated rice and soy milks, organic aseptic soups and broths, and organic frozen desserts in the U.S., Canada, and Europe. The acquisition of these product lines is expected to enhance our existing market positions in non-dairy beverages and soups while adding frozen dessert products to our offerings to customers. The purchase price consisted of approximately $44.2 million in cash, 532,765 shares of our common stock valued at $7.0 million, plus the assumption of certain liabilities. At June 30, 2004, goodwill (deductible for tax purposes) from this transaction was valued at $38.7 million, trademarks and other non-amortizable intangibles were $15.7 million, and patents and other amortizable intangibles were valued at $1.0 million.

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

| | |
|---|---|
| Current assets | $17,714 |
| Property and equipment | 2,409 |
| Total assets | 20,123 |
| Liabilities assumed | 14,937 |
| Net assets acquired | $ 5,186 |

The balance sheet at June 30, 2004 includes the assets acquired and liabilities assumed valued at fair market value at the date of purchase. We have completed substantially all of the procedures required to finalize the purchase price allocation for Imagine and Acirca.

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

| | **2003** | **2002** |
|---|---|---|
| Net sales | $524,176 | $473,169 |
| Net income (loss) | 20,142 | (12,916) |
| Earnings (loss) per share: | | |
| Basic | 0.59 | (0.38) |
| Diluted | 0.57 | (0.38) |
| Weighted average shares: | | |
| Basic | 34,261 | 34,428 |
| Diluted | 35,073 | 34,428 |

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

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

**Fiscal 2002**

In December 2001, we acquired 100% of the stock of privately-held Lima, N.V. (“Lima”), a leading Belgian manufacturer and marketer of natural and organic foods. We consummated this strategic European acquisition to provide us with a diversified natural and organic food products manufacturer and distributor that is similar to our manufacturing and distribution (types of food products) here in the United States. The aggregate purchase price, including acquisition costs, amounted to approximately $20.0 million. The purchase price paid was based on a multiple of future operating income Lima will generate with the integration of certain business processes and introduction of existing Hain products into Europe, utilizing Lima's distribution network.

The purchase price was paid by $15.6 million in cash and the issuance of 205,128 shares of our common stock valued at $4.4 million.

The value assigned to the common stock was determined based on the average market price of our common stock over the period including three days before and after the terms of the acquisition were agreed to and announced. The aggregate purchase price paid over the net assets acquired amounted to approximately $15.6 million (included in goodwill, and currently not tax deductible). Based on an independent valuation analysis, the excess cost over net assets acquired was allocated between goodwill and trademarks, which will not amortize under SFAS No. 142.

The following table summarizes the estimated fair values of assets acquired and liabilities assumed at the date of acquisition.

| | |
|---|---|
| Current assets | $ 6,770 |
| Property, plant & equipment and other long-term assets | 3,990 |
| Total assets | 10,760 |
| Liabilities assumed | 6,360 |
| Net assets acquired | $ 4,400 |

The above purchase price excludes the amount of contingency payments we are obligated to pay the former owner of Lima. The contingency payments are based on the achievement by Lima of certain financial targets over the 2.5 years following the date of acquisition. Such payments, which could total $3.5 million, will be charged to goodwill if and when paid. During fiscal 2004 and 2003, $1.5 million and $0.5 million, respectively, in contingency payments were made.

## 7. INVENTORIES

Inventories consist of the following at June 30:

| | **2004** | **2003** |
|---|---|---|
| Finished goods | $56,132 | $43,022 |
| Raw materials, work-in-process and packaging | 30,741 | 23,422 |
| | $86,873 | $66,444 |

## 8. PROPERTY, PLANT AND EQUIPMENT

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

| | 2004 | 2003 |
|---|---|---|
| Land | $ 8,113 | $ 6,913 |
| Buildings and improvements | 29,867 | 24,448 |
| Machinery & equipment | 79,275 | 61,949 |
| Furniture and fixtures | 2,527 | 2,383 |
| Leasehold improvements | 3,478 | 1,457 |
| Construction in progress | 4,541 | 3,070 |
| | 127,801 | 100,220 |
| Less: | | |
| Accumulated depreciation and amortization | 40,799 | 31,555 |
| | $ 87,002 | $ 68,665 |

Included within machinery and equipment are assets held under capital leases with net book values at June 30, 2004 and 2003 of $2.1 million and $3.9 million, respectively.

## 9. LONG-TERM DEBT

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

| | 2004 | 2003 |
|---|---|---|
| Senior Revolving Credit Facilities payable to banks | $ 99,200 | $53,850 |
| Capital leases on machinery and equipment | 1,881 | 3,632 |
| Other debt instruments | 6,508 | 6,672 |
| Economic Development Revenue Bonds due in monthly installments through November 1, 2009; interest payable monthly at variable rates | 3,550 | 4,108 |
| | 111,139 | 68,262 |
| Current Portion | 6,845 | 8,807 |
| | $ 104,294 | $59,455 |

On April 22, 2004, we entered into a new $300 million credit facility (the “Credit Facility”) with a bank group led by our existing bank agents for a five-year term expiring in April 2009. The Credit Facility provides for an uncommitted $50 million accordion feature, under which the facility may be increased to $350 million. The Credit Facility is secured only by a pledge of shares of certain of our foreign subsidiaries and is guaranteed by all of our current and future direct and indirect domestic subsidiaries. We are required to comply with customary affirmative and negative covenants for facilities of this nature. Revolving credit loans under this facility bear interest at a base rate (greater of the applicable prime rate or Federal Funds Rate plus an applicable margin) or, at our option, the reserve adjusted LIBOR rate plus an applicable margin. As of June 30, 2004, $99.2 million was borrowed under the Credit Facility at an average interest rate of 2.4%.

### Capital Leases

Capital leases on machinery and equipment of $1.9 million bear interest at rates ranging from 4.9% to 12.3% and are due in monthly installments through June 2007.

The aggregate minimum future lease payments for all capital leases at June 30, 2004 are as follows:

| | |
|---|---|
| 2005 | $ 1,359 |
| 2006 | 430 |
| 2007 | 92 |
| | $ 1,881 |

**Other Debt Instruments**

Other debt instruments consist of borrowings by our European businesses under several arrangements with a member of the group of banks that provide our Credit Facility. These borrowings include $4.1 million under revolving credit facilities with interest rates approximating 4.0%, and notes payable of $2.4 million, of which approximately $1.9 million is payable in quarterly installments plus interest at 4.85% over a four year period through May 2008.

**Economic Development Bonds**

Borrowings related to Economic Development Revenue Bonds (the “Bonds”) bear interest at a variable rate (1.3% at June 30, 2004) and are secured by a letter of credit. The Bonds mature November 1, 2009. The Bonds can be tendered monthly to the Bond trustee at face value plus accrued interest, with payment for tendered Bonds made from draw-downs under a letter of credit facility which expires November 2004.

Maturities of all debt instruments at June 30, 2004, are as follows:

| | |
|---|---|
| 2005 | $ 6,845 |
| 2006 | 1,724 |
| 2007 | 1,293 |
| 2008 | 1,244 |
| 2009 | 99,825 |
| Thereafter | 208 |
| | $ 111,139 |

Interest paid (which approximates the related expense) during the years ended June 30, 2004, 2003 and 2002 amounted to $2,484, $1,566 and $893, respectively.

## 10. INCOME TAXES

The provision for income taxes for the years ended June 30, 2004, 2003 and 2002 is presented below.

| | **2004** | **2003** | **2002** |
|---|---|---|---|
| Current: | | | |
| Federal | $ 7,418 | $ 4,906 | $ (130) |
| State | 3,580 | 1,530 | (15) |
| Foreign | 1,612 | 2,372 | 2,214 |
| | 12,610 | 8,808 | 2,069 |
| Deferred Federal and State | 3,770 | 7,864 | (237) |
| Total | $16,380 | $16,672 | $ 1,832 |

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

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

| | 2004 | 2003 |
|---|---|---|
| Current deferred tax assets: | | |
| Basis difference on inventory | $ 2,007 | $ 1,726 |
| Allowance for doubtful accounts | 732 | 800 |
| Net operating loss carryforwards | 191 | — |
| Reserves not currently deductible | 181 | 645 |
| Current deferred tax assets | 3,111 | 3,171 |
| Noncurrent deferred tax liabilities: | | |
| Difference in amortization | (12,486) | (10,120) |
| Basis difference on property and equipment | (5,667) | (4,792) |
| Noncurrent deferred tax assets: | | |
| Net operating loss carryforwards | 3,346 | — |
| Noncurrent deferred tax liabilities, net | (14,807) | (14,912) |
| | $ (11,696) | $ (11,741) |

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

| | 2004 | % | 2003 | % | 2002 | % |
|---|---|---|---|---|---|---|
| Expected U.S. federal income tax at statutory rate | $15,185 | 35.0% | $15,457 | 35.0% | $ 1,681 | 35.0% |
| State income taxes, net of federal benefit | 1,501 | 3.5 | 1,653 | 3.7 | (46) | (.9) |
| Foreign income at different rates | 448 | 1.0 | 297 | 0.7 | 277 | 5.7 |
| Other | (754) | (1.7) | (735) | (1.7) | (80) | (1.7) |
| Provision for income taxes | $16,380 | 37.8% | $16,672 | 37.7% | $ 1,832 | 38.1% |

Income taxes paid (refunded) during the years ended June 30, 2004, 2003 and 2002 amounted to $4.7 million, $5.2 million and $(5.1) million, respectively.

## 11. STOCKHOLDERS' EQUITY

### Common Stock Issued – Business Acquisitions

As part of the Lima acquisition consummated during fiscal 2002, 205,128 common shares were issued to the sellers, valued at approximately $4.4 million. As part of the Imagine and Acirca acquisitions consummated during fiscal 2003, 667,562 common shares were issued to the sellers, valued at approximately $9.2 million in the aggregate.

### Restricted Stock Grant

In accordance with the terms of the employment agreement with our Chief Executive Officer ("CEO"), on February 24, 2004, we granted 150,000 shares of restricted common stock to our CEO. On the grant date, the market value of our common stock was $20.90 per share and, therefore, the total market value of the grant approximated $3.1 million. These shares will vest ratably from the date of grant through expiration of the employment agreement on June 30, 2007. Through June 30, 2004, 15,618 shares have vested. For the year ended June 30, 2004, approximately $0.3 million of non-cash compensation has been charged to general and administrative expenses.

### Preferred Stock

We are authorized to issue "blank check" preferred stock (up to 5 million shares) with such designations, rights and preferences as may be determined from time to time by the Board of Directors. Accordingly, the Board of Directors is empowered to issue, without stockholder approval, preferred stock with dividends, liquidation, conversion, voting, or other rights which could decrease the amount of earnings and assets available for distribution to holders of our Common Stock. At June 30, 2004 and 2003, no preferred stock was issued or outstanding.

**Warrants**

Since fiscal 1997, we issued a total of 300,000 warrants in connection with services rendered by third party consultants at prices ranging from $4.13 to $10.00 per share. 250,000 of these warrants were exercised during fiscal 2000, resulting in proceeds of $1.6 million. In accordance with the then existing term loan facility, 50% of the proceeds were used to pay down the term loan with the remainder used for working capital purposes. In fiscal 2001, the remaining 50,000 warrants were exercised via a cashless exercise resulting in the issuance of 35,653 shares.

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

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

## 12. STOCK OPTION PLANS

**Hain**

In December 1994, we adopted the 1994 Long-Term Incentive and Stock Award Plan, which amended and restated our 1993 stock option plan. On December 9, 1997, the stockholders of Hain approved an amendment to increase the number of shares issuable under the 1994 Long Term Incentive and Stock Award Plan by 345,000 to 1,200,000 shares. In December 1998, the plan was further amended to increase the number of shares issuable by 1,200,000 bringing the total shares issuable under this plan to 2,400,000. In December 1999, the plan was further amended to increase the number of shares issuable by 1,000,000 bringing the total shares issuable under this plan to 3,400,000. In May 2000, the plan was further amended to increase the number of shares issuable by 3,000,000 bringing the total shares issuable under this plan to 6,400,000. The plan provides for the granting of incentive stock options to employees, directors and consultants to purchase shares of our common stock. All of the options granted to date under the plan have been incentive and non-qualified stock options providing for exercise prices equivalent to the fair market price at date of grant, and expire ten years after date of grant. Vesting terms are determined at the discretion of the Company. During 2002, options to purchase 1,688,900 shares were granted at prices ranging from $15.42 to $22.72 per share. During 2003, options to purchase 565,000 shares were granted at prices ranging from $12.13 to $16.30. During 2004, options to purchase 195,550 shares were granted at prices ranging from $18.25 to $20.90. At June 30, 2004, 150,982 options were available for grant under this plan.

In October 2002, we adopted a new Long-Term Incentive and Stock Award Plan. The plan provides for the granting of stock options and other equity awards to employees, directors and consultants to purchase shares of our common stock. An aggregate of 1,600,000 shares of common stock were originally reserved for issuance under this plan. In December 2003, the plan was amended to increase the number of shares issuable by 1,500,000 shares to 3,100,000 shares. All of the options granted to date under the plan have been incentive and non-qualified stock options providing for exercise price equivalent to the fair market price at the date of grant and expire ten years after the date of grant. Vesting terms are determined at the discretion of the company. During 2003, options to purchase 1,471,200 shares were granted at prices ranging from $11.84 to $16.24 per share. During 2004, options to purchase 116,300 shares were granted at prices ranging from $15.85 to $18.63 per share. At June 30, 2004, 1,580,900 options were available for grant under this plan.

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

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

In May 2000, we adopted a new Directors Stock Option Plan. The plan originally provided for the granting of stock options to non-employee directors to purchase up to an aggregate of 750,000 shares of our common stock. In December 2003, the plan was amended to increase the number of shares issuable by 200,000 shares to 950,000 shares. At June 30, 2001, no options were granted under this plan. During 2002, options for an aggregate of 255,000 shares were granted at prices ranging from $20.01 to $26.44 per share. During 2003, options for an aggregate of 300,000 shares were granted at prices ranging from $12.13 to $17.88. During 2004, options to purchase 163,000 shares were granted at prices ranging from $18.03 to $22.08 per share. At June 30, 2004, 287,000 options were available for grant under this plan.

We also have a 1993 Executive Stock Option Plan pursuant to which we granted our CEO options to acquire 600,000 shares of our common stock. The exercise price of options designed to qualify as incentive options was $3.58 per share and the exercise price of non-qualified options was $3.25 per share. No exercises were made during fiscal 2002 or 2003. During fiscal 2004, the remaining outstanding 535,000 options were exercised. As of June 30, 2004, no additional shares are available for grant under this plan.

**Celestial Seasonings**

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

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

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

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

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

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

**Employee Stock Purchase Plan**

Under the Celestial Seasonings Employee Stock Purchase Plan, Celestial Seasonings was authorized to issue up to 66,286 shares of common stock to its full-time employees, nearly all of whom were eligible to participate. Under the terms of the plan, employees could choose each year to have up to 10% of their annual base earnings withheld to purchase Celestial Seasonings common stock. The purchase price of the stock was equal to 85 percent of the lower of the market price at the beginning or end of each six month participation period. Approximately 30 percent of eligible Celestial Seasonings employees participated in the plan. Under the plan, Celestial Seasonings sold approximately 5,000 shares for the year ended June 30, 2002 and 5,300 shares for the year ended June 30, 2001. As of December 31, 2001, this plan was terminated.

A summary our stock option plans' activity for the three years ended June 30, 2004 follows:

| | 2004 | | 2003 | | 2002 | |
|---|---|---|---|---|---|---|
| | Options | Weighted Average Exercise Price | Options | Weighted Average Exercise Price | Options | Weighted Average Exercise Price |
| Outstanding at beginning of year | 8,266,721 | $17.05 | 6,023,383 | $18.72 | 4,240,741 | $18.01 |
| Granted | 474,850 | 20.23 | 2,347,700 | 12.92 | 1,943,900 | 19.70 |
| Exercised | (1,744,495) | 10.92 | (67,821) | 9.24 | (94,341) | 9.12 |
| Terminated | (227,639) | 20.95 | (36,541) | 23.17 | (66,917) | 23.27 |
| Outstanding at end of year | 6,769,437 | $18.67 | 8,266,721 | $17.75 | 6,023,383 | $18.72 |
| Exercisable at end of year | 6,162,554 | $19.09 | 6,675,738 | $18.18 | 4,482,182 | $18.14 |
| Weighted average fair value of options granted during year | $ 9.77 | | $12.95 | | $14.23 | |

The following table summarizes information for stock options outstanding at June 30, 2004:

| Options Outstanding | | | | Options Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Prices | Options Outstanding as of 06/30/2004 | Weighted Average Remaining Contractual Life (in years) | Weighted Average Exercise Price | Options Exercisable as of 06/30/2004 | Weighted Average Exercise Price |
| $ 2.94 - $ 6.75 | 442,956 | 16.5 | $ 4.15 | 442,956 | $ 4.15 |
| 6.76 - 12.50 | 896,038 | 8.3 | 11.76 | 496,538 | 11.70 |
| 12.51 - 17.65 | 1,489,912 | 6.8 | 15.73 | 1,419,912 | 15.72 |
| 17.66 - 19.19 | 876,228 | 7.3 | 18.10 | 873,228 | 18.10 |
| 19.20 - 22.73 | 1,425,230 | 6.8 | 21.09 | 1,290,847 | 21.11 |
| 22.74 - 25.68 | 164,130 | 4.1 | 23.51 | 164,130 | 23.51 |
| 25.69 - 29.35 | 1,233,693 | 6.1 | 26.79 | 1,233,693 | 26.79 |
| 29.36 - 33.01 | 216,250 | 6.3 | 31.54 | 216,250 | 31.54 |
| 33.02 - 38.38 | 25,000 | 0.1 | 36.69 | 25,000 | 36.69 |
| | 6,769,437 | 6.6 | $18.67 | 6,162,554 | $19.09 |

Shares of Common Stock reserved for future issuance as of June 30, 2004 are as follows:

| | |
|---|---|
| Stock options | 8,788,319 |
| Warrants | 36,667 |
| | 8,824,986 |

## 13. LEASES

Our corporate headquarters are located in approximately 35,000 square feet of leased office space in Melville, New York, under a lease which expires in December 2012. In addition, the Company leases manufacturing and warehouse space under leases which expire through 2007. These leases provide for additional payments of real estate taxes and other operating expenses over a base period amount.

The aggregate minimum future lease payments for these operating leases at June 30, 2004, are as follows:

| | |
|---|---|
| 2005 | $ 4,619 |
| 2006 | 4,687 |
| 2007 | 4,048 |
| 2008 | 2,433 |
| 2009 | 2,356 |
| Thereafter | 7,170 |
| | $25,313 |

Rent expense charged to operations for the years ended June 30, 2004, 2003 and 2002 was approximately $4,087, $4,200 and $3,804, respectively.

## 14. SEGMENT INFORMATION

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

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

| | 2004 | | | 2003 | | | 2002 | | |
|---|---|---|---|---|---|---|---|---|---|
| | United States | Canada | Europe | United States | Canada | Europe | United States | Canada | Europe |
| Net sales | $433,787 | $48,326 | $61,945 | $385,569 | $41,498 | $39,392 | $339,522 | $34,254 | $22,178 |
| Earnings (loss) before income axes | 34,437 | 4,670 | 4,281 | 37,287 | 5,460 | 1,417 | (735) | 5,398 | 140 |
| Long lived assets | 425,563 | 43,424 | 16,930 | 374,957 | 39,541 | 17,342 | 298,198 | 37,811 | 18,290 |

## 15. DEFINED CONTRIBUTION PLANS

We have a 401(k) Employee Retirement Plan ("Plan") to provide retirement benefits for eligible employees. All full-time employees of Hain and our domestic subsidiaries who have attained the age of 21 are eligible to participate upon completion of 30 days of service. The subsidiary Yves Veggie Cuisine has its own separate Registered Retirement Employee Savings Plan for those employees residing in Canada. Employees of Yves who meet eligibility requirements may participate in that plan. On an annual basis, we may, in our sole discretion, make certain matching contributions. For the years ended June 30, 2004, 2003 and 2002, we made contributions to the Plan of $244, $228 and $372, respectively.

## 16. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

### Accounting for Costs Associated with Exit or Disposal Activity

SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities", addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The principal difference between SFAS No. 146 and Issue 94-3 relates to SFAS No. 146's requirements for recognition of a liability for a cost associated with an exit or disposal activity. SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under Issue 94-3, a liability for an exit cost as generally defined in Issue 94-3 was recognized at the date of an entity's commitment to an exit plan. Therefore, SFAS No. 146 eliminates the definition and requirements for recognition of exit costs in Issue 94-3. SFAS No. 146 also establishes that fair value is the objective for initial measurement of the liability. The provisions of SFAS No. 146 are effective for exit or disposal activities that we may initiate after December 31, 2002. There have been no disposal or exit activities since adoption of the statement.

## 17. LITIGATION

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

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

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

## Item 9A. Controls and Procedures

*(a) Evaluation of Disclosure Controls and Procedures.*

Our Chief Executive Officer and Chief Financial Officer have reviewed our disclosure controls and procedures as of the end of the period covered by this report. Based upon this review, these officers concluded that, as of the end of the period covered by this report, our disclosure controls and procedures are adequately designed to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in applicable rules and forms.

*(b) Changes in Internal Controls.*

There were no significant changes in our internal controls or in other factors that could significantly affect these controls during the quarter covered by this report or from the end of the reporting period to the date of this Form 10-K.

## PART III

Item 10, “Directors and Executive Officers of the Registrant”, Item 11, “Executive Compensation”, Item 12, “Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters”, Item 13, “Certain Relationships and Related Transactions”, and Item 14, “Principal Accountant Fees and Services” have been omitted from this report inasmuch as the Company will file with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after the end of the fiscal year covered by this report a definitive Proxy Statement for the Annual Meeting of Stockholders of the Company to be held on December 2, 2004, at which meeting the stockholders will vote upon election of the directors. This information in such Proxy Statement is incorporated herein by reference.

## PART IV

### Item 15. Exhibits, Financial Statement Schedule, and Reports on Form 8-K.

*(a) (1) List of Financial Statements*

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets – June 30, 2004 and 2003

Consolidated Statements of Income – Years ended June 30, 2004, 2003 and 2002

Consolidated Statements of Stockholders’ Equity – Years ended June 30, 2004, 2003 and 2002

Consolidated Statements of Cash Flows – Years ended June 30, 2004, 2003 and 2002

Notes to Consolidated Financial Statements

*(2) List of Financial Statement Schedule*

Valuation and Qualifying Accounts (Schedule II)

*(3) List of Exhibits*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

21.1(a) Subsidiaries of Registrant.

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

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

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

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

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

a – Filed herewith

*(b) Reports on Form 8-K*

On May 7, 2004, the Registrant furnished a Form 8-K with respect to the Registrant's press release announcing its financial results for its third quarter ended March 31, 2004.

On April 30, 2004, the Registrant filed a Form 8-K with respect to the Registrant's press release announcing that it had amended and restated its credit facility, pricing adjustments and financial guidance for its third quarter ended March 31, 2004.

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

**Schedule II - Valuation and Qualifying Accounts**

| Column A | Column B | Column C | | Column D | Column E |
|---|---|---|---|---|---|
| | | Additions | | | |
| | Balance at beginning of period | Charged to costs and expenses | Charged to other accounts–describe | Deductions–describe | Balance at end of period |
| Year Ended June 30, 2004 Deducted from asset accounts: | | | | | |
| Allowance for doubtful accounts | $1,748 | $437 | $ 10(1) | $ 10(2) | $2,185 |
| Year Ended June 30, 2003 Deducted from asset accounts: | | | | | |
| Allowance for doubtful accounts | $1,002 | $610 | $190(1) | $ 54(2) | $1,748 |
| Year Ended June 30, 2002 Deducted from asset accounts: | | | | | |
| Allowance for doubtful accounts | $ 815 | $551 | $175(1) | $539(2) | $1,002 |

(1) Allowance for doubtful accounts at dates of acquisitions of acquired businesses.
(2) Uncollectible accounts written off, net of recoveries.

## SIGNATURES

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

**THE HAIN CELESTIAL GROUP, INC.**

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

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

Date: September 13, 2004

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

| Signature | Title | Date |
|---|---|---|
| /s/ Irwin D. Simon<br>Irwin D. Simon | President, Chief Executive Officer and Chairman of the Board of Directors | September 13, 2004 |
| /s/ Ira J. Lamel<br>Ira J. Lamel | Executive Vice President and Chief Financial Officer | September 13, 2004 |
| /s/ Barry Alperin<br>Barry Alperin | Director | September 13, 2004 |
| /s/ Beth L. Bronner<br>Beth L. Bronner | Director | September 13, 2004 |
| /s/ Jack Futterman<br>Jack Futterman | Director | September 13, 2004 |
| /s/ Daniel Glickman<br>Daniel Glickman | Director | September 13, 2004 |
| /s/ Marina Hahn<br>Marina Hahn | Director | September 13, 2004 |
| /s/ Andrew R. Heyer<br>Andrew R. Heyer | Director | September 13, 2004 |
| /s/ Roger Meltzer<br>Roger Meltzer | Director | September 13, 2004 |
| /s/ Mitchell A. Ring<br>Mitchell A. Ring | Director | September 13, 2004 |
| /s/ Lewis D. Schiliro<br>Lewis D. Schiliro | Director | September 13, 2004 |
| /s/ D. Edward Smyth<br>D. Edward Smyth | Director | September 13, 2004 |
| /s/ Larry S. Zilavy<br>Larry S. Zilavy | Director | September 13, 2004 |

**EXHIBIT 31.1**

## CERTIFICATION

I, Irwin D. Simon, certify that:

1. I have reviewed this annual report on Form 10-K of The Hain Celestial Group, Inc.;

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

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

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

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; (b) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and (c) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

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

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

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

Date: September 13, 2004

/s/ Irwin D. Simon
Irwin D. Simon
President and Chief Executive Officer

**EXHIBIT 31.2**

**CERTIFICATION**

I, Ira J. Lamel, certify that:

1. I have reviewed this annual report on Form 10-K of The Hain Celestial Group, Inc.;

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

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

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

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

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

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

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

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

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

Date: September 13, 2004

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

**EXHIBIT 32.1**

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

In connection with the Annual Report on Form 10-K for the period ended June 30, 2004 (the “Report”) filed by The Hain Celestial Group, Inc. (the “Company”) with the Securities and Exchange Commission, I, Irwin D. Simon, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: September 13, 2004

/s/ Irwin D. Simon
Irwin D. Simon
President and Chief Executive Officer

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

**EXHIBIT 32.2**

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

In connection with the Annual Report on Form 10-K for the period ended June 30, 2004 (the "Report") filed by The Hain Celestial Group, Inc. (the "Company") with the Securities and Exchange Commission, I, Ira J. Lamel, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: September 13, 2004

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

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

**REPORT OF MANAGEMENT**

Management is responsible for the information presented in this annual report. The financial statements and notes have been prepared in accordance with accounting principles generally accepted in the United Sates. Certain estimated amounts are included in the financial statements, and these amounts are based on currently available information and management's judgment of current conditions and circumstances. Management also prepared the other information in this annual report and is responsible for its accuracy and consistency with the financial statements.

Management maintains a system of accounting and other controls to provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that accounting records are reliable for preparing financial statements. Even an effective internal control system, no matter how well designed, has inherent limitations, including the possibility of circumvention or overriding of controls, and therefore can provide only reasonable assurance with respect to financial statement presentation. The system of accounting and other controls is modified in response to changes in business conditions and operations and recommendations made by our independent registered public accounting firm.

The Audit Committee of the Board of Directors, which is comprised of directors who are not employees, meets periodically with management and the independent registered public accounting firm to review the manner in which these groups are performing their responsibilities and to carry out the Audit Committee's oversight role with respect to auditing, internal controls and financial reporting matters. The Audit Committee reviews with the independent registered public accounting firm the scope and results of the audit. The independent registered public accounting firm periodically meets privately with the Audit Committee and has access to its individual members.

We engaged Ernst & Young LLP, independent registered public accountants, to audit the consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board, which includes consideration of the internal control structure. The opinion of the independent registered public accountants, based upon their audits of the consolidated financial statements is contained in this Annual Report.

Irwin D. Simon
President and Chief Executive Officer
September 13, 2004

Ira J. Lamel
Executive Vice President and
Chief Financial Officer
September 13, 2004

## CORPORATE DATA

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

The Hain Celestial Group provides employment for approximately 1,500 people full time, plus others on a part-time basis and during seasonal peaks.

**Annual Meeting** The 2004 Annual Meeting of Shareholders will be held at 11:00 AM Thursday, December 2, 2004, at the Jason factory at 846 Warner Drive, Culver City, CA 90232.

**Investor Relations** Copies of the Annual Report and Form 10-K, as well as additional information about the Company, are available from the Investor Relations Department. Please contact Mary Celeste Anthes, Vice President, Investor Relations, at 631-730-2460.

**Consumer Relations** Consumers should direct their product inquiries to our Consumer Relations Department at 800-434-4246.

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

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

**Independent Registered Accountants**
Ernst & Young LLP
395 North Service Road
Melville, NY 11747

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

**Common Stock**
NASDAQ® National Market
Ticker symbol: HAIN

**Website** Our corporate website is www.hain-celestial.com, which includes an overview of the Company and our brands, as well as investor relations information. Links to individual brand websites, where you can find a store near you that carries our products, are also available from our home page.

## LOCATIONS

**CORPORATE HEADQUARTERS**

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

**NORTH AMERICA**

*ARROWHEAD MILLS*
110 South Lawton
Hereford, TX 79045-5802

*CELESTIAL SEASONINGS*
4600 Sleepytime Drive
Boulder, CO 80301-3292

*DEBOLES PASTA*
104 North Common Street
Shreveport, LA 71101-2614

*ETHNIC GOURMET*
190 Fountain Street
Framingham, MA 01702-6213

*HAIN CELESTIAL CANADA, ULC*
*YVES VEGGIE CUISINE*
1638 Derwent Way
Delta, BC V3M6R9

*HAIN CELESTIAL WEST COAST*
16007 Camino de la Cantera
Azusa, CA 91706-2852

*JASON NATURAL PRODUCTS*
3515 Eastham Drive
Culver City, CA 90232-2440

*KINERET WAREHOUSE*
200 Forest Drive
East Hills, NY 11548-1206

*ONTARIO DISTRIBUTION CENTER*
5140 Santa Ana Street
Ontario, CA 91761-8632

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

*TERRA CHIPS*
60 Knickerbocker Road
Moonachie, NJ 07074-1613

**EUROPE**

*BIOMARCHÉ*
24 rue Basse Sambre
B 5140 Sombreffe
Belgium

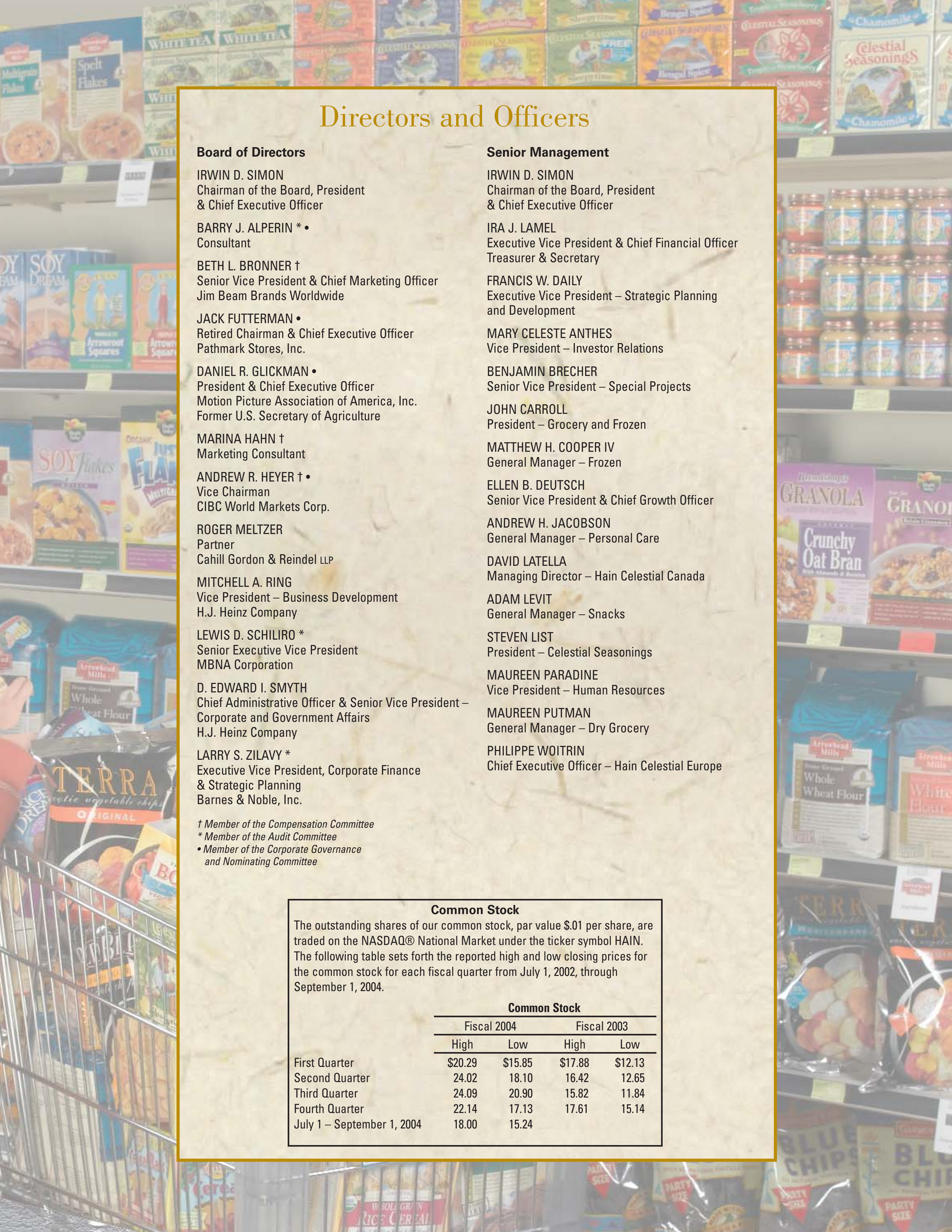
*GRAINS NOIRS*
Rue Joseph Schols 13-15
B 1080 Brussels
Belgium

*HAIN CELESTIAL EUROPE BVBA*
*LIMA, N.V.*
Industrielaan 9
9990 Maldagem
Belgium

*NATUMI*
Im Auel 88
D 53783 Eitorf
Germany

*TERRA CHIPS BV*
Spoorstraat 16
4431 NK's. Gravenpolder
Holland

Please visit our website at www.hain-celestial.com to learn more about our products or to find a store near you that carries our products. For more information, please call our Consumer Relations Department at 800-434-4246.




# Directors and Officers

## Board of Directors

IRWIN D. SIMON
Chairman of the Board, President
& Chief Executive Officer

BARRY J. ALPERIN * •
Consultant

BETH L. BRONNER †
Senior Vice President & Chief Marketing Officer
Jim Beam Brands Worldwide

JACK FUTTERMAN •
Retired Chairman & Chief Executive Officer
Pathmark Stores, Inc.

DANIEL R. GLICKMAN •
President & Chief Executive Officer
Motion Picture Association of America, Inc.
Former U.S. Secretary of Agriculture

MARINA HAHN †
Marketing Consultant

ANDREW R. HEYER † •
Vice Chairman
CIBC World Markets Corp.

ROGER MELTZER
Partner
Cahill Gordon & Reindel LLP

MITCHELL A. RING
Vice President – Business Development
H.J. Heinz Company

LEWIS D. SCHILIRO *
Senior Executive Vice President
MBNA Corporation

D. EDWARD I. SMYTH
Chief Administrative Officer & Senior Vice President – Corporate and Government Affairs
H.J. Heinz Company

LARRY S. ZILAVY *
Executive Vice President, Corporate Finance
& Strategic Planning
Barnes & Noble, Inc.

*† Member of the Compensation Committee*
** Member of the Audit Committee*
*• Member of the Corporate Governance and Nominating Committee*

## Senior Management

IRWIN D. SIMON
Chairman of the Board, President
& Chief Executive Officer

IRA J. LAMEL
Executive Vice President & Chief Financial Officer
Treasurer & Secretary

FRANCIS W. DAILY
Executive Vice President – Strategic Planning and Development

MARY CELESTE ANTHES
Vice President – Investor Relations

BENJAMIN BRECHER
Senior Vice President – Special Projects

JOHN CARROLL
President – Grocery and Frozen

MATTHEW H. COOPER IV
General Manager – Frozen

ELLEN B. DEUTSCH
Senior Vice President & Chief Growth Officer

ANDREW H. JACOBSON
General Manager – Personal Care

DAVID LATELLA
Managing Director – Hain Celestial Canada

ADAM LEVIT
General Manager – Snacks

STEVEN LIST
President – Celestial Seasonings

MAUREEN PARADINE
Vice President – Human Resources

MAUREEN PUTMAN
General Manager – Dry Grocery

PHILIPPE WOITRIN
Chief Executive Officer – Hain Celestial Europe

**Common Stock**

The outstanding shares of our common stock, par value $.01 per share, are traded on the NASDAQ® National Market under the ticker symbol HAIN. The following table sets forth the reported high and low closing prices for the common stock for each fiscal quarter from July 1, 2002, through September 1, 2004.

| | Common Stock | | | |
|---|---|---|---|---|
| | Fiscal 2004 | | Fiscal 2003 | |
| | High | Low | High | Low |
| First Quarter | $20.29 | $15.85 | $17.88 | $12.13 |
| Second Quarter | 24.02 | 18.10 | 16.42 | 12.65 |
| Third Quarter | 24.09 | 20.90 | 15.82 | 11.84 |
| Fourth Quarter | 22.14 | 17.13 | 17.61 | 15.14 |
| July 1 – September 1, 2004 | 18.00 | 15.24 | | |

The Hain Celestial Group

The Hain Celestial Group, Inc. • 58 South Service Road • Melville, NY 11747 • www.hain-celestial.com



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

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