HAIN CELESTIAL GROUP INC
Form 10-Q
November 09, 2006

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 September 30, 2006

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

Commission File No. 0-22818

THE HAIN CELESTIAL GROUP, INC.
(Exact name of registrant as specified in its charter)

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

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

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [X] Accelerated filer [ ] Non-accelerated filer [ ]

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 November 2, 2006 there were 38,990,244 shares outstanding of the registrant's Common Stock, par value $.01 per share.

THE HAIN CELESTIAL GROUP, INC.

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Part I Financial Information

PART I - FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
THE HAIN CELESTIAL GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except per share and share amounts)

ASSETS	September 30, 2006 (Unaudited)	June 30, 2006 (Note)
Current assets:		
Cash and cash equivalents	$ 78,143	$ 48,875
Accounts receivable, less allowance for doubtful accounts of $2,111 and $2,104	95,215	80,764
Inventories	111,440	105,883
Deferred income taxes	3,843	2,986
Other current assets	17,291	21,968
Total current assets	305,932	260,476
Property, plant and equipment, net	113,982	119,830
Goodwill	416,836	421,002
Trademarks and other intangible assets, net	62,260	61,626
Other assets	16,001	14,750
Total assets	$ 915,011	$ 877,684
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 100,281	$ 81,894
Income taxes payable	8,175	3,083
Current portion of long-term debt	840	1,065
Total current liabilities	109,296	86,042
Long-term debt, less current portion	151,172	151,229
Deferred income taxes	19,086	19,086
Total liabilities	279,554	256,357
Minority interest	5,184	4,926
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 39,831,121 and 39,583,671 shares	398	396
Additional paid-in capital	450,657	446,319
Retained earnings	174,068	165,034
Foreign currency translation adjustment	17,895	17,397
	643,018	629,146
Less: 861,256 shares of treasury stock, at cost	(12,745)	(12,745)
Total stockholders' equity	630,273	616,401

Total liabilities and stockholders' equity	$	915,011	$	877,684

Note: The balance sheet at June 30, 2006 has been derived from the audited financial statements at that date.

See notes to condensed consolidated financial statements.

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

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005
	(Unaudited)	
Net sales	$ 210,207	$ 161,097
Cost of sales	151,065	115,248
Gross profit	59,142	45,849
Selling, general and administrative expenses	41,846	33,869
Operating income	17,296	11,980
Interest and other expenses, net	1,820	868
Income before income taxes	15,476	11,112
Provision for income taxes	6,442	4,221
Net income	$ 9,034	$ 6,891
Net income per share:		
Basic	$ 0.23	$ 0.19
Diluted	$ 0.23	$ 0.18
Weighted average common shares outstanding:		
Basic	38,746	36,636
Diluted	40,023	37,560

See notes to condensed consolidated financial statements.

THE HAIN CELESTIAL GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2006
(In thousands, except per share and share amounts)

	Common Stock		Additional	Retained	Treasury Stock		Foreign Currency Translation		Comprehensive
	Shares	Amount at $.01	Paid-in Capital	Earnings	Shares	Amount	Adjustment	Total	Income
Balance at June 30, 2006	39,583,671	$ 396	$ 446,319	$ 165,034	861,256	$ (12,745)	$ 17,397	$ 616,401	
Exercise of stock options	247,450	2	4,263					4,265	
Non-cash compensation charge			75					75	
Comprehensive income:									
Net income				9,034				9,034	$ 9,034
Translation adjustments							498	498	498
Total comprehensive income									$ 9,532
Balance at September 30, 2006	39,831,121	$ 398	$ 450,657	$ 174,068	861,256	$ (12,745)	$ 17,895	$ 630,273	

See notes to condensed consolidated financial statements.

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

	Three Months Ended September 30, 2006	2005
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES	(Unaudited)	
Net income	$ 9,034	$ 6,891
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,319	3,207
Deferred income tax benefit	(857)	-
Non-cash compensation	75	1,020
Gain on sale of Biomarché	(2,510)	-
Other non-cash items, net	95	90
Increase (decrease) in cash attributable to changes in operating assets and liabilities, net of amounts applicable to acquired/disposed businesses:		
Accounts receivable	(16,374)	(4,340)
Inventories	(5,880)	(6,594)
Other current assets	4,287	(439)
Other assets	898	1,711
Accounts payable and accrued expenses	22,925	(5,409)
Income taxes, net	4,861	4,392
Net cash provided by operating activities	19,873	529
CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES		
Purchases of property and equipment	(3,553)	(3,108)
Proceeds from disposals of property and equipment	2,665	-
Acquisitions of business, net of cash acquired	-	(4,257)
Proceeds from sale of Biomarché	8,160	-
Loan to affiliate	(1,911)	-
Net cash provided by (used in) investing activities	5,361	(7,365)
CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES		
Proceeds from exercises of stock options, net of related expenses	4,265	2,974
Repayments of other long-term debt, net	(239)	(401)
Net cash provided by financing activities	4,026	2,573
Effect of exchange rate changes on cash	8	145
Net (increase) in cash and cash equivalents	29,268	(4,118)
Cash and cash equivalents at beginning of period	48,875	24,139
Cash and cash equivalents at end of period	$ 78,143	$ 20,021

See notes to condensed consolidated financial statements.

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 food products and natural personal care products under brand names which are sold as “better-for-you” products. We are a leader in many of the top natural food categories, with such well-known food brands as Celestial Seasonings® teas, Hain Pure Foods®, Westbrae®, WestSoy®, Rice Dream®, Soy Dream®, Imagine™, Walnut Acres Organic™, Ethnic Gourmet™, Rosetto®, Little Bear Organic Foods®, Bearitos®, Arrowhead Mills®, Health Valley®, Breadshop®, Casbah®, Spectrum Naturals®, Spectrum Essentials®, Garden of Eatin’®, Terra®, Harry’s Premium Snacks®, Boston’s®, Lima®, Grains Noirs®, Natumi®, Milkfree, Yves Veggie Cuisine®, DeBoles®, Earth’s Best®, Nile Spice® and Linda McCartney®. The Company’s principal specialty product lines include Hollywood® cooking oils, Estee® sugar-free products, Boston Better Snacks®, and Alba Foods®. Our natural personal care product line is marketed under the JASON®, Zia®, Orjene®, Shaman Earthly Organics™, Heather’s®, Queen Helene®, Batherapy®, Shower Therapy® and Footherapy® brands. Our natural and organic antibiotic-free chicken is marketed under the FreeBird™ brand.

We operate in one business segment: the sale of natural and organic food and personal care products. In our 2006 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 ended September 30, 2006 are not necessarily indicative of the results that may be expected for the year ending June 30, 2007. Please refer to the footnotes to our consolidated financial statements as of June 30, 2006 and for the year then ended included in our Annual Report on Form 10-K, for information not included in these condensed footnotes.

Results previously reported for the three months ended September 30, 2005 have been adjusted to reflect charges in connection with the requirements of Statement of Financial Accounting Standards (“SFAS”) No. 123(R), “Share-Based Payment” (“SFAS No. 123(R)”). SFAS No. 123(R) requires that contractual commitments to issue stock options be recorded as compensation cost whether or not the options have been granted. The Company’s employment agreement with its Chief Executive Officer (“CEO”) contains such a commitment; however the options which were to be awarded in July 2005 and July 2006 have not been granted, principally due to an insufficient number of shares available under the Company’s Long Term Incentive and Stock Award Plans. Under SFAS No. 123(R), regardless of whether the options are ever granted, either currently or in the future, a non-cash accounting expense is required to be recorded during the year leading up to the anticipated grant date under the contract. This period is defined in SFAS No. 123(R) as the “requisite service period.” The requisite service period related to the July 2006 un-granted options was completed during the fiscal year ended June 30, 2006. These options remain un-granted at November 6, 2006. Results for the three months ended September 30, 2005 have been reduced from those previously reported by $0.8 million ($0.5 million net of tax) or $0.01 per diluted share. The requisite service period related to the July 2005 un-granted options was completed on June 30, 2005, which was prior to the required implementation of SFAS No. 123(R), and therefore, no expense has been recorded for the July 2005 options. The Company will incur a charge to earnings at such time as those options are granted.

THE HAIN CELESTIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-Continued

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 warrants. Diluted earnings per share includes only the dilutive effects of common stock equivalents such as stock options and warrants.

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

	Three Months Ended September 30, 2006		2005
Numerator:			
Net income	$ 9,034		$ 6,891
Denominator for basic earnings per share - weighted average shares outstanding during the period	38,746		36,636
Effect of dilutive stock options	1,277		924
Denominator for diluted earnings per share - adjusted weighted average shares and assumed conversions	40,023		37,560
Basic net income per share	$ 0.23		$ 0.19
Diluted net income per share	$ 0.23		$ 0.18

Options totaling 1,412 in fiscal 2007 and 3,013 in fiscal 2006 were excluded from our earnings per share calculations as their effects would have been anti-dilutive.

4. INVENTORIES

Inventories consisted of the following:

	September 30, 2006	June 30, 2006
Finished goods	$ 64,063	$ 64,771
Raw materials, work-in-progress and packaging	47,377	41,112
	$ 111,440	$ 105,883

THE HAIN CELESTIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-Continued

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following:

	September 30, 2006	June 30, 2006
Land	$ 9,425	$ 10,958
Buildings and improvements	34,829	38,483
Machinery and equipment	112,868	113,958
Furniture and fixtures	5,992	6,107
Leasehold improvements	2,595	3,120
Construction in progress	3,029	2,257
	168,738	174,883
Less: Accumulated depreciation and amortization	54,756	55,053
	$ 113,982	$ 119,830

6. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and indefinite-life intangible assets must be tested for impairment at least annually. We perform a test for impairment during the fourth quarter of our fiscal year. In accordance with SFAS No. 142, “Goodwill and Other Intangible Assets”, we have evaluated the fair value of our goodwill and indefinite-life intangible assets and, based on such evaluations, no impairment existed through June 30, 2006. Amounts assigned to indefinite-life intangible assets primarily represent the values of trademarks.

Changes in the carrying amount of goodwill for the three months ended September 30, 2006 were as follows:

Balance as of July 1, 2006	$ 421,002
Sale of Biomarché	(3,350)
Translation and other adjustments	(816)
Balance as of September 30, 2006	$ 416,836

Included in translation and other adjustments during the three months ended September 30, 2006 are the impacts of changes in foreign currency exchange rates on goodwill and adjustments to our estimates of fair value of net assets acquired. We are continuing to evaluate the initial purchase price allocations of certain acquisitions and will adjust the allocations as additional information relative to the fair values of the assets and liabilities of the acquired businesses becomes known. We are also in the process of obtaining or finalizing appraisals of tangible and intangible assets for certain acquisitions. Accordingly, management has used its best estimate in the initial purchase price allocation as of the date of these financial statements.

At September 30, 2006, included in trademarks and other intangible assets on the balance sheet is approximately $3.3 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:

THE HAIN CELESTIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-Continued

	September 30, 2006		June 30, 2006	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Other intangibles	$ 3,345	$ 1,596	$ 4,025	$ 2,763
Non-amortized intangible assets:				
Trademarks	67,163	6,652	67,017	6,653

Amortization of amortized intangible assets amounted to $0.2 million in the three months ended September 30, 2006, and these intangibles are expected to be completely amortized over the next five years.

7. ACQUISITIONS AND DISPOSAL

In fiscal 2006, our acquisitions included Spectrum Organic Products, Inc., a California-based leading manufacturer and marketer of natural and organic culinary oils, vinegars, condiments and butter substitutes under the Spectrum Naturals® brand and essential fatty acid nutritional supplements under the Spectrum Essentials® brand; 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; and the fresh prepared foods business based in Luton, England, and the Linda McCartney® brand (under license) of frozen meat-free products, including its manufacturing facility, based in Fakenham, England, both acquired from the H. J. Heinz Company. As of September 30, 2006, the purchase accounting for these acquisitions are still subject to final adjustment for valuations and certain pre-acquisition contingencies.

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

	Three months ended September

		30, 2005
Net sales	$	201,009
Net income	$	6,942
Earnings per share:		
Basic	$	0.18
Diluted	$	0.18
Weighted average shares:		
Basic		37,664
Diluted		38,559

THE HAIN CELESTIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)-Continued

In management's opinion, the unaudited pro forma results of operations are not indicative of the actual results that would have occurred had the above acquisitions been consummated at the beginning of the period presented or of future operations of the combined companies under our management.

On August 31, 2006, we completed the sale of Biomarché, our Belgium-based provider of fresh organic fruits and vegetables, to Pro Natura, a French company specializing in the distribution of organic produce. Biomarché generated approximately $18.0 million in sales for the fiscal year ended June 30, 2006. Total consideration received was €6.5 million (approximately $8.3 million), plus a contingent additional payment of up to approximately €0.7 million based on sales, all subject to an adjustment for working capital and other items. We recognized a pretax gain of $2.5 million, net of a $3.3 million charge for goodwill allocated to that unit, ($1.1 million after tax) in connection with the sale, which is included in "Interest and other expenses, net" in the accompanying condensed consolidated statement of income. The results of operations and cash flows for Biomarché for the two months ended August 31, 2006, which were not material, are included in the condensed consolidated statements of income and of cash flows, respectively.

8. SENIOR NOTES AND CREDIT FACILITY

On May 2, 2006, we issued $150 million in aggregate principal amount of senior notes due May 2, 2016 in a private placement. Proceeds from the senior notes were used to repay outstanding borrowings of $131.7 million under the Company's previous revolving credit facility. The notes bear interest at 5.98%, payable semi-annually on November 2nd and May 2nd. Also on May 2, 2006, we entered into a new Amended and Restated Credit Agreement, providing us with a $250 million 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. Revolving credit 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. The Credit Facility provides for reductions in the applicable margin as compared to the Credit Facility prior to its amendment and restatement. As of September 30, 2006, $150.0 million was borrowed under the senior notes at an interest rate of 5.98%, and there were no 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.

9. STRATEGIC ALLIANCE WITH YHS

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 100,482 shares of the Company's common stock to YHS and the issuance of 1,326,938 ordinary shares of YHS (representing less than 1% of the outstanding shares) to the Company. These investments represent the completion of the first stage of an alliance established between the Company and YHS which is expected to result in the pursuit of joint interests in marketing and distribution of food and beverages and product development. The Company's investment in YHS shares is carried at cost and is included in other assets in the accompanying condensed consolidated balance sheet. The market value of the YHS shares on the Singapore Exchange at September 30, 2006 approximates their carrying value.

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