

HAIN CELESTIAL GROUP INC

Form 10-Q

November 12, 2013

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 10-Q

(Mark One)

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

☒

For the quarterly period ended September 30, 2013

☐ 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

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THE HAIN CELESTIAL GROUP, INC.

(Exact name of registrant as specified in its charter)

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Delaware

(State or other jurisdiction of  
incorporation or organization)

22-3240619

(I.R.S. Employer  
Identification No.)

1111 Marcus Avenue

Lake Success, New York

(Address of principal executive offices)

11042

(Zip Code)

Registrant's telephone number, including area code: (516) 587-5000

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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 ☒ 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.

Large accelerated filer ☐

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 ☒

As of November 4, 2013 there were 47,788,312 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

SEPTEMBER 30, 2013 AND JUNE 30, 2013

(In thousands, except share amounts)

|                                                                                                        | September 30,<br>2013<br>(Unaudited) | June 30,<br>2013<br>(Note) |
|--------------------------------------------------------------------------------------------------------|--------------------------------------|----------------------------|
| <b>ASSETS</b>                                                                                          |                                      |                            |
| Current assets:                                                                                        |                                      |                            |
| Cash and cash equivalents                                                                              | \$65,069                             | \$41,263                   |
| Accounts receivable, less allowance for doubtful accounts of \$2,687 and \$2,564                       | 233,759                              | 233,641                    |
| Inventories                                                                                            | 267,075                              | 250,175                    |
| Deferred income taxes                                                                                  | 17,665                               | 17,716                     |
| Prepaid expenses and other current assets                                                              | 38,639                               | 32,377                     |
| Total current assets                                                                                   | 622,207                              | 575,172                    |
| Property, plant and equipment, net                                                                     | 251,363                              | 235,841                    |
| Goodwill                                                                                               | 916,590                              | 876,106                    |
| Trademarks and other intangible assets, net                                                            | 487,532                              | 498,235                    |
| Investments and joint ventures                                                                         | 41,099                               | 46,799                     |
| Other assets                                                                                           | 26,030                               | 26,341                     |
| Total assets                                                                                           | \$2,344,821                          | \$2,258,494                |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                            |                                      |                            |
| Current liabilities:                                                                                   |                                      |                            |
| Accounts payable                                                                                       | \$190,491                            | \$184,996                  |
| Accrued expenses and other current liabilities                                                         | 84,960                               | 71,950                     |
| Income taxes payable                                                                                   | 8,154                                | 4,707                      |
| Current portion of long-term debt                                                                      | 11,287                               | 12,477                     |
| Total current liabilities                                                                              | 294,892                              | 274,130                    |
| Long-term debt, less current portion                                                                   | 641,241                              | 653,464                    |
| Deferred income taxes                                                                                  | 113,120                              | 114,395                    |
| Other noncurrent liabilities                                                                           | 15,293                               | 14,950                     |
| Total liabilities                                                                                      | 1,064,546                            | 1,056,939                  |
| 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 49,174,872 and 49,026,263 shares | 492                                  | 490                        |
| Additional paid-in capital                                                                             | 780,872                              | 768,774                    |
| Retained earnings                                                                                      | 517,422                              | 489,767                    |
| Accumulated other comprehensive income                                                                 | 15,663                               | (27,251)                   |
|                                                                                                        | 1,314,449                            | 1,231,780                  |
| Less: 1,387,295 and 1,336,036 shares of treasury stock, at cost                                        | (34,174)                             | (30,225)                   |
| Total stockholders' equity                                                                             | 1,280,275                            | 1,201,555                  |
| Total liabilities and stockholders' equity                                                             | \$2,344,821                          | \$2,258,494                |

Note: The balance sheet at June 30, 2013 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 INCOME (UNAUDITED)  
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012  
(In thousands, except per share amounts)

|                                                                              | Three Months Ended September 30, |           |
|------------------------------------------------------------------------------|----------------------------------|-----------|
|                                                                              | 2013                             | 2012      |
| Net sales                                                                    | \$477,484                        | \$359,807 |
| Cost of sales                                                                | 358,361                          | 264,595   |
| Gross profit                                                                 | 119,123                          | 95,212    |
| Selling, general and administrative expenses                                 | 73,587                           | 59,662    |
| Amortization of acquired intangibles                                         | 3,468                            | 2,633     |
| Acquisition related expenses, restructuring and integration charges          | 2,296                            | 641       |
| Operating income                                                             | 39,772                           | 32,276    |
| Interest and other expenses, net                                             | 3,938                            | 3,892     |
| Income before income taxes and equity in earnings of equity-method investees | 35,834                           | 28,384    |
| Provision for income taxes                                                   | 8,751                            | 7,858     |
| Equity in net (income) loss of equity-method investees                       | (572                             | ) 738     |
| Income from continuing operations                                            | 27,655                           | 19,788    |
| Loss from discontinued operations, net of tax                                | —                                | (3,402 )  |
| Net income                                                                   | \$27,655                         | \$16,386  |
| Basic net income/(loss) per common share:                                    |                                  |           |
| From continuing operations                                                   | \$0.58                           | \$0.44    |
| From discontinued operations                                                 | —                                | (0.08 )   |
| Net income per common share - basic                                          | \$0.58                           | \$0.36    |
| Diluted net income/(loss) per common share:                                  |                                  |           |
| From continuing operations                                                   | \$0.57                           | \$0.42    |
| From discontinued operations                                                 | —                                | (0.07 )   |
| Net income per common share - diluted                                        | \$0.57                           | \$0.35    |
| Shares used in the calculation of net income per common share:               |                                  |           |
| Basic                                                                        | 47,706                           | 45,017    |
| Diluted                                                                      | 48,934                           | 46,569    |
| See notes to condensed consolidated financial statements.                    |                                  |           |

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THE HAIN CELESTIAL GROUP, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)  
 FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012  
 (In thousands)

|                                                                       | Three Months Ended<br>September 30, 2013 |                             |                     | Three Months Ended<br>September 30, 2012 |                             |                     |
|-----------------------------------------------------------------------|------------------------------------------|-----------------------------|---------------------|------------------------------------------|-----------------------------|---------------------|
|                                                                       | Pre-tax<br>amount                        | Tax<br>(expense)<br>benefit | After-tax<br>amount | Pre-tax<br>amount                        | Tax<br>(expense)<br>benefit | After-tax<br>amount |
| Net income                                                            |                                          |                             | \$27,655            |                                          |                             | \$16,386            |
| Other comprehensive income (loss):                                    |                                          |                             |                     |                                          |                             |                     |
| Foreign currency translation adjustments                              | \$44,239                                 | \$(597)                     | 43,642              | \$13,202                                 | \$(927)                     | 12,275              |
| Change in deferred gains/(losses) on cash<br>flow hedging instruments | (737)                                    | 183                         | (554)               | (821)                                    | 206                         | (615)               |
| Change in unrealized gain on available for<br>sale investment         | (286)                                    | 112                         | (174)               | 2,029                                    | (814)                       | 1,215               |
| Total other comprehensive income (loss)                               | \$43,216                                 | \$(302)                     | \$42,914            | \$14,410                                 | \$(1,535)                   | \$12,875            |
| Total comprehensive income                                            |                                          |                             | \$70,569            |                                          |                             | \$29,261            |

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 THREE MONTHS ENDED SEPTEMBER 30, 2013  
(In thousands, except per share and share amounts)

|                                                                                                                 | Common Stock |                       | Additional         |                      | Treasury Stock |            | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Total       |
|-----------------------------------------------------------------------------------------------------------------|--------------|-----------------------|--------------------|----------------------|----------------|------------|-----------------------------------------------------------|-------------|
|                                                                                                                 | Shares       | Amount<br>at<br>\$.01 | Paid-in<br>Capital | Retained<br>Earnings | Shares         | Amount     |                                                           |             |
| Balance at June 30, 2013                                                                                        | 49,026,263   | \$490                 | \$768,774          | \$489,767            | 1,336,036      | \$(30,225) | \$ (27,251 )                                              | \$1,201,555 |
| Net income                                                                                                      |              |                       |                    | 27,655               |                |            |                                                           | 27,655      |
| Other comprehensive income                                                                                      |              |                       |                    |                      |                |            | 42,914                                                    | 42,914      |
| Issuance of common stock pursuant to compensation plans                                                         | 148,609      | 2                     | 7,935              |                      |                |            |                                                           | 7,937       |
| Stock based compensation income tax effects                                                                     |              |                       | 926                |                      |                |            |                                                           | 926         |
| Shares withheld for payment of employee payroll taxes due on shares issued under stock based compensation plans |              |                       |                    |                      | 51,259         | (3,949 )   |                                                           | (3,949 )    |
| Stock based compensation charge                                                                                 |              |                       | 3,237              |                      |                |            |                                                           | 3,237       |
| Balance at September 30, 2013                                                                                   | 49,174,872   | \$492                 | \$780,872          | \$517,422            | 1,387,295      | \$(34,174) | \$ 15,663                                                 | \$1,280,275 |

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)  
 FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012  
 (In thousands)

|                                                                                                                                     | Three Months Ended September<br>30, |          |
|-------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|----------|
|                                                                                                                                     | 2013                                | 2012     |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                                                                         |                                     |          |
| Net income                                                                                                                          | \$27,655                            | \$16,386 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities:                                         |                                     |          |
| Depreciation and amortization                                                                                                       | 10,453                              | 8,050    |
| Deferred income taxes                                                                                                               | (1,585)                             | (522)    |
| Equity in net (income) loss of equity-method investees                                                                              | (572)                               | 738      |
| Stock based compensation                                                                                                            | 3,237                               | 2,892    |
| Tax benefit from stock based compensation                                                                                           | 112                                 | 548      |
| Loss on sale of business                                                                                                            | —                                   | 3,086    |
| Other non-cash items, net                                                                                                           | 246                                 | (90)     |
| Increase (decrease) in cash attributable to changes in operating assets and liabilities, net of amounts applicable to acquisitions: |                                     |          |
| Accounts receivable                                                                                                                 | 5,966                               | (9,337)  |
| Inventories                                                                                                                         | (12,505)                            | (11,601) |
| Other current assets                                                                                                                | (315)                               | 2,073    |
| Other assets and liabilities                                                                                                        | (717)                               | (4,826)  |
| Accounts payable and accrued expenses                                                                                               | 17,788                              | 20,249   |
| Income taxes                                                                                                                        | 3,845                               | (491)    |
| Net cash provided by operating activities                                                                                           | 53,608                              | 27,155   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                                                                         |                                     |          |
| Proceeds from purchase price settlement for acquisition                                                                             | 481                                 | —        |
| Proceeds from sale of business, net                                                                                                 | —                                   | 13,584   |
| Purchases of property and equipment                                                                                                 | (12,347)                            | (8,306)  |
| Repayments from equity-method investees, net                                                                                        | —                                   | 100      |
| Net cash (used in) provided by investing activities                                                                                 | (11,866)                            | 5,378    |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                                                                         |                                     |          |
| Proceeds from exercises of stock options, net of related expenses                                                                   | 580                                 | 4,417    |
| Repayments under bank revolving credit facility, net                                                                                | (13,252)                            | (30,000) |
| Repayments of other long-term debt, net                                                                                             | (1,904)                             | (99)     |
| Excess tax benefits from stock based compensation                                                                                   | 814                                 | 3,111    |
| Shares withheld for payment of employee payroll taxes                                                                               | (3,949)                             | (3,077)  |
| Net cash used in financing activities                                                                                               | (17,711)                            | (25,648) |
| Effect of exchange rate changes on cash                                                                                             | (225)                               | (626)    |
| Net increase in cash and cash equivalents                                                                                           | 23,806                              | 6,259    |
| Cash and cash equivalents at beginning of period                                                                                    | 41,263                              | 29,895   |
| Cash and cash equivalents at end of period                                                                                          | \$65,069                            | \$36,154 |
| 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. BUSINESS

The Hain Celestial Group, Inc., a Delaware corporation, and its subsidiaries (collectively, the “Company,” and herein referred to as “we,” “us,” and “our”) manufacture, market, distribute and sell organic and natural products under brand names which are sold as “better-for-you” products. We are a leader in many organic and natural products categories, with many recognized brands. Our brand names are well recognized in the various market categories they serve and include Earth’s Best®, Ella’s Kitchen®, Celestial Seasonings®, Terra®, Garden of Eatin®, Sensible Portions®, The Greek Gods®, Spectrum®, Spectrum Essentials®, Rice Dream®, Soy Dream®, Almond Dream®, Imagine®, WestSoy®, Arrowhead Mills®, MaraNatha®, SunSpire®, Health Valley®, BluePrint®, Lima®, Danival®, GG UniqueFiber™, Yves Veggie Cuisine®, Europe’s Best®, DeBoles®, Linda McCartney® (under license), The New Covent Garden Soup Co.®, Johnson’s Juice Co.®, Farmhouse Fare®, Cully & Sully®, Hartley’s®, Sun-Pat®, Gale’s®, Robertson’s® and Frank Cooper’s®. Our personal care products are marketed under the Avalon Organics®, Alba Botanica®, JASON®, Queen Helene® and Earth’s Best® brands.

We have a minority investment in Hain Pure Protein Corporation (“HPP” or “Hain Pure Protein”), which processes, markets and distributes antibiotic-free chicken and turkey products. We also have an investment in a joint venture in Hong Kong with Hutchison China Meditech Ltd. (“Chi-Med”), a majority owned subsidiary of Hutchison Whampoa Limited, a company listed on the Alternative Investment Market, a sub-market of the London Stock Exchange, to market and distribute certain of the Company’s brands in China and other markets.

Our operations are managed by geography, and are comprised of four operating segments: United States, United Kingdom, Canada and Europe. Refer to Note 16 for additional information and selected financial information for our segments.

#### 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 (“U.S. GAAP”). The amounts as of and for the periods ended June 30, 2013 are derived from the Company’s audited annual financial statements. The 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, 2013 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2014. Please refer to the footnotes to our consolidated financial statements as of June 30, 2013 and for the fiscal year then ended included in our Annual Report on Form 10-K for information not included in these condensed footnotes.

All amounts in our consolidated financial statements and tables have been rounded to the nearest thousand, except share and per share amounts, unless otherwise indicated.

#### Newly Adopted Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board issued ASU No. 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, which requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. We adopted ASU No. 2013-02 on a prospective basis at the beginning of our 2014 fiscal year. Refer to Note 11 for disclosures required under this standard.

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The following table sets forth the computation of basic and diluted earnings per share:

|                                                                                                       | Three Months Ended September 30, |          |
|-------------------------------------------------------------------------------------------------------|----------------------------------|----------|
|                                                                                                       | 2013                             | 2012     |
| Numerator:                                                                                            |                                  |          |
| Income from continuing operations                                                                     | \$27,655                         | \$19,788 |
| Loss from discontinued operations, net of tax                                                         | —                                | (3,402)  |
| Net income                                                                                            | \$27,655                         | \$16,386 |
| Denominator (in thousands):                                                                           |                                  |          |
| Denominator for basic earnings per share - weighted average shares outstanding during the period      | 47,706                           | 45,017   |
| Effect of dilutive stock options, unvested restricted stock and unvested restricted share units       | 1,228                            | 1,552    |
| Denominator for diluted earnings per share - adjusted weighted average shares and assumed conversions | 48,934                           | 46,569   |
| Basic net income per common share:                                                                    |                                  |          |
| From continuing operations                                                                            | \$0.58                           | \$0.44   |
| From discontinued operations                                                                          | —                                | (0.08)   |
| Net income per common share - basic                                                                   | \$0.58                           | \$0.36   |
| Diluted net income per common share:                                                                  |                                  |          |
| From continuing operations                                                                            | \$0.57                           | \$0.42   |
| From discontinued operations                                                                          | —                                | (0.07)   |
| Net income per common share - diluted                                                                 | \$0.57                           | \$0.35   |

Basic earnings per share excludes the dilutive effects of stock options, unvested restricted stock and unvested restricted share units. Diluted earnings per share includes only the dilutive effects of common stock equivalents such as stock options and unvested restricted stock awards. The Company used income from continuing operations as the control number in determining whether potential common shares were dilutive or anti-dilutive. The same number of potential common shares used in computing the diluted per share amount from continuing operations was also used in computing the diluted per share amounts from discontinued operations even if those amounts were anti-dilutive.

Restricted stock awards totaling 205,187 and 300,000 were excluded from our diluted earnings per share calculations for the three months ended September 30, 2013 and 2012, respectively, as such awards are either contingently issuable based on market conditions and such conditions had not been achieved during the respective periods or were antidilutive.

**4. ACQUISITIONS AND DISPOSALS**

We account for acquisitions using the acquisition method of accounting. The results of operations of the acquisitions have been included in our consolidated results from their respective dates of acquisition. We allocate the purchase price of each acquisition to the tangible assets, liabilities, and identifiable intangible assets acquired based on their estimated fair values. Acquisitions may include contingent consideration, the fair value of which is estimated on the acquisition date as the present value of the expected contingent payments, determined using weighted probabilities of possible payments. The fair values assigned to identifiable intangible assets acquired were determined primarily by using an income approach which was based on assumptions and estimates made by management. Significant

assumptions utilized in the income approach were based on company specific information and projections which are not observable in the market and are thus considered Level 3 measurements as defined by authoritative guidance. The excess of the purchase price over the fair value of the identified assets and liabilities has been recorded as goodwill.

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The costs related to all acquisitions have been expensed as incurred and are included in “Acquisition related expenses, restructuring and integration charges” in the Condensed Consolidated Statements of Income. Acquisition-related costs of \$725 and \$605 were expensed in the three months ended September 30, 2013 and 2012, respectively. The expenses incurred during the first quarter of fiscal 2014 primarily relate to stamp duty and additional professional fees associated with our recent acquisitions and during the first quarter of fiscal 2013 primarily relate to professional fees associated with the acquisition of the UK Ambient Grocery Brands (as discussed below).

### Fiscal 2013

On May 2, 2013, we acquired Ella’s Kitchen Group Limited (“Ella’s Kitchen”), a manufacturer and distributor of premium organic baby food under the Ella’s Kitchen® brand and the first company to offer baby food in convenient flexible pouches. Ella’s Kitchen offers a range of branded organic baby food products principally in the United Kingdom, the United States and Scandinavia. Ella’s Kitchen’s operations are included as part of the Company’s United States operating segment. Consideration in the transaction consisted of cash totaling £37,571, net of cash acquired (approximately \$58,437 at the transaction date exchange rate) and 687,779 shares of the Company’s common stock valued at \$45,050. The acquisition was funded with borrowings under our Credit Agreement.

On December 21, 2012, we acquired the assets and business of Zoe Sakoutis LLC, d/b/a BluePrint Cleanse (“BluePrint”), a nationally recognized leader in the cold-pressed juice category based in New York City, for \$16,679 in cash and 174,267 shares of the Company’s common stock valued at \$9,525. Additionally, contingent consideration of up to a maximum of approximately \$82,400 is payable based upon the achievement of specified operating results during the two annual periods ending December 31, 2013 and 2014. The Company recorded \$13,491 as the fair value of the contingent consideration at the acquisition date. The BluePrint® brand, which is part of our United States operating segment, expanded our product offerings into a new category. The acquisition was funded with existing cash balances and borrowings under our Credit Agreement.

On November 1, 2012, we completed the disposal of our sandwich business, including the Daily Bread™ brand name, in the United Kingdom. The disposal transaction resulted in an exchange of businesses, whereby the Company acquired the fresh prepared fruit products business of Superior Food Limited in the United Kingdom in exchange for the Company’s sandwich business and a cash payment of £1,000 (approximately \$1,600 at the transaction date exchange rate). Refer to Note 5, Discontinued Operations, for additional information.

On October 27, 2012, we completed the acquisition of a portfolio of market-leading packaged grocery brands including Hartley’s®, Sun-Pat®, Gale’s®, Robertson’s® and Frank Cooper’s®, together with the manufacturing facility in Cambridgeshire, United Kingdom (the “UK Ambient Grocery Brands”) from Premier Foods plc. The product offerings acquired include jams, fruit spreads and jelly, peanut butter, honey and marmalade products. Consideration in the transaction consisted of £169,708 in cash (approximately \$273,246 at the transaction date exchange rate) funded with borrowings under our Credit Agreement and 836,426 shares of the Company’s common stock valued at \$48,061. The acquisition expanded our product offerings in the United Kingdom into ambient grocery which we expect will help position the expanded business as a top food and beverage supplier in the United Kingdom.

On August 20, 2012, we completed the sale of our private-label chilled ready meals business in the United Kingdom (the “CRM business”). Total consideration received was £9,641 (approximately \$15,132 at the transaction date exchange rate), which remains subject to a final working capital adjustment with the purchaser. We recognized a preliminary loss on disposal of \$3,616 (\$4,200 after-tax, which includes the write-off of certain deferred tax assets) during the fiscal year ended June 30, 2013, of which \$2,503 (\$3,086 after-tax) was recorded in the three months ended September 30, 2012, which is included within “Loss from discontinued operations, net of tax” in the Condensed Consolidated Statements of Income. Refer to Note 5, Discontinued Operations, for additional information.



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The following table summarizes the components of the preliminary purchase price allocations for the fiscal 2013 acquisitions:

|                                        | UK Ambient<br>Grocery<br>Brands | BluePrint | Ella's Kitchen | Total     |
|----------------------------------------|---------------------------------|-----------|----------------|-----------|
| Purchase price:                        |                                 |           |                |           |
| Cash paid                              | \$273,246                       | \$16,679  | \$58,437       | \$348,362 |
| Equity issued                          | 48,061                          | 9,525     | 45,050         | 102,636   |
| Fair value of contingent consideration | —                               | 13,491    | —              | 13,491    |
|                                        | \$321,307                       | \$39,695  | \$103,487      | \$464,489 |
| Allocation:                            |                                 |           |                |           |
| Current assets                         | \$29,825                        | \$2,742   | \$27,749       | \$60,316  |
| Property, plant and equipment          | 39,150                          | 3,173     | 672            | 42,995    |
| Identifiable intangible assets         | 118,020                         | 18,980    | 49,669         | 186,669   |
| Assumed liabilities                    | (1,959)                         | (2,189)   | (17,653)       | (21,801)  |
| Deferred income taxes                  | 2,882                           | —         | (11,955)       | (9,073)   |
| Goodwill                               | 133,389                         | 16,989    | 55,005         | 205,383   |
|                                        | \$321,307                       | \$39,695  | \$103,487      | \$464,489 |

The purchase price allocations are based upon preliminary valuations, and the Company's estimates and assumptions are subject to change within the measurement period as valuations are finalized. Any change in the estimated fair value of the net assets, prior to the finalization of the more detailed analyses, but not to exceed one year from the dates of acquisition, will change the amount of the purchase price allocations.

The fair values assigned to identifiable intangible assets acquired were based on assumptions and estimates made by management. Preliminary identifiable intangible assets acquired consisted of customer relationships valued at \$46,232 with a weighted average estimated useful life of 15.6 years, a non-compete arrangement valued at \$1,100 with an estimated life of 3.0 years, and trade names valued at \$139,337 with indefinite lives. The goodwill represents the future economic benefits expected to arise that could not be individually identified and separately recognized, including use of our existing infrastructure to expand sales of the acquired business' products. The goodwill recorded as a result of the acquisitions of the UK Ambient Grocery Brands and Ella's Kitchen is not expected to be deductible for tax purposes.

#### Unaudited Proforma Results of Continuing Operations

The following table provides unaudited pro forma results of continuing operations for the three months ended September 30, 2012, as if all of the above acquisitions had been completed at the beginning of fiscal year 2013. Pro forma results of continuing operations are not provided for the three months ended September 30, 2013 as there were no acquisitions completed during such period. The following pro forma combined results of continuing 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 periods presented or that will be achieved by the combined company in the future. The pro forma information has been adjusted to give effect to items that are directly attributable to the transactions and are expected to have a continuing impact on the combined results. The adjustments include amortization expense associated with acquired identifiable intangible assets, interest expense associated with bank borrowings to fund the acquisitions and elimination of transactions costs incurred that are directly related to the transactions and do not have a continuing impact on operating results from continuing operations.

Three Months Ended  
September 30, 2012

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|                                                                  |           |
|------------------------------------------------------------------|-----------|
| Net sales from continuing operations                             | \$444,248 |
| Net income from continuing operations                            | \$23,312  |
| Net income per common share from continuing operations - diluted | \$0.48    |

This information has not been adjusted to reflect any changes in the operations of the businesses subsequent to their acquisition by us. Changes in operations of the acquired businesses include, but are not limited to, discontinuation of 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 managements of the businesses acquired prior to acquisition by us, the net sales and net income information might have been materially different than the actual results achieved and from the pro forma information provided. In management's opinion, these



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unaudited pro forma results of operations are not intended to represent or to be indicative of the actual results that would have occurred had the acquisitions been consummated at the beginning of the periods presented or of future operations of the combined companies under our management.

## 5. DISCONTINUED OPERATIONS

During the third quarter of fiscal 2012, the Company made the decision to sell its private-label chilled ready meals ("CRM") business in the United Kingdom, which was acquired in October 2011 as part of the acquisition of Daniels. The sale of the CRM business was completed on August 20, 2012. Additionally, during the fourth quarter of fiscal 2012, the Company made the decision to dispose of its sandwich business, including the Daily Bread™ brand name, in the United Kingdom. The disposal of the sandwich business was completed on November 1, 2012. Operating results for the CRM business and the sandwich business have been classified as discontinued operations and were as follows:

|                                               | Three Months<br>Ended September<br>30, 2012 |   |
|-----------------------------------------------|---------------------------------------------|---|
| Net sales                                     | \$ 12,231                                   |   |
| Operating loss                                | \$ (447                                     | ) |
| Loss on sale of business, net of tax          | \$ (3,086                                   | ) |
| Loss from discontinued operations, net of tax | \$ (3,402                                   | ) |

As the sales of the businesses were completed in the prior fiscal year, there are no amounts reported as discontinued operations for the three months ended September 30, 2013.

## 6. INVENTORIES

Inventories consisted of the following:

|                                               | September 30,<br>2013 | June 30,<br>2013 |
|-----------------------------------------------|-----------------------|------------------|
| Finished goods                                | \$ 171,598            | \$ 163,288       |
| Raw materials, work-in-progress and packaging | 95,477                | 86,887           |
|                                               | \$ 267,075            | \$ 250,175       |

## 7. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following:

|                                                 | September 30,<br>2013 | June 30,<br>2013 |
|-------------------------------------------------|-----------------------|------------------|
| Land                                            | \$ 16,630             | \$ 16,149        |
| Buildings and improvements                      | 64,080                | 61,480           |
| Machinery and equipment                         | 281,250               | 264,198          |
| Furniture and fixtures                          | 10,351                | 9,774            |
| Leasehold improvements                          | 19,059                | 17,760           |
| Construction in progress                        | 4,182                 | 4,669            |
|                                                 | 395,552               | 374,030          |
| Less: Accumulated depreciation and amortization | 144,189               | 138,189          |
|                                                 | \$ 251,363            | \$ 235,841       |



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## 8. GOODWILL AND OTHER INTANGIBLE ASSETS

Changes in the carrying amount of goodwill by reportable segment for the three months ended September 30, 2013 were as follows:

|                                        | US        | United Kingdom | Rest of World | Total     |
|----------------------------------------|-----------|----------------|---------------|-----------|
| Balance as of June 30, 2013 (a)        | \$574,558 | \$232,849      | \$68,699      | \$876,106 |
| Acquisition activity                   | 8,080     | 14,180         | —             | 22,260    |
| Translation and other adjustments, net | 2,542     | 14,121         | 1,561         | 18,224    |
| Balance as of September 30, 2013 (a)   | \$585,180 | \$261,150      | \$70,260      | \$916,590 |

The total carrying value of goodwill for all periods in the table above is reflected net of \$42,029 of accumulated (a) impairment charges recorded during fiscal 2009 which relate to the Company's United Kingdom and Europe operating segments.

The Company performs its annual test for goodwill impairment on the first day of the fourth quarter of its fiscal year. 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 their carrying value, an interim test is performed.

Amounts assigned to indefinite-life intangible assets primarily represent the values of trademarks and tradenames. At September 30, 2013, included in trademarks and other intangible assets on the balance sheet are \$155,793 of intangible assets deemed to have a finite life, which are primarily related to customer relationships, and are being amortized over their estimated useful lives of 3 to 25 years. The following table reflects the components of trademarks and other intangible assets:

|                                  | September 30,<br>2013 | June 30,<br>2013 |
|----------------------------------|-----------------------|------------------|
| Non-amortized intangible assets: |                       |                  |
| Trademarks and tradenames        | \$371,204             | \$376,700        |
| Amortized intangible assets:     |                       |                  |
| Other intangibles                | 155,793               | 156,728          |
| Less: accumulated amortization   | (39,465)              | (35,193)         |
| Net carrying amount              | \$487,532             | \$498,235        |

Amortization expense included in continuing operations was as follows:

|                                   | Three Months Ended September 30, |         |
|-----------------------------------|----------------------------------|---------|
|                                   | 2013                             | 2012    |
| Amortization of intangible assets | \$3,468                          | \$2,685 |

Expected amortization expense over the next five fiscal years is as follows:

|                                | Fiscal Year ended June 30, |          |          |          |          |
|--------------------------------|----------------------------|----------|----------|----------|----------|
|                                | 2014                       | 2015     | 2016     | 2017     | 2018     |
| Estimated amortization expense | \$14,435                   | \$13,405 | \$12,270 | \$11,807 | \$11,804 |

The weighted average remaining amortization period of amortized intangible assets is 12.7 years.

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## 9. DEBT AND BORROWINGS

Debt and borrowings consisted of the following:

|                                                             | September 30,<br>2013 | June 30,<br>2013 |
|-------------------------------------------------------------|-----------------------|------------------|
| Senior Notes                                                | \$150,000             | \$150,000        |
| Revolving Credit Agreement borrowings payable to banks      | 491,194               | 503,384          |
| United Kingdom short-term borrowing facility                | 11,077                | 11,779           |
| Other borrowings                                            | 257                   | 778              |
|                                                             | 652,528               | 665,941          |
| Short-term borrowings and current portion of long-term debt | 11,287                | 12,477           |
|                                                             | \$641,241             | \$653,464        |

We have \$150 million in aggregate principal amount of 10 year senior notes due May 2, 2016 issued in a private placement. The notes bear interest at 5.98%, payable semi-annually on November 2 and May 2. As of September 30, 2013, \$150,000 of the senior notes was outstanding.

Our Amended and Restated Credit Agreement (the “Credit Agreement”) provides us with an \$850 million revolving credit facility which may be increased by an additional uncommitted \$150 million provided certain conditions are met. The Credit Agreement expires in August 2017. Borrowings may be used to provide working capital, finance capital expenditures and permitted acquisitions, refinance certain existing indebtedness and for other lawful corporate purposes. The Credit Agreement provides for multicurrency borrowings in Euros, Pounds Sterling and Canadian Dollars as well as other currencies which may be designated. In addition, certain wholly-owned foreign subsidiaries of the Company may be designated as co-borrowers. The Credit Agreement contains restrictive covenants usual and customary for facilities of its type, which include, with specified exceptions, limitations on our ability to engage in certain business activities, incur debt, have liens, make capital expenditures, pay dividends or make other distributions, enter into affiliate transactions, consolidate, merge or acquire or dispose of assets, and make certain investments, acquisitions and loans. The Credit Agreement also requires that we satisfy certain financial covenants, such as maintaining a consolidated interest coverage ratio (as defined) of no less than 4.0 to 1.0 and a consolidated leverage ratio (as defined) of no more than 3.5 to 1.0, which consolidated leverage ratio may increase to no more than 4.0 to 1.0 for the four full fiscal quarters following a permitted acquisition. Our obligations under the Credit Agreement are guaranteed by all of our existing and future domestic subsidiaries, subject to certain exceptions. As of September 30, 2013, there were \$491,194 of borrowings outstanding under the Credit Agreement.

The Credit Agreement provides that loans will bear interest at rates based on (a) the Eurocurrency Rate, as defined in the Credit Agreement, plus a rate ranging from 0.875% to 2.00% per annum or (b) the Base Rate, as defined in the Credit Agreement, plus a rate ranging from 0.00% to 1.00% per annum, the relevant rate being the Applicable Rate. The Applicable Rate will be determined in accordance with a leverage-based pricing grid, as set forth in the Credit Agreement. Swing line loans will bear interest at the Base Rate plus the Applicable Rate. Additionally, the Credit Agreement contains a Commitment Fee, as defined in the Credit Agreement, on the amount unused under the Credit Agreement ranging from 0.20% to 0.35% per annum. Such Commitment Fee is determined in accordance with a leverage-based pricing grid, as set forth in the Credit Agreement.

We also maintain short-term borrowing arrangements for several of our United Kingdom subsidiaries that permit borrowings, up to a total of £15,000, based on a defined percentage of the value of sales invoices and receivables. The outstanding borrowings under these arrangements as of September 30, 2013 were £6,865 (\$11,077 at the September 30, 2013 exchange rate) and are classified as current liabilities in the Condensed Consolidated Balance Sheet.

## 10. INCOME TAXES

The effective income tax rate from continuing operations was 24.4% and 27.7% for the three months ended September 30, 2013 and 2012, respectively. The Company uses an estimated annual effective tax rate, which is based

on expected annual income and statutory tax rates in the various jurisdictions in which the Company operates, to determine its quarterly provision for income taxes. Certain significant or unusual items are separately recognized in the quarter in which they occur and can be a source of variability in the effective tax rates from quarter to quarter.

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The effective tax rate for the three months ended September 30, 2013 was lower than the comparable period of the prior year primarily as a result of a reduction in the carrying value of net deferred tax liabilities of \$3,777 resulting from further reductions in the statutory tax rate in the United Kingdom enacted in the first quarter of fiscal 2014. This was partially offset by an increase in the reserve for unrecognized tax benefits of \$550 relating to an additional estimated liability associated with the ongoing IRS audit.

The effective income tax rates differed from the federal statutory rate primarily due to the items noted previously, as well as the effect of the mix of taxable income by jurisdiction and state and local income taxes.

**11. ACCUMULATED OTHER COMPREHENSIVE INCOME**

The following table presents the changes in the balances of each component of accumulated other comprehensive income (loss):

|                                                                                     | Foreign<br>currency<br>translation<br>adjustments | Unrealized<br>gain on<br>available for<br>sale<br>investment | Deferred<br>gains on cash<br>flow hedging<br>instruments | Total       |
|-------------------------------------------------------------------------------------|---------------------------------------------------|--------------------------------------------------------------|----------------------------------------------------------|-------------|
| Balance as of June 30, 2013                                                         | \$(30,797 )                                       | \$2,747                                                      | \$799                                                    | \$(27,251 ) |
| Other comprehensive income (loss) before reclassifications <sup>(1)</sup>           | 43,642                                            | (174 )                                                       | (455 )                                                   | 43,013      |
| Amounts reclassified into (income) loss <sup>(2)</sup>                              | —                                                 | —                                                            | (99 )                                                    | (99 )       |
| Net other comprehensive income (loss) for the three months ended September 30, 2013 | 43,642                                            | (174 )                                                       | (554 )                                                   | 42,914      |
| Balance as of September 30, 2013                                                    | \$12,845                                          | \$2,573                                                      | \$245                                                    | \$15,663    |

(1) Foreign currency translation adjustments include intra-entity foreign currency transactions that are of a long-term investment nature of \$11,485 for the three months ended September 30, 2013.

Amounts reclassified into income for deferred gains on cash flow hedging instruments are recorded in cost of sales (2) in the Condensed Consolidated Statement of Income and for the three months ended September 30, 2013 were \$132 before taxes.

**12. STOCK BASED COMPENSATION AND INCENTIVE PERFORMANCE PLANS**

The Company has two shareholder-approved plans, the Amended and Restated 2002 Long Term Incentive and Stock Award Plan and the 2000 Directors Stock Plan, under which the Company's officers, senior management, other key employees, consultants and directors may be granted options to purchase the Company's common stock or other forms of equity-based awards.

Compensation cost and related income tax benefits recognized in the Condensed Consolidated Statements of Income for stock based compensation plans were as follows:

|                                                                             | Three Months Ended September 30, |         |
|-----------------------------------------------------------------------------|----------------------------------|---------|
|                                                                             | 2013                             | 2012    |
| Compensation cost (included in selling, general and administrative expense) | \$3,237                          | \$2,892 |
| Related income tax benefit                                                  | \$1,235                          | \$1,097 |

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## Stock Options

A summary of our stock option activity for the three months ended September 30, 2013 is as follows:

|                                           | Number of<br>Options | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Contractual<br>Life (years) | Aggregate<br>Intrinsic Value |
|-------------------------------------------|----------------------|------------------------------------------|----------------------------------------------------|------------------------------|
| Options outstanding at June 30, 2013      | 1,778,752            | \$18.88                                  |                                                    |                              |
| Exercised                                 | (29,831)             | \$19.44                                  |                                                    |                              |
| Options outstanding at September 30, 2013 | 1,748,921            | \$18.88                                  | 2.4                                                | \$101,853                    |
| Options exercisable at September 30, 2013 | 1,705,596            | \$18.90                                  | 2.4                                                | \$99,301                     |

|                                                    | Three Months ended September 30, |          |
|----------------------------------------------------|----------------------------------|----------|
|                                                    | 2013                             | 2012     |
| Intrinsic value of options exercised               | \$1,754                          | \$11,610 |
| Cash received from stock option exercises          | \$580                            | \$4,417  |
| Tax benefit recognized from stock option exercises | \$684                            | \$3,583  |

At September 30, 2013, there was \$31 of unrecognized compensation expense related to stock option awards, which will be recognized over a weighted average period of approximately 0.1 years.

## Restricted Stock

A summary of our restricted stock and restricted share units activity for the three months ended September 30, 2013 is as follows:

|                                                                              | Number of Shares<br>and Units | Weighted<br>Average Grant<br>Date Fair<br>Value<br>(per share) |
|------------------------------------------------------------------------------|-------------------------------|----------------------------------------------------------------|
| Non-vested restricted stock and restricted share units at June 30, 2013      | 773,568                       | \$42.44                                                        |
| Granted                                                                      | 8,078                         | \$72.79                                                        |
| Vested                                                                       | (23,294)                      | \$50.27                                                        |
| Forfeited                                                                    | (2,595)                       | \$43.77                                                        |
| Non-vested restricted stock and restricted share units at September 30, 2013 | 755,757                       | \$42.52                                                        |

|                                                                   | Three Months Ended September 30, |          |
|-------------------------------------------------------------------|----------------------------------|----------|
|                                                                   | 2013                             | 2012     |
| Fair value of restricted stock and restricted share units granted | \$588                            | \$16,151 |
| Fair value of shares vested                                       | \$1,794                          | \$388    |
| Tax benefit recognized from restricted shares vesting             | \$700                            | \$144    |

On July 3, 2012, the Company entered into a Restricted Stock Agreement (the "Agreement") with Irwin D. Simon, the Company's Chairman, President and Chief Executive Officer. The Agreement provides for a grant of 400,000 shares of restricted stock (the "Shares"), the vesting of which is both market and time-based. The market condition is satisfied in increments of 100,000 Shares upon the Company's common stock achieving four share price targets. On the last day of any forty-five (45) consecutive trading day period during which the average closing price of the Company's common stock on the NASDAQ Global Select Market equals or exceeds the following prices: \$62.50, \$72.50, \$82.50 and \$100.00, respectively, the market condition for each increment of 100,000 Shares will be satisfied. The market conditions must be satisfied prior to June 30, 2017. Once each market condition has been satisfied, a tranche of

100,000 Shares will vest in equal amounts annually over a five-year period commencing on the first anniversary of the achievement of the market condition. Except in the case of a change of control, termination without cause,



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death or disability (each as defined in Mr. Simon's Employment Agreement), the unvested Shares are subject to forfeiture unless Mr. Simon remains employed through the applicable market and time vesting periods. The grant date fair value for each tranche was separately estimated based on a Monte Carlo simulation that calculated the likelihood of goal attainment and the time frame most likely for goal attainment. The total grant date fair value of the Shares was estimated to be \$16,151. On September 28, 2012, the first market condition was satisfied, and on August 27, 2013, the second market condition was satisfied. As such, the first two tranches of 100,000 Shares are expected to vest in equal amounts over the five-year period commencing on the first anniversary of the date the market condition for the respective tranche was satisfied.

At September 30, 2013, \$17,428 of unrecognized stock-based compensation expense, net of estimated forfeitures, related to non-vested restricted stock awards, inclusive of the Shares, is expected to be recognized over a weighted-average period of approximately 2.7 years.

### Long-Term Incentive Plan

The Company maintains a long-term incentive program (the "LTI Plan"). The LTI Plan currently consists of one two-year performance-based long-term incentive plan (the "2013-2014 LTIP") that provides for a combination of equity grants and performance awards that can be earned over the two year period. Participants in the LTI Plan include our executive officers, including the Chief Executive Officer, and certain other key executives.

The Compensation Committee administers the LTI Plan and is responsible for, among other items, establishing the target values of awards to participants and selecting the specific performance factors for such awards. At the end of each performance period, the Compensation Committee determines, at its sole discretion, the specific payout to each participant. Such awards may be paid in cash and/or unrestricted shares of the Company's common stock at the discretion of the Compensation Committee, provided that any such stock-based awards shall be issued pursuant to and be subject to the terms and conditions of the Amended and Restated 2002 Long Term Incentive and Stock Award Plan, as in effect and as amended from time to time. Upon the adoption of the 2013-2014 LTIP, the Compensation Committee granted an initial award to each participant in the form of equity-based instruments (restricted stock or restricted share units), for a portion of the individual target awards (the "Initial Equity Grants"). A portion of these Initial Equity Grants are subject to time vesting requirements and a portion are also subject to the achievement of minimum performance goals. The Initial Equity Grants are expensed over the respective vesting periods on a straight-line basis. The payment of the actual awards earned at the end of the applicable performance period, if any, will be reduced by the value of the Initial Equity Grants.

The Compensation Committee determined that the target values previously set under the LTI Plan covering the 2012 and 2013 fiscal years (the "2012-2013 LTIP") were achieved and approved the payment of awards to the participants. After deducting the value of the Initial Equity Grants, the awards related to the 2012-2013 LTIP totaled \$7,356 (which were settled by the issuance of 95,484 unrestricted shares of the Company's common stock in the first quarter of fiscal 2014).

The Company has recorded expense (in addition to the stock based compensation expense associated with the Initial Equity Grants) of \$2,284 and \$1,835 for the three months ended September 30, 2013 and 2012, respectively, related to LTI plans.

## 13. INVESTMENTS AND JOINT VENTURES

### Equity method investments

At September 30, 2013, the Company owned 48.7% of Hain Pure Protein. This investment is accounted for under the equity method of accounting. The carrying value of our investment of \$28,295 is included in the Condensed Consolidated Balance Sheet in "Investments and joint ventures" and our advances to HPP of \$6,022, which are due no later than July 1, 2014, are included in "Prepaid expenses and other current assets." The Company previously provided advances to HPP when it was a consolidated subsidiary to finance its operations. Simultaneously with the dilution of the Company's interest in HPP in June 2009 and its deconsolidation, HPP entered into a separate credit agreement. The Company and HPP entered into a subordination agreement covering the outstanding advances at the date of deconsolidation. The subordination agreement allows for prepayments of the advances based on HPP's meeting certain conditions under its credit facility.

At September 30, 2013, the Company also owned 50.0% of a joint venture, Hutchison Hain Organic Holdings Limited (“HHO”), with Chi-Med, a majority owned subsidiary of Hutchison Whampoa Limited. HHO markets and distributes certain of the Company’s brands in Hong Kong, China and other markets. Voting control of the joint venture is shared 50/50 between the Company and Chi-Med, although, in the event of a deadlock, Chi-Med has the ability to cast the deciding vote. The carrying value of our investment and advances to HHO of \$1,853 are included in the Condensed Consolidated Balance Sheet in “Investments and joint ventures.” The investment is being accounted for under the equity method of accounting.

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## Available-For-Sale Securities

The Company has a less than 1% equity ownership interest in Yeo Hiap Seng Limited (“YHS”), a Singapore based natural food and beverage company listed on the Singapore Exchange, which is accounted for as an available-for-sale security. The fair value of this security was \$10,951 at September 30, 2013 and \$11,237 at June 30, 2013 (cost basis of \$6,696 as of both dates) and is included in “Investments and joint ventures,” with the related unrealized gain or loss, net of tax, included in “Accumulated other comprehensive income” in the Condensed Consolidated Balance Sheets.

## 14. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

The Company’s financial assets and liabilities measured at fair value are required to be grouped in one of three levels. The levels prioritize the inputs used to measure the fair value of the assets or liabilities. These levels are:

• Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

• Level 2 – Quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability;

• Level 3 – Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

The following table presents by level within the fair value hierarchy assets and liabilities measured at fair value on a recurring basis as of September 30, 2013:

|                                                           | Total    | Quoted<br>prices in<br>active<br>markets<br>(Level 1) | Significant<br>other<br>observable<br>inputs<br>(Level 2) | Significant<br>unobservable<br>inputs<br>(Level 3) |
|-----------------------------------------------------------|----------|-------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|
| Assets:                                                   |          |                                                       |                                                           |                                                    |
| Cash equivalents                                          | \$16,000 | —                                                     | \$16,000                                                  | —                                                  |
| Forward foreign currency contracts                        | 387      | —                                                     | 387                                                       | —                                                  |
| Available for sale securities                             | 10,951   | \$10,951                                              | —                                                         | —                                                  |
|                                                           | \$27,338 | \$10,951                                              | \$16,387                                                  | —                                                  |
| Liabilities:                                              |          |                                                       |                                                           |                                                    |
| Forward foreign currency contracts                        | \$58     | —                                                     | \$58                                                      | —                                                  |
| Contingent consideration, of which \$12,774 is noncurrent | 23,318   | —                                                     | —                                                         | \$23,318                                           |
| Total                                                     | \$23,376 | —                                                     | 58                                                        | \$23,318                                           |

The following table presents assets and liabilities measured at fair value on a recurring basis as of June 30, 2013:

|                                                           | Total    | Quoted<br>prices in<br>active<br>markets<br>(Level 1) | Significant<br>other<br>observable<br>inputs<br>(Level 2) | Significant<br>unobservable<br>inputs<br>(Level 3) |
|-----------------------------------------------------------|----------|-------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|
| Assets:                                                   |          |                                                       |                                                           |                                                    |
| Cash equivalents                                          | \$6,200  | —                                                     | \$6,200                                                   | —                                                  |
| Forward foreign currency contracts                        | 1,066    | —                                                     | 1,066                                                     | —                                                  |
| Available for sale securities                             | 11,237   | \$11,237                                              | —                                                         | —                                                  |
|                                                           | \$18,503 | \$11,237                                              | \$7,266                                                   | —                                                  |
| Liabilities:                                              |          |                                                       |                                                           |                                                    |
| Contingent consideration, of which \$12,531 is noncurrent | \$22,814 | —                                                     | —                                                         | \$22,814                                           |
| Total                                                     | \$22,814 | —                                                     | —                                                         | \$22,814                                           |

Available for sale securities consist of the Company's investment in YHS (see Note 13). Fair value is measured using the market approach based on quoted prices. The Company utilizes the income approach to measure fair value for its foreign currency forward contracts. The income approach uses pricing models that rely on market observable inputs such as yield curves, currency exchange rates, and forward prices.

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In connection with the acquisitions of BluePrint in December 2012, Cully & Sully in April 2012 and GG UniqueFiber AS in January 2011, payment of a portion of the respective purchase prices are contingent upon the achievement of certain operating results. We estimated the original fair value of the contingent consideration as the present value of the expected contingent payments, determined using the weighted probabilities of the possible payments. We are required to reassess the fair value of contingent payments on a periodic basis. During the fourth quarter of fiscal 2013, the Company's reassessment resulted in additional expense of \$2,337 related to BluePrint. The significant inputs used in these estimates include numerous possible scenarios for the payments based on the contractual terms of the contingent consideration, for which probabilities are assigned to each scenario, which are then discounted based on an individual risk analysis of the respective liabilities (weighted average discount rate of 8.0% for the outstanding liabilities as of September 30, 2013). Although we believe our assumptions are reasonable, different assumptions or changes in the future may result in different estimated amounts. A one percentage point change in the discount rates used would result in a change to the recorded liability of approximately \$300 as of September 30, 2013.

The following table summarizes the Level 3 activity:

|                                                                               | Three Months Ended<br>September 30, 2013 |
|-------------------------------------------------------------------------------|------------------------------------------|
| Balance as of June 30, 2013                                                   | \$22,814                                 |
| Contingent consideration adjustment and accretion of<br>interest expense, net | 238                                      |
| Translation adjustment                                                        | 266                                      |
| Balance as of September 30, 2013                                              | \$23,318                                 |

There were no transfers of financial instruments between the three levels of fair value hierarchy during the three months ended September 30, 2013 or 2012.

**Cash Flow Hedges**

The Company primarily has exposure to changes in foreign currency exchange rates relating to certain anticipated cash flows from its international operations. To reduce that risk, the Company may enter into certain derivative financial instruments, when available on a cost-effective basis, to manage such risk. Derivative financial instruments are not used for speculative purposes.

The Company utilizes foreign currency contracts to hedge forecasted transactions, primarily intercompany transactions, on certain foreign currencies and designates these derivative instruments as foreign currency cash flow hedges when appropriate. The notional and fair value amounts of the Company's foreign exchange derivative contracts at September 30, 2013 were \$26,208 and \$329 of net assets. There were \$29,916 of notional amount and \$1,066 of net assets of foreign exchange derivative contracts outstanding at June 30, 2013. The fair value of these derivatives is included in prepaid expenses and other current assets and accrued expenses and other current liabilities in the Condensed Consolidated Balance Sheets. For these derivatives, which qualify as hedges of probable forecasted cash flows, the effective portion of changes in fair value is temporarily reported in accumulated other comprehensive income and recognized in earnings when the hedged item affects earnings. These foreign exchange contracts have maturities over the next 10 months.

The Company assesses effectiveness at the inception of the hedge and on a quarterly basis. These assessments determine whether derivatives designated as qualifying hedges continue to be highly effective in offsetting changes in the cash flows of hedged items. Any ineffective portion of change in fair value is not deferred in accumulated other comprehensive income and is included in current period results. For the three months ended September 30, 2013 and 2012, the impact of hedge ineffectiveness on earnings was not significant. The Company will discontinue cash flow hedge accounting when the forecasted transaction is no longer probable of occurring on the originally forecasted date or when the hedge is no longer effective. There were no discontinued foreign exchange hedges for the three months ended September 30, 2013 and 2012.

**15. COMMITMENTS AND CONTINGENCIES**

From time to time, the Company may be a party to a number of legal actions, proceedings, audits, tax audits, claims and disputes, arising in the ordinary course of business, including those with current and former customers over amounts owed. While any action, proceeding, audit or claim contains an element of uncertainty and may materially affect the Company's cash flows and results of operations in a particular quarter or year, based on current facts and circumstances, the Company's management believes that the outcome of such actions, proceedings, audits, claims and disputes will not have a material adverse effect on the Company's business, prospects, results of operations, financial condition or cash flows.

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## 16. SEGMENT INFORMATION

Our operations are managed by geography and are comprised of four operating segments: United States, United Kingdom, Canada and Europe. The United States and the United Kingdom are currently reportable segments, while Canada and Europe do not currently meet the quantitative thresholds for reporting and are therefore combined and reported as “Rest of World.”

Net sales and operating profit are the primary measures used by our Chief Operating Decision Maker (“CODM”) to evaluate segment operating performance and to decide how to allocate resources to segments. Our CODM is the Company’s Chief Executive Officer. Expenses related to certain centralized administration functions that are not specifically related to an operating segment are included in “Corporate and other.” Corporate and other expenses are comprised mainly of the compensation and related expenses of certain of the Company’s senior executive officers and other selected employees who perform duties related to our entire enterprise, as well as expenses for certain professional fees, facilities, and other items which benefit the Company as a whole. Additionally, acquisition related expenses and restructuring charges are included in “Corporate and other.” Expenses that are managed centrally but can be attributed to a segment, such as employee benefits, are principally allocated based on headcount. Assets are reviewed by the CODM on a consolidated basis and are not reported by operating segment.

The following tables set forth financial information about each of the Company’s reportable segments. Transactions between reportable segments were insignificant for all periods presented.

|                                    | Three Months Ended September 30, |           |
|------------------------------------|----------------------------------|-----------|
|                                    | 2013                             | 2012      |
| Net Sales:                         |                                  |           |
| United States                      | \$311,995                        | \$252,647 |
| United Kingdom                     | 113,995                          | 57,948    |
| Rest of World                      | 51,494                           | 49,212    |
|                                    | \$477,484                        | \$359,807 |
| Operating Income:                  |                                  |           |
| United States                      | \$46,366                         | \$36,517  |
| United Kingdom                     | 1,911                            | (1,026)   |
| Rest of World                      | 2,914                            | 4,406     |
|                                    | \$51,191                         | \$39,897  |
| Corporate and other <sup>(1)</sup> | (11,419)                         | (7,621)   |
|                                    | \$39,772                         | \$32,276  |

Includes \$3,021 and \$641 of acquisition related expenses, restructuring and integration charges for the three (1) months ended September 30, 2013 and 2012, respectively, of which \$725 is recorded in cost of sales for the three months ended September 30, 2013.

The Company’s long-lived assets, which primarily represent net property, plant and equipment, by geographic area are as follows:

|                | September 30,<br>2013 | June 30,<br>2013 |
|----------------|-----------------------|------------------|
| United States  | \$141,717             | \$149,240        |
| Canada         | 10,173                | 10,057           |
| United Kingdom | 138,540               | 122,620          |
| Europe         | 28,062                | 27,064           |
|                | \$318,492             | \$308,981        |





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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the September 30, 2013 Condensed Consolidated Financial Statements and the related Notes contained in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the fiscal year ended June 30, 2013. Forward-looking statements in this review are qualified by the cautionary statement included in this review under the sub-heading, "Note Regarding Forward Looking Information," below. Operating results for the Company's private-label chilled ready meals (the "CRM business") and sandwich businesses, including the Daily Bread™ brand name, in the United Kingdom, are classified as discontinued operations for all periods presented.

Overview

We manufacture, market, distribute and sell organic and natural products under brand names which are sold as "better-for-you," providing consumers with the opportunity to lead A Healthier Way of Life™. We are a leader in several organic and natural products categories, with an extensive portfolio of well-known brands. Our operations are managed by geography, and are comprised of four operating segments: United States, United Kingdom, Canada and Europe. Our business strategy is to integrate the brands in each of our segments under one management team and employ uniform marketing, sales and distribution strategies where possible. We market our products through a combination of direct sales personnel, brokers and distributors. We believe that our direct sales personnel combined with brokers and distributors provide an effective means of reaching a broad and diverse customer base. Our products are sold to specialty and natural food distributors, supermarkets, natural food stores, mass-market retailers, e-tailers, food service channels and club stores. We manufacture domestically and internationally and our products are sold in more than 50 countries.

We have acquired numerous brands since our formation and our goal is to continue to grow both organically as well as through the acquisition of complementary brands. We consider the acquisition of organic and natural food and personal care products companies or product lines an integral part of our business strategy. We also seek to broaden the distribution of our key brands across all sales channels. We believe that by integrating our various brands, we will continue to achieve economies of scale and enhanced market penetration. We seek to capitalize on the equity of our brands and the distribution achieved through each of our acquired businesses with strategic and timely introductions of new products that complement existing lines to enhance revenues and margins. We believe our continuing investments in the operational performance of our business units and our focused execution on cost containment, productivity, cash flow and margin enhancement positions us to offer innovative new products with healthful attributes and enables us to build on the foundation of our long-term strategy of sustainable growth. We are committed to creating and promoting A Healthier Way of Life™ for the benefit of consumers, our customers, shareholders and employees.

The global economic environment remains challenging. With the recent acquisitions we have made, a larger proportion of our sales take place outside of the United States. A deterioration in economic conditions in the areas in which we operate may have an adverse impact on our sales volumes and profitability. Our future success will depend in part on our ability to manage continued global economic or political uncertainty, particularly in our significant geographic markets.

As a consumer products company, we rely on continued demand for our brands and products. Our results are dependent on a number of factors impacting consumer confidence and spending, including but not limited to, general economic and business conditions and wage and employment levels. In the United States, our use of promotional allowances and programs, expanded distribution and introduction of innovative new products has helped to increase consumer consumption of our brands in recent years. In the United Kingdom, our recent acquisition of the UK Ambient Grocery Brands provides us with the opportunity to introduce more of our existing brands into this market. We have also begun to introduce a number of new products under these brands, broadening our UK portfolio. Generally, energy and commodity prices continue to be volatile and we have experienced increases in select input costs. We expect that higher input costs will continue to affect future periods. We have taken, and will continue to

take, measures to mitigate the impact of these challenging conditions and input cost increases with improvements in operating efficiencies, cost savings initiatives and price increases to our customers.

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Results of Operations

THREE MONTHS ENDED SEPTEMBER 30, 2013

Consolidated Results

Net Sales

Net sales for the three months ended September 30, 2013 were \$477.5 million, an increase of \$117.7 million, or 32.7%, from net sales of \$359.8 million for the three months ended September 30, 2012.

The sales increase primarily resulted from an increase in sales of \$59.3 million in the United States due to the impact of prior year acquisitions (which were completed subsequent to the first quarter of the prior fiscal year), increased consumption and expanded distribution, and an increase in sales of \$56.0 million in the United Kingdom primarily due to the acquisition of the UK Ambient Grocery Brands in the second quarter of the prior fiscal year. Changes in foreign currency exchange rates did not significantly impact net sales. Refer to the Segment Results section for additional discussion.

Gross Profit

Gross profit for the three months ended September 30, 2013 was \$119.1 million as compared to gross profit of \$95.2 million in last year's first quarter. Gross margin for the three months ended September 30, 2013 was 24.9% of net sales compared to 26.5% of net sales in the prior year first quarter. The change in gross margin percentage resulted from a change in the mix of product sales, including the mix of sales by operating segment, and increased costs associated with the start-up of our non-dairy facility in Europe. Sales made by the United Kingdom segment, which includes the UK Ambient Grocery Brands in the current year's quarter, and which operates at lower relative gross margins, represented approximately 24% of consolidated sales as compared to 16% in the prior year's first quarter.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were \$73.6 million, an increase of \$13.9 million, or 23.3%, in the three months ended September 30, 2013 from \$59.7 million in last year's quarter. Selling, general and administrative expenses have increased primarily as a result of the costs brought on by the businesses we acquired. Selling, general and administrative expenses as a percentage of net sales was 15.4% in the three months ended September 30, 2013 and 16.6% in the prior year quarter, a decrease of 120 basis points primarily related to the inclusion of the UK Ambient Grocery Brands in the current quarter which, along with the Daniels business, operates with lower relative expenses. Additionally, the decrease was attributable to achieving additional operating leverage on our SG&A infrastructure as a result of higher sales volume.

Amortization of acquired intangibles

Amortization of acquired intangibles was \$3.5 million, an increase of \$0.8 million, or 31.7%, in the three months ended September 30, 2013 from \$2.6 million in the prior year quarter. The increase is due to the Company's prior year acquisitions, all of which were completed subsequent to the first quarter of the prior fiscal year.

Acquisition Related Expenses, Restructuring and Integration Charges

We incurred acquisition, restructuring and integration related expenses aggregating \$2.3 million in the three months ended September 30, 2013, which are primarily related to professional fees associated with our recently completed acquisitions as well as restructuring and integration charges related to the ongoing integration activities of certain functions in the United Kingdom and United States resulting from the Company's recent acquisitions.

We incurred acquisition related expenses aggregating \$0.6 million for the three months ended September 30, 2012, which were primarily related to the acquisition of the UK Ambient Grocery Brands.

#### Operating Income

Operating income for the three months ended September 30, 2013 was \$39.8 million, an increase of \$7.5 million, or 23.2%, from \$32.3 million in the three months ended September 30, 2012. The increase in operating income resulted primarily from the increased sales and gross profit. Operating income as a percentage of net sales was 8.3% in the first quarter of fiscal 2014 compared with 9.0% in the first quarter of fiscal 2013. The change in operating income percentage is attributable to the items described above.

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### Interest and Other Expenses, net

Interest and other expenses, net (which includes foreign currency gains and losses) were \$3.9 million for both the first quarters of fiscal 2014 and fiscal 2013. Net interest expense totaled \$5.6 million for the first quarter of fiscal 2014, which includes interest on the \$150 million of 5.98% senior notes outstanding, interest related to borrowings under our revolving credit agreement, amortization of deferred financing costs and certain other interest charges, offset partially by interest income earned on cash equivalents. Net interest expense in the first quarter of fiscal 2013 was \$4.0 million. The increase in interest expense primarily resulted from higher average borrowings under our revolving credit facility, the proceeds of which were used to fund the recent acquisitions. Other expenses, net, was a gain of \$1.7 million for the first quarter of fiscal 2014 compared to a gain of \$0.1 million for the comparable quarter of fiscal 2013. The net gain recorded in the current quarter is primarily due to unrealized foreign currency gains associated with the remeasurement of foreign currency denominated intercompany balances.

### Income Before Income Taxes and Equity in Earnings of Equity-Method Investees

Income before income taxes and equity in the after tax earnings of our equity-method investees for the three months ended September 30, 2013 and 2012 was \$35.8 million and \$28.4 million, respectively. The increase was due to the items discussed above.

### Income Taxes

The provision for income taxes includes federal, foreign, state and local income taxes. Our income tax expense and effective tax rate was \$8.8 million and 24.4% in the first quarter of fiscal 2014, respectively, compared to \$7.9 million and 27.7% in the comparable quarter of fiscal 2013, respectively. The effective tax rate in the first quarter of fiscal 2014 was lower than the prior year primarily as a result of a reduction in the carrying value of net deferred tax liabilities of \$3,777 resulting from further reductions in the statutory tax rate in the United Kingdom enacted in the first quarter of fiscal 2014. This was partially offset by an increase in the reserve for unrecognized tax benefits of \$550 relating to an additional estimated liability associated with the ongoing IRS audit.

The effective rate for each period differs from the federal statutory rate primarily due to the items noted previously, as well as the effect of the mix of taxable income by jurisdiction and state and local income taxes. Our effective tax rate may change from quarter to quarter based on recurring and non-recurring factors including the geographical mix of earnings, enacted tax legislation, state and local income taxes and tax audit settlements.

### Equity in Earnings of Equity-Method Investees

Our equity in the net income from our joint venture investments for the three months ended September 30, 2013 was \$0.6 million compared to a loss of \$0.7 million for the three months ended September 30, 2012. In the current quarter, HHO recorded a nominal profit, while our share of the earnings of HPP increased to \$0.5 million. The loss recorded in the prior year quarter was primarily related to losses incurred by HHO from their infant formula business, which was discontinued in the fourth quarter of fiscal 2013.

### Income From Continuing Operations

Income from continuing operations for the three months ended September 30, 2013 and 2012 was \$27.7 million and \$19.8 million, or \$0.57 and \$0.42 per diluted share, respectively. The increase was attributable to the factors noted above.

### Discontinued Operations

Our loss from discontinued operations for the three months ended September 30, 2012 was \$3.4 million. Net sales and operating loss reported within discontinued operations was \$12.2 million and \$0.4 million, respectively, during the three months ended September 30, 2012. We recorded a loss on the sale of the CRM business of \$3.1 million during this period. As the sales of the businesses were completed in the prior fiscal year, there are no amounts reported as discontinued operations for the three months ended September 30, 2013.



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## Segment Results

The following table provides a summary of net sales and operating income/(loss) by reportable segment for the three months ended September 30, 2013 and 2012:

| (dollars in thousands)                               | United States | United Kingdom | Rest of World | Corporate and other <sup>(1)</sup> | Consolidated |
|------------------------------------------------------|---------------|----------------|---------------|------------------------------------|--------------|
| Net sales - Three months ended 9/30/13               | \$311,995     | \$113,995      | \$51,494      | \$—                                | \$477,484    |
| Net sales - Three months ended 9/30/12               | \$252,647     | \$57,948       | \$49,212      | \$—                                | \$359,807    |
| % change                                             | 23.5          | % 96.7         | % 4.6         | %                                  | 32.7 %       |
| Operating income - Three months ended 9/30/13        | \$46,366      | \$1,911        | \$2,914       | \$(11,419)                         | \$39,772     |
| Operating income - Three months ended 9/30/12        | \$36,517      | \$(1,026)      | \$4,406       | \$(7,621)                          | \$32,276     |
| % change                                             | 27.0          | % 286.3        | % (33.9)      | )%                                 | 23.2 %       |
| Operating income margin - Three months ended 9/30/13 | 14.9          | % 1.7          | % 5.7         | %                                  | 8.3 %        |
| Operating income margin - Three months ended 9/30/12 | 14.5          | % (1.8)        | )% 9.0        | %                                  | 9.0 %        |

Includes \$3,021 and \$641 of acquisition related expenses, restructuring and integration charges for the three (1) months ended September 30, 2013 and 2012, respectively, of which \$725 is recorded in cost of sales for the three months ended September 30, 2013.

Our operations are managed by geography and are comprised of four operating segments: United States, United Kingdom, Canada and Europe. The United States and the United Kingdom are currently reportable segments, while Canada and Europe do not currently meet the quantitative thresholds for reporting and are therefore combined and reported as “Rest of World.” The Corporate category consists of expenses related to the Company’s centralized administrative function which do not specifically relate to an operating segment. Such Corporate expenses are comprised mainly of the compensation and related expenses of certain of the Company’s senior executive officers and other employees who perform duties related to our entire enterprise, as well as expenses for certain professional fees, facilities, and other items which benefit the Company as a whole. Additionally, acquisition related expenses, restructuring and integration charges are included in Corporate and other. Refer to Note 16, Segment Information, for additional details.

Our net sales in the United States for the three months ended September 30, 2013 were \$312.0 million, an increase of \$59.3 million, or 23.5%, from net sales of \$252.6 million for the three months ended September 30, 2012. The sales increase was directly related to the impact of the prior year acquisitions of BluePrint and Ella’s Kitchen, increased consumption and expanded distribution with growth from many of our brands, including Earth’s Best, Sensible Portions, Spectrum, The Greek Gods, and Imagine. Operating income in the United States in the three months ended September 30, 2013 was \$46.4 million, an increase of \$9.8 million, or 27.0%, from operating income of \$36.5 million in the three months ended September 30, 2012. Operating income as a percentage of net sales in the United States increased to 14.9% from 14.5% during these periods. The improvements in operating margin primarily resulted from continued increased operating leverage of the Company’s expense base resulting from increased sales volume.

Our net sales in the United Kingdom for the three months ended September 30, 2013 were \$114.0 million, an increase of \$56.0 million, or 96.7%, from net sales of \$57.9 million for the three months ended September 30, 2012. The sales increase was primarily a result of the acquisition of the UK Ambient Grocery Brands in the second quarter of fiscal 2013. Operating income in the United Kingdom in the three months ended September 30, 2013 was \$1.9 million, an increase of \$2.9 million, from a loss of \$1.0 million in comparable quarter of fiscal 2013. The increase was due to the aforementioned acquisition, as well as the elimination of certain product lines that did not meet the Company's current profit targets.



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Our net sales in the Rest of World were \$51.5 million for the three months ended September 30, 2013, an increase of \$2.3 million, or 4.6%, from the comparable quarter of fiscal 2013. The increase was primarily the result of increased sales in Europe, which included a favorable foreign currency exchange rate impact as compared to the prior year quarter, offset partially by an unfavorable foreign currency exchange rate impact on Canada's sales. Operating income as a percentage of net sales decreased to 5.7% from 9.0% primarily due to factory start-up costs in Europe.

Liquidity and Capital Resources

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

Our cash balance was \$65.1 million at September 30, 2013, an increase of \$23.8 million from June 30, 2013. Our working capital was \$327.3 million at September 30, 2013, an increase of \$26.3 million from \$301.0 million at the end of fiscal 2013. The increase was due principally to the increase in cash and a \$16.9 million increase in inventories, offset partially by a \$18.5 million increase in accounts payable, accrued expenses and other current liabilities.

Liquidity is affected by many factors, some of which are based on normal ongoing operations of the company's business and some of which arise from fluctuations related to global economics and markets. The Company's cash balances are held in the United States, the United Kingdom, Canada and Europe. With the current exception of Canada, it is the Company's current intent to permanently reinvest its foreign earnings outside the United States. Although a portion of the consolidated cash balances are maintained outside of the United States, the Company's current plans do not demonstrate a need to repatriate these balances to fund its United States operations. If these funds were to be needed for the Company's operations in the United States, it may be required to record and pay significant United States income taxes to repatriate these funds.

We maintain our cash and cash equivalents primarily in money market funds or their equivalent. As of September 30, 2013, all of our investments mature in less than three months. Accordingly, we do not believe that our investments have significant exposure to interest rate risk. Cash provided by (used in) operating, investing and financing activities is summarized below.

| (amounts in thousands)            | Three Months Ended September 30, |           |
|-----------------------------------|----------------------------------|-----------|
|                                   | 2013                             | 2012      |
| Cash flows provided by (used in): |                                  |           |
| Operating activities              | \$53,608                         | \$27,155  |
| Investing activities              | (11,866                          | ) 5,378   |
| Financing activities              | (17,711                          | ) (25,648 |
| Exchange rate changes             | (225                             | ) (626    |
| Net increase in cash              | \$23,806                         | \$6,259   |

Net cash provided by operating activities was \$53.6 million for the three months ended September 30, 2013, compared to \$27.2 million provided in the three months ended September 30, 2012. The change in cash provided by operations resulted from a \$8.5 million increase in net income and other non-cash items, and a \$18.0 million net increase due to changes in our working capital, which was primarily related to changes in accounts receivable.

In the three months ended September 30, 2013, we used \$11.9 million of cash in investing activities. We used \$12.3 million for capital expenditures as discussed further below, which was partially offset by proceeds of \$0.5 million from a working capital settlement with the sellers of the UK Ambient Grocery Brands. We received cash in investing activities of \$5.4 million during the three months ended September 30, 2012, which included \$13.6 million of proceeds from the sale of the CRM business, offset by \$8.3 million of capital expenditures.

Net cash of \$17.7 million was used in financing activities for the three months ended September 30, 2013, which was primarily used for net repayments under our Credit Agreement of \$13.3 million and purchases of treasury shares of \$3.9 million to satisfy employee payroll tax withholdings. During the three months ended September 30, 2012, net cash of \$25.6 million was used by financing activities, which was primarily used for net repayments of \$30.0 million

under our Credit Agreement and \$3.1 million of treasury share repurchases, offset partially by proceeds from exercises of stock options of \$4.4 million and \$3.1 million from excess tax benefits from stock based compensation.

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In our internal evaluations, we also use the non-GAAP financial measure “operating free cash flow.” The difference between operating free cash flow and net cash provided by operating activities, which is the most comparable U.S. GAAP financial measure, is that operating free cash flow reflects the impact of capital expenditures. Since capital spending is essential to maintaining our operational capabilities, we believe that it is a recurring and necessary use of cash. As such, we believe investors should also consider capital spending when evaluating our cash from operating activities. We view operating free cash flow as an important measure because it is one factor in evaluating the amount of cash available for discretionary investments.

| (amounts in thousands)                     | Three Months Ended September 30, |          |
|--------------------------------------------|----------------------------------|----------|
|                                            | 2013                             | 2012     |
| Cash flow provided by operating activities | \$53,608                         | \$27,155 |
| Purchase of property, plant and equipment  | (12,347)                         | (8,306)  |
| Operating free cash flow                   | \$41,261                         | \$18,849 |

Our operating free cash flow was \$41.3 million for the three month period ended September 30, 2013, an increase of \$22.4 million from the three month period ended September 30, 2012. The increase in our operating free cash flow resulted from the increase in our net income and improved working capital management. Our capital expenditures have increased over historical levels as a result of our recent acquisitions, the acquisition of equipment for a new non-dairy production facility in Europe, the expansion of our production facility in Fakenham, United Kingdom to accommodate new products and increased volume, a new snacks factory in the United States and the relocation to our new worldwide headquarters. We expect that our capital spending for fiscal 2014 will be approximately \$35 million, which will include completion of the prior year projects as well as improvement and expansion of certain of our current manufacturing facilities.

We have \$150 million in aggregate principal amount of 10 year senior notes due May 2, 2016 issued in a private placement. The notes bear interest at 5.98%, payable semi-annually on November 2 and May 2. As of June 30, 2013 and 2012, \$150.0 million of the senior notes was outstanding.

We also have a credit agreement which provides us with a \$850 million revolving credit facility (the “Credit Agreement”) which may be increased by an additional uncommitted \$150 million provided certain conditions are met. The Credit Agreement expires in August 2017. Loans under the Credit Agreement bear interest at a Base Rate or a Eurocurrency Rate (both of which are defined in the Credit Agreement) plus an applicable margin, which is determined in accordance with a leverage-based pricing grid, as set forth in the Credit Agreement. Borrowings may be used to provide working capital, finance capital expenditures and permitted acquisitions, refinance certain existing indebtedness and for other lawful corporate purposes. As of September 30, 2013 and June 30, 2013, there were \$491.2 million and \$503.4 million of borrowings outstanding, respectively, under the Credit Agreement.

The Credit Agreement and the notes are guaranteed by substantially all of our current and future direct and indirect domestic subsidiaries. We are required by the terms of the Credit Agreement and the senior notes to comply with financial and other customary affirmative and negative covenants for facilities and notes of this nature.

On October 24, 2012, we filed a “well-known seasoned issuer” shelf registration statement with the SEC which registers an indeterminate amount of securities for future sale. The shelf registration statement expires on October 24, 2015.

We believe that our cash on hand of \$65.1 million at September 30, 2013, as well as projected cash flows from operations and availability under our Credit Agreement are sufficient to fund our working capital needs in the ordinary course of business, anticipated fiscal 2014 capital expenditures and the other expected cash requirements for at least the next twelve months.

## Off Balance Sheet Arrangements

At September 30, 2013, we did not have any off-balance sheet arrangements as defined in Item 303(a)(4) of Regulation S-K.



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### Critical Accounting Estimates

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States. The accounting principles we use require us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and amounts of income and expenses during the reporting periods presented. We believe in the quality and reasonableness of our critical accounting policies; however, materially different amounts may be reported under different conditions or using assumptions different from those that we have applied. The accounting policies that have been identified as critical to our business operations and understanding the results of our operations pertain to revenue recognition, sales and promotional incentives, valuation of accounts and chargebacks receivable, inventory, property, plant and equipment, accounting for acquisitions, stock based compensation, goodwill and intangible assets and valuation allowances for deferred tax assets. The application of each of these critical accounting policies and estimates was discussed in Item 7 of our Annual Report on Form 10-K for the fiscal year ended June 30, 2013.

### Seasonality

We manufacture and market hot tea, soups, hot-eating desserts, and baking and cereal products, which show stronger sales in the cooler months, while our snack food and certain of our prepared food products lines are stronger in the warmer months. As a result, our quarterly results of operations reflect seasonal trends. In years where there are warm winter seasons, our sales of cooler weather products, which typically increase in our second and third fiscal quarters, may be negatively impacted.

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

### Impact of Inflation

Inflation has caused increased ingredient, fuel, labor and benefits costs and in some cases has materially increased our operating expenses. For more information regarding ingredient costs, see Part II, Item 7A., Quantitative and Qualitative Disclosures About Market Risk—Ingredient Inputs Price Risk, of the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2013. To the extent competitive and other conditions permit, we seek to recover increased costs through a combination of price increases, new product innovation and by implementing process efficiencies and cost reductions.

### Note Regarding Forward Looking Information

Certain statements contained in this Quarterly Report constitute "forward-looking statements" under the Private Securities Litigation Reform Act of 1995. Words such as "plan," "continue," "expect," "expected," "anticipate," "intend," "estimate," "believe," "seek," "may," "potential," "can," "positioned," "should," "future," "look forward" and similar expressions, or the negation of those expressions, may identify forward-looking statements. These forward-looking statements include the Company's beliefs or expectations relating to: (i) our intention to grow organically and through acquisitions; (ii) increasing distribution of our brands; (iii) the integration of our brands and the resulting impact thereof; (iv) the introduction of new products; (v) our long term strategy for sustainable growth; (vi) the economic environment; (vii) higher input costs; (viii) measures taken to address challenging economic conditions, higher input costs and inflation; (ix) the integration of acquisitions and the opportunities for growth related thereto; (x) our tax rate; (xi) the repatriation of foreign cash balances; (xii) our cash and cash equivalent investments having no significant exposure to interest rate

risk; (xiii) our expectations regarding our capital spending for fiscal year 2014; (xiv) our sources of liquidity being adequate to fund our anticipated operating and cash requirements for fiscal year 2014; (xv) and contingencies. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, levels of activity, performance or achievements of the Company, or industry results, to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following:

our ability to achieve our guidance for net sales and earnings per diluted share in fiscal year 2014 given the economic environment in the U.S. and other markets that we sell products as well as economic, political and business conditions generally and their effect on our customers and consumers' product preferences, and our business, financial condition and results of operations;

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changes in estimates or judgments related to our impairment analysis of goodwill and other intangible assets, as well as with respect to the Company's valuation allowances of its deferred tax assets;  
 our ability to implement our business and acquisition strategy;  
 the ability of our joint venture investments to successfully execute their business plans;  
 our ability to realize sustainable growth generally and from investments in core brands, offering new products and our focus on cost containment, productivity, cash flow and margin enhancement in particular;  
 our ability to effectively integrate our acquisitions;  
 our ability to successfully consummate any proposed divestitures;  
 the effects on our results of operations from the impacts of foreign exchange;  
 competition;  
 the success and cost of introducing new products as well as our ability to increase prices on existing products;  
 availability and retention of key personnel;  
 our reliance on third party distributors, manufacturers and suppliers;  
 our ability to maintain existing customers and secure and integrate new customers;  
 our ability to respond to changes and trends in customer and consumer demand, preferences and consumption;  
 international sales and operations;  
 changes in fuel, raw material and commodity costs;  
 changes in, or the failure to comply with, government regulations;  
 the availability of organic and natural ingredients;  
 • the loss of one or more of our manufacturing facilities;  
 our ability to use our trademarks;  
 reputational damage;  
 product liability;  
 seasonality;  
 litigation;  
 the Company's reliance on its information technology systems; and  
 the other risk factors described in Item 1A above.

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

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no significant changes in market risk for the three months ended September 30, 2013 from those addressed in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2013. See the information set forth in Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk, of the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2013.

### Item 4. Controls and Procedures

#### Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer have reviewed our disclosure controls and procedures as of the end of the period covered by this report. Based upon this review, these officers concluded that, as of the end of the period covered by this report, our disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is (1) recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and (2) accumulated and

communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

**Changes in Internal Control over Financial Reporting.**

There was no change in our internal control over financial reporting during the fiscal quarter covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.



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## PART II - OTHER INFORMATION

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

## Purchases of Equity Securities by the Issuer and Affiliated Purchasers

| Period         | (a)<br>Total number<br>of shares<br>purchased | (b)<br>Average<br>price paid<br>per share | (c)<br>Total number of<br>shares<br>purchased<br>as part of<br>publicly<br>announced<br>plans | (d)<br>Maximum<br>number of shares<br>that may yet be<br>purchased under<br>the plans |
|----------------|-----------------------------------------------|-------------------------------------------|-----------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|
| July 2013      | 153                                           | (1) \$70.22                               | —                                                                                             | —                                                                                     |
| August 2013    | —                                             | —                                         | —                                                                                             | —                                                                                     |
| September 2013 | 51,106                                        | (1) \$77.06                               | —                                                                                             | —                                                                                     |
| Total          | 51,259                                        | \$77.04                                   | —                                                                                             | —                                                                                     |

(1) Shares surrendered for payment of employee payroll taxes due on shares issued under stockholder approved stock based compensation plans.

## Item 6. Exhibits

| Exhibit<br>Number | Description                                                                                                                                                                                                      |
|-------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.1              | Offer Letter between the Company and Stephen J. Smith dated August 2, 2013 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on August 21, 2013). |
| 31.1(a)           | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended.                                                                               |
| 31.2(a)           | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended.                                                                               |
| 32.1(a)           | Certification by CEO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.                                                                                   |
| 32.2(a)           | Certification by CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.                                                                                   |

101<sup>(a)</sup> The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013, formatted in eXtensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Income, (iii) the Condensed Consolidated Statements of Comprehensive Income, (iv) the Condensed Consolidated Statements of Stockholders' Equity, (v) the Condensed Consolidated Statements of Cash Flows and (vi) Notes to Condensed Consolidated Financial Statements.

(a) - Filed herewith

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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 thereunto duly authorized.

THE HAIN CELESTIAL GROUP, INC.

Date: November 12, 2013

/s/ IRWIN D. SIMON  
Irwin D. Simon,  
Chairman, President and Chief  
Executive Officer

Date: November 12, 2013

/s/ STEPHEN J. SMITH  
Stephen J. Smith,  
Executive Vice President and  
Chief Financial Officer