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HAIN CELESTIAL GROUP INC
Form 8-K/A
September 18, 2003

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Amendment No. 1 to
FORM 8-K/A
CURRENT REPORT

Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported)

June 17, 2003

THE HAIN CELESTIAL GROUP, INC.

(Exact name of registrant as specified in its charter)

| | | |
|--|--------------------------------------|--|
| Delaware | 0-22818 | 22-324061 |
| ----- (State or other jurisdiction of incorporation) | ----- (Commission File Number) | ----- (I.R.S. Employer Identification No.) |
| 58 South Service Road Melville, New York | | 11747 |
| ----- (Address of principal executive offices) | | ----- (Zip Code) |

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

This Amendment No. 1 to Form 8-K/A Current Report corrects amounts presented under the headings "Additional paid-in capital" and "Accumulative deficit" on page F-19, "Basic and diluted loss available per common share" and "weighted average shares outstanding" - basic and diluted" on page F-20 and "Accounts payable and accrued expenses" on page F-21.

Item 7. Financial Statements and Exhibits.

This Form 8-K/A amends the Form 8-K dated June 17, 2003 and originally filed with the Securities and Exchange Commission on July 1, 2003 by The Hain Celestial Group, Inc. (the "Company") in connection with its acquisition of Acirca, Inc. ("Acirca") which was consummated on June 17, 2003, and provides the financial statements of Acirca and pro forma financial information of the

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combined companies as required pursuant to Item 7 of Form 8-K.

(a) Financial Statements of business acquired.

(1) The audited consolidated statements of net assets to be sold of Acirca as of December 31, 2002 and the related audited consolidated statements of operations, stockholders' equity and cash flows for each of the two years in the period ended December 31, 2002 are included on pages F-2 through F-18.

(2) The unaudited consolidated balance sheet of Acirca as of March 31, 2003 and the related unaudited consolidated statements of operations and cash flows for the three month period ended March 31, 2003 are included on pages F-19 through F-24.

(b) Pro forma financial information.

The unaudited pro forma combined balance sheet of the combined companies as of March 31, 2003 (giving effect to the acquisition of Acirca as if it had occurred on March 31, 2003), and the unaudited pro forma combined income statements of the combined companies for the fiscal year ended June 30, 2002 and the nine months ended March 31, 2003 (giving effect to the acquisition of Acirca as if it had occurred at the beginning of the period presented) are included in pages F-25 through F-28.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Dated: September 18, 2003

THE HAIN CELESTIAL GROUP, INC.

By: /s/ Ira J. Lamel

Ira J. Lamel
Executive Vice President and
Chief Financial Officer

Index to Financial Statements

Consolidated Financial Statements of Acirca, Inc. for the Years Ended December 31, 2002 and 2001 (Audited)

Report of Independent Auditors.....F-2
Statements of Net Assets to be Sold.....F-3

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| | |
|---|-----|
| Statements of Operations..... | F-4 |
| Statements of Stockholders' Equity..... | F-5 |
| Statements of Cash Flows..... | F-6 |
| Notes to Consolidated Financial Statements..... | F-7 |

Consolidated Financial Statements of Acirca, Inc. for the Three Months Ended March 31, 2003 (Unaudited)

| | |
|---|------|
| Consolidated Balance Sheets..... | F-19 |
| Consolidated Statements of Operations..... | F-20 |
| Consolidated Statement of Cash Flows..... | F-21 |
| Notes to Consolidated Financial Statements..... | F-22 |

Pro Forma Combined Financial Information (Unaudited)

| | |
|---|------|
| Pro Forma Combined Balance Sheet as of March 31, 2003..... | F-25 |
| Pro Forma Combined Income Statement for the Year Ended June 30, 2002.. | F-26 |
| Pro Forma Combined Income Statement for the Nine Month Period Ended March 31, 2003..... | F-27 |
| Notes to Pro Forma Combined Financial Statements..... | F-28 |

F-1

Report of Independent Auditors

To the Board of Directors
Acirca, Inc.

We have audited the accompanying statements of net assets to be sold of Acirca, Inc. as of December 31, 2002 and 2001 and the related statements of operations, stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the 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 net assets to be sold of Acirca, Inc. at December 31, 2002 and 2001 and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States.

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/s/ Ernst & Young LLP

Stamford, Connecticut
June 18, 2003

F-2

Acirca, Inc.
Statements of Net Assets to be Sold

| | Decem |
|---|------------------------|
| | ----- 2002 ----- |
| Assets | |
| Current assets: | |
| Cash and cash equivalents | \$ 291,403 |
| Short-term investments | - |
| Accounts receivable, less allowance for doubtful accounts of \$133,047 and \$119,399, respectively | 2,777,453 |
| Inventories | 3,874,218 |
| Prepaid expenses and other | 590,500 |
| Total current assets | 7,533,574 |
| | ----- |
| Property, plant and equipment, net | 700,899 |
| Goodwill, net | 8,546,491 |
| Intangible assets, net | 3,244,207 |
| Other assets | 106,083 |
| Total assets | \$ 20,131,254 |
| | ===== |
| Liabilities and stockholders' equity | |
| Current liabilities: | |
| Accounts payable | \$ 2,754,982 |
| Accrued compensation | 583,912 |
| Accrued expenses | 1,056,336 |
| Acquisition funds held in escrow | - |
| Current portion of note payable and capital lease obligations | 155,345 |
| | ----- |
| Revolving line of credit | 1,621,842 |
| | ----- |
| Total current liabilities | 6,172,417 |
| Note payable and capital lease obligations, less current portion | 755,657 |
| | ----- |
| Commitments and contingencies (Notes 7 and 12) | - |
| | ----- |
| Total liabilities | 6,928,074 |
| Stockholders' equity: | |
| Series A convertible preferred stock, \$.0001 par value, 24,000,000 shares authorized; 21,250,000 issued and outstanding; (liquidation preference of \$8,712,500) | 2,125 |

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| | |
|--|---------------|
| Series B convertible preferred stock, \$.0001 par value, 140,000,000 shares authorized; 83,596,606 and 79,196,748 issued and outstanding, respectively; (liquidation preference of \$45,142,146) | 8,360 |
| Series C convertible preferred stock, \$.0001 par value, 3,862,374 shares authorized; none issued or outstanding | - |
| Series D convertible preferred stock, \$.0001 par value, 4,399,858 shares authorized and issued, none outstanding | - |
| Common stock, \$.0001 par value, 200,000,000 shares authorized; 9,173,900 and 9,514,660 issued and outstanding, respectively | 917 |
| Additional paid-in capital | 55,598,243 |
| Unearned compensation | (1,215,495) |
| Accumulated deficit | (41,190,970) |
| Total stockholders' equity | 13,203,180 |
| Total liabilities and stockholders' equity | \$ 20,131,254 |

See accompanying notes.

F-3

Acirca, Inc.
Statements of Operations

| | Years ended December 31 | |
|-------------------------------|-------------------------|--------------|
| | 2002 | 2001 |
| Net sales | \$ 23,853,506 | \$ 8,416,100 |
| Cost of goods sold | 21,050,133 | 7,110,395 |
| Gross profit | 2,803,373 | 1,305,705 |
| Operating expenses | | |
| General and administrative | 8,416,100 | 6,910,395 |
| Depreciation and amortization | 4,108,395 | 2,510,395 |
| Marketing and promotion | 7,510,224 | 9,810,395 |
| Non-cash stock compensation | 302,848 | |
| Research and development | 1,305,903 | 5,110,395 |
| Operating loss | (18,840,097) | (18,510,395) |
| Other income (expense) | | |
| Interest income | 55,151 | 2,510,395 |
| Interest expense | (153,257) | (1,010,395) |
| Miscellaneous | (151,807) | (1,010,395) |

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| | | |
|---|-----------------|----------|
| Net loss | \$ (19,090,010) | \$ (18,4 |
| Basic and diluted loss available per common share | \$ (2.06) | \$ |
| Weighted average shares outstanding - basic and diluted | 9,251,763 | 2,3 |

See accompanying notes.

F-4

Acirca, Inc.
 Statements of Stockholders' Equity
 Years ended December 31, 2002 and 2001

| | Series A Convertible Preferred Stock | | Series B Convertible Preferred Stock | | Series D Convertible Preferred Stock | |
|--|--|---------|--|---------|--|--------|
| | Number of Shares | Amount | Number of Shares | Amount | Number of Shares | Amount |
| Balance at December 31, 2000 | 21,250,000 | \$2,125 | 15,399,089 | \$1,540 | - | \$ - |
| Issuance of common stock | | | | | | |
| Issuance of preferred stock | | | 63,797,659 | 6,380 | | |
| Issuance of stock options as compensation | | | | | | |
| Exercise of employee stock option | | | | | | |
| Amortization of stock compensation | | | | | | |
| Net loss | | | | | | |
| Balance at December 31, 2001 | 21,250,000 | \$2,125 | 79,196,748 | \$7,920 | - | \$ - |
| Issuance of preferred stock | | | | | 4,399,858 | 440 |
| Issuance of warrants | | | | | | |

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| | | | | | | |
|---|--|--|-----------|-----|-------------|-------|
| Conversion of preferred stock | | | 4,399,858 | 440 | (4,399,898) | (440) |
| Exercise of employee stock options | | | | | | |
| Mt. Sun purchase price adjustment (Note 11) | | | | | | |
| Adjustments to reflect net assets not sold (Note 1) | | | | | | |
| Amortization of stock compensation | | | | | | |
| Net loss | | | | | | |

| | | | | | | |
|------------------------------|------------|---------|------------|---------|---|------|
| Balance at December 31, 2002 | 21,250,000 | \$2,125 | 83,596,606 | \$8,360 | - | \$ - |
|------------------------------|------------|---------|------------|---------|---|------|

Acirca, Inc.
 Statements of Stockholders' Equity
 Years ended December 31, 2002 and 2001

| | Common Stock | | | | |
|---|------------------|--------|----------------------------|-----------------------|---------------------|
| | Number of Shares | Amount | Additional Paid-In Capital | Unearned Compensation | Accumulated Deficit |
| Balance at December 31, 2000 | | | \$13,371,335 | | \$ (3,693) |
| Issuance of common stock | 9,504,660 | \$950 | 5,399,740 | | |
| Issuance of preferred stock | | | 36,243,620 | | |
| Issuance of stock options as compensation | | | 1,542,991 | \$(1,542,991) | |
| Exercise of employee stock option | 10,000 | 1 | 99 | | |
| Amortization of stock compensation | | | | 24,648 | |
| Net loss | | | | | (18,407) |
| Balance at December 31, 2001 | 9,514,660 | \$951 | \$56,557,785 | \$(1,518,343) | \$ (22,107) |
| Issuance of preferred stock | | | 1,849,016 | | |
| Issuance of warrants | | | 546,973 | | |
| Conversion of preferred stock | | | | | |

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| | | | | | |
|---|-----------|-------|---------------|----------------|-----------------|
| Exercise of employee stock options | 42,122 | 4 | 9,987 | | |
| Mt. Sun purchase price adjustment (Note 11) | (382,882) | (38) | (217,521) | | |
| Adjustments to reflect net assets not sold (Note 1) | | | (3,147,997) | | |
| Amortization of stock compensation | | | | 302,848 | |
| Net loss | | | | | (19,090,010) |
| Balance at December 31, 2002 | 9,173,900 | \$917 | \$ 55,598,243 | \$ (1,215,495) | \$ (41,190,010) |

See accompanying notes.

F-5

Acirca, Inc.
Statements of Cash Flows

| | Years ended |
|---|------------------------|
| | ----- 2002 ----- |
| Cash Flows from Operating Activities | |
| Net loss | \$(19,090,010) |
| Adjustments to reconcile net loss to net cash used in operating activities: | |
| Depreciation and amortization | 4,352,922 |
| Non cash stock compensation expense | 302,848 |
| Loss on disposal of fixed assets | 245,028 |
| Provision for losses on accounts receivable | 13,648 |
| Goodwill impairment charge | - |
| Changes in assets and liabilities: | |
| Accounts receivable | (503,221) |
| Inventories | 2,487,301 |
| Prepaid expenses | (185,784) |
| Other assets | (4,025) |
| Accrued expenses | (830,579) |
| Accounts payable | 957,016 |
| Acquisition funds held in escrow | (175,000) |
| Net cash used in operating activities | (12,429,856) |

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| | |
|---|-------------|
| Cash Flows from Investing Activities | |
| Purchase of fixed assets | (299,349) |
| Proceeds from sales of fixed assets | 353,625 |
| Maturity of short-term investments | 8,725,000 |
| Purchase of short-term investments | -- |
| | ----- |
| Acquisitions, net of cash acquired | (3,147,997) |
| | ----- |
| Net cash used in investing activities | 5,631,279 |
| | ----- |
| Cash Flows from Financing Activities | |
| Net proceeds from issuance of stock | 2,396,428 |
| Proceeds from exercise of employee stock option | 9,991 |
| Net borrowings on revolving line of credit | 1,621,842 |
| | ----- |
| Principal payments on note payable and capital leases | (171,397) |
| | ----- |
| Net cash provided by financing activities | 3,856,864 |
| | ----- |
| Net decrease in cash and cash equivalents | (2,941,713) |
| | ----- |
| Cash and cash equivalents, beginning of year | 3,233,116 |
| | ----- |
| Cash and cash equivalents, end of year | \$ 291,403 |
| | ===== |
| Supplemental cash flow information: | |
| | ===== |
| Stock issued in connection with acquisition | - |
| | ===== |
| Cash paid for interest | \$ 153,256 |

F-6

Acirca, Inc.
Notes to Consolidated Financial Statements

December 31, 2002

1. Nature of Business, Organization and Basis of Presentation

Acirca, Inc. (the "Company") was incorporated in the state of Delaware on May 11, 2000. The Company was formed for the purpose of developing and providing high quality organic foods for customers. The mission of the Company is to create the most valuable organic brands by focusing on equity building, product innovation, distribution ubiquity and consumer loyalty.

In April 2002, the Company acquired all of the assets of the Organic Ingredients ("OI") division of Spectrum Organic Products, Inc. As discussed in Note 14, in June 2003, The Hain Celestial Group, Inc. ("Hain") acquired the Company, except for the OI business which was retained by the sellers. Accordingly, the accompanying financial statements present the historical financial information of the business acquired by Hain, as adjusted to eliminate the assets and liabilities and results of operations of OI, which were retained by the sellers. The net assets of OI distributed to the

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stockholders of the Company in June of 2003 has been recorded as an adjustment to reflect assets not sold in the accompanying Statements of Stockholders' Equity for the year ended December 31, 2002. OI incurred a pre-tax loss of approximately \$26,000 in 2002.

All significant intercompany accounts and transactions have been eliminated in consolidation.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash on deposit which the Company invests in an overnight investment account with a commercial bank.

Revenue Recognition

Revenues are derived from the distribution and sale of organic foods throughout North America to retail and specialty food stores. Product sales are recorded when the products are shipped to independently owned and operated food distributors and customers, net of any discounts and allowances. The Company records as revenue amounts billed to customers for shipping and handling charges. Amounts incurred for shipping and handling charges are included in cost of goods sold.

F-7

Acirca, Inc.

Notes to Consolidated Financial Statements (continued)

Inventories

Inventories are stated at the lower of cost or market using the first-in first-out ("FIFO") method.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximate their fair value due to the short-term maturity of such instruments. The carrying amount of debt approximates its fair market value based on the Company's current borrowing rates for similar types of borrowing arrangements.

Concentrations of Credit Risks

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash, cash equivalents, and accounts receivable. Concentrations of credit risk with respect to accounts receivable are limited due to credit insurance coverage, the large number of customers comprising the Company's customer base and ongoing credit evaluations of its customers. An allowance for doubtful accounts is determined with respect to those amounts that the Company has determined to be doubtful of collection.

Cash and cash equivalents are invested in major banks in the United States. At times, total deposits maintained exceed the amount insured by federal agencies. Management believes that the financial institutions that hold the Company's investments are financially sound and, accordingly, minimal

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credit risk exists with respect to these investments.

Property, Plant and Equipment

Property, plant and equipment is recorded at cost and depreciated on a straight-line basis over the estimated useful lives as follows:

| | |
|---------------------------------|--|
| Orchards | 20 years |
| Computer equipment and software | 3-5 years |
| Furniture and equipment | 8-20 years |
| Leasehold Improvements | shorter of the estimated useful life or the term of the lease |

Maintenance and repairs are expensed as incurred.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of net assets acquired. Amortization of intangible assets is provided using the straight-line method over their estimated useful lives, which range from 1 to 20 years. The Company evaluates the recoverability of intangible assets based on projected undiscounted operating cash flows whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Effective January 1, 2002, the Company ceased amortization of goodwill in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 142, Goodwill and Other Intangible Assets. In accordance with SFAS No. 142, no amortization of goodwill was recorded for acquisitions subsequent to June 30, 2001 (See Note 11).

F-8

Acirca, Inc.

Notes to Consolidated Financial Statements (continued)

Goodwill and intangibles consist of the following:

| | December 31, | |
|--------------------------------|--------------|-------|
| | 2002 | 2001 |
| Goodwill | \$ 8,685,399 | \$ 7, |
| Less: accumulated amortization | (138,908) | (|
| Goodwill, net | \$ 8,546,491 | \$ 7, |
| Intangible assets: | | |
| Non compete agreements | 289,000 | |
| Customer lists | 3,250,000 | 3, |
| Trade names | 4,927,000 | 4, |
| Formulas | 919,000 | |
| | \$ 9,385,000 | \$ 9, |

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| | | |
|--------------------------------|--------------|-------|
| Less: accumulated amortization | (6,140,793) | (2, |
| Intangible assets, net | \$ 3,244,207 | \$ 7, |

Amortization expense was \$3,891,818 and \$2,378,452 for the years ended December 31, 2002 and 2001, respectively.

Management of the Company determined that there is no impairment of the carrying value of goodwill and intangible assets considering the sale of the Company as discussed in Note 14.

Advertising and Promotional Expenses

Advertising costs are expensed as incurred. Advertising and promotional expenses of \$4,213,000 and \$4,156,215 are included in Marketing and promotion expenses in the Statements of Operations for the years ended December 31, 2002 and 2001, respectively.

Stock Based Compensation

The Company accounts for employee stock based compensation in accordance with the intrinsic value based method proscribed by Accounting Principles Board Opinion ("APB") No. 25, Accounting for Stock Issued to Employees. In 2002, no stock based employee compensation expense was recorded in the Statements of Operations as all options granted had an exercise price equal to or greater than the fair market value of the underlying common stock on the date of grant as determined by the Board of Directors.

The Company adopted the disclosure provisions of SFAS No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure which amends SFAS No. 123, Accounting for Stock Based Compensation in 2002. SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock based employee compensation, which was originally provided for under SFAS

F-9

Acirca, Inc.

Notes to Consolidated Financial Statements (continued)

No. 123. The adoption of these disclosure provisions had no impact on the Company's results of operations, financial position or cash flows.

Significant assumptions related to the determination of the fair value of the options and their impact on earnings are as follows:

| | December 31, 2002 | December 31, |
|-------------------------------------|-------------------|--------------|
| Risk free interest rate | 3.00% | |
| Expected life of options (in years) | 8 | |
| Dividend yield | - | |

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Had the Company accounted for its stock options using the fair value method as proscribed by SFAS No. 123 the Company's net loss would not have been significantly different in 2002 and 2001.

The effect on the 2002 and 2001 net loss amounts of expensing the fair market value of stock options is not necessarily representative of the effect on reported earnings in future years due to the vesting period of stock options and the potential for issuance of additional stock options in future years.

Loss Per Common Share

Basic loss per common share is computed by dividing the loss applicable to common shareholders by the weighted-average common shares outstanding during the period. As the Company recorded a net loss applicable to common shares for the years ended December 31, 2002 and 2001, diluted loss per common share is equal to basic loss per common share, due to the exclusion of all potential common shares, which would reduce the net loss per share, in accordance with the provisions of SFAS No. 128, Earnings per Share.

Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, Accounting for Income Taxes. This Statement requires the use of the liability method whereby deferred tax asset and liability account balances are determined based on differences between financial reporting and tax bases of assets and liabilities measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance reducing deferred tax assets to their estimated realizable value is recorded when the realization of the asset is not considered to be more likely than not.

Reclassifications

Certain amounts reported in the financial statements for the fiscal year ended December 31, 2001 have been reclassified to conform to the 2002 presentation.

F-10

Acirca, Inc.

Notes to Consolidated Financial Statements (continued)

3. Inventories

At December 31, inventories consisted of the following:

| | 2002 | 2001 |
|------------------|-------------|-------------|
| Raw materials | \$ 788,230 | \$1,673,517 |
| Finished product | 3,085,988 | 4,688,002 |
| | \$3,874,218 | \$6,361,519 |

4. Property, Plant and Equipment

At December 31, property, plant and equipment consists of the following:

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| | 2002 | 2001 |
|---------------------------------|------------|-------------|
| Land and orchards | \$ - | \$ 588,553 |
| Furniture and equipment | 99,875 | 1,446,096 |
| Computer equipment and software | 572,874 | 66,181 |
| Machinery and equipment | 131,643 | 418,919 |
| Leasehold improvements | 231,497 | 735,512 |
| | 1,035,889 | 3,255,261 |
| Less: accumulated depreciation | (334,990) | (213,735) |
| | \$ 700,899 | \$3,041,526 |

Depreciation expense includes amortization of assets acquired through capital leases. Depreciation expense was \$216,577 and \$205,776 for the years ended December 31, 2002 and 2001, respectively.

5. Note Payable

In October 2000, the Company assumed a note payable for \$1,191,670 in connection with an acquisition. The note bears interest at the prime rate plus 1% (5.25% at December 31, 2002). Principal payments of \$8,573 plus interest are due in monthly installments, with a final payment due on May 24, 2012. The borrowings under this agreement are collateralized by certain assets of the Company.

At December 31, 2002, the aggregate annual maturities on the note payable are as follows:

F-11

Acirca, Inc.
Notes to Consolidated Financial Statements (continued)

| | |
|------------|-----------|
| 2003 | \$102,876 |
| 2004 | 102,876 |
| 2005 | 102,876 |
| 2006 | 102,876 |
| 2007 | 102,569 |
| Thereafter | 238,569 |
| | \$752,949 |

6. Revolving Line of Credit

In August 2002, the Company entered into a bank Revolving Credit Agreement ("Agreement"). The Agreement allows for a maximum amount of borrowings, at prime plus 1.5% (5.75% at December 31, 2002), of \$5.0 million based on

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certain percentages of eligible accounts receivable and inventory. Substantially all of the assets of the Company are pledged as collateral under the Agreement. Under the terms of the Agreement, the Company is required to raise additional capital of \$3.0 million by June 30, 2003 and \$11.0 million by December 31, 2003 and maintain certain financial covenants (see Note 14). At December 31, 2002 the Company had drawn down approximately \$1.6 million and had approximately \$174,000 available for additional borrowing.

7. Leases

The Company leases equipment under capital lease agreements. The leases, in the aggregate, require monthly principal and interest payments of approximately \$6,000 and bear interest at an average rate of 9.7%. The cost of equipment under capital leases is \$479,336 and \$479,336 with accumulated depreciation of \$209,308 and \$140,788 at December 31, 2002 and 2001, respectively. Depreciation of such assets is recorded in depreciation and amortization expense in the Statement of Operations.

The Company leases office space, warehouse space, machinery and equipment under various non-cancelable operating lease agreements. Several of these leases include renewal and purchase options. Total rental expense was approximately \$154,000 and \$186,000 in 2002 and 2001, respectively.

Future minimum commitments for capital leases are as follows:

| | |
|-------------------------------|-----------|
| 2003 | \$ 66,501 |
| 2004 | 57,935 |
| 2005 | 49,050 |
| 2006 | 10,612 |
| | ----- |
| Total minimum lease payments | 184,098 |
| | ----- |
| Amounts representing interest | (26,045) |
| Present value of net minimum | |
| | ===== |
| lease payments | \$158,053 |

F-12

Acirca, Inc.

Notes to Consolidated Financial Statements (continued)

Future minimum commitments for operating leases are as follows:

| | |
|------------------------------|-----------|
| 2003 | \$281,472 |
| 2004 | 199,216 |
| 2005 | 162,034 |
| 2006 | 85,743 |
| | ----- |
| 2007 | 7,000 |
| | ----- |
| Total minimum lease payments | \$735,465 |

8. Income Taxes

As a result of net operating losses, the Company has no income tax liability for the years ended December 31, 2002 and 2001.

The Company has deferred tax assets of approximately \$14.0 million and \$8.3 million as of December 31, 2002 and 2001, respectively, related

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primarily to net operating loss carryforwards. A full valuation allowance in the amount of \$12.3 million and \$5.8 million has been established as of December 31, 2002 and 2001, respectively, as the realization of such deferred tax assets is not considered to be more likely than not. In addition, deferred tax liabilities of approximately \$1.7 million and \$2.5 million have been recorded as of December 31, 2002 and 2001, respectively. Such liabilities relate primarily to differing amortization periods for book and tax for goodwill and other intangibles.

At December 31, 2002 the Company had federal net operating loss ("NOL") carryforwards of approximately \$34.5 million, which expire as follows: \$2.8 million in 2020, \$16.2 million in 2021, and \$ 15.5 million in 2022. Prospective utilization of such NOL carryforwards is also subject to certain limitations under Section 382 of the Internal Revenue Code.

9. Preferred Stock

The Company has authorized four series of Preferred Stock designated "Series A Convertible Preferred Stock" consisting of 24,000,000 authorized shares, "Series B Convertible Preferred Stock" consisting of 140,000,000 authorized shares, "Series C Convertible Preferred Stock" consisting of 3,862,374 authorized shares and "Series D Convertible Preferred Stock" consisting of 4,399,858 authorized shares.

The Series A Convertible Preferred Stock has a liquidation preference equal to \$0.41 per share plus any declared and unpaid dividends. Holders of Series A Convertible Preferred Stock are entitled to receive dividends at the rate of \$0.033 per share per annum when declared by the Board of Directors prior and in preference to any declaration or payment of any dividend on the common stock. No dividend shall be declared and paid on the Series A Convertible Preferred Stock unless a dividend is also declared and paid on the issued and outstanding shares of Series B Convertible Preferred Stock. The Series A Convertible Preferred Stock is convertible, in whole or in part, at the option of the holders thereof, into shares of common stock at the initial conversion price of \$0.41 per share of common stock.

F-13

Acirca, Inc.

Notes to Consolidated Financial Statements (continued)

Holders of the Series A Convertible Preferred Stock are entitled to the number of votes equal to the number of shares of common stock into which such holder's Series A Convertible Preferred Stock are convertible.

The Series B Convertible Preferred Stock has a liquidation preference equal to \$0.57 per share plus any declared and unpaid dividends. Holders of Series B Preferred Stock are entitled to receive dividends at the rate of \$0.046 per share per annum when declared by the Board of Directors prior and in preference to any declaration or payment of any dividend on the common stock. No dividend shall be declared and paid on the issued and outstanding shares of the Series B Convertible Preferred Stock unless a dividend is also declared on the Series A Convertible Preferred Stock. The Series B Convertible Preferred Stock is convertible, in whole or in part, at the option of the holders thereof, into shares of common stock at the initial conversion price of \$0.57 per share of common stock. Holders of Series B Convertible Preferred Stock are entitled to the number of votes equal to the number of shares of common stock into which such holder's Series B Convertible Preferred Stock are convertible.

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In September 2002, the Company closed on a financing of \$2,500,000 through the issuance of 4,399,898 shares of Series D Convertible Preferred Stock and warrants to purchase 3,862,374 shares of newly authorized Series C Convertible Preferred Stock. The warrants, which have no exercise price, are exercisable at any time through September 2012. The Company recorded the fair value of the warrants, \$565,834 as a discount to the Series D Convertible Preferred Stock, which will be accreted over the life of the warrant. Accordingly, \$18,861 has been included in the Statement of Operations for the year ended December 31, 2002 as amortization of such discount.

The Series C Convertible Preferred Stock has a liquidation preference equal to \$0.19 per share, adjusted for future financings, plus any declared and unpaid dividends. Holders of Series C Preferred Stock are entitled to receive dividends at the rate of \$0.046 per share per annum when declared by the Board of Directors prior and in preference to any declaration or payment of any dividend on the common stock. No dividend shall be declared and paid on the issued and outstanding shares of the Series C Convertible Preferred Stock unless the same dividend is declared and paid on the Series B Convertible Preferred Stock and a dividend is also declared on the Series A Convertible Preferred Stock. The Series C Convertible Preferred Stock is convertible, in whole or in part, at the option of the holders thereof, into shares of common stock at the initial conversion price of \$0.57 per share of common stock. Holders of Series C Convertible Preferred Stock are entitled to the number of votes equal to the number of shares of common stock into which such holder's Series C Convertible Preferred Stock are convertible.

The Series D Convertible Preferred Stock has a liquidation preference equal to \$0.57 per share plus any declared and unpaid dividends. Holders of Series D Preferred Stock are entitled to receive dividends at the rate of \$0.046 per share per annum when declared by the Board of Directors prior and in preference to any declaration or payment of any dividend on the common stock. No dividend shall be declared and paid on the issued and outstanding shares of the Series D Convertible Preferred Stock unless the same dividend is declared and

F-14

Acirca, Inc.

Notes to Consolidated Financial Statements (continued)

paid on the Series B Convertible Preferred Stock and the Series C Convertible Preferred Stock and a dividend is declared on the Series A Convertible Preferred Stock. The Series D Convertible Preferred Stock is convertible, in whole or in part, at the option of the holders thereof or automatically upon the earlier of December 30, 2002 or the closing of an initial offering as defined by the Series D Convertible Preferred Stock Agreement, into shares of Series B Preferred Stock at the initial conversion price of \$0.57 per share. Additionally, upon a future Financing, as defined by the Series D Convertible Preferred Stock Agreement, the conversion price will be adjusted by dividing the \$0.57 per share by the lowest price paid by any investor in connection with such Financing. Holders of Series D Convertible Preferred Stock are entitled to the number of votes equal to the number of shares of common stock into which such holder's Series B Convertible Preferred Stock would be convertible.

On December 30, 2002, in connection with an automatic conversion, holders of the Series D Convertible Preferred Stock exchanged each share of such

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stock with one share of Series B Convertible Preferred Stock.

The holders of the Series A, B, C and D Convertible Preferred Stock shall vote together with the holders of Common Stock as a single case.

No dividends have been declared on any Series of Preferred Stock.

10. Stock Option Plans

The Company has two long-term incentive plans: the 2000 and 2001 incentive plans under which the Board of Directors is authorized to award restricted shares and options to purchase the Company's common stock in order to provide an incentive to certain eligible employees, officers and directors of the Company. The Board of Directors administers the incentive plans and has sole discretion to grant restricted stock or options. To date, restricted shares have only been awarded to certain executives in connection with the formation of the Company.

The Board of Directors determines the exercise price of each option granted under each plan. Under both plans, options expire ten years from the date of grant and vest ratably over four years and five years for the 2000 and 2001 plans, respectively. At December 31, 2002, there are 17.4 million shares of common stock reserved for issuance under the incentive plans.

F-15

Acirca, Inc.

Notes to Consolidated Financial Statements (continued)

Activity under the Company's stock option plans is as follows:

| | Number of Shares | Weighted-Average Exercise Price per Share |
|----------------------------------|------------------|---|
| Outstanding at December 31, 2000 | 170,000 | \$.01 |
| Granted | 7,711,812 | .34 |
| Exercised | (10,000) | .01 |
| Forfeited | (45,500) | .01 |
| Outstanding at December 31, 2001 | 7,826,312 | .34 |
| Granted | 3,083,000 | .34 |
| Exercised | (42,122) | .24 |
| Forfeited | (591,878) | .33 |
| Outstanding at December 31, 2002 | 10,275,312 | \$.34 |

Certain options granted during 2001 have exercise prices that are less than the fair market value of the Company's stock at the date of grant as determined by the Company's Board of Directors. Unearned stock compensation recorded during the year ended December 31, 2001 associated

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with these transactions of \$ 1,542,991 is being amortized over the respective vesting periods. In 2002 and 2001, the Company recorded \$302,848 and \$24,648 of non-cash stock compensation expense, respectively, in connection with these options. As of December 31, 2002 and 2001, there were 4,648,438 restricted shares outstanding.

The following table provides certain information with respect to stock options outstanding and exercisable at December 31, 2002:

| Exercise Price | Number of Options Outstanding | Number of Options Exercisable |
|----------------|----------------------------------|----------------------------------|
| \$.01 | 110,000 | 78,740 |
| \$.34 | 10,165,312 | 4,553,080 |
| | 10,275,312 | 4,631,820 |

11. Acquisitions

During 2001, the Company acquired three companies all accounted for under the purchase method of accounting and, accordingly, the purchase price has been allocated to the assets acquired and liabilities assumed based on their estimated fair values at the dates of acquisition.

On October 11, 2001, the Company acquired ShariAnn's Organic's Inc., manufacturers of organic soups, for a cash purchase price of \$3.5 million. In connection with this acquisition,

F-16

Acirca, Inc.

Notes to Consolidated Financial Statements (continued)

the Company received current assets \$.5 million, property, plant and equipment of \$.1 million, and assumed liabilities of \$.6 million. The Company also recorded goodwill and other intangibles of approximately \$1.3 million and \$2.2 million, respectively.

On September 30, 2001, the Company acquired Mountain Sun Organic and Natural Juices ("Mt. Sun"), manufacturers of natural and organic juice and various mixed fruit juices, for a purchase price of \$11.8 million funded by cash of \$6.4 million and the issuance of 9.5 million shares of common stock valued at \$5.4 million. In connection with this acquisition, the Company received current assets of \$4.4 million, property, plant and equipment of \$1.9 million, and assumed liabilities of \$2.7 million. The Company also recorded goodwill and other intangibles of approximately \$3.1 million and \$5.1 million, respectively. In 2002 the purchase price was finalized and accordingly the Company received 382,882 shares of common stock previously issued and held in escrow valued at \$217,559.

As the above-mentioned transactions were completed subsequent to July 1, 2001 the Company accounted for such under the provisions of SFAS No. 141 and 142. On June 11, 2001, the Company purchased all of the assets of Millina's Finest and Frutti Di Bosco organic pasta sauces for a cash purchase price of \$3.1 million from Spectrum Organic Products, Inc. The Company recorded \$.3 million of goodwill, \$2.0 million of other intangibles and \$.8 million of inventory in connection with the acquisition. The

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Company deposited \$350,000 of the purchase price in an escrow account pending resolution of certain representations and warranties of the sellers. At December 31, 2001, \$175,000 of the cash purchase price remained in escrow and was paid out in 2002. Accordingly no amounts are held in escrow at December 31, 2002 in connection with this acquisition.

12. Contingencies

The Company is involved in various legal matters, which have arisen in the ordinary course of its business. In the opinion of management the ultimate resolution of these matters will not have a material adverse effect on the financial position, results of operations or cash flows of the Company.

13. Benefit Plans

The Company sponsors a defined contribution 401(k) plan, covering substantially all full time employees who are eligible to participate in the plan upon date of hire. Employees make contributions to the plan through salary deferrals. No employer contributions were made during the years ended December 31, 2002 and 2001.

14. Subsequent Events

On May 28, 2003, the Company entered into an agreement with several of its shareholders whereby the shareholders loaned the Company \$1,000,000 and in connection therewith, received warrants to purchase up to an aggregate of 7,109,594 shares of newly authorized Series E Convertible Preferred Stock. Principal and all accrued and unpaid interest, computed at a rate of 25% per annum, was payable on demand at any time on or after the

F-17

Acirca, Inc.

Notes to Consolidated Financial Statements (continued)

earlier of August 31, 2005 or the date the Company secured \$10 million through the sale or sales of its securities. In June 2003, the Company repaid the entire principal and interest.

As discussed in Note 1, the Company was acquired on June 17, 2003 by The Hain Celestial Group, Inc. ("Hain"). Aggregate consideration paid by Hain was approximately \$13.5 million, consisting of a combination of cash, 134,797 shares of Hain common stock and the assumption of certain of the Company's liabilities.

F-18

Acirca, Inc.
Consolidated Balance Sheets
March 31, 2003
(Unaudited)
(Dollars in Thousands)

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Assets

Current assets:

| | |
|---|-----------|
| Cash and cash equivalents | \$ 107 |
| Accounts receivable, less allowance for doubtful accounts | 1,846 |
| Inventories | 1,698 |
| | ----- |
| Prepaid expenses and other | 191 |
| | ----- |
| Total current assets | 3,842 |
| | ----- |
| Property, plant and equipment, net | 631 |
| Goodwill, net | 8,546 |
| | ----- |
| Other assets | 197 |
| | ----- |
| Intangible assets, net | 2,995 |
| | ----- |
| Total assets | \$ 16,211 |
| | ----- |
| Liabilities and stockholders' equity | |
| Current liabilities: | |
| Accounts payable and accrued expenses | \$ 3,229 |
| | ----- |
| Current portion of long-term debt | 2,682 |
| | ----- |
| Total current liabilities | 5,911 |
| | ----- |
| Long-term debt | 653 |
| | ----- |
| Total liabilities | 6,564 |
| | ----- |
| Stockholders' equity: | |
| Series A convertible preferred stock | 2 |
| Series B convertible preferred stock | 8 |
| Series C convertible preferred stock | - |
| Series D convertible preferred stock | - |
| Common stock | 1 |
| Additional paid-in capital | 55,598 |
| Unearned compensation | (1,120) |
| | ----- |
| Accumulated deficit | (44,842) |
| | ----- |
| Total stockholders' equity | 9,647 |
| | ===== |
| Total liabilities and stockholders' equity | \$ 16,211 |

See accompanying notes.

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Acirca, Inc.
 Consolidated Statements of Operations
 Three Month Period Ended March 31, 2003
 (Unaudited)
 (Dollars in Thousands, except per share)

| | |
|---|------------|
| Net sales | \$ 4,675 |
| | ----- |
| Cost of goods sold | 4,017 |
| | ----- |
| Gross profit | 658 |
| Selling, general and administrative expenses | 4,263 |
| | ----- |
| Operating loss | (3,605) |
| Interest expense | 46 |
| | ----- |
| | ===== |
| Net loss | \$ (3,651) |
| | ===== |
| | ===== |
| Basic and diluted loss available per common share | \$ (0.40) |
| | ===== |
| | ===== |
| Weighted average shares outstanding - basic and diluted | 9,173,900 |

F-20

Acirca, Inc. (formerly Acirca, Inc. and Subsidiary)
 Consolidated Statement of Cash Flows
 For the Three Month Period Ended March 31, 2003
 (Unaudited)
 (Dollars in Thousands)

| | |
|---|------------|
| Cash Flows from Operating Activities | |
| Net loss | \$ (3,651) |
| Adjustments to reconcile net loss to net cash used in operating activities: | |
| Depreciation and amortization | 295 |
| Stock compensation expense | 95 |
| Provisions for losses on accounts receivable | 41 |
| Changes in assets and liabilities: | |
| Accounts receivable | (891) |
| Inventories | 2,189 |

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| | |
|---|---------|
| Prepaid expenses | 400 |
| Other assets | (91) |
| Accounts payable and accrued expenses | (1,155) |
| | |
| Net cash used in operating activities | (986) |
| Cash Flows from Investing Activities | |
| | |
| Net cash used in investing activities | 0 |
| Cash Flows from Financing Activities | |
| Net borrowings on revolving line of credit | (855) |
| Net borrowings on notes payable | 1,838 |
| Principal payments on note payable and capital leases | (181) |
| | |
| Net cash provided by financing activities | 802 |
| Net decrease in cash and cash equivalents | (184) |
| | |
| Cash and cash equivalents, beginning of period | 291 |
| | |
| Cash and cash equivalents, end of period | \$ 107 |

F-21

Acirca, Inc.
Notes to Consolidated Financial Statements
Three Month Period Ended March 31, 2003
(Unaudited)
(Dollars in Thousands)

1. Nature of Business, Organization and Basis of Presentation

Acirca, Inc. (the "Company") was incorporated in the state of Delaware on May 11, 2000. The Company was formed for the purpose of developing and providing high quality organic foods for customers. The mission of the Company is to create the most valuable organic brands by focusing on equity building, product innovation, distribution ubiquity and consumer loyalty.

In April 2002, the Company acquired all of the assets of the Organic Ingredients ("OI") division of Spectrum Organic Products, Inc. As discussed in Note 7, in June 2003, The Hain Celestial Group, Inc. ("Hain") acquired the Company, except for the OI business which was retained by the sellers. Accordingly, the accompanying financial statements present the historical financial information of the business acquired by Hain, as adjusted to eliminate the assets and liabilities and results of operations of OI, which were retained by the sellers. The net assets of OI distributed to the stockholders of the Company in June of 2003 has been recorded as an adjustment to reflect assets not sold in the accompanying Statements of Stockholders' Equity for the year ended December 31, 2002. OI incurred a pre-tax loss of approximately \$26,000 in 2002.

All significant intercompany accounts and transactions have been eliminated in consolidation.

These Unaudited financial statements have been prepared in accordance with the accounting principles generally accepted in the United States for interim financial information and with the instructions of Regulation S-X.

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Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States. In the opinion of management, all adjustments (including normal recurring accruals) considered necessary for a fair presentation have been included. Please refer to the footnotes to the Consolidated Financial Statements of the Company as of December 31, 2002 and for the year then ended for information not included in these condensed footnotes.

2. Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of net assets acquired. Amortization of intangible assets is provided using the straight-line method over their estimated useful lives, which range from 1 to 20 years. The Company evaluates the recoverability of intangible assets based on projected undiscounted operating cash flows whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Effective January 1, 2002, the Company ceased amortization of goodwill in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS")

F-22

No. 142, Goodwill and Other Intangible Assets. In accordance with SFAS No. 142, no amortization of goodwill was recorded for acquisitions subsequent to June 30, 2001.

At March 31, 2003, goodwill and intangibles consist of the following:

| | |
|--------------------------------|----------|
| Goodwill | \$ 8,685 |
| | ----- |
| Less: accumulated amortization | (139) |
| | ----- |
| Goodwill, net | \$ 8,546 |
| Intangible assets | \$ 9,385 |
| | ----- |
| Less: accumulated amortization | (6,390) |
| | ----- |
| Intangible assets, net | \$ 2,995 |

Amortization expense during the period was \$225.

3. Advertising and Promotional Expenses

Advertising costs are expensed as incurred. Advertising and promotional expenses of \$136 are included in selling, general and administrative expenses in the Statements of Operations for the period.

4. Inventories

At March 31, 2003 inventories consisted of the following:

| | |
|------------------|---------|
| Raw materials | \$ 253 |
| | ----- |
| Finished product | 1,445 |
| | ----- |
| | \$1,698 |

5. Property, Plant and Equipment

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At March 31, property, plant and equipment consists of the following:

| | |
|---------------------------------|--------|
| Furniture and equipment | \$ 100 |
| Computer equipment and software | 573 |
| Machinery and equipment | 132 |
| | ----- |
| Leasehold improvements | 231 |
| | ----- |
| | 1,036 |
| | ----- |
| Less: accumulated depreciation | (405) |
| | ----- |
| | \$ 631 |

6. Revolving Line of Credit

In August 2002, the Company entered into a bank Revolving Credit Agreement ("Agreement"). The Agreement allows for a maximum amount of borrowings, at prime plus 1.5% (5.75% at December 31, 2002), of \$5.0 million based on certain percentages of eligible accounts receivable and inventory. Substantially all of the assets of the Company

F-23

are pledged as collateral under the Agreement. Under the terms of the Agreement, the Company is required to maintain certain financial covenants.

7. Subsequent Events

On May 28, 2003, the Company entered into an agreement with several of its shareholders whereby the shareholders loaned the Company \$1 million and in connection therewith, received warrants to purchase up to an aggregate of 7,109,594 shares of newly authorized Series E Convertible Preferred Stock. Principal and all accrued and unpaid interest, computed at a rate of 25% per annum, was payable on demand at any time on or after the earlier of August 31, 2005 or the date the Company secured \$10 million through the sale or sales of its securities. In June 2003, the Company repaid the entire principal and interest.

As discussed in Note 1, the Company was acquired on June 17, 2003 by The Hain Celestial Group, Inc. ("Hain"). Aggregate consideration paid by Hain was approximately \$13.5 million, consisting of a combination of cash, 134,797 shares of Hain common stock and the assumption of certain of the Company's liabilities.

F-24

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Amounts in thousands except per share
(Unaudited)

| | Historical | | Pro |
|---|------------|-----------|--------|
| | Hain | Acirca | Adj |
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 11,973 | \$ 107 | |
| Trade receivables, net | 64,259 | 1,846 | |
| Inventories | 59,518 | 1,698 | |
| Recoverable income taxes | 470 | | |
| Deferred income taxes | 7,223 | | |
| Other current assets | 6,282 | 191 | |
| Total current assets | 149,725 | 3,842 | |
| Property, plant and equipment, net | 66,102 | 631 | \$ (8, |
| Goodwill, net | 289,492 | 8,546 | 14, |
| Trademarks and other intangible assets, net | 38,649 | 2,995 | (2, |
| Other assets | 12,142 | 197 | (2, |
| Total assets | \$556,110 | \$ 16,211 | \$2, |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | |
| Current liabilities: | | | |
| Accounts payable and accrued expenses | \$ 48,243 | \$ 3,229 | \$ |
| Accrued restructuring and non-recurring charges | 4,479 | | |
| Income taxes payable | 9,575 | | |
| Current portion of long-term debt | 3,157 | 2,682 | |
| Total current liabilities | 65,454 | 5,911 | |
| Deferred income taxes | 11,100 | | |
| Long-term debt, less current portion | 49,718 | 653 | |
| Total liabilities | 126,272 | 6,564 | |
| Stockholders' equity: | | | |
| Capital stock | 347 | 11 | |
| Additional paid-in capital | 362,240 | 58,746 | |
| Retained earnings | 72,328 | (47,990) | |
| Treasury stock | (8,156) | | |
| Unearned compensation | | (1,120) | |
| Foreign currency translation adjustment | 3,079 | | |
| Total stockholders' equity | 429,838 | 9,647 | |
| Total liabilities and stockholders' equity | \$556,110 | \$ 16,211 | \$ |

See notes to pro forma combined financial statements.

F-25

THE HAIN CELESTIAL GROUP, INC.
 Pro Forma Combined Income Statement
 Year Ended June 30, 2002
 Amounts in thousands except per share
 (Unaudited)

| | Historical | | Pro |
|--|------------|-------------|-----|
| | Hain | Acirca | |
| Net sales | \$395,954 | \$ 18,516 | |
| Cost of Sales | 291,915 | 16,166 | |
| Gross profit | 104,039 | 2,350 | |
| Selling, general and administrative expenses | 87,920 | 25,211 | \$ |
| Restructuring charges | 4,977 | | |
| Impairment of long-lived assets | 3,878 | | |
| Operating income (loss) | 7,264 | (22,871) | |
| Interest expense and other expenses | 2,461 | 90 | |
| Income (loss) before income taxes | 4,803 | (22,961) | |
| Provision for income taxes | 1,832 | | |
| Net income (loss) | \$ 2,971 | \$ (22,961) | \$ |
| Basic income (loss) per share | \$ 0.09 | | |
| Diluted income (loss) per share | \$ 0.09 | | |
| Weighted average common shares outstanding: | | | |
| Basic | 33,760 | | |
| Diluted | 34,744 | | |

See notes to pro forma combined financial statements.

THE HAIN CELESTIAL GROUP, INC.
 Pro Forma Combined Income Statement
 Nine Month Period Ended March 31, 2003
 Amounts in thousands except per share
 (Unaudited)

| | Historical | | Pro |
|--|------------|-------------|-----|
| | Hain | Acirca | |
| Net sales | \$348,650 | \$ 17,289 | |
| Cost of Sales | 239,050 | 15,054 | |
| Gross profit | 109,600 | 2,235 | |
| Selling, general and administrative expenses | 74,297 | 15,578 | \$ |
| Restructuring charge | 440 | | |
| Operating income (loss) | 34,863 | (13,343) | |
| Interest expense and other expenses | 1,560 | 223 | |
| Income before income taxes | 33,303 | (13,566) | |
| Provision for income taxes | 12,572 | | |
| Net income | \$ 20,731 | \$ (13,566) | \$ |
| Basic income per share | \$ 0.61 | | |
| Diluted income per share | \$ 0.60 | | |
| Weighted average common shares outstanding: | | | |
| Basic | 33,853 | | |
| Diluted | 34,579 | | |

See notes to pro forma combined financial statements.

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Notes to Pro Forma Combined Financial Statements (Unaudited)

General:

On June 17, 2003, The Hain Celestial Group, Inc. (the "Company") completed the acquisition of Acirca, Inc. ("Acirca"). A portion of the cost of the acquisition (including closing costs) and the repayment of Acirca debt was funded by borrowings under the Company's existing Credit Facility, while the remaining cost of the acquisition was paid by the issuance of 134,797 shares of common stock.

Only those adjustments required and allowable by Regulation S-X have been reflected in the Unaudited Pro Forma Combined Financial Statements. In the periods following the closing of the acquisition of Acirca, the Company expects to realize various synergies, numerous of which were effectuated immediately. The synergies include the elimination of Acirca costs which are duplicative with the Company's costs, including the costs of research and development, operations, marketing and sales, customer service and finance and accounting.

Details of the pro forma adjustments relating to the acquisition and the financing are set forth below:

Pro forma balance sheet adjustments:

- (1) Elimination of Acirca fixed assets not retained by the Company.
- (2) Elimination of Acirca goodwill and other intangible assets.
- (3) Excess of the cost of the acquisition over the acquired net tangible assets of Acirca. An allocation of the excess between goodwill and other intangibles is pending.
- (4) Liabilities assumed in the transaction, including closing costs.
- (5) Credit lines of Acirca paid off at closing.
- (6) Borrowings under the Company's Credit Facility on the date of acquisition.
- (7) Elimination of Acirca equity accounts.
- (8) Issuance of Company common stock at the date of acquisition.

Pro forma statement of income adjustments:

- (1) Elimination of Acirca depreciation and amortization.
- (2) Elimination of Acirca interest expense.
- (3) Increase in interest expense resulting from the Company's additional borrowings under its Credit Facility on the date of acquisition.
- (4) Adjustment to historical income taxes to give effect to the operating losses of Acirca when combined with the Company.