HAIN CELESTIAL GROUP INC
Form 10-K
August 29, 2008
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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, 2008

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

Commission File No. 0-22818

THE HAIN CELESTIAL GROUP, INC.

(Exact name of registrant as specified in its charter)

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

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

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

(Title of Each Class)	**(Name of Each Exchange on which registered)**
Common Stock, par value $.01 per share	**The NASDAQ Stock Market®**

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of accelerated filer and large accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant based upon the closing price of the registrant s stock, as quoted on the Nasdaq National Market System on December 31, 2007, the last business day of the registrant s most recently completed second fiscal quarter, was $1,263,806,000.

As of August 25, 2008, there were 40,160,803 shares outstanding of the registrant s Common Stock, par value $.01 per share.

Documents Incorporated by Reference: Portions of The Hain Celestial Group, Inc. Definitive Proxy Statement for the 2008 Annual Meeting of Shareholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

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PART I

THE HAIN CELESTIAL GROUP, INC.

Item 1. Business.

Unless otherwise indicated, references in this Annual Report to 2008, 2007, 2006 or fiscal 2008, 2007, 2006 or other years refer to our fiscal year ended June 30 of that year and references to 2009 or fiscal 2009 refer to our fiscal year ending June 30, 2009.

General

The Hain Celestial Group, Inc. and its subsidiaries (collectively, the Company, and herein referred to as we, us, and our) manufacture, market, distribute and sell natural and organic food products and natural and organic personal care products under brand names which are sold as better-for-you products. We are a leader in many of the top natural food categories, with such well-known food brands as Celestial Seasonings®, Hain Pure Foods®, Westbrae Natural®, WestSoy®, Rice Dream® , Soy Dream®, Imagine®, Walnut Acres Organic®, Ethnic Gourmet®, Rosetto®, Little Bear Organic Foods®, Bearitos®, Arrowhead Mills®, MaraNatha®, SunSpire®, Health Valley®, Breadshop s®, Casbah® , Spectrum Naturals®, Spectrum Essentials®, Hollywood®, Garden of Eatin®, Terra®, Harry s Premium Snacks®, Boston s The Best You ve Ever Tasted®, Lima®, Grains Noirs®, Natumi®, Yves Veggie Cuisine®, DeBoles®, Earth s Best®, Nile Spice®, Linda McCartney® (under license), Daily Bread, Realeat®, Granose® and TofuTown®. Our natural and organic personal care products are marketed under the Avalon Organics®, Alba Botanica® , JASON®, Zia®, Orjene®, Shaman Earthly Organics®, Heather s®, Queen Helene®, Batherapy®, Shower Therapy®, Footherapy®, Tushies® and TenderCare® brands. The Company s principal specialty product lines include Estee® sugar-free products and Alba® non-fat dry milk and flavored shakes. Our natural and organic antibiotic-free chicken is marketed under the FreeBird brand and our antibiotic-free turkey is marketed under the Plainville Farms® brand. We operate in one segment, the sale of natural and organic products, including food, beverage and personal care products. See Notes 1 and 18 to the Consolidated Financial Statements included in Item 15 of this Form 10-K for additional information about our segments, as well as information about our geographic operations.

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 retailers, drug store chains, food service channels and club stores. During 2008, 2007 and 2006, approximately 47%, 46% and 47%, respectively, of our revenues were derived from products manufactured within our own facilities. The remaining 53%, 54% and 53%, for 2008, 2007 and 2006, respectively, of our revenues were derived from products which are produced by independent manufacturers (co-packers) using proprietary formulas and specifications.

The Hain Celestial Group, Inc. was incorporated in Delaware on May 19, 1993. Our worldwide headquarters office is located at 58 South Service Road, Melville, New York 11747. Since our formation, we have completed a number of acquisitions of companies and brands. In the last three fiscal years, we have acquired the following companies and brands:

- On April 2, 2008, we acquired Daily Bread, Ltd., a London-based producer of branded fresh prepared foods for the foodservice channel in the United Kingdom. The acquisition of Daily Bread broadens our existing prepared foods operations with a branded fresh platform which we expect will strengthen our ability to expand our fresh operations across the United Kingdom and Europe.

- On March 10, 2008, Hain Pure Protein Corporation, a 50.1%-owned subsidiary (Hain Pure Protein), acquired the turkey production facility and distribution center of Pilgrim s Pride Corporation in New Oxford, Pennsylvania. The New Oxford acquisition provides additional scale with the capacity to meet increasing volume demands and expands our ability to offer branded, premium poultry products.

- On March 6, 2008, we acquired nSpired Natural Foods, Inc., with its MaraNatha and SunSpire brands. MaraNatha is a leading brand of natural and organic nut butters and SunSpire is a leader in natural and organic chocolate products. The addition of MaraNatha is expected to strengthen our position in the growing nut butter category and SunSpire provides us entry into the natural candy category.

On December 7, 2007, we acquired TenderCare International, Inc., a marketer and distributor of chlorine-free and gel-free natural diapers and baby wipes under the TenderCare and Tushies brand names. The acquisition is expected to strengthen our position in the natural and organic sector with the expansion into diapers and wipes, allowing us to expand the range of products offered under our Earth s Best brand.

On August 29, 2007, Hain Pure Protein acquired the assets and business of Plainville Turkey Farm, Inc., a leading supplier of natural and antibiotic-free whole turkeys and deli turkey products to the natural and grocery channels in the Northeast and Mid-Atlantic regions. The Plainville acquisition expands our specialty poultry business with a well-recognized industry leader.

On June 8, 2007 we acquired the tofu and meat-alternative business of WhiteWave Foods Company. The product line includes baked and grilled tofu, seitan, tempeh and other traditional tofu items which are sold under the TofuTown® and WestSoy® brand names.

On January 11, 2007 we acquired Avalon Natural Products, Inc., including the Avalon Organics® and Alba Botanica® brands, a leader in the natural personal care products category in the areas of skin care, hair care, bath and body and sun care.

On December 8, 2006 we acquired the business and certain assets of Haldane Foods Limited, a producer of meat-free food and non-dairy beverage products.

On June 12, 2006 we acquired the Linda McCartney® brand (under license) frozen meat-free business from the H.J. Heinz Company, L.P. (Heinz), including a manufacturing facility based in Fakenham, England.

On April 30, 2006 we acquired the fresh prepared food business based in Luton, England from Heinz.

On March 3, 2006 we acquired the business and assets of Para Laboratories, Inc., including the Queen Helene®, Batherapy®, Shower Therapy® and Footherapy® brands of skin care, hair care, and body care products for professional and personal use.

On December 16, 2005 we acquired Spectrum Organic Products, Inc., a leading manufacturer and marketer of natural and organic culinary oils, vinegars, condiments and butter substitutes under the Spectrum Naturals® brand and nutritional supplements under the Spectrum Essentials® brand.

On July 1, 2005 we acquired a 50.1% controlling interest in Hain Pure Protein, which specializes in natural and organic antibiotic-free poultry.

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 mission is to be the leading marketer, manufacturer and seller of natural and organic food and personal care products by anticipating and exceeding consumer expectations in providing quality, innovation, value and convenience. We are committed to growing our Company while continuing to implement environmentally sound business practices and manufacturing processes. Our business strategy is to integrate all of our brands under one management team and employ a uniform marketing, sales and distribution program. We capitalize on our brand equity and the distribution achieved through each of our acquired businesses with strategic introductions of new products that complement existing lines to enhance revenues and margins.

We believe that by integrating our various brands, we will achieve economies of scale and enhanced market penetration. We consider the acquisition of natural and organic food and personal care companies and product lines to be

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an integral part of our business strategy. To that end, we do, from time to time, review and conduct discussions with acquisition candidates.

As of June 30, 2008, we employed a total of 2,986 full-time employees. Of these employees, 186 were in sales and 2,012 in production, with the remaining 788 employees filling management, accounting, marketing, operations and clerical positions.

Products

Grocery

We develop, manufacture, market and distribute a comprehensive line of branded natural and organic grocery products in numerous categories including non-dairy beverages (such as soy, rice and oat) popcorn cakes, cookies, crackers, flour and baking mixes, hot and cold cereals, pasta, baby food, condiments, cooking and culinary oils, granolas, granola bars, cereal bars, canned, aseptic and instant soups, chilis, packaged grain, nut butters and nutritional oils, juices, frozen desserts, pastas and ethnic meals, as well as other food products. Our Hain®, Westbrae Natural®, WestSoy®, Imagine®, Rice Dream®, Soy Dream®, Walnut Acres Organic®, Ethnic Gourmet®, MaraNatha®, SunSpire®, Bearitos®, Arrowhead Mills®, DeBoles®, Rosetto®, Ethnic Gourmet®, Health Valley® , Hollywood®, Casbah®, Spectrum Naturals®, Spectrum Essentials®, Breadshop ®s, Nile Spice®, Earth s Best® and Lima® brands comprise this full line of natural or organic grocery products. We are a leader in many of the top natural food categories. Natural foods are defined as foods that are minimally processed, largely or completely free of artificial ingredients, preservatives, and other non-naturally occurring chemicals, and are not genetically modified and as near to their whole natural state as possible. Many of our products are also made with organic ingredients that are grown without dependence upon artificial pesticides, chemicals or fertilizers. Grocery products accounted for approximately 51% of total net sales in 2008, 2007, and 2006.

Snacks

We develop, manufacture, market and distribute a full line of branded snack products including a variety of potato and vegetable chips, organic tortilla style chips, pretzels and popcorn under the Terra®, Garden of Eatin®, Little Bear Organic Foods®, Boston s The Best You ve Ever Tasted®, Bearitos® and Harry s Premium Snacks® names. Terra natural snack food products consist of varieties of potato chips, sweet potato chips and other vegetable chips. Garden of Eatin natural snack food products consist of organic tortilla chip products and other snacks. Boston s The Best You ve Ever Tasted Popcorn and Harry s Premium Snacks products consist of popcorn, potato chips, tortilla chips and other snack food items. Snacks accounted for approximately 9% of total net sales in 2008, 11% in 2007 and 13% in 2006.

Teas and Coffees

Our tea products are 100% natural and are made from high-quality, natural flavors and ingredients and are generally offered in 10, 20 and 40 count packages. We are a leading manufacturer and marketer of specialty tea in North America. Our teas are sold in mass-market retailers, drugstore chains, grocery, natural foods and other retail stores. We develop flavorful, unique blends with attractive, colorful and thought-provoking packaging. Our products include herb teas such as Sleepytime®, Lemon Zinger®, Peppermint, Chamomile, Mandarin Orange Spice®, Cinnamon Apple Spice, Red Zinger®, Raspberry Zinger®, Tension Tamer®, Country Peach Passion® and Wild Berry Zinger®, a line of green teas, a line of wellness teas, a line of organic teas, a line of specialty black teas, chais and our Go Stix for kids. In early fiscal 2008, we introduced our new Saphara super premium teas, which are certified fair trade and organic whole leaf teas in a pyramid tea bag. Our tea products include over 90 flavors made from 100% natural ingredients. The types of teas offered include herb, red (rooibos), honeybush, white, green, black and chai. Our teas are offered both with and without caffeine. We also offer Cool Brew iced teas and natural ciders. Tea beverages accounted for approximately 9% of total net sales in 2008, 10% 2007 and 14% in 2006.

In addition to our traditional tea products, in fiscal 2008 we expanded our offerings to include a new line of Celestial Seasonings Coffee, consisting of five certified fair trade and organic, whole bean blends.

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Personal Care Products

We develop, manufacture, market and distribute a full line of personal care products including skin care, hair care, body care, oral care, deodorants and diapers under the Avalon Organics®, Alba Botanica®, JASON®, Earth s Best Organic® Baby Body Care, Zia®, Orjene®, Shaman Earthly Organics®, Queen Helene®, Batherapy®, Shower Therapy®, Footherapy® and TenderCare® brands. Our personal care products are sold in mass-market retailers, drug store chains, grocery, natural foods and other retail stores. We also manufacture and market a brand of natural cleaning products under the Heather s® brand. Personal care products accounted for approximately 11% of total net sales in 2008, 10% in 2007, and 6% in 2006.

Protein

We process natural and organic, antibiotic- and hormone-free chickens which are marketed and distributed to natural food stores, supermarkets and food service providers under the FreeBird brand. During fiscal 2008, we expanded our offerings to include antibiotic-free turkeys and turkey deli products with the acquisition of the Plainville Farms® brand. We significantly increased our capacity to process turkeys with our acquisition of a turkey processing operation in New Oxford, Pennsylvania in March 2008. Our poultry products accounted for approximately 9% of total net sales in 2008, 4% in 2007 and 4% in 2006.

Other

Meat Alternative Products

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

Fresh

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

Medically-Directed and Weight Management Products

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

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

New Product Initiatives Through Research and Development

We consider research and development of new products to be a significant part of our overall philosophy and we are committed to developing high-quality products. A team of professional product developers, including microbiologists, nutritionists, food scientists, chefs and chemists, work to develop products to meet consumers changing needs. Our Research and Development staff incorporates product ideas from all areas of our business in order to formulate new products. In addition to developing new products, the Research and Development staff routinely reformulates and revises existing products. We incurred approximately $1.7 million in Company-sponsored research and development activities in 2008, $1.5 million in 2007 and $1.2 million in 2006. Our research and development expenditures do not include the expenditures on such activities undertaken by co-packers who develop numerous products on their own initiative with the expectation that we will accept their new product ideas and market them under our brands. These efforts by co-packers have resulted in a substantial number of our new product introductions. We are unable to estimate the amount of expenditures made by co-packers on research and development; however, we believe such activities and expenditures are important to our continuing ability to introduce new products.

Sales and Distribution

Our products are sold in all 50 states and in more than 50 countries. Our customer base consists principally of natural food distributors, mass-market retailers, supermarkets, drug store chains, club stores and grocery wholesalers. While the natural food channel continues to grow, growth in the grocery, mass-market and other alternative channels has accelerated as increased consumer awareness and demand has resulted in more mainstream retailers providing more natural and organic products.

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

A majority of the products marketed by us are sold through independent food distributors. Food distributors purchase products from us for resale to retailers. Because food distributors take title to the products upon purchase, product pricing decisions on sales of our products by the distributors to the retailers are generally made in their sole discretion. We may influence product pricing with the use of promotional incentives. In fiscal 2008, 2007 and 2006, one of our distributors, United Natural Foods, Inc., accounted for approximately 20%, 20% and 21% of net sales, respectively.

Our subsidiaries in Canada and Europe sell to all major channels of distribution in the countries they serve. International sales represented approximately 22.9% of total net sales in 2008, 24.9% in 2007 and 19.3% in 2006.

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

Marketing

We use a combination of trade and consumer promotions as well as media advertising to market our products. We use trade advertising and promotion, including placement fees, cooperative advertising and feature advertising in distribution catalogs. We also utilize advertising and sales promotion expenditures via national and regional consumer promotion through television and magazine advertising, couponing and other trial use programs. In each of 2008, 2007 and 2006 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 and e-consumer relationship programs and other forms of promotions. During fiscal 2006, we initiated sponsorship programs including Earth s Best® with PBS Kids and Sesame Street, and Terra® as The Official Chip of Madison Square Garden. We are continuing these sponsorship programs. Hain Celestial Canada has been named the official supplier of natural and organic packaged grocery products for the 2010 Olympic Winter Games and Paralympic Winter Games to be held in Vancouver, Canada. 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®, in Moonachie, New Jersey, which produces vegetable chips; Arrowhead Mills®, in Hereford, Texas, which produces cereals and baking ingredients; DeBoles®, in Shreveport, Louisiana, which produces organic and gluten-free pasta; a frozen foods facility in West Chester, Pennsylvania, which produces Ethnic Gourmet® frozen meals and Rosetto® and All Natural Gluten-Free Café frozen entrees; MaraNatha® in Ashland, Oregon, which produces nut butters, a tofu facility in Boulder, Colorado, which produces our TofuTown® and WestSoy® fresh meat-free alternative products; JASON®, in Culver City, California, which produces personal care products and Hain Pure Protein in Fredericksburg and New Oxford, Pennsylvania, Troy, North Carolina and Plainville, New York, which processes natural and organic antibiotic-free chickens and turkeys.

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 Grains Noirs® facility in Brussels, Belgium, which prepares fresh organic appetizers, salads, sandwiches and other full-plated dishes; Natumi in Eitorf, Germany, which produces soymilk and other non-dairy beverages; our London and Luton, England facilities where we produce fresh prepared foods; our Fakenham, England facility where we produce meat-free frozen foods; and our Manchester, England facility, where we produce soy beverages.

We own the manufacturing facilities in Moonachie, New Jersey; Boulder, Colorado; Hereford, Texas; Shreveport, Louisiana; West Chester, Pennsylvania; Ashland, Oregon; Vancouver, British Columbia and Fakenham, England. Our 50.1%-owned Hain Pure Protein Corporation owns processing facilities in Fredericksburg and New Oxford, Pennsylvania; Troy, North Carolina and Plainville, New York. During 2008, 2007 and 2006, approximately 47%, 46% and 47%, respectively, of our revenue was derived from products manufactured at our owned manufacturing facilities.

Suppliers of Ingredients and Packaging

Our natural and organic ingredients and our packaging materials and supplies are obtained from various sources and suppliers located principally in the United States and locally in Canada and Europe for our operations in these areas. Certain of our packaging, a limited number of ingredients not available domestically and items purchased to complement our domestic supply not sufficient to meet our demand, are purchased from the Far East, including China.

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

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

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

Our organic and botanical purchasers visit major suppliers around the world annually to procure ingredients and to assure quality by observing production methods and providing product specifications. We perform laboratory analyses on selected incoming ingredient shipments for the purpose of assuring that they meet both our own quality standards and those of the U.S. Food and Drug Administration (FDA), the U.S. Department of Agriculture (USDA) and the U.S. Environmental Protection Agency (EPA), as well as the equivalent international regula-

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tory agencies in the countries in which we operate. Our quality assurance staff audits significant suppliers on a regular basis to ensure adherence to our requirements.

Co-Packed Product Base

Currently, independent manufacturers, who are referred to in our industry as co-packers, manufacture many of our products, including our Health Valley®, Breadshop s®, Casbah®, Bearitos®, Nile Spice®, Harry s Premium Snacks®, Boston s The Best You ve Ever Tasted®, Alba®, Estee®, Earth s Best®, Garden of Eatin®, Hain Pure Foods®, Hollywood®, Little Bear Organic Foods®, Westbrae Natural®, WestSoy®, Rice Dream®, Soy Dream®, Imagine®, Walnut Acres Organic®, Spectrum Naturals®, Spectrum Essentials®, SunSpire®, MaraNatha® fruit spreads, Saphara tea, Celestial® coffee, Lima®, Avalon Organics®, Alba Botanica®, Queen Helene®, Batherapy®, Shower Therapy®, Footherapy®, Zia® and some of our Terra®, Rosetto®, Arrowhead Mills®, Yves Veggie Cuisine® and Ethnic Gourmet® product lines. During 2008, 2007 and 2006, approximately 53%, 54% and 53%, respectively, of our revenue was derived from products manufactured at independent co-packers.

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

Trademarks

We believe that brand awareness is a significant component in a consumer s decision to purchase one product over another in highly competitive consumer products industries. Our trademarks and brand names for the product lines referred to herein are registered in the United States and a number of foreign countries and we intend to keep these filings current and seek protection for new trademarks to the extent consistent with business needs. We also copyright certain of our artwork and package designs. We own the trademarks for our principal products, including Arrowhead Mills®, Bearitos®, Breadshop s®, Casbah®, Spectrum Naturals®, Spectrum Essentials®, MaraNatha®, SunSpire®, Celestial Seasonings®, DeBoles® , Earth s Best®, Estee®, Ethnic Gourmet®, Garden of Eatin®, Hain Pure Foods®, Health Valley®, Imagine®, JASON®, Zia®, Orjene®, Shaman Earthly Organics®, Heather s®, Little Bear Organic Foods®, Nile Spice®, Harry s Premium Snacks®, Boston s The Best You ve Ever Tasted®, Rice Dream®, Rosetto®, Soy Dream®, Terra®, Walnut Acres Organic®, Westbrae Natural®, WestSoy®, Lima®, Grains Noirs®, Natumi®, Granose®, Realeat®, FreeBird, Plainville Farms®, Yves Veggie Cuisine®, Avalon Organics®, Alba Botanica®, Queen Helene®, Batherapy®, Shower Therapy®, Footherapy®, Tushies® and TenderCare® brands.

Celestial Seasonings® has trademarks for most of its best-selling teas, including Sleepytime®, Lemon Zinger®, Mandarin Orange Spice®, Red Zinger®, Wild Berry Zinger®, Tension Tamer®, Country Peach Passion® and Raspberry Zinger®.

We market the Linda McCartney® brand under license.

Competition

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

The beverage market for tea is large and highly competitive. Competitive factors in the tea industry include product quality and taste, brand awareness among consumers, variety of specialty tea flavors, interesting or unique product names, product packaging and package design, supermarket and grocery store shelf space, alternative distribution

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channels, reputation, price, advertising and promotion. Celestial Seasonings currently competes in the specialty tea market segment which includes herb tea, green tea, wellness tea, black tea and organic tea. Celestial Seasonings specialty tea products, like other specialty tea products, are priced higher than most commodity black tea products.

The principal competitors of Celestial Seasonings on a national basis in the specialty teas market are Thomas J. Lipton Company (a division of Unilever PLC), Twinings (a division of Associated British Grocers) and R.C. Bigelow, Inc. Additional competitors include a number of regional specialty tea companies such as Golden Temple of Oregon, Inc., with its Yogi brand, Traditional Medicinals, Tazo and The Stash Tea Company.

Government Regulation

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

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

Independent Certification

We rely on independent certification, such as certifications of our products as organic or kosher, to differentiate our products in natural and specialty food categories. 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), Certsys, QC&I International Services and Oregon Tilth to certify our products as organic under the guidelines established by the USDA and international agencies. Similarly, we utilize appropriate kosher supervision organizations, such as The Union of Orthodox Jewish Congregations, The Organized Kashruth Laboratories, KOF-K Kosher Supervision, Star K Kosher Certification, Kosher Overseers Associated of America and Upper Midwest Kashruth.

Available Information

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

- our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission (SEC);

- our policies related to corporate governance, including our Code of Business Conduct and Ethics 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 and Nominating Committees of our Board of Directors.

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

Item 1A. Risk Factors.

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

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 will successfully compete for sales to distributors or stores that purchase from larger, more established companies that have greater financial, managerial, sales and technical resources. In addition, we compete for limited retailer shelf space for our products. Larger competitors, such as mainstream food companies including but not limited to Dean Foods Company, General Mills, Inc., Nestle S.A., Kraft Foods Inc., Groupe Danone, Kellogg Company, PepsiCo, Inc., The J.M. Smucker Company, Campbell Soup Company and Sara Lee Corporation and mainstream personal care products companies including but not limited to Johnson & Johnson and Estee Lauder Inc., 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.

One example of the competitiveness of the markets in which we participate is in the tea portion of the beverage market. Competitive factors in the tea industry include product quality and taste, brand awareness among consumers, variety of specialty tea flavors, interesting or unique product names, product packaging and package design, supermarket and grocery store shelf space, alternative distribution channels, reputation, price, advertising and promotion. Our principal competitors on a national basis in the U.S. specialty tea market are Thomas J. Lipton Company, a division of Unilever PLC, and R.C. Bigelow, Inc. Unilever has substantially greater financial resources than we do. Additional competitors include a number of regional specialty tea companies. There may be potential entrants which are not currently in the specialty tea market who may have substantially greater resources than we do. Private label competition in the specialty tea category is currently minimal, but growing.

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

We also compete with other manufacturers in the procurement of natural and organic product ingredients, which may be less plentiful in the open market than conventional product ingredients. This competition may increase in the future along with increasing public demand for natural and organic products. This could cause our expenses to increase or could limit the amount of product that we can manufacture and sell.

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

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

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

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- 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 meat alternative products, medically-directed food products and other specialty food items which are subject to evolving consumer preferences.

Our Acquisition Strategy Exposes Us to Risk

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

- identify suitable acquisition candidates;

- negotiate identified acquisitions on terms acceptable to us; or

- integrate acquisitions that we complete.

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

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

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

- as to the timing or number of marketing opportunities or amount of cost savings that may be realized as the result of our integration of an acquired brand;

- that a business combination will enhance our competitive position and business prospects;

- that we will not experience difficulties with customers, personnel or other parties as a result of a business combination; or

- that, with respect to our acquisitions outside the United States, we will not be affected by, among other things, exchange rate risk.

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

- integrating an acquired brand s distribution channels with our own;

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

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

We are Dependent Upon the Services of Our Chief Executive Officer

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

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

We rely upon sales efforts made by or through non-affiliated food brokers to distributors and other customers, in addition to our own retail sales organization. The loss of, or business disruption at, one or more of these distributors or brokers may harm our business. If we are required to obtain additional or alternative distribution and food brokerage agreements or arrangements in the future, we cannot be certain that we will be able to do so on satisfactory terms or in a timely manner. One of our distributors, United Natural Foods, Inc., which redistributes products to natural foods supermarkets, independent natural retailers and other retailers, accounted for approximately 20%, 20% and 21% of our net sales for the fiscal years ended June 30, 2008, 2007, and 2006, respectively. Our inability to enter into satisfactory brokerage agreements may inhibit our ability to implement our business plan or to establish markets necessary to develop products successfully. Food brokers act as selling agents representing specific brands on a non-exclusive basis under oral or written agreements generally terminable at any time on 30 days notice, and receive a percentage of net sales as compensation. Distributors purchase directly for their own account for resale. In addition, the success of our business depends, in large part, upon the establishment and maintenance of a strong distribution network.

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

For the fiscal years ended June 30, 2008, 2007 and 2006, approximately 47%, 46% and 47%, 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 such time as an alternate source of production could be secured.

During fiscal 2008, 2007 and 2006, approximately 53%, 54% and 53%, respectively, of our revenue was derived from products manufactured at independent co-packers. In some cases an individual co-packer may produce all of our requirements for a particular brand; however, no co-packer manufactured products representing as much as 10% of our revenue. The loss of one or more co-packers, or our failure to retain co-packers for newly acquired products or brands, could delay or postpone production of our products, which could have a material adverse effect on our business, results of operations and financial condition until such time as an alternate source could be secured, which may be on less favorable terms.

Our Tea Ingredients Are Subject to Import Risk

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

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

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

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

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

Many aspects of our business have been, and continue to be, directly affected by the continuously rising cost of fuel and commodities. Increased fuel costs have translated into increased costs for the products and services we receive from our third party providers including, but not limited to, increased distribution costs for our products and increased packaging costs. Commodities are subject to price volatility which can be caused by commodity market fluctuations, crop yields, changes in currency exchange rates, imbalances between supply and demand and government programs among other factors. Increased demand for organic ingredients may result in our inability to procure adequate supplies, which may result in our inability to satisfy customer orders. As the cost of doing business increases, we may not be able to pass these higher costs on to our customers and, therefore, any such cost increase may adversely affect our earnings.

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

Operating in international markets involves exposure to movements in currency exchange rates, which are volatile at times. The economic impact of currency exchange rate movements is complex because such changes are often linked to variability in real growth, inflation, interest rates, governmental actions and other factors. Consequently, isolating the effect of changes in currency does not incorporate these other important economic factors. These changes, if material, could cause adjustments to our financing and operating strategies. During fiscal 2008, approximately 22.9% of our net sales were generated outside the United States, while such sales outside the U.S. were 24.9% of net sales in 2007 and 19.3% in 2006.

Sales from outside our U.S. markets may 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

We believe that brand awareness is a significant component in a consumer s decision to purchase one product over another in the highly competitive food, beverage and personal care industry. Although we endeavor to protect our trademarks and trade names, there can be no assurance that these efforts will be successful, or that third parties will not challenge our right to use one or more of our trademarks or trade names. We believe that our trademarks and trade names are significant to the marketing and sale of our products and that the inability to utilize certain of these names could have a material adverse effect on our business, results of operations and financial condition.

Our Products Must Comply with Government Regulation

The USDA adopted regulations with respect to a national organic labeling and certification program which became effective in February 2001, and fully implemented in October 2002. Amendments to Canada s Organic Products regulations as administered by the Canada Organic Office of the Canadian Food Inspection Agency will become effective in December 2008. Although the implementation period has not yet been defined, we will be required to apply for recertification of our organic products under the new regulations and update any affected packaging. In addition, similar regulations and requirements exist in the other countries in which we market our products. We currently manufacture over 1,300 organic products worldwide which are covered by these various regulations. Future developments in the regulation of labeling of organic foods could require us to further modify the labeling of our products, which could affect the sales of our products and thus harm our business.

In addition, in January 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.

In the Untied States, the FDA s Nutritional Labeling regulations require the declaration of Trans Fatty Acids in the nutritional label of conventional foods and dietary supplements. Additionally, an allergen labeling law requires that eight major allergens be clearly labeled. All of our labels are in compliance with these rules. Canadian food labeling regulations require a Nutritional Facts panel be on our packages. Our Yves Veggie Cuisine® products are subject to these regulations, as are all of our other products sold into Canada. Similar labeling regulations exist throughout the rest of the world. We continually monitor and modify packaging to be in compliance with the rules of the various countries where we sell our products. Our ability to meet local packaging regulations may impact our ability to sell products in these regions. Any change in labeling requirements for our products may lead to an increase in packaging costs or interruptions or delays in packaging deliveries.

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

Product Recalls or Withdrawals Could Have a Material Adverse Effect on Our Business

Manufacturers and distributors of products in our industry are sometimes subject to the recall of their products for a variety of reasons, including for product defects, such as ingredient contamination, packaging safety and inadequate labeling disclosure. If any of our products are recalled or withdrawn due to a product defect or for any other reason, we could be required to incur the expense of the recall or withdrawal and the expense of any resulting legal proceeding. Additionally, if one of our significant brands were subject to recall or withdrawal, the image of that brand and our image 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. There can be no assurances 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, beverage and personal care 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 naming us as an additional insured.

We Rely on Independent Certification for a Number of Our Food Products

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

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

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

Our tea brand manufactures and markets hot tea products and, as a result, our quarterly results of operations reflect seasonal trends resulting from increased demand for our hot tea products in the cooler months of the year. In addition, some of our other products (e.g., baking and cereal products and soups) also show stronger sales in the cooler months while our snack food product lines and certain of our prepared food products are stronger in the warmer months. Sales of our turkey products are strongest in the second quarter of our fiscal year, coinciding with seasonal holidays.

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

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

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

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

Our profit margins depend on our ability to manage our inventory efficiently. As part of our effort to manage our inventory more efficiently, we carried out SKU rationalization programs in fiscal 2008 and in fiscal 2005, which resulted in the discontinuation of numerous lower-margin or low-turnover SKUs. However, a number of factors, such as changes in customers inventory levels, access to shelf space and changes in consumer preferences, may lengthen the number of days we carry certain inventories, hence impeding our effort to manage our inventory efficiently.

Our Officers and Directors May Be Able to Control Our Actions

Our officers and directors beneficially owned (assuming the exercise of all stock options held by them) approximately 11% of our common stock as of June 30, 2008. Accordingly, our officers and directors may be in a position to influence the election of our directors and otherwise influence stockholder action.

Our Ability to Issue Preferred Stock May Deter Takeover Attempts

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

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An Impairment in the Carrying Value of Goodwill or Other Acquired Intangibles Could Negatively Affect our Consolidated Operating Results and Net Worth.

The carrying value of goodwill represents the fair value of acquired businesses in excess of identifiable assets and liabilities as of the acquisition date. The carrying value of other intangibles represents the fair value of trademarks, trade names, and other acquired intangibles as of the acquisition date. Goodwill and other acquired intangibles expected to contribute indefinitely to our cash flows are not amortized, but must be evaluated by management at least annually for impairment. If the carrying value of these assets exceeds current fair value, the asset is considered impaired and is reduced to fair value, resulting in a non-cash charge to earnings. Events and conditions which could result in an impairment include increased competition or loss of market share, a significant product liability or intellectual property claim or other factors that would result in a significant reduction in sales or profitability over the product life. Should the value of one or more of the acquired intangibles become impaired, our consolidated earnings and net worth may be materially adversely affected.

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

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

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

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

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

Item 1B. Unresolved Staff Comments.

None.

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Item 2. Properties.

Our primary facilities, which are leased except where otherwise indicated, are as follows:

Primary Use	Location	Approximate Square Feet	Expiration of Lease
Headquarters Office	Melville, NY	35,000	2012
Manufacturing and offices (Tea)	Boulder, CO	158,000	Owned
Manufacturing & Distribution (Grocery)	Hereford, TX	136,000	Owned
Manufacturing (Frozen foods)	West Chester, PA	105,000	Owned
Manufacturing (Vegetable chips)	Moonachie, NJ	75,000	Owned
Manufacturing & distribution (Grocery)	Shreveport, LA	37,000	Owned
Processing plant (Protein)	Fredericksburg, PA	58,000	Owned
Processing plant (Protein)	New Oxford, PA	112,000	Owned
Processing plant (Protein)	Plainville, NY	92,000	Owned
Processing plant (Protein)	Troy, NC	40,000	Owned
Warehouse (Protein)	Syracuse, NY	60,000	2013
Manufacturing (Personal care)	Culver City, CA	24,000	2010
Manufacturing (Meat alternatives)	Boulder, CO	21,000	Owned
Manufacturing (Nut butters)	Ashland, OR	13,000	Owned
Distribution center (Grocery & snacks)	Ontario, CA	375,000	2012
Distribution center (Tea)	Boulder, CO	81,000	2011
Distribution center and offices (Personal care)	Petaluma, CA	54,000	2009
Distribution center (Personal care)	Inglewood, CA	40,000	2008
Distribution center (Meat alternatives)	Boulder, CO	45,000	2009
Distribution center (Personal care)	Culver City, CA	26,000	2010
Manufacturing and offices (Meat alternatives)	Vancouver, B.C., Canada	76,000	Owned
Manufacturing and offices (Soymilk & other non-dairy products)	Eitorf, Germany	46,000	2012
Manufacturing (Fresh prepared appetizers and sandwiches)	Brussels, Belgium	30,000	2010
Distribution center and offices (Natural & organic food products)	Maldegem, Belgium	94,000	Cancellable with 6 months notice
Operations & marketing offices	Maldegem, Belgium	26,000	Owned
Manufacturing & offices (Meat-free frozen products)	Fakenham, England	101,000	Owned
Manufacturing & offices (Fresh prepared food products)	Luton, England	97,000	2011

We own 614,000 sq. ft. of barns and lease another 91,000 sq. ft. of barns in Plainville, NY used in our turkey production.

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

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

For further information regarding our lease obligations, see Note 16 to the Consolidated Financial Statements.

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Item 3. Legal Proceedings.

From time to time, we are involved in litigation incidental to the ordinary conduct of our business.

A purported shareholder derivative action was filed against the Company (solely as a nominal defendant) and certain current and former officers and directors on September 21, 2006 in the Supreme Court of the State of New York, County of Suffolk, alleging breaches of fiduciary duties and unjust enrichment in connection with the Company s past stock option practices. The plaintiff seeks unspecified damages, disgorgement of options, attorneys fees and expenses, and other unspecified equitable relief from the defendants. A second purported shareholder derivative action was filed on October 31, 2006 in the same court, against substantially the same defendants and containing substantially the same allegations, adding a claim of breach of fiduciary duty. The two actions were consolidated by a Court Order dated March 3, 2008. In the consolidated complaint served on April 18, 2008, the defendant s time to respond to the consolidated complaint has been extended, with the understanding that a date for such response will be set at a conference with the Court scheduled for October 22, 2008.

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

On June 15, 2007 the Company announced that it had been informed by the SEC that it was conducting an informal inquiry into its stock option practices. The Company is cooperating with the SEC s investigation.

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

The Annual Meeting of Stockholders was held on April 1, 2008. The Company submitted the following matters to a vote of security holders:

1. To elect a Board of Directors to serve until the next Annual Meeting of Stockholders and until their successors are duly elected and qualified;
2. To act on a stockholder proposal regarding stockholder ratification of executive compensation.
3. To ratify the appointment of Ernst & Young LLP as our registered independent accountants for the fiscal year ending June 30, 2008.

The stockholders elected the persons named below, the Company s nominees, as directors of the Company, casting votes as shown below:

ELECTION OF DIRECTORS	FOR	WITHHELD
Irwin D. Simon	35,829,977	1,441,209
Barry J. Alperin	35,300,197	1,970,989
Richard C. Berke	36,700,750	570,436
Beth L. Bronner	22,426,873	14,844,313
Jack Futterman	22,878,738	14,392,448
Daniel R. Glickman	36,477,470	793,716
Marina Hahn	22,428,314	14,842,872
Andrew R. Heyer	22,440,912	14,830,274
Roger Meltzer	32,987,749	4,283,437
Lewis D. Schiliro	34,975,268	2,295,918
Lawrence S. Zilavy	35,294,002	1,977,184

The stockholders did not approve the stockholder proposal recommending an annual shareholder advisory vote to ratify compensation, casting 13,281,602 votes in favor, 15,841,895 votes against, 3,093,656 abstaining and 5,054,033 not voted.

The stockholders ratified the appointment of Ernst & Young LLP, casting 33,632,121 votes in favor, 1,421,704 votes against, and 21,921 abstaining.

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PART II

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

Outstanding shares of our Common Stock, par value $.01 per share, are listed on the NASDAQ Global Select Market under the ticker symbol HAIN . The following table sets forth the reported high and low sales prices for our Common Stock for each fiscal quarter from July 1, 2006 through June 30, 2008.

	Common Stock			
	Fiscal Year 2008		Fiscal Year 2007	
	High	Low	High	Low
First Quarter	$ 32.33	$ 26.09	$ 26.99	$ 19.88
Second Quarter	35.14	29.69	31.93	25.09
Third Quarter	32.34	24.20	31.31	28.20
Fourth Quarter	30.86	23.46	31.50	26.78

As of August 27, 2008, there were 405 holders of record of our Common Stock.

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

Issuer Purchases of Equity Securities

We made no purchases of our Common Stock during the fourth quarter of fiscal 2008. As of June 30, 2008, there remained 900,300 shares authorized for repurchase under our publicly-announced Common Stock repurchase plan.

Equity Compensation Plan Information

The following table sets forth certain information, as of June 30, 2008, concerning shares of common stock authorized for issuance under all of the Company s equity compensation plans.

Plan Category	(A) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	(B) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	(C) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in column (A)) (1)
Equity compensation plans approved by security holders	6,094,221	$ 21.55	1,497,851
Equity compensation plans not approved by security holders	None	None	None
Total	6,094,221	$ 21.55	1,497,851

(1) Of the 1,497,851 shares available for future issuance under our equity compensation plans, 1,233,351 shares are available for grant under the Amended and Restated 2002 Long Term Incentive and Stock Award Plan and 264,500 shares are available for grant under the 2000

Directors Stock Option Plan.

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Performance Graph

The following graph compares the performance of our common stock to the S&P 500 Index and to the Standard & Poor s Packaged Foods and Meats Index (in which we are included) for the period from June 30, 2003 through June 30, 2008. The comparison assumes $100 invested on June 30, 2003.

Unregistered Sales of Equity Securities and Use of Proceeds

On September 6, 2005, the Company and Yeo Hiap Seng Limited (YHS), a Singapore based natural food and beverage company listed on the Singapore Exchange, exchanged $2 million in equity investments in each other resulting in the issuance of an aggregate of 100,482 shares of the Company s common stock to YHS and one of its subsidiaries and the issuance of 1,326,938 ordinary shares of YHS (representing less than 1% of the outstanding shares) to the Company. On May 30, 2007, the Company and YHS exchanged an additional $6 million in equity investments in each other, resulting in the issuance of an aggregate of 196,464 shares of the Company s common stock to YHS and one of its subsidiaries and the issuance of 4,044,800 ordinary shares of YHS to the Company. These issuances of the Company s common stock were effected in reliance upon an exemption from registration provided by Section 4(2) under the Securities Act of 1933, as amended, as the issuances did not involve a public offering.

Item 6. Selected Financial Data.

The following information has been summarized from our financial statements. The information set forth below is not necessarily indicative of results of future operations, and should be read in conjunction with Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, and the consolidated financial statements and related notes thereto included in Item 8 of this Form 10-K to fully understand factors that may affect the comparability of the information presented below.

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	Year Ended June 30				
	2008	2007	2006	2005	2004
Operating results:					
Net sales	$ 1,056,371	$ 900,432	$ 738,557	$ 619,967	$ 544,058
Net income	$ 41,221	$ 47,482	$ 36,367	$ 24,061	$ 25,263
Basic earnings per common share	$ 1.03	$ 1.21	$ .97	$ .66	$ .72
Diluted earnings per common share	$ .99	$ 1.16	$ .93	$ .65	$ .70
Financial position:					
Working capital	$ 246,726	$ 198,524	$ 172,933	$ 123,541	$ 129,190
Total assets	$ 1,259,384	$ 1,058,456	$ 877,684	$ 707,136	$ 684,231
Long-term debt	$ 308,220	$ 215,446	$ 151,229	$ 92,271	$ 104,294
Stockholders equity	$ 742,811	$ 696,956	$ 618,092	$ 531,206	$ 500,351

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

General

We manufacture, market, distribute and sell natural, organic, specialty and snack food products and natural personal care products under brand names which are sold as better-for-you products. We are a leader in many of the top natural food and personal care products categories. Our products are sold primarily to specialty and natural food distributors and are marketed to supermarkets, natural food stores, and other retail classes of trade including mass-market retailers, drug store chains, food service channels and club stores. We manufacture internationally and our products are sold in more than 50 countries. Our brand names are well recognized in the various market categories they serve. We have acquired numerous brands since our formation and we will seek future growth through internal expansion as well as the acquisition of complementary brands. We consider the acquisition of natural and organic food and personal products companies and product lines as an integral part of our business strategy. We believe that by integrating our various brands, we will achieve economies of scale and enhanced market penetration. 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 acquisitions with strategic introductions of new products that complement existing lines to enhance revenues and margins.

Our consolidated net sales increased 17.3% in fiscal 2008 compared to the year earlier period as a result of growth in our existing brands and the impact of acquisitions. During the three fiscal years ended June 30, 2008, we made a number of acquisitions, which expanded our product offerings in fast growing categories and complemented our existing brands:

- We acquired Avalon Natural Products, Inc., with its Avalon Organics and Alba Botanica brand of personal care products, nSpired Natural Foods, Inc., with its MaraNatha natural and organic nut butters and SunSpire natural and organic chocolate products and Spectrum Organic Products, Inc., a leading manufacturer and marketer of natural and organic culinary oils, vinegars, condiments and butter substitutes under the Spectrum Naturals brand and nutritional supplements under the Spectrum Essentials brand.

- We expanded the scope of our European operations with the acquisitions of the fresh prepared food business based in Luton, England from the H.J. Heinz Company, L.P., the Linda McCartney brand (under license) frozen meat-free business based in the United Kingdom and Daily Bread, Ltd., a London-based producer of branded fresh prepared foods for the foodservice channel in the United Kingdom.

- We entered the specialty poultry business with the formation of Hain Pure Protein Corporation, a 50.1%-owned subsidiary. Hain Pure Protein has since acquired the natural, organic and antibiotic-free chicken business of College Hill Poultry; the assets and business of Plainville Turkey Farm, Inc., a leading supplier of natural and antibiotic-free whole turkeys and deli turkey products and a turkey production facility and distribution center in New Oxford, Pennsylvania.

All of our acquisitions have been accounted for as purchases. Consequently, their operations are included in our results of operations from the respective dates of acquisition.

In August, 2007, we sold our interest in a joint venture in Belgium that manufactured and sold rice cakes. In September 2007, we sold our minority interest in Halo, Purely for Pets, Inc., which we had acquired in fiscal 2006. In

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August, 2006, we sold our Biomarché operations, a Belgium-based provider of fresh organic fruits and vegetables, which we acquired in fiscal 2002.

Critical Accounting Policies

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States. Our significant accounting policies are described in Note 2 to the consolidated financial statements. The policies below have been identified as the critical accounting policies we use which require us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and amounts of income and expenses during the reporting periods presented. We believe in the quality and reasonableness of our critical accounting policies; however, it is possible that materially different amounts would be reported under different conditions or using assumptions different from those that we have consistently applied. Our critical accounting policies are as follows, including our methodology for estimates made and assumptions used:

Revenue Recognition and Sales Incentives

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

Valuation of Accounts and Chargebacks Receivable

We perform ongoing credit evaluations on existing and new customers daily. We apply reserves for delinquent or uncollectible trade receivables based on a specific identification methodology and also apply a general reserve based on the experience we have with our trade receivables aging categories. Credit losses have been within our expectations in recent years. While one of our customers represented approximately 13% of our trade receivable balance at June 30, 2008, 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 during the most recent three fiscal years.

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

Inventory

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

Property, Plant and Equipment

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

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Accounting for Acquisitions

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

Our acquisitions have been accounted for using the purchase method of accounting as defined under SFAS No. 141, Business Combinations. We estimated the fair values of the assets acquired in each acquisition as of the date of acquisition and these estimates are subject to adjustment. These estimates are subject to final assessments of the fair value of property, plant and equipment, intangible assets, operating leases and deferred income taxes. We complete these assessments as soon as practical. We are not aware of any information that would indicate that the final purchase price allocations for acquisitions completed in fiscal 2008 would differ meaningfully from preliminary estimates. See Note 6 to the Notes to Consolidated Financial Statements.

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

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

Stock Based Compensation

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

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

Segments

SFAS No. 131 defines an operating segment as that component of an enterprise (i) that engages in business activities from which it may earn revenues and incur expenses, (ii) whose operating results are regularly reviewed by the enterprise s chief operating decision maker (CODM) to make decisions about resources to be allocated to the segment and assess its performance, and (iii) for which discrete financial information is available. SFAS No. 142

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

Intangibles

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

The identification and measurement of goodwill impairment involves the estimation of the fair value of reporting units. The estimates of fair value of our reporting units are based on the best information available as of the date of the assessment, and include the use of management projections, estimates and assumptions as to the future performance and expected cash flows of the operations. Future cash flows can be affected by changes in industry or market conditions, the rate and extent to which anticipated synergies or cost savings are realized with newly acquired entities and other factors.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosure of fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements and accordingly, does not require any new fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. We have not yet assessed the impact, if any, that the implementation of SFAS No. 157 will have on our consolidated results of operations or financial condition.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS No. 159). SFAS No. 159 allows companies to choose to measure certain financial instruments and certain other items at fair value. The statement requires that unrealized gains and losses are reported in earnings for items measured using the fair value option and establishes presentation and disclosure requirements. SFAS No. 159 is effective July 1, 2008 for the Company. We have not yet assessed the impact, if any, SFAS No. 159 may have on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations (SFAS No. 141(R)). SFAS No. 141(R) replaces SFAS No. 141, Business Combinations, however, it retains the basic requirements of SFAS No. 141 that the acquisition method of accounting (previously referred to as the purchase method) be used for all business combinations. SFAS No. 141(R) requires the acquiring entity in a business combination to recognize the identifiable assets acquired, liabilities assumed and any noncontrolling interest in the business acquired at their ac-

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quisition-date fair values and generally requires acquisition-related costs to be expensed as incurred. SFAS No. 141(R) also provides guidance for recognizing and measuring the goodwill acquired in a business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The provisions of SFAS No. 141(R) must be applied prospectively and are effective for the Company s fiscal year ending June 30, 2010 for all business combinations occurring on or after July 1, 2009. We have not yet assessed the impact that the implementation of SFAS No. 141(R) will have on our consolidated results of operations or financial condition.

In December 2007, the FASB also issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51 (SFAS No. 160). SFAS No. 160 establishes new accounting and reporting standards for a noncontrolling interest in a subsidiary, which is sometimes referred to as minority interest, and for the deconsolidation of a subsidiary. Among other requirements, SFAS No. 160 establishes accounting and reporting standards that require noncontrolling interests to be reported as a separate component of equity in the consolidated financial statements, changes in a parent s ownership interest while the parent retains its controlling interest be accounted for as equity transactions and that consolidated net income include the amounts attributable to both the parent and the noncontrolling interest, with disclosure of those amounts on the face of the consolidated statement of income. SFAS No. 160 is effective beginning in the Company s fiscal year ending June 30, 2010 and must be applied prospectively, except for the presentation and disclosure requirements, which will be applied retrospectively for all periods presented. We have not yet assessed the impact that the implementation of SFAS No. 160 will have on our consolidated results of operations or financial condition.

Results of Operations

Fiscal 2008 Compared to Fiscal 2007

NET SALES

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

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

Sales by our Hain Pure Protein unit increased to $90.6 million, from $34.7 million in 2007, as we expanded our product offerings with the acquisition of Plainville Turkey Farms in early fiscal 2008. In March 2008, we significantly increased our capacity to process turkeys with the acquisition of Pilgrim s Pride s New Oxford, PA processing operations.

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

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

GROSS PROFIT

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

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

SELLING, GENERAL and ADMINISTRATIVE EXPENSES

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

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

OPERATING INCOME

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

INTEREST AND OTHER EXPENSES, NET

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

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

INCOME BEFORE INCOME TAXES

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

INCOME TAXES

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

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

NET INCOME

Net income in 2008 was $41.2 million, or $0.99 per diluted share, compared to $47.5 million, or $1.16 per diluted share in 2007. The decrease was attributable to the aforementioned decrease in income before income taxes.

Fiscal 2007 Compared to Fiscal 2006

NET SALES

Net sales for the year ended June 30, 2007 were $900.4 million, an increase of $161.8 million, or 21.9%, over net sales of $738.6 million for the year ended June 30, 2006. Sales of grocery and snacks increased with the strong performance of our Earth s Best, Garden of Eatin , Arrowhead Mills, Health Valley and Spectrum brands and from successful new product introductions. Net sales of our Celestial Seasonings tea brand were down principally as a result of continued warmer than normal temperatures in North America and lower consumption of green tea. Sales of our personal care brands increased as a result of strong growth from our Jason brand, sales of the brands we acquired from Para Laboratories in the third quarter of 2006 and the inclusion of sales of our Avalon and Alba brands, acquired during the third quarter of fiscal 2007. Sales for our brands in Canada were flat, with increased sales of our refrigerated and frozen products offset by decreased sales of tea. Sales in Europe increased primarily as a result of the inclusion of our United Kingdom operations, acquired during the fourth quarter of fiscal 2006 and the second quarter of fiscal 2007.

GROSS PROFIT

Gross profit for the year ended June 30, 2007 was $261.4 million, an increase of $48.1 million, or 22.5%, from last year s gross profit of $213.4 million. Gross profit in fiscal 2007 was 29.0% of net sales compared to 28.9% of net sales for 2006. The increase in gross profit percentage was principally the result of the addition of higher margin personal care products from our recently acquired Avalon and Alba brands, partially offset by approximately $1.7 million of start-up costs incurred in the first half of the year associated with a new production line at our West Chester frozen foods facility, lower relative contribution from our Celestial Seasonings tea brand and the inclusion of our United Kingdom operations which were acquired after the third quarter of fiscal 2006, for a full year. In the United Kingdom, we continued to co-pack for the previous owner at one of the facilities under an agreement allowing for a minimal margin. Our gross margin generated in the United Kingdom was depressed even though the arrangement helped absorb what otherwise would be unabsorbed overhead. The effect on our gross profit percentage for the year ended June 30, 2007 was a 100 basis point reduction from the lower margins in the United Kingdom. Gross margin in 2006 included $0.9 million, or 0.1%, of charges for our 2005 SKU rationalization program. Our gross margin performance has also been negatively impacted by the increasing costs of petroleum, ingredients, health care and other input costs. We have offset these increasing costs with the successful implementation of price increases for selected products we sell, and with a sharper focus on operating efficiencies, including the positive effects of our 2005 SKU rationalization program.

SELLING, GENERAL and ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses increased by $29.2 million, or 19.7%, to $177.5 million in 2007 from $148.3 million in 2006. Selling, general and administrative expenses increased primarily as a result of costs associated with the businesses we acquired in fiscal 2007 and 2006. In addition, we had increased amortization ex-

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pense on purchased intangibles related to our recent acquisitions and increased professional fees during the year ended June 30, 2007. Selling, general and administrative expenses in fiscal 2006 included a $3.2 million expense for stock option compensation under SFAS No. 123(R). Selling, general and administrative expenses as a percentage of net sales declined to 19.7% in fiscal 2007 as compared to 20.1% in fiscal 2006, primarily as a result of the reduction in stock option compensation expense.

OPERATING INCOME

Operating income was $84.0 million in 2007 compared to $65.1 million in 2006. Operating income as a percentage of net sales was 9.3% in 2007 compared to 8.8% in 2006. The increase in operating income was a result of our increased net sales and gross profit.

INTEREST AND OTHER EXPENSES, NET

Interest and other expenses, net were $6.9 million for the year ended June 30, 2007 compared to $5.9 million for fiscal 2006. Interest expense totaled $11.3 million in 2007, which was primarily related to the $150 million of 5.98% senior notes we issued in the fourth quarter of last fiscal year and borrowings we made early in the third quarter of fiscal 2007 under our revolving credit facility to partially fund the acquisition of Avalon Natural Products, Inc. The interest expense was partially offset by $2.5 million of interest income earned. Interest expense in fiscal 2006 was approximately $6.5 million and was partially offset by interest income earned of $0.9 million. In the first quarter of fiscal 2007, we sold Biomarché, our Belgium-based provider of fresh organic fruits and vegetables and recognized a gain on the disposal of approximately $3.4 million, net of a $3.3 million write-off of allocated goodwill.

INCOME BEFORE INCOME TAXES

Income before income taxes in 2007 amounted to $77.1 million compared to $59.1 million in 2006. The increase was attributable to the aforementioned increase in operating income offset by the increase in interest and other expenses, net.

INCOME TAX EXPENSE

Our income tax expense was $29.6 million in fiscal 2007 compared to $22.8 million in 2006. Our effective tax rate was 38.4% in 2007 compared to 38.5% in 2006. Our effective tax rate in 2007 included the unfavorable impact of the $3.3 million of nondeductible goodwill expensed in connection with the sale of Biomarché.

NET INCOME

Net income in 2007 was $47.5 million, or $1.16 per diluted share, compared to $36.4 million, or $0.93 per diluted share in 2006. The increase was attributable to the aforementioned increase in income before income taxes, and for per share amounts, offset by a 5.6% increase in the number of weighted average shares outstanding used in the computation.

Liquidity and Capital Resources

We finance our operations and growth primarily with the cash flows we generate from our operations and from both long-term fixed-rate borrowings and borrowings available to us under our Credit Facility.

Our working capital was $246.7 million at June 30, 2008, an increase of $48.2 million from $198.5 million at the end of fiscal 2007. This was due principally to a $46.6 million increase in inventories, a $23.5 million increase in accounts receivable and an $8.9 million increase in other current assets, offset by a $28.8 million increase in accounts payable and other current liabilities and a decrease of $2.0 million in cash. The increases in our accounts receivable, inventories and accounts payable were partially attributable to the recent acquisitions we made. Our inventories also increased as a result of higher levels of ingredient inventory carried for our Earth s Best brand and the

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increases in the costs of ingredients. Accounts receivable also increased as a result of our higher sales volume. Our days sales in receivables improved to 41 days compared to 43 days in the year-ago period.

Our cash balance decreased $2.0 million during the year ended June 30, 2008 to $58.5 million as of June 30, 2008. We maintain our cash and cash equivalents primarily in money market funds or their equivalent. As of June 30, 2008, all of our investments mature in less than three months. Accordingly, we do not believe that our investments have significant exposure to interest rate risk. Cash provided by (used in) operating, investing and financing activities is summarized below.

Years ended June 30,	**2008**	**2007**	**2006**
Cash flows provided by (used in):			
Operating activities	$ 24,486	$ 66,431	$ 54,166
Investing activities	(116,092)	(139,708)	(100,559)
Financing activities	91,925	83,608	70,996
Exchange rate changes	(2,324)	1,312	133
Net increase (decrease) in cash	$ (2,005)	$ 11,643	$ 24,736

Net cash provided by operating activities was $24.5 million for the year ended June 30, 2008, compared to $66.4 million provided in fiscal 2007 and $54.2 million provided in fiscal 2006. The decrease in cash provided by operating activities in 2008 resulted from the decrease in our net income and other non-cash items and the increases in our operating assets, as described above. The increase in cash provided by operations in 2007 compared to 2006 resulted from the increase in our net income and other non-cash items, such as depreciation and amortization.

We used $116.1 million of cash in investing activities in fiscal 2008, principally for acquisitions and capital additions. We acquired Daily Bread Ltd., the turkey processing facility of Pilgrim s Pride, nSpired Natural Foods, Inc., Tendercare International, Inc. and the assets and business of Plainville Turkey Farms during 2008, using a total of $102.2 million of cash. We used $19.8 million in cash for capital additions. These uses were partially offset by proceeds of dispositions totaling $3.0 million. We used $139.7 million of cash in investing activities in the year ended June 30, 2007. We used $137.8 million of cash in connection with the acquisitions of Avalon Natural Products, Inc. (Avalon) in January 2007, the assets and business of Haldane Foods in the United Kingdom in December 2006 and the tofu and meat-alternative business of WhiteWave Foods Company in June 2007, $11.4 million for capital expenditures and $1.9 million for a loan to an affiliated joint venture (subsequently repaid in August 2007). This was partially offset by $8.2 million of proceeds from the sale of Biomarché, our Belgium-based provider of fresh organic fruits and vegetables, and $3.3 million of proceeds from the disposals of fixed assets. In the year ended June 30, 2006, we used $100.6 million of cash in investing activities, including $84.5 million for acquisitions and $14.5 million for the purchase of property, plant and equipment.

Net cash of $91.9 million was provided by financing activities for the year ended June 30, 2008, $83.6 million was provided for the year ended June 30, 2007 and $71.0 million was provided for the year ended June 30, 2006. During all three fiscal years, we incurred borrowings to fund acquisitions. During the year ended June 30, 2008, we borrowed $90.5 million under our Credit Facility and received proceeds of $2.4 million from the exercise of stock options. Treasury stock increased by 84,334 shares ($2.7 million) in the second quarter of fiscal 2008 as a result of stock surrendered to pay employee payroll withholding taxes in connection with stock-based compensation transactions. During fiscal 2007, we borrowed $75.0 million under our Credit Facility and received $18.4 million of proceeds from the exercise of stock options. During 2006, we received the proceeds of our $150.0 million of fixed rate senior notes and repaid $89.7 million of borrowings under the Credit Facility. In addition, during 2006 we received $15.1 million of proceeds from the exercise of stock options and we incurred $1.2 million of costs in connection with our new financing arrangements.

On May 2, 2006, we issued $150 million in aggregate principal amount of senior notes due May 2, 2016 in a private placement. The notes bear interest at 5.98%, payable semi-annually on November 2 and May 2. We also have a credit agreement which provides us with a $250 million revolving credit facility (the Credit Facility) expiring in May 2011. The Credit Facility provides for an uncommitted $100 million accordion feature, under which the facil-

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ity may be increased to $350 million. The Credit Facility and the senior notes are guaranteed by substantially all of our current and future direct and indirect domestic subsidiaries. Loans under the Credit Facility bear interest at a base rate (greater of the applicable prime rate or Federal Funds Rate plus an applicable margin) or, at our option, the reserve adjusted LIBOR rate plus an applicable margin. As of June 30, 2008 and June 30, 2007, $150.0 million was outstanding under the senior notes at an interest rate of 5.98%. As of June 30, 2008, there were $155.5 million of borrowings outstanding under the Credit Facility. We are required by the terms of the Credit Facility and the senior notes to comply with customary affirmative and negative covenants for facilities and notes of this nature.

Obligations for all debt instruments, capital and operating leases and other contractual obligations as of June 30, 2008 are as follows:

	Payments Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	Thereafter
Long-term debt obligations	$ 305,925		$ 155,925		$ 150,000
Capital lease obligations	2,517	$ 222	732	$ 1,424	139
Operating lease obligations	28,006	8,497	12,788	6,378	343
Purchase obligations	133,668	62,719	26,011	18,021	26,917
Other long-term liabilities	5,012		2,045		2,967
Total contractual obligations	$ 475,128	$ 71,438	$ 197,501	$ 25,823	$ 180,366

We believe that our cash on hand of $58.5 million at June 30, 2008, as well as projected cash flows from operations and availability under our Credit Facility are sufficient to fund our working capital needs in the ordinary course of business, anticipated fiscal 2009 capital expenditures of approximately $20 million, and the $8.7 million of debt and lease obligations described in the table above, during the 2009 fiscal year.

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;
- our ability to implement our business strategy;
- our ability to integrate acquisitions;
- our reliance on third party distributors, manufacturers, and suppliers;
- competition;
- changes in customer preferences;

international sales and operations;

availability and retention of key personnel;

escalating fuel and commodity costs;

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

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

the other risk factors described in Item 1A above.

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

Supplementary Quarterly Financial Data:

Unaudited quarterly financial data (in thousands, except per share amounts) for fiscal 2008 and 2007 is summarized as follows:

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

	Three Months Ended			
	September 30, 2006	December 31, 2006	March 31, 2007	June 30, 2007
Net sales	$ 209,895	$ 230,190	$ 238,027	$ 222,320
Gross profit (d)	58,830	69,871	70,738	61,991
Operating income	16,880	24,925	23,540	18,632
Income before income taxes (e)	15,060	23,171	20,248	18,613
Net income	8,739	14,213	12,390	12,140
Basic earnings per common share	$ 0.23	$ 0.36	$ 0.31	$ 0.30
Diluted earnings per common share	$ 0.22	$ 0.34	$ 0.30	$ 0.29

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

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

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

(d) Gross profit was negatively impacted by approximately $1.1 million ($0.7 million net of tax) for the three months ended September 30, 2006, and $0.6 million ($0.4 million net of tax) for the three months ended December 31, 2006, as the result of start-up costs associated with a new production line at the Company s West Chester, PA frozen foods facility.

(e) Income before income taxes includes a gain of $3.4 million ($1.2 million net of tax) in the three months ended September 30, 2006 on the disposal of Biomarché, a Belgium-based provider of fresh organic fruits and vegetables.

Seasonality

Our tea brand primarily manufactures and markets hot tea products and, as a result, its quarterly results of operations reflect seasonal trends resulting from increased demand for its hot tea products in the cooler months of the year. In addition, some of our other products (e.g., baking and cereal products and soups) also show stronger sales in the cooler months while our snack food and certain of our prepared food product lines are stronger in the warmer months. In years where there are warm winter seasons, our sales of cooler weather products, which typically increase in our second and third fiscal quarters, may be negatively impacted. Sales of our turkey products are strongest in the second quarter of our fiscal year, coinciding with seasonal holidays.

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.

Impact of Inflation

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

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

Market Risk

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

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

Interest Rates

We centrally manage our debt and cash equivalents, considering investment opportunities and risks, tax consequences and overall financing strategies. Our cash equivalents consist primarily of commercial paper and obligations of U.S. Government agencies. As of June 30, 2008, we had $155.5 million of variable rate debt outstanding. Assuming current cash equivalents and variable rate borrowings, a hypothetical change in average interest rates of one percentage point would not have a material effect on our financial position, results of operations or cash flows over the next fiscal year.

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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 2008, approximately 22.9% of our net sales were generated from sales outside the United States, while such sales outside the United States were 24.9% of net sales in 2007 and 19.3% of net sales in 2006.

We expect sales from non-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.

Ingredient Inputs Price Risk

The Company purchases ingredient inputs such as wheat, corn, soybeans, canola oil and fruit as well as packaging materials to be used in its operations. These inputs are subject to price fluctuations that may create price risk. We do not attempt to hedge against fluctuations in the prices of the ingredients by using future, forward, option or other derivative instruments. As a result, the majority of our future purchases of these items are subject to changes in price. We may enter into fixed purchase commitments in an attempt to secure an adequate supply of specific ingredients. These agreements are tied to specific market prices. Market risk is estimated as a hypothetical 10% increase or decrease in the weighted-average cost of our primary inputs as of June 30, 2008. Based on our cost of goods sold during the twelve months ended June 30, 2008, such a change would have resulted in an increase or decrease to cost of sales of approximately $41 million. We attempt to offset the impact of input cost increases with a combination of cost savings initiatives and efficiencies and price increases to our customers.

Item 8. Financial Statements and Supplementary Data.

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

Consolidated Statements of Cash Flows Years ended June 30, 2008, 2007 and 2006

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Notes to Consolidated Financial Statements

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

Schedule II Valuation and qualifying accounts

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

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Report of Independent Registered Public Accounting Firm

The Stockholders and Board of Directors of

The Hain Celestial Group, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of The Hain Celestial Group, Inc. (the Company) and Subsidiaries as of June 30, 2008 and 2007, and the related consolidated statements of income, stockholders equity, and cash flows for each of the three years in the period ended June 30, 2008. 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, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended June 30, 2008, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole presents fairly in all material respects the information set forth therein.

As described in Note 5 to the consolidated financial statements, during the fourth quarter of 2007, the Company adopted Securities and Exchange Commission Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in the Current Year Financial Statements* (SAB No. 108). In accordance with the transition provisions of SAB No. 108, the Company recorded an adjustment to retained earnings effective July 1, 2006 for the correction of prior period misstatements.

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

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of The Hain Celestial Group, Inc. s internal control over financial reporting as of June 30, 2008, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated August 28, 2008 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Melville, New York

August 28, 2008

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THE HAIN CELESTIAL GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

JUNE 30, 2008 and 2007

(In thousands, except share amounts)

	June 30 2008	June 30 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 58,513	$ 60,518
Accounts receivable, less allowance for doubtful accounts of $2,068 and $2,371	118,867	95,405
Inventories	175,667	129,062
Recoverable income taxes, net		3,687
Deferred income taxes	12,512	8,069
Prepaid expenses and other current assets	27,482	19,263
Total current assets	393,041	316,004
Property, plant and equipment, net of accumulated depreciation and amortization of $79,743 and $62,803	159,089	114,901
Goodwill	550,238	509,336
Trademarks and other intangible assets, net of accumulated amortization of $12,913 and $10,036	136,861	96,342
Other assets	20,155	21,873
Total assets	$ 1,259,384	$ 1,058,456
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 94,864	$ 70,510
Accrued expenses and other current liabilities	50,322	41,948
Income taxes payable	907	4,456
Current portion of long-term debt	222	566
Total current liabilities	146,315	117,480
Long-term debt, less current portion	308,220	215,446
Deferred income taxes	26,524	22,232
Other noncurrent liabilities	5,012	664
Total liabilities	486,071	355,822
Commitments and contingencies		
Minority interest	30,502	5,678
Stockholders equity:		
Preferred stock $.01 par value, authorized 5,000,000 shares, no shares issued		
Common stock $.01 par value, authorized 100,000,000 shares, issued 41,106,078 and 40,882,653 shares	411	409
Additional paid-in capital	488,650	487,750
Retained earnings	237,008	195,658
Foreign currency translation adjustment	32,215	25,884
	758,284	709,701
Less: 945,590 and 861,256 shares of treasury stock, at cost	(15,473)	(12,745)

Total stockholders equity	742,811	696,956
Total liabilities and stockholders equity	$ 1,259,384	$ 1,058,456

See notes to consolidated financial statements.

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THE HAIN CELESTIAL GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED JUNE 30, 2008, 2007 and 2006

(In thousands, except per share amounts)

	Year Ended June 30		
	2008	2007	2006
Net sales	$ 1,056,371	$ 900,432	$ 738,557
Cost of sales	772,062	639,002	525,205
Gross profit	284,309	261,430	213,352
Selling, general and administrative expenses	207,553	177,453	148,295
Operating income	76,756	83,977	65,057
Interest and other expenses, net	11,311	6,885	5,911
Income before income taxes	65,445	77,092	59,146
Provision for income taxes	24,224	29,610	22,779
Net income	$ 41,221	$ 47,482	$ 36,367
Net income per share:			
Basic	$ 1.03	$ 1.21	$ .97
Diluted	$ 0.99	$ 1.16	$ .93
Weighted average common shares outstanding:			
Basic	40,077	39,315	37,643
Diluted	41,765	41,108	38,912

See notes to consolidated financial statements.

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THE HAIN CELESTIAL GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

YEARS ENDED JUNE 30, 2008, 2007 and 2006

(In thousands, except per share and share data)

	Common Stock		Additional	
	Shares	Amount at $.01	Paid-In Capital	Retained Earnings
Balance at June 30, 2005	37,475,998	$ 375	$ 416,563	$ 116,965
Exercise of stock options	1,009,099	10	15,408	