HAIN CELESTIAL GROUP INC
Form 10-Q
May 11, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2009

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

Commission File No. 0-22818

THE HAIN CELESTIAL GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware	**22-3240619**
(State or other jurisdiction of	**(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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

Indicate by check mark 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, 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

As of May 5, 2009 there were 40,682,938 shares outstanding of the registrant s Common Stock, par value $.01 per share.

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THE HAIN CELESTIAL GROUP, INC.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
THE HAIN CELESTIAL GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

	March 31, 2009 (Unaudited)	June 30, 2008 (Note)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 27,784	$ 58,513
Accounts receivable, less allowance for doubtful accounts of $2,091 and $2,068	128,595	118,867
Inventories	204,599	175,667
Deferred income taxes	13,277	12,512
Other current assets	26,401	27,482
Total current assets	400,656	393,041
Property, plant and equipment, net	142,336	159,089
Goodwill	454,197	550,238
Trademarks and other intangible assets, net	154,366	136,861
Other assets	18,714	20,155
Total assets	$ 1,170,269	$ 1,259,384
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 140,045	$ 145,186
Income taxes payable	4,735	907
Current portion of long-term debt	289	222
Total current liabilities	145,069	146,315
Long-term debt, less current portion	291,044	308,220
Deferred income taxes and other liabilities	19,356	31,536
Total liabilities	455,469	486,071
Commitments and contingencies		
Minority interest	29,134	30,502
Stockholders equity:		
Preferred stock - $.01 par value, authorized 5,000,000 shares, no shares issued		
Common stock - $.01 par value, authorized 100,000,000 shares, issued 41,551,051 and 41,106,078 shares	415	411
Additional paid-in capital	500,474	488,650
Retained earnings	211,020	237,008
Accumulated other comprehensive income (loss)	(10,725)	32,215

	701,184	758,284
Less: 948,064 and 945,590 shares of treasury stock, at cost	(15,518)	(15,473)
Total stockholders equity	685,666	742,811
Total liabilities and stockholders equity	$ 1,170,269	$ 1,259,384

Note: The balance sheet at June 30, 2008 has been derived from the audited financial statements at that date.

See notes to condensed consolidated financial statements.

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THE HAIN CELESTIAL GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(In thousands, except per share amounts)

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008	Nine Months Ended March 31, 2009	Nine Months Ended March 31, 2008
Net sales	$ 267,723	$ 264,632	$ 872,601	$ 778,110
Cost of sales	204,933	195,910	664,722	561,393
Gross profit	62,790	68,722	207,879	216,717
Selling, general and administrative expenses	49,954	51,291	160,636	151,719
Impairment of goodwill and other intangibles	52,567		52,567	
Operating income (loss)	(39,731)	17,431	(5,324)	64,998
Interest and other expenses, net	1,072	3,528	10,925	8,799
Income (loss) before income taxes	(40,803)	13,903	(16,249)	56,199
Provision for income taxes	347	5,588	9,739	21,482
Net income (loss)	$ (41,150)	$ 8,315	$ (25,988)	$ 34,717
Net income (loss) per share:				
Basic	$ (1.01)	$ 0.21	$ (0.64)	$ 0.87
Diluted	$ (1.01)	$ 0.20	$ (0.64)	$ 0.83
Weighted average common shares outstanding:				
Basic	40,555	40,101	40,415	40,058
Diluted	40,555	41,588	40,415	41,837

See notes to condensed consolidated financial statements.

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THE HAIN CELESTIAL GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY (UNAUDITED)

FOR THE NINE MONTHS ENDED MARCH 31, 2009

(In thousands, except per share and share amounts)

	Common Stock		Additional				Accumulated Other	
		Amount	Paid-in	Retained	Treasury Stock		Comprehensive	
	Shares	at $.01	Capital	Earnings	Shares	Amount	Income (Loss)	Total
Balance at July 1, 2008	41,106,078	$ 411	$ 488,650	$ 237,008	945,590	$ (15,473)	$ 32,215	$ 742,811
Issuance of common stock pursuant to stock compensation plans	319,337	3	5,278					5,281
Issuance of common stock in connection with license agreement	125,636	1	1,801					1,802
Tax benefit from exercise of stock options			290					290
Shares withheld for payment of employee payroll taxes due on shares issued under stock-based compensation plans					2,474	(45)		(45)
Non-cash compensation charge			4,455					4,455
Net loss				(25,988)				(25,988)
Translation adjustments							(42,300)	(42,300)
Unrealized loss on available for sale investment, net of tax							(640)	(640)
Balance at March 31, 2009	41,551,051	$ 415	$ 500,474	$ 211,020	948,064	$ (15,518)	$ (10,725)	$ 685,666

See notes to condensed consolidated financial statements.

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THE HAIN CELESTIAL GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In thousands)

	Nine Months Ended March 31, 2009	2008
	(Unaudited)	
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Net income (loss)	$ (25,988)	$ 34,717
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Impairment of goodwill and other intangibles	52,567	
Depreciation and amortization	16,259	14,377
Deferred income taxes	(5,038)	
Non-cash compensation	4,455	(144)
Gain on sale of businesses		(2,003)
Tax benefit from stock options	290	275
Other non-cash items, net	(1,816)	2,012
Increase (decrease) in cash attributable to changes in operating assets and liabilities, net of amounts applicable to acquired/disposed businesses:		
Accounts receivable	(17,300)	(29,597)
Inventories	(34,025)	(15,437)
Other current assets	895	(23)
Other assets	(3,017)	(2,325)
Accounts payable and accrued expenses	982	12,287
Income taxes	2,293	7,028
Net cash provided by (used in) operating activities	(9,443)	21,167
CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES		
Purchases of property and equipment	(10,047)	(11,276)
Proceeds from disposals of property and equipment	643	671
Acquisitions of businesses, net of cash acquired	(324)	(68,241)
Proceeds from sale of businesses		3,783
Loan to affiliate		2,025
Net cash used in investing activities	(9,728)	(73,038)
CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES		
Proceeds from exercises of stock options	5,281	1,598
Drawings (repayments) under bank revolving credit facility	(17,000)	78,000
Repayments of other long-term debt, net	(100)	(410)
Investments by and advances from minority shareholder in joint venture	2,906	2,368
Shares withheld for payment of employee payroll taxes	(45)	(2,728)
Net cash provided by (used in) financing activities	(8,958)	78,828
Effect of exchange rate changes on cash	(2,600)	(743)

Net increase (decrease) in cash and cash equivalents	(30,729)	26,214
Cash and cash equivalents at beginning of period	58,513	60,518
Cash and cash equivalents at end of period	$ 27,784	$ 86,732

See notes to condensed consolidated financial statements.

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THE HAIN CELESTIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. GENERAL

The Hain Celestial Group, Inc., a Delaware corporation, and its subsidiaries (collectively, the Company , and herein referred to as we , us , and our) manufacture, market, distribute and sell natural and organic products under brand names which are sold as better-for-you products, providing consumers with the opportunity to lead A Healthy Way of Life. We are a leader in many of the top natural food categories, with such well-known food brands as Celestial Seasonings®, Earth s Best®, 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®, Gluten Free Café, 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®, Nile Spice®, Linda McCartney® (under license), Daily Bread , Realeat®, Granose® and TofuTown®. Our natural 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, our antibiotic-free turkey is marketed under the Plainville Farms® brand and our kosher antibiotic-free chicken and turkey is marketed under the Kosher Valley brand.

We operate in one business segment: the manufacturing, distribution and marketing of natural and organic food and personal care products. In our 2008 fiscal year, approximately 47% of our revenues were derived from products that were manufactured within our own facilities with 53% produced by various co-packers.

All dollar amounts in our condensed consolidated financial statements and tables have been rounded to the nearest thousand dollars, except per share amounts. Share amounts in the notes to condensed consolidated financial statements are presented in thousands.

2. BASIS OF PRESENTATION

Our condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States. The condensed consolidated financial statements reflect all normal recurring adjustments which, in management s opinion, are necessary for a fair presentation for interim periods. Operating results for the three months and nine months ended March 31, 2009 are not necessarily indicative of the results that may be expected for the year ending June 30, 2009. Please refer to the footnotes to our consolidated financial statements as of June 30, 2008 and for the year then ended included in our Annual Report on Form 10-K, as amended, for information not included in these condensed footnotes.

3. EARNINGS PER SHARE

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

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THE HAIN CELESTIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-Continued

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

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008	Nine Months Ended March 31, 2009	Nine Months Ended March 31, 2008
Numerator:				
Net income (loss)	$ (41,150)	$ 8,315	$ (25,988)	$ 34,717
Denominator for basic earnings per share - weighted average shares outstanding during the period	40,555	40,101	40,415	40,058
Effect of dilutive stock options and unvested restricted stock		1,487		1,779
Denominator for diluted earnings per share - adjusted weighted average shares and assumed conversions	40,555	41,588	40,415	41,837
Basic net income (loss) per share	$ (1.01)	$ 0.21	$ (0.64)	$ 0.87
Diluted net income (loss) per share	$ (1.01)	$ 0.20	$ (0.64)	$ 0.83

Anti-dilutive stock options, restricted stock and restricted stock units totaling 4,712,000 for the three months and 3,187,000 for the nine months ended March 31, 2009 and 744,000 for the three months and 296,000 for the nine months ended March 31, 2008 were excluded from our earnings per share calculations. Diluted net loss per share excludes 117,000 for the three months and 650,000 for the nine months ended March 31, 2009 of stock options, restricted stock and restricted stock units because they do not have a dilutive effect due to the Company s net loss.

4. COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) consists of net income, changes in unrealized gain or loss on available-for-sale investments and foreign currency translation adjustments, and is included in the Condensed Consolidated Statement of Stockholders Equity. The components of comprehensive income are as follows:

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008	Nine Months Ended March 31, 2009	Nine Months Ended March 31, 2008
Net income (loss)	$ (41,150)	$ 8,315	$ (25,988)	$ 34,717
Other comprehensive income:				
Foreign currency translation adjustment	(5,393)	(661)	(42,300)	9,238
Change in unrealized loss on available-for-sale investment, net of tax	(240)		(640)	
Comprehensive income (loss)	$ (46,783)	$ 7,654	$ (68,928)	$ 43,955

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THE HAIN CELESTIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-Continued

5. INVENTORIES

Inventories consisted of the following:

	March 31, 2009	June 30, 2008
Finished goods	$ 129,227	$ 105,684
Raw materials, work-in-progress and packaging	75,372	69,983
	$ 204,599	$ 175,667

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following:

	March 31, 2009	June 30, 2008
Land	$ 13,771	$ 12,356
Buildings and improvements	48,036	58,332
Machinery and equipment	143,965	148,099
Furniture and fixtures	6,927	7,430
Leasehold improvements	3,467	3,420
Construction in progress	10,380	9,195
	226,546	238,832
Less: Accumulated depreciation and amortization	84,210	79,743
	$ 142,336	$ 159,089

7. GOODWILL AND OTHER INTANGIBLE ASSETS

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

In accordance with SFAS No. 142, Goodwill and Other Intangible Assets, the Company performs its annual goodwill impairment test on the first day of its fiscal fourth quarter. In addition, if and when events or circumstances change that would more likely than not reduce the fair value of any of its reporting units below its carrying value, an interim test is performed. The Company completed its annual impairment analysis during the fourth quarter of fiscal year 2008 and determined that no impairment existed as of the date of that analysis. Based upon a combination of factors including a sustained decline in the Company s market capitalization below the Company s carrying value during the fiscal quarter ended March 31, 2009, coupled with challenging macro-economic conditions, the Company concluded that sufficient indicators existed to require it to perform an interim goodwill impairment analysis at March 1, 2009. Accordingly, the Company performed the first step of its interim goodwill impairment test for each of its six reporting units. For purposes of this analysis, our estimates of fair values are based on a combination of the income approach, which estimates the fair value of each reporting unit based on the future discounted cash flows, and the market approach, which estimates the fair value of the reporting units based on comparable market prices. The income approach requires that assumptions be made for, among others, forecasted revenues, gross profit margins, operating profit margins, working capital cash flow, perpetual growth rates and long-term discount rates, all of which require significant judgments by management. As a result of this step one analysis, the Company determined that the carrying value of its Protein and Europe reporting units exceeded their estimated fair values, indicating potential goodwill impairment existed. Having determined that the goodwill of these two reporting units was potentially

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THE HAIN CELESTIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-Continued

impaired, the Company began performing the second step of the goodwill impairment analysis which involves calculating the implied fair value of its goodwill by allocating the estimated fair value of a reporting unit to its assets and liabilities other than goodwill (including both recognized and unrecognized intangible assets) and comparing the residual amount to the carrying value of goodwill. Accordingly, during the third quarter of fiscal 2009, the Company recognized an estimated pre-tax non-cash goodwill impairment charge of $49.6 million, net of $7.6 million attributed to the minority interest of its Hain Pure Protein joint venture, to write off all of the goodwill related to its Protein and Europe reporting units. The non-cash charge has no impact on the Company s compliance with debt covenants, its cash flows or available liquidity.

Due to the complexities involved in determining the fair value of the goodwill of each reporting unit, the Company recorded this charge based on a preliminary assessment and will continue to evaluate the valuations of tangible and intangible assets and the allocation of fair value to the reporting units assets and liabilities. The Company currently expects to finalize its goodwill impairment analysis during its fourth fiscal quarter. There may be adjustments to the goodwill impairment charge, which may be material, when the goodwill impairment test is completed. Any adjustments to our preliminary estimates as a result of completing this evaluation will be recorded in our financial statements for the fiscal year ended June 30, 2009.

Changes in the carrying amount of goodwill for the nine months ended March 31, 2009 were as follows:

Balance as of July 1, 2008	$ 550,238
Impairment	(57,166)
Reallocations to tangible and intangible assets	(20,603)
Translation and other adjustments, net	(18,272)
Balance as of March 31, 2009	$ 454,197

Included in translation and other adjustments during the nine months ended March 31, 2009 are the impacts of changes in foreign currency exchange rates on goodwill and adjustments to our estimates of fair value of net assets acquired.

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

In February 2009, the Company entered into a License and Promotion Agreement with Martha Stewart Living Omnimedia, Inc. (MSLO) for the use of a trademark, Martha Stewart Clean, and the Martha Stewart name in connection with the marketing and sale of natural home cleaning solutions. In connection with the license agreement, the Company issued 125,636 shares of its common stock in exchange for the use of the trademark for the five-year term. If certain sales targets are met, additional shares will be issued and the agreement will be extended for up to ten additional years. The Company is also required to pay royalties based on net sales and required to spend certain amounts on advertising and promotion of the products. The fair value of the shares issued was $1.8 million based on the market price of our common stock on the date of issuance and is being amortized on a straight-line basis over the initial five-year term. Products contemplated by this agreement are expected to be launched in the first half of fiscal 2010.

THE HAIN CELESTIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-Continued

At March 31, 2009, included in trademarks and other intangible assets on the balance sheet is approximately $11.3 million of intangible assets deemed to have a finite life, which are being amortized over their estimated useful lives. The following table reflects the components of trademarks and other intangible assets:

	March 31, 2009		June 30, 2008	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Other intangibles	$ 19,428	$ 8,144	$ 22,609	$ 6,192
Non-amortized intangible assets:				
Trademarks	$ 149,747	$ 6,665	$ 127,165	$ 6,721

Amortization of finite-lived intangible assets amounted to $2.4 million in the nine months ended March 31, 2009. The expected aggregate amortization expense in each of the next five fiscal years is $3.1 million in 2009, $2.7 million in 2010, $2.5 million in 2011, $2.1 million in 2012 and $1.4 million in 2013.

8. ACQUISITIONS AND DISPOSALS

We account for acquisitions using the purchase method of accounting, and accordingly, the results of operations for each acquisition have been included in our consolidated results from their respective acquisition dates. In fiscal 2008, our acquisitions included the following:

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, for approximately $37.4 million in cash, including transaction costs. 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. The purchase price excludes contingency payments we may be obligated to pay related to the achievement by the acquired business of certain financial targets over an approximate two-year period following the date of acquisition. Such payments, which could total £5.0 million (approximately $7.1 million at the March 31, 2009 exchange rate), will be charged to goodwill if and when paid. No such contingency payments have been made since the acquisition. The purchase price for the acquisition was allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values at the acquisition date. The Company assigned $16.3 million to identifiable intangible assets, of which $4.5 million have been assigned finite lives and are being amortized. The excess of the purchase price over the estimated fair value of the net assets acquired was $16.1 million and was recorded as goodwill, which is not deductible for tax purposes.

On March 10, 2008, Hain Pure Protein Corporation (Hain Pure Protein), a 50.1% owned subsidiary, acquired certain assets including the turkey production facility and distribution center of Pilgrim s Pride Corporation in New Oxford, Pennsylvania for a total consideration of $19.1 million in cash, including transaction costs. This acquisition provides additional scale with the capacity to meet increasing volume demands and expands our ability to offer branded, premium poultry products. The purchase price for the acquisition was allocated to the fair values of the tangible assets and liabilities acquired. The excess of the purchase price over the estimated fair value of the net assets acquired was $8.7 million and was recorded as goodwill, which is deductible for tax purposes.

On March 6, 2008, we acquired nSpired Natural Foods, Inc., with its MaraNatha and SunSpire brands, for approximately $37.6 million in cash, including transaction costs. 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. In connection with the acquisition, the Company approved employee termination and exit costs relating to the acquired business in the amount of $1.5 million, which were recorded as costs of the acquisition. During fiscal 2008 we utilized $0.2 million and during the first nine months of fiscal 2009, we utilized $1.2 million of this reserve. The purchase price for the acquisition was allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values at the acquisition date. The Company assigned $17.1 million to identifiable intangible assets, of which $2.1 million has been assigned a finite life and is being amortized. The excess of the purchase price over the estimated fair value of the net assets acquired was $8.2 million and was recorded as goodwill, which is not deductible for tax purposes.

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THE HAIN CELESTIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-Continued

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, for approximately $3.9 million in cash, including transaction costs. The acquisition is expected to strengthen our position in the natural and organic sector with the expansion into diapers and wipes. The purchase price was allocated to the tangible and intangible assets acquired, including $4.8 million of goodwill, which is not deductible for tax purposes.

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 purchase price was approximately $26.3 million in cash, including transaction costs, plus contingent future earn-out payments based on the earnings before interest, taxes, depreciation and amortization of Plainville for the first five fiscal years after acquisition, with a maximum potential payment of $3 million, of which $1.25 million has been paid. The Plainville acquisition expands our specialty poultry business with a well-recognized industry leader. The purchase price for the acquisition was allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values at the acquisition date. The Company has assigned $7.1 million to identifiable intangible assets, of which $1.3 million have been assigned finite lives and are being amortized. The excess of the purchase price over the estimated fair value of the net assets acquired was $1.0 million and was recorded as goodwill, which is deductible for tax purposes.

The following table presents unaudited pro forma information about net sales and net income had the operations of the acquisitions described above been combined with our business on the first day of the periods shown. The following pro forma combined results of operations have been provided for illustrative purposes only and do not purport to be indicative of the actual results that would have been achieved by the Company for the period presented or that will be achieved by the Company in the future.

	Three months ended March 31, 2008	Nine months ended March 31, 2008
Net sales	$ 278,261	$ 836,614
Net income	$ 8,495	$ 35,065
Earnings per share:		
Basic	$ 0.21	$ 0.88
Diluted	$ 0.20	$ 0.84
Weighted average shares:		
Basic	40,101	40,058
Diluted	41,588	41,837

This information has not been adjusted to reflect any changes in the operations of these businesses subsequent to their acquisition by us or any other changes. Net sales and net income amounts in the pro forma table have not been adjusted to reflect subsequent changes in foreign exchange rates, which have weakened significantly, used to translate the results of our foreign operations into U.S. dollars. Changes in the operation of these acquired businesses include, but are not limited to, discontinuation of products (including discontinuation resulting from the integration of acquired and existing brands with similar products, and discontinuation of sales of private label products), integration of systems and personnel, changes in trade practices, application of our credit policies, changes in manufacturing processes or locations, and changes in marketing and advertising programs. Had any of these changes been implemented by the former management of the businesses acquired prior to acquisition by us, the sales and net income information might have been materially different than the actual results achieved and from the pro forma information provided.

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THE HAIN CELESTIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-Continued

In August 2007, we completed the sale of our interest in a joint venture in Belgium that manufactured and sold rice cakes and was accounted for using the equity method. We recognized a pre-tax gain of approximately $2.0 million in connection with the sale in the first quarter of fiscal 2008, which is included in Interest and other expenses, net in the accompanying condensed consolidated statement of operations.

In September 2007, we sold our minority interest in Halo, Purely for Pets, Inc. for approximately $1.7 million. This investment was made in June 2006 and accounted for using the equity method. The Company recognized pretax income of $0.3 million on the sale, which is included in Interest and other expenses, net in the accompanying condensed consolidated statement of operations.

9. SENIOR NOTES AND CREDIT FACILITY

We have $150 million in aggregate principal amount of senior notes outstanding due May 2, 2016, which were issued in a private placement. The notes bear interest at 5.98%, payable semi-annually on November 2nd and May 2nd. We also have a credit agreement which provides us with a $250 million revolving credit facility (the Credit Facility) expiring in May 2011. The Credit Facility provides for an uncommitted $100 million accordion feature, under which the facility may be increased to $350 million. The Credit Facility and the 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 March 31, 2009, there were $138.5 million of borrowings outstanding under the Credit Facility. We are required by the terms of the Credit Facility and the notes to comply with customary affirmative and negative covenants for facilities and notes of this nature. We were in compliance with all of the covenants as of March 31, 2009.

10. INCOME TAXES

During the nine months ended March 31, 2009, the Company s unrecognized tax benefits decreased by $0.1 million to $2.2 million, primarily as a result of settlement with the Internal Revenue Service for their examination of our tax return for our fiscal year 2004. Of the remaining amount, $0.3 million would impact the effective tax rate, if recognized. Given the uncertainty regarding when tax authorities will complete their examinations and the possible outcomes of their examinations, a current estimate of the range of reasonably possible significant increases or decreases of income tax that may occur within the next twelve months cannot be made.

11. STOCK BASED COMPENSATION

We have various stock based compensation programs under which awards, including stock options, restricted stock, and restricted stock units, may be granted to employees, consultants and non-employee directors.

During the nine months ended March 31, 2009, 223,587 shares of restricted stock were granted with an estimated grant date value of $2.8 million. In addition, 816,574 stock options were granted with an estimated fair value of $3.62 per share, using the Black-Scholes option pricing model based on a risk-free rate of 1.9%, expected volatility of 32.2%, an expected life of 4.75 years and a dividend yield of 0.0%.

The Company recorded stock based compensation expense of $1.6 million for the three months and $4.5 million for the nine months ended March 31, 2009 and $(0.1) million for the three months and $0.3 million for the nine months ended March 31, 2008 in selling, general, and administrative expenses in its condensed consolidated statements of operations. At March 31, 2009, there was $15.5 million of unrecognized stock based compensation expense, net of estimated forfeitures, which will be recognized over a weighted average period of approximately 1.7 years.

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A summary of our stock option plans activity for the nine months ended March 31, 2009 follows:

	Options	Weighted Average Exercise Price	Weighted Average Contractual Life	Aggregate Intrinsic Value
Options outstanding June 30, 2008	6,094,221	$ 21.55		
Granted	816,574	11.76		
Exercised	(309,737)	17.06		
Cancelled and expired	(748,291)	20.87		
Options outstanding March 31, 2009	5,852,767	20.59	4.34	$ 3,708
Options exercisable at March 31, 2009	4,445,354	$ 20.91	3.64	$ 1,683

The aggregate intrinsic value in the table above represents the total pretax intrinsic value (the difference between the closing stock price on the last day of trading in the nine month period ended March 31, 2009 and the exercise price) that would have been received by the option holders had all options been exercised on March 31, 2009. This value will change based on the fair market value of the Company s common stock. The total intrinsic value of options exercised during the nine months ended March 31, 2009 was $2.6 million. During the first nine months of fiscal year 2009, the cash received from stock option exercises was $5.3 million. The tax benefit expected to be realized from the tax deductions for stock option exercises totaled $1.1 million for the nine months ended March 31, 2009 and is reflected as a component of shareholders equity in the consolidated balance sheet.

Restricted stock

Restricted stock awards at March 31, 2009 and activities during fiscal 2009 were as follows:

	Number of Shares and Units	Weighted Average Grant Date Fair Value (per share)
Non-vested restricted stock and units June 30, 2008	409,004	$ 30.14
Granted	223,587	$ 12.49
Vested	(9,600)	$ 29.95
Forfeited	(2,375)	$ 29.99
Non-vested restricted stock and units March 31, 2009	620,616	$ 23.33

Compensation expense related to restricted stock awards of $3.1 million is included in selling, general and administrative expenses for the nine months ended March 31, 2009.

At March 31, 2009, $9.2 million of unrecognized stock-based compensation expense, net of estimated forfeitures, related to non-vested restricted stock awards is expected to be recognized over a weighted-average period of approximately 1.6 years.

There were 776,068 shares of Common Stock reserved for future issuance in connection with stock based awards as of March 31, 2009.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-Continued

12. RESTRUCTURING AND OTHER CHARGES

The Company periodically assesses its operations to ensure that they are efficient, aligned with market conditions and responsive to customer needs.

During the third quarter of fiscal 2009, we initiated a plan to streamline and integrate the back office and warehousing operations of our personal care operations into other locations we operate. As a result, we recorded costs of $3.0 million related to this plan, including $0.8 million for severance and benefits, $1.1 million of non-cash costs for impairment of the carrying value of fixed assets, $0.7 million of additional Stock Keeping Unit (SKU) rationalization costs and $0.4 million of other exit costs.

During fiscal 2008, we implemented a SKU rationalization and reorganization, principally in our personal care locations, and recorded charges of $10.8 million. The SKU rationalization resulted from our review of the positioning of the personal care products operations we acquired during the last several years. The review included identification of SKUs which we believe should be eliminated based on their low volume of sales or insufficient margins, development of a plan to optimize the production of product between the Company s own manufacturing facilities and those of outside contract manufacturers and implementation of the optimal organization structure to position the unit for future growth. During the nine months ended March 31, 2009, additional costs of $0.7 million were charged to cost of sales for facility exit costs and severance and $1.1 million to selling, general and administrative expense for severance. The total amount recorded to date is $12.6 million.

The following table summarizes the components of these restructuring charges, the cash payments, non-cash activities, and the remaining accrual as of March 31, 2009:

	Severance and Personnel Costs	Asset Write-downs	Other Exit Costs	Total
Accrued at July 1, 2008	$ 1,165			$ 1,165
Charged to expense in fiscal 2009	2,163	$ 1,055	$ 815	$ 4,033
Amounts utilized	(2,717)	(1,055)	(649)	(4,421)
Accrued at March 31, 2009	$ 611		$ 166	$ 777

13. SEGMENT INFORMATION

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

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2009	**2008**	**2009**	**2008**
Net sales:				
United States	$ 221,814			