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Conference Call Transcript

Microchip's Announcement of Acquisition of Microsemi Corporation

Event Date/Time: March 1, 2018 / 09:30 PM GMT

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MCHP - Microchip Technology Inc Analyst and Investor Day

EVENT DATE/TIME: March 01, 2018 / 09:30PM GMT

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PRESENTATION

Steve Sanghi - Microchip Technology Incorporated - CEO & Chairman

Welcome, everyone. Welcome to the Microchip's Inaugural Analyst Day. It's the first time ever that so many of our investors and analysts are here under our roof. We're humbled by your presence. We know we gave you a very short notice, about a couple of weeks, to arrange your trips to come to this Analyst Day. Hopefully, you know why. We wanted to coincide the acquisition with this Analyst Day. There are a lot of moving parts when you do an acquisition. To bring all these things together in a given day is a herculean task. We were completely prepared. If that acquisition didn't come together today and needed another week or so, we would have had just only talked about our organic business. So we had a plan B, but I'm glad we are executing plan A. So welcome, everyone.

[Certain text was omitted at this place in the transcript as the omitted portion was not relevant to the pending acquisition of Microsemi Corporation.]

So I'll begin with the safe harbor. Today, we'll be making some projections and other forward-looking statements regarding the future financial performance of Microchip. These involve predictions and the actual results may vary materially. So I refer you to Microchip's filings with the SEC regarding some important risk factors. This is a larger version of it for the acquisition. We'll consider it read and into the record.

So with that, here is the agenda today. I'll go through the overview of Microchip and value proposition, and then we will take your questions. This will be the organic part of the business. Then I'll cover the Microsemi acquisition, and then we'll take questions on that. Followed by that, Ganesh Moorthy, President and COO, will talk about how our products are enabling smart, connected and secure applications. Rich Simoncic will talk about total system solutions and Eric with financial metrics. After my 2 presentations, we'll also take a break, and then we'll cover the other 3.

[Certain text was omitted at this place in the transcript as the omitted portion was not relevant to the pending acquisition of Microsemi Corporation.]

So with that, I'll briefly summarize the Microchip 1.0, which is the last 25 years or so of our history, and then go into the Microchip 2.0. During Microchip 1.0, we saw a very consistent growth, perennial market share gains, high-margin business model, shareholder-friendly with consistently increasing dividends and free cash flow and a very successful M&A strategy. So this is the annual net sales growth showing 109 consecutive quarters of profitability. This is non-GAAP because sometimes, acquisitions bring a lot of charges and taxes and other stuff. This is a tremendous graph, from a humble $80 million, $90 million when we went public to a company that's closing on $4 billion and with today's acquisition, approaching approximately $6 billion. The largest business is microcontroller, followed by analog in blue, followed by memory and license.

This is the worldwide microcontroller market share ranking. In 2003, we were #8. We were #25 in 1990. But even since 2003, in the last decade-plus, we ranked from #8 to #3 position in microcontrollers.

This is the numerical share. It's measured by our revenue divided by revenue that the SIA posts. And you know the SIA data doesn't quite jive with the Gartner data. There are differences. But Gartner puts out a number once a year. SIA puts out a number every month. So for any kind of numerical tracking, as long as we do it consistently, and we do, we plot against the SIA. And this is kind of what it shows.

So when we bought -- a lot of organic growth here over the years. And then the big jump in 2016 was with the Atmel acquisition. And then this is after we acquired Atmel. We had another year of significant market share gains. So this one continues.

This is the growth of the analog business. It's now $950 million annualized based on fiscal year '18 run rate, so one quarter missing out of that.

Historical financial performance. You can see the revenue growth on the top left; on the top right, gross margin percentage. So despite buying numerous acquisitions during that time, whose gross margins were substantially below ours, we fixed them, improved them, brought them into our manufacturing, raised some prices. And resulting gross margins are higher than where we were 4 or 5 years ago.

Bottom left is EBITDA in dollars and margins. So even the EBITDA margins have also increased. EBITDA dollars have more than doubled. And then the free cash flow, very, very substantial free cash flow, which helped us pay down essentially most of the debt we had from the Atmel acquisition and prior acquisitions. Now we are getting ready for the next acquisition.

Expanding our solutions through acquisitions. You have seen us through many of these acquisitions. Many of these are small, unknown, private companies, but a handful of really public companies, large acquisitions that you were aware of them like Atmel, Micrel, Supertex, Silicon Storage Technology. They've all been integrated into Microchip's system, adding enormous value to Microchip. And it is expanding our solution through all these acquisitions as well as organic product growth internally, which really then builds the foundation for what I will go into next, which is Microchip 2.0, in which is our vision is to be the very best embedded control solutions company ever, products and applications that are smart, connected and secure. Now Ganesh Moorthy, in his presentation, will take you through smart, connected and secure very eloquently. I will not cover that part of it.

[Certain text was omitted at this place in the transcript as the omitted portion was not relevant to the pending acquisition of Microsemi Corporation.]

This is a revenue by end markets. Our 2 largest markets are industrial and automotive, which give pretty sticky socket, high margin, 60% of our business. Consumer for us is not consumer electronics. Consumer for us is not the Samsungs and other consumer electronics of the world. Consumer for us is more dominated by appliances, households, drones, and I have some pictures, many of those kinds of things other than your cellphone. That's the kind of business we don't like. It's usually lower gross margin and fast-moving.

And then computing, communication, defense and aerospace are smaller. Incidentally, those 3 are the largest segments for Microsemi. And I'll show you in the second half of my presentation that they are stronger where we have less exposure. So together, it gives a dramatic cross-selling opportunity and it makes us probably much more homogeneous.

So summarizing the first part of the presentation that largely talked about our organic business. We are a consistent revenue grower and market share gainer with multiple growth drivers, a high-margin business model and shareholder-friendly, successfully managed the soft landing with seasonal March quarter and a strong expectation for June quarter with a record backlog. One caution I would give you is we went out of the way to share a lot of internal data to read the tea leaves. Don't expect us to bring that every day. That was kind of onetime here because there was so much nervousness on The Street regarding -- because of the disconnect in March. So that was a onetime thing.

Premium long-term non-GAAP financial model to 62.5% gross margin, 22.5% operating expenses and 40% operating income. Last quarter, it was 39.5% operating income. So we're pretty much on the heels of the 40%. Executing on Microchip 2.0, total system solutions, smart connected and secure.

So state of the union at Microchip is very strong. That state of the union got attacked after the January announcement. But hopefully, I took some [time] to convince you today that state of the union at Microchip is very strong.

So with that, I will take questions on the organic business of Microchip, first, from this audience. Then we'll have the operator to open it to the audience from the web or on the phone. And then we'll go into the second part of the presentation where we will cover Microsemi acquisition. So if you have a question, please raise your hand and let the mic get to you.

QUESTIONS AND ANSWERS

[Certain text was omitted at this place in the transcript as the omitted portion was not relevant to the pending acquisition of Microsemi Corporation.]

William Shalom Stein - SunTrust Robinson Humphrey, Inc., Research Division - MD
Bill Stein from SunTrust. I understand you're taking the organic (inaudible). I'd like to maybe address something that came up on the call and the aftermath of that...

Steve Sanghi - Microchip Technology Incorporated - CEO & Chairman

Maybe you need to get closer to...

William Shalom Stein - SunTrust Robinson Humphrey, Inc., Research Division - MD
Sorry. So on the one hand, you talked about how investors -- to understand what we should have expected for the March guidance, we should look to historical seasonality for Microchip, let's say, heritage Microchip ex-Atmel and then weigh in what Atmel's seasonality is. So I understand that, but I think if I were to do that, I wouldn't come anywhere close to high single-digit organic growth if I string those seasonalities together. So can you help us square those 2 data points? I think Atmel had actually negative growth in the last few years. And so that seasonality is certainly not what you're sort of proposing.

Steve Sanghi - Microchip Technology Incorporated - CEO & Chairman
So that's really why we can't [for quarter] the seasonality and sit down with you and say this is the seasonality for the other quarter because Atmel was a broken franchise. In 2015, the business was down, I think, 24%. So when you have that kind of business and combined Microchip, Atmel business has grown every year, every quarter since we have bought them, other than the seasonality part of that. So you got to take the

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data with a grain of salt. March quarter seasonality was real. It was masked last year. Yes, it's not only The Street that made the error. We made the same error. So we could have corrected you, but we didn't report it either until we were right upon it. But if you kind of do that number for every year and take the declining Atmel business and add it to our growing business, you'll get 0 growth for the year. And if you believe that, then I can't help you. But we have to really establish a new seasonality and a new number. And March quarter was just so much more pronounced because of the kind of business. But the rest of it, work with the guidance and I think you'll be okay.

William Shalom Stein - SunTrust Robinson Humphrey, Inc., Research Division - MD
So maybe as a follow-up, should we think about seasonality being different than sort of that weighted average because of all the improvements you've made to Atmel but perhaps directionally quarter-to-quarter sort of that that's what we should look to, the...

Steve Sanghi - Microchip Technology Incorporated - CEO & Chairman
Yes. And even now, we do not know how to completely modulate Atmel's seasonality from a declining business to a growth business. Is the seasonality exactly the same as the declining business had versus a growth business? That's why this is the first clean year. Last year had a lot of noise as we were integrating and raising prices and adjusting things. And I think that's a challenge we didn't fully realize. Most of our acquisition were relatively small. They moved some needle but they were not large enough to change the seasonality. Atmel was nearly 40% of the business when we bought them. And the largest acquisition, Micrel, was $200 million of business when we bought them. So this one was very sizable. And we largely changed the complexion of it, the kind of customers we're going after, the kind of markets we're going after. No more shooting for fences -- swinging for fences, raising some prices. So it's a new game, and I think we got to -- bear with us a few quarters as the new seasonality emerges. Unfortunately, we will get married again with Microsemi. Sir, talk into the mic.

[Certain text was omitted at this place in the transcript as the omitted portion was not relevant to the pending acquisition of Microsemi Corporation.]

Harsh V. Kumar - Piper Jaffray Companies, Research Division - MD & Senior Research Analyst
Steve, Harsh Kumar Piper Jaffray. So I looked at the charts that you presented, I'm kind of forced to ask myself, where is the soft landing? I see you use the term, and I see you use the 7% to 9% soft landing to 7% to 9%. But really, was it just a timing situation where things just fell off as they always do at Chinese New Year? And would you say that 7% to 9% is still a good thing for us to think about, at least for the near term, midterm? And then also, as you talk to your customers, I'm curious if you've noticed any change in their body language, particularly since this tax laws come out. Are they feeling better, worse? Or any kind of color since you guys have a lot of customers.

Steve Sanghi - Microchip Technology Incorporated - CEO & Chairman

So soft landing, I showed the June quarter with the 5% growth guidance. June quarter will be up 6.3% over June quarter last year. And that's below a little bit from that 7% to 9% range, so that's kind of a soft landing. Often, industry is known for a crash landing where business goes minus 5%, minus 10%, and you've seen that in the past with various companies. If we're just that much out of the range and who knows, maybe better than that, I think that's really what's the soft landing. The second part of your question, what we hear from customers, I think comments we received from customers, suppliers, other business leaders that I meet routinely, the impact of tax law is universally positive. I mean, I haven't heard anything negative. Small businesses that largely were exposed to U.S., it's a bonanza for them. Tax rate goes from 35% to 21%. The businesses that were international and ship a lot of business elsewhere where their tax rates were lower, like ours were, our tax rate didn't change. Our tax rate, we give you guidance of about the same, 9%, relatively unchanged. But what we got was we can use all of our foreign cash now. And we've got a couple of billion dollars of foreign cash. And if we had done this acquisition, Microsemi acquisition, without the new tax law and not having advantage of the $1.6 billion we're using out of our treasury, this would have been overseas and either we're going to have a complicated, some sort of structuring where we can use our foreign cash to buy some foreign assets or leverage it higher in the U.S. and not be able to use that money. So I think that's very universally positive. So I think it's creating economic activity. GDP growth is showing it. I don't see there's any negative in it.

Okay. Let's take a couple of questions maybe from -- operator, can you see if there are any questions from the web audience?

Operator
Thank you. (Operator Instructions) And our first question comes from Vivek Arya with Bank of America Merrill Lynch.

Vivek Arya - BofA Merrill Lynch, Research Division - Director
Congratulations on the Microsemi announcement. I actually, Steve, had a clarification and a question. The clarification, what is your specific smartphone exposure? I know it's pretty small, but what is it now versus what it was pre-Atmel? And then on the question, I wanted to revisit this growth question that was asked before. So I think for June, you're guiding to 6.3% year-on-year. Is that a sustainable growth rate for the year given the record backlog and strengthened trends? And importantly, what is the difference between conditions now versus when you laid out the target to grow at a somewhat higher pace?

Steve Sanghi - Microchip Technology Incorporated - CEO & Chairman
Well, I think it's just a different form of asking the question, what happens in all the other quarters? And like I said, we have essentially 1 year experience with Atmel while fixing their business while raising their prices. So there is not enough data to bank on. The drop in the first quarter was so significant that we realized that we couldn't overcome and that would be negative and will affect seasonality. But I don't think we are totally comfortable laying that out for every quarter. And if the Microsemi acquisition closes in June, it's going to change a lot of the things anyway. And then we have to refigure out what the combined company growth rate is. So I think I probably can't answer your question. But organically, we are not looking at it any differently. We're not changing our target. We're not changing our growth rate. Eric will talk about it in his presentation, show you a future model. And we're comfortable that with TSS, total system solution, the higher attach rate we're getting, by the time you see Ganesh's presentation, by the time you see Rich Simoncic's presentation, hopefully gives you more comfort that those numbers are achievable.

[Certain text was omitted at this place in the transcript as the omitted portion was not relevant to the pending acquisition of Microsemi Corporation.]

Christopher Caso - Raymond James & Associates, Inc., Research Division - Research Analyst
I just had a question about lead times. And on the most recent earnings call, you had seemed to indicate that the lead times for at least, I guess, some but not all of the products were returning to the normal levels, 5 to 8 weeks. Could you clarify what portion of products still have elevated lead times now? And I guess as those lead times start to come down due to the capacity additions, do you anticipate any changes in order patterns or book-to-bill rates as those remaining products come down? Or should we be pretty stable from here?

Steve Sanghi - Microchip Technology Incorporated - CEO & Chairman
I don't think we have any updates since only a month ago when we gave you update in our earnings call. We didn't really prepare for that. I don't really have any different answer than what we gave you at the earnings call. So the next

update, we'll give you again in the next earnings call. You're going to have to think about where our energy has been. We set this Analyst Day about 2.5 weeks ago, and we've been working on this acquisition probably for about 4 months now. And trying to have it land on the day, I signed the deal one minute before market close today, 3:59 PM New York time, this was a Herculean task. We probably all lost some weight trying to get there. So some of the answers, probably we didn't spend time to prepare for that.

[Certain text was omitted at this place in the transcript as the omitted portion was not relevant to the pending acquisition of Microsemi Corporation.]

PRESENTATION
Steve Sanghi - Microchip Technology Incorporated - CEO & Chairman
Okay. Wonderful. Thank you.

So let's move to the Microsemi acquisition. One more time, a very long forward-looking statement. Many of you in the room may also be investors in Microsemi. In that case, you would be voting on the merger agreement when the proxy is filed. So therefore, you need a longer safe harbor statement, and we will assume that this has been read and into the record second time.

This deal leaked a couple of times in the last month. So I don't think there is a person in the room that hasn't looked at who Microsemi is, unless you're living in a cave. So -- but I know you're not. You're constantly connected. So I'm going to go through this very quickly. You know who Microsemi is, many of you know, and many of the analysts in the room even cover Microsemi.

So they have strong complementary portfolio of specialized Ethernet, storage, optical networking, microcontrollers, FPGA, wireless, timing, analog and mixed signal products. I already covered that they are stronger in the end markets where we have less exposure. Defense, aerospace, data center and communications market is 80% of their business. That is only about 14% of our business, so there is a lot of cross-sell opportunities.

Fiscal 2017, their fiscal year ends in September 30, 2017, with a revenue of approximately $1.8 billion. First company we're buying in a string of acquisitions where their gross margin is higher than ours, so we have to work harder to get ours there. 64% non-GAAP gross margin, 32% non-GAAP operating margin.

Fiscal first quarter, which ended in December, their revenue was $468.7 million, 63.2% non-GAAP gross margin and 32.2% non-GAAP operating profit. Both gross margin and operating margin were slightly lower in the December quarter because in that quarter, they acquired a business unit of Knowles, which was a timing product business unit that had a substantially lower gross and operating margins than their own. In fact, in the current quarter, they will have the entire acquisition. Last quarter was partial. So that was the impact of that.

Diversified global customer base and channels. 64% of the revenue is in Asia and Europe. 49% of the revenue is through distribution. Net debt of $1.8 billion on the balance sheet. And they're headquartered in Aliso Viejo, Southern California, near Los Angeles. Approximately 4,800 employees worldwide.

So strategically and financially, a very compelling transaction. It strengthens Microchip's presence in those 3 segments where we have less exposure: defense, aerospace, data center and communication.

Expands our Ethernet portfolio. So we first got Ethernet portfolio through acquisition of SMSC, and we have done extremely well with it. It's a very, very good, very high margin growth business. We, in fact, got some more with the Micrel acquisition, and now we'll get even some more with this Microsemi acquisition. So expand that portfolio to serve the industrial IoT, enterprise and carrier markets. It adds some specialized microcontrollers to serve the storage market, enterprise storage and optical networking. It extends Microchip's portfolio of timing, low-power wireless, analog power and mixed signal solutions.

So it's kind of building on acquisitions. Where did we get the timing products? It came from Micrel. Low-power wireless came with some -- every company we had bought had some sort of wireless exposure. ISSC had some and Atmel had some and ZeroG had some, and Roving Networks had some. There were a couple of private companies. Analog power, Micrel had some. Mixed signal solutions, SMSC had some. And we built our own products too in all of these markets. But it extends our portfolio really in all these markets with help of Microsemi products.

It adds discrete and FPGA as new product capabilities to add to the portfolio, drives much further scale in manufacturing, customer reach and sales channels. It adds a patent portfolio of over 1,500 patents to our strong portfolio. And synergy, significant EPS accretion. The deal is accretive on day 1 without doing anything, without any synergies. But we have identified $300 million in estimated synergies in third year after close.

And we're assuming a June close. There is a very little product overlap with the company, and so we think the regulatory approval should be relatively quick. And it takes 3 or 4 months to get the shareholder votes, so that's where we begin.

SAM expansion. So Microchip currently serves about a $32 billion market: $15 billion in microcontroller, $17 billion in analog and mixed signal. That's the total served available market. That's not a share of that market, I wish it was. Microsemi serves about an $18 billion market across all their products. So combined together, we will be serving a $50 billion market.

End market diversification, I've kind of talked about it off and on. The left pie on the top shows our end market exposure, the Microsemi end market exposure. The 3 areas where we have lower exposure, computing, communication and aerospace, those are the largest ones for them. And then the bottom shows the combined 2 companies, and you can see how homogeneous the pie becomes. Industrial staying the largest and automotive staying #2, followed by consumer, communications and computing.

So in this slide, again, the red bar shows you the percentage exposure in each of the end markets, ending with the blue bar. Below that, there is some application examples, where the industrial parts go, where the automotive go, where the consumers ago, communication in the communication infrastructure, computing largely in the data centers, and aerospace and defense in rockets and engines and planes and missiles and everything else. And on the top, it just shows you the various product lines. So we have microcontrollers, analog, mixed signal, interface, memory, power management, switches and controllers, high-rel discrete, those coming from Microsemi, enterprise storage coming from them, FPGA coming from them. So combined capability has become quite enormous.

Very highly profitable financial model. So what I've done on this slide is these numbers are December 2017 quarter times 4 for both companies, so December quarter annualized. So Microchip last quarter annualized was almost $4 billion in sales, 61.4% gross margin and going to the bottom, 39.4% operating profit. Microsemi was about $1.875 billion annualized. A little higher gross margin, 63.2%, and an operating income of 32.2%.

And then the next column is a mathematical addition of Microchip plus Microsemi and what the long-term outlook we're looking at. So long-term model, we believe combined companies, we can add another 100 bps to the combined company gross margin. They recently acquired an acquisition that took their gross margin lower, and I think that can be improved. And Microchip itself is working from 61.4% to 62.5%. So each company adding 1% of gross margin, I think that's where it leads up.

And then if I just go all the way to the bottom, operating income, we are pretty close to 40%. And today, we're raising that target to about 40.5%. With the scale of the combined company and manufacturing efficiency, we can achieve synergies in R&D and other things coming from the acquisition. I believe that's something we can achieve.

Synergy and accretion expectations. So transaction is expected to be immediately accretive to our non-GAAP earnings per share. Short term, we're targeting 18% growth in non-GAAP EPS from fiscal year '18 to fiscal year '19, with accretion from Microsemi and continuous improvement and growth in our own business. This is assuming June 2018 close. If the close pushes out, then some of these numbers would change because the accretion would start later. Microsemi in this June close assumption will add about $0.75 of non-GAAP EPS accretion annualized run rate in the first year after close. So there'll be at some rate, but by the end of the first year, it's a run rate of $0.75. Longer term, which is third year after close, which would be our fiscal year '21, again assuming a June close, $300 million in synergy from cost saving and revenue growth. Microsemi will contribute approximately 1.75 of non-GAAP -- $1.75 of non-GAAP EPS. We're targeting consolidated Microchip non-GAAP EPS of approximately $8 per share.

So a little bit of caution. I know you guys are good in math, analysts. And I know this is what you would do. You will take $8, take out $1.75, get the organic number, look at the number now, do the percentages, and hit me with my own data. "Oh, that doesn't show this growth, that growth." Please don't do that. You have our history, we leave some room. The numbers could be conservative. There's a lot of work to do when you acquire such a large company. You have to shift some focus on what you are going to do to what you have to do and look at the combined company opportunities and pull through the funnel what is the most desirable, where the largest leverage is. And so don't please take this data and hit us with our own data. It represents non-GAAP EPS growth of over 14% for the year for Microchip from fiscal year '18 to fiscal year '21. And it extends Microchip's record of organic as well as acquisition-driven revenue and non-GAAP EPS growth.

So summary of the transaction, I know the news came out at 4:03 New York time, and then you were working here at that time, so you may not have time to kind of look through what we said in the press release, it's a transaction value of $10.15 billion. There's $8.34 billion we're paying for the equity, and the other $1.8 billion of net debt for Microsemi adding up to $10.15 billion. The price of the deal is $68.78 per share in all cash to Microsemi shareholders.

The transaction is -- so you know, this could be the a-ha moment, "Wow, $10.15 billion. How are you going to fund it?" Well, I ask the same question, and I do have the answer. So the transaction is being funded through a combination of $1.6 billion of cash from combined company balance sheet. Most of it is ours, but some of it from theirs. And here, we can use all the foreign cash now. Between now and close, we generate about $600 million of free cash between Microchip and Microsemi. So JPMorgan, our financial adviser, has given us a free cash flow bridge, and that bridge disappears over the next few months as we raise that cash.

$3 billion is coming from our existing line of credit. The line of credit is about $3.15 billion. As part of this process, we're also expanding the line of credit, so we'll have some more headroom in it, but we will draw out $3 billion from existing line of credit, and then there'll be approximately $5 billion of new debt. A large portion of this new debt is going to be Term Loan B, which will be prepayable.

So pro forma net debt to EBITDA leverage starting at transaction close will be 4.7x, and that may look shopping -- shocking. However, the combined company's business is a very high margin, sticky sockets, industrial, automotive, defense, aerospace. I mean, these are not consumer electronics businesses where a large customer change the design from you to somebody else. So it's a very predictable business, and we'll be generating right away approximately $2.4 million -- billion of EBITDA per year run rate. This is 4 quarter backward looking, EBITDA of about $2.4 billion.

From that, paying for interest, paying for taxes, paying for dividend, after all of that, we'll be generating approximately $1.4 billion of free cash flow per year starting right away. And with the growth, and as we add synergy, that number grows with synergy and with growth, with $1.4 billion right away. So therefore, we plan to rapidly deleverage post transaction close through a combination of growth in free cash flow and the EBITDA expansion. So debt would be coming down, EBITDA would be growing. And coming from both sides, our denominator getting larger and numerator getting smaller, we will get that leverage down rapidly.

Expect the transaction to close in CQ2 2018, subject to customary closing conditions and stockholder as well as regulatory approvals.

So summarizing this part of our presentation. Microsemi adds strong complementary product lines, which supports the Microchip 2.0 strategy. Strength in the end market is very different for 2 companies. Combined company would be essentially strong in all those markets. Microsemi adds further operational and customer scale in a consolidating industry. Transaction creates significant stockholder value from strong non-GAAP EPS accretion. And it's really, this acquisition is the next step in Microchip's track record of successful M&A. And we strongly believe that this will be another compelling transaction that we would look back and say, "My God, this was a home run."

So with that, I'll take your questions again. First, from the audience which are present here, then we'll open it up for the conference call.

QUESTIONS AND ANSWERS
Craig Andrew Ellis - B. Riley FBR, Inc., Research Division - Senior MD & Director of Research
Craig Ellis, B. Riley. Can you speak to divestiture potential, and to the extent that those would be considered, what the criteria is that you would use and whether that would be considered in the $300 million of long-term synergies?

Steve Sanghi - Microchip Technology Incorporated - CEO & Chairman
So currently, we are not anticipating any divestitures from the Microsemi business. We usually don't do a lot of divestitures. We didn't do any divestiture in SMSC. We didn't do any divestiture in Micrel. We didn't do any divestiture in Supertex, any of our other smaller acquisitions. In Atmel, we did one very, very small divestiture, which was a $19 million deal of really a very deteriorating, going down, touch cellphone kind of the business they had. And every time we do a transaction, there's a large amount of speculation. Some of you kind of tend to jump the gun and forecast Microchip. When the deal leaked out, I've already read articles, and I've gotten calls from bankers, "I can help you sell the PMC-Sierra business. I can help you sell FPGA. I can sell you this and that." We don't do a lot of divestitures. These are all great running businesses, high margin, sticky sockets, tremendous cash flow, and they will help us to get the leverage down. There is no plan for any divestitures. I pick Harsh. Harsh?

Harsh V. Kumar - Piper Jaffray Companies, Research Division - MD & Senior Research Analyst
I had a couple of questions. This deal is so massively accretive, there was a lot of speculation that there would be other people that would come in and try to drive the price up as they try to get Microsemi. Can we assume, since we're doing this meeting now, that the window for that has closed, that this is now yours? And then secondly, Microsemi was in a lot of areas that are not familiar to you. You've certainly shown ability to get into new areas and make them work. But things like data center, optical stuff, PON, et cetera, can you maybe talk about some of the challenges you might have as you look at those areas? And maybe I missed the COGS versus OpEx synergies, if you've broken them out, or maybe it's too early to ask that.

Steve Sanghi - Microchip Technology Incorporated - CEO & Chairman
So let's take it one at a time, I wasn't writing notes. But the first one was really, call it, a superior offer emerge. So I do not know what sort of process they're in. Obviously, I was on this side. And we will see when the proxy comes out and read the background of the merger, what was really all done. But their banker is in some sort of process. And so any deal, any other offers could have emerged. But that's almost never a guarantee because in the merger agreement, if

a superior proposal comes in that the board thinks it's financially more attractive to the shareholders, then that's something we have to deal with. Usually, there is a significant breakup fee in the agreement. And we have usually 2 options in that case, either to match the superior proposal or to take a breakup fee. And so that's kind of hard to speculate. You know that we were the superior proposal in Atmel. They had signed a deal with a dialogue. Once before, we were the superior proposal in Silicon Storage Technology. They had signed a deal with -- Prophet Equity, I think, was their private equity partner. So we ourselves have done it twice. It hasn't been done to us, but the deal is still kind of open. So that's number one. The second part of your question was a lot of businesses which we are not in today. So this is a concern for analysts and investors every time, they're vertical, you're horizontal, they're ARM , you're MIPS, how would you do this, how would you do that. Over the last 2 years, as I have met with many of you, I've gotten repeat commitments from many of you that you won't do that this time, right? You have told me that, "You earned your credibility, and we're not going to beat over you don't know this, you don't know that, how are you going to do that?" I want to call on that commitment. We are a great team. Do not misjudge or underestimate Microchip's executive team's ability to transform our organization and transform our working methods, transform ourselves to take on the challenges of tomorrow. We did that with SMSC. We did that with Atmel. We did that with other businesses. And whatever we have to do at this time, we will do it. So we did not break it down. We did not break it down.

Mark Trevor Delaney - Goldman Sachs Group Inc., Research Division - Equity Analyst
Mark Delaney with Goldman Sachs. Thanks for doing the presentation. Congratulations on announcing the deal. You did talk about revenue synergies. And maybe you're not ready to quantify what revenue synergies may be specifically. But can you just talk a little about what areas you see those coming from? With Atmel, some of the revenue synergies were increasing prices. And I know Microsemi does operate in some pretty consolidated markets. So do you see opportunities on that front?

Steve Sanghi - Microchip Technology Incorporated - CEO & Chairman
So take example, so let's take data center, communication and aero/defense, 3 businesses they have. Those 3 businesses require -- those sockets, those boards in those businesses, they require power management. They have displays. They might need touch. They might need a microcontroller to send something, to process something. They might need a flash memory to store something. A lot of those things Microsemi don't have, and those are opportunities for us to be attached -- to be able to attach Microchip's microcontroller, analog, connectivity, memory and other products to their applications. Similarly, the reverse way. If -- some of Microchip's applications require a small FPGA. They require -- a lot of the parts require

discrete. There's a few hundred million dollar discrete business, with the resistors and capacitors and Zener diodes and whatever else is in the discrete. So there is clearly synergy in being able to add -- put that business next to ours. So I think because of such a different end market mix, I think that opportunity, I believe, is substantial. It's very hard to dollarize, especially prior to the DA because you work very hard to not have it go so deep to meet the people, to assess that, you have to meet the business leaders and meet with marketing and do all that. And we will be doing it now, once the deal is public, between now and close. But I think that potential would be significant. So wait till Rich's presentation. He will show you what we are doing so far with the acquisitions we have done, how successful we are. And with that, you can get a feel for even more successful we can be with this acquisition, which is even more different end market mix, which brings all these opportunities. Questions?

William Shalom Stein - SunTrust Robinson Humphrey, Inc., Research Division - MD
Will Stein from SunTrust again. First, a clarification. The $300 million of synergies, that's a mix of cost and revenue synergies, so we should think about it as $300 million incremental cash flow by year 3?

Steve Sanghi - Microchip Technology Incorporated - CEO & Chairman
Yes, $300 million incremental cash flow. The largest piece -- there are 3 pieces: OpEx, gross margin and some of the incremental revenue falling through. And the largest piece tends to be OpEx.

William Shalom Stein - SunTrust Robinson Humphrey, Inc., Research Division - MD
Okay. The question that I had relates to go to market, specifically sales channel, distribution channel. Microsemi last year, in response to a move from Broadcom, consolidated their distribution with Arrow. I think you're very tight with Avnet and Arrow, perhaps both of them. Are we more likely to see you potentially do something like what Analog did when they acquired Linear, where they looked and said, "Look, we can save a lot of money if we consolidate with our

target's distribution channel." Or do we then pull -- or do you take the other approach and pull back and say we're going to give Avnet some of that business back?

Steve Sanghi - Microchip Technology Incorporated - CEO & Chairman
So these are not the talks we can process in a public marketplace. Acquisition takes a few months to close. You don't want a distributor to start taking negative actions in response to what we might or might not do. Microchip's core business continues with the distribution we have. Microsemi's core business continues with the distribution they have. We do business with all of their distributors, and we do business with all the distributors, okay? So nothing changes. Then joint company, joint management team meets with the distribution partners and, in the coming year, evaluate if any changes should be made, those changes usually are made very slowly. Here, the moves they have made, they have made for a reason. And we will value those changes and not change it right away or not even change it later. Why we are in multiple distribution? We like it. We don't copy anybody. If ADI did something, good for them. That's not good for us. We like the way the business is structured, in working with multiple distributors.

Rajvindra S. Gill - Needham & Company, LLC, Research Division - Senior Analyst of Microcontrollers, Analog & Mixed Signal; Consumer IC & Multi-Market
Raji Gill from Needham & Company. In terms of financing the deal, you decided to take on more leverage as opposed to issue out equity. And so given the potential of rising interest rates, I wanted to get a better understanding of kind of the thought process of adding in another $5 billion of debt. What's the interest rate component of that? And why the decision to maybe use debt versus equity?

Steve Sanghi - Microchip Technology Incorporated - CEO & Chairman
Well, the decision for debt versus equity was pretty simple. The target didn't want equity, so that one is easy answer. That doesn't mean that one couldn't issue equity elsewhere. You don't have to give equity to the target. But day 1 today, there is a target day 1 equity as well as an all-cash deal, and it has to be funded day 1 by a commitment letter from the adviser, JPMorgan. And we have commitment letter for all the money that we have shown you. And deal is significantly more accretive with cash than it is with equity. You know that. Equity is very, very expensive. So if we can fund it with cash, that's really where my preference is. Right now, we see that we can fund it with cash. And leverage is high, but there's extreme significant headroom to the covenant, so I'm not concerned about it. And we have done stress modeling by taking the interest rate higher and even taking some sort of economic recession, contraction in revenue in a distressed scenario to see what happens. And the deal passes all of our tests. When it doesn't pass the tests, I don't do those deals. I mean, now you've seen one deal that spilled in the public domain was CSR. CSR basically failed the stress test. Everything else was okay, but it failed the stress test where I couldn't go over a certain amount, and Qualcomm paid more. So if this deal had failed the stress test, I wouldn't have done this deal either. So this deal is comfortable. We have a very large covenant amendment boxed up from JPMorgan, which gives it significant headroom to the covenant. So if the rates rise -- first of all, rates don't rise in a quarter or 2, and we very rapidly deleverage. I talked earlier, starting off, we have $1.4 billion of cash in the year. And EBITDA rises during that time frame. So you rapidly delever. And even if the interest rates go higher, the deal is still very accretive and passes all the tests.

Any questions from the phone, operator?

Operator
(Operator Instructions) Our first question comes from Vivek Arya with Bank of America Merrill Lynch.

Vivek Arya - BofA Merrill Lynch, Research Division - Director
Steve, actually 2 quick ones. You were expecting the deal to close fairly soon. Do you need any China antitrust approval? Any other regulatory hurdles that we need to be aware of? And then on the deleveraging aspect, do you have certain milcal-align:bottom;border-bottom:3px double #000000;">

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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, 2014 AND 2013
(In thousands)

	Three Months Ended September 30, 2014			Three Months Ended September 30, 2013		
	Pre-tax amount	Tax (expense) benefit	After-tax amount	Pre-tax amount	Tax (expense) benefit	After-tax amount
Net income			$18,855			$27,655
Other comprehensive income (loss):						
Foreign currency translation adjustments	$(61,042)	$1,440	(59,602)	$44,239	$(597)	43,642
Change in deferred gains/(losses) on cash flow hedging instruments	2,405	(1,439)	966	(737)	183	(554)
Change in unrealized gain on available for sale investment	(851)	263	(588)	(286)	112	(174)
Total other comprehensive income (loss)	$(59,488)	$264	$(59,224)	$43,216	$(302)	$42,914
Total comprehensive income			$(40,369)			$70,569

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, 2014
(In thousands, except per share and share amounts)

	Common Stock		Additional				Accumulated Other	
		Amount	Paid-in	Retained	Treasury Stock		Comprehensive	
	Shares	at $.01	Capital	Earnings	Shares	Amount	Income (Loss)	Total
Balance at June 30, 2014	51,575,743	$516	$969,697	$629,618	1,453,041	$(40,092)	$ 60,128	$1,619,867
Net income				18,855				18,855
Other comprehensive income							(59,224)	(59,224)
Issuance of common stock pursuant to compensation plans	163,550	2	8,670					8,672
Issuance of common stock in connection with acquisitions	231,428	2	19,688					19,690
Stock based compensation income tax effects			1,820					1,820
Shares withheld for payment of employee payroll taxes due on shares issued under stock based compensation plans					57,367	(5,744)		(5,744)
Stock based compensation charge			2,939					2,939
Balance at September 30, 2014	51,970,721	$520	$1,002,814	$648,473	1,510,408	$(45,836)	$ 904	$1,606,875

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, 2014 AND 2013
(In thousands)

	Three Months Ended September 30,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$18,855	$27,655
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	14,580	10,453
Deferred income taxes	(1,705)	(1,585)
Equity in net income of equity-method investees	(20)	(572)
Stock based compensation	2,939	3,237
Tax benefit from stock based compensation	61	112
Contingent consideration expense	281	—
Gain on pre-existing ownership interest in Hain Pure Protein Corporation	(5,334)	—
Other non-cash items, net	(1,485)	246
Increase (decrease) in cash attributable to changes in operating assets and liabilities, net of amounts applicable to acquisitions:		
Accounts receivable	(31,626)	5,966
Inventories	(34,427)	(12,505)
Other current assets	4,635	(315)
Other assets and liabilities	661	(717)
Accounts payable and accrued expenses	38,694	17,788
Income taxes	(3,495)	3,845
Net cash provided by operating activities	2,614	53,608
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from purchase price settlement for acquisition	—	481
Acquisitions	(20,310)	—
Purchases of property and equipment	(13,260)	(12,347)
Proceeds from sale of investment	1,287	—
Net cash used in investing activities	(32,283)	(11,866)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from exercises of stock options	1,233	580
Borrowings under bank revolving credit facility, net	21,500	(13,252)
Repayments of other long-term debt, net	(16,521)	(1,904)
Excess tax benefits from stock based compensation	1,759	814
Shares withheld for payment of employee payroll taxes	(5,744)	(3,949)
Net cash provided by financing activities	2,227	(17,711)
Effect of exchange rate changes on cash	(3,651)	(225)
Net increase in cash and cash equivalents	(31,093)	23,806
Cash and cash equivalents at beginning of period	123,751	41,263
Cash and cash equivalents at end of period	$92,658	$65,069

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" or "Hain") manufacture, market, distribute and sell organic and natural products under brand names which are sold as "better-for-you" products. The Company is a leader in many organic and natural products categories, with many recognized brands. The brand names are well recognized in the various market categories they serve and include Almond Dream®, Arrowhead Mills®, BluePrint®, Celestial Seasonings®, Cully & Sully®, Danival®, DeBoles®, Earth's Best®, Ella's Kitchen®, Europe's Best®, Farmhouse Fare®, Frank Cooper's®, FreeBird®, Gale's®, Garden of Eatin'®, GG UniqueFiber™, Hartley's®, Health Valley®, Imagine®, Johnson's Juice Co.®, Lima®, Linda McCartney® (under license), MaraNatha®, New Covent Garden Soup Co.®, Plainville Farms®, Rice Dream®, Robertson's®, Rudi's Organic Bakery®, Rudi's Gluten-Free Bakery, Sensible Portions®, Spectrum®, Spectrum Essentials®, Soy Dream®, Sun-Pat®, SunSpire®, Terra®, The Greek Gods®, Tilda®, WestSoy® and Yves Veggie Cuisine®. The Company's personal care products are marketed under the Alba Botanica®, Avalon Organics®, Earth's Best®, JASON® and Queen Helene® brands.

The Company had a minority investment in Hain Pure Protein Corporation ("HPPC" or "Hain Pure Protein") through June 30, 2014. HPPC processes, markets and distributes antibiotic-free, organic and other poultry products. On July 17, 2014, the Company acquired the remaining 51.3% of HPPC that it did not already own at which point HPPC became a wholly-owned subsidiary and a separate operating and reportable segment (see Notes 4 and 16). Hain also has 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.

The Company's operations are managed in five operating segments: United States, United Kingdom, HPPC, Canada and Europe. Refer to Note 16 for additional information and selected financial information for the reportable segments.

2. BASIS OF PRESENTATION

The Company's 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, 2014 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, 2014 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2015. Please refer to the footnotes to the consolidated financial statements as of June 30, 2014 and for the fiscal year then ended included in Hain's Annual Report on Form 10-K for information not included in these condensed footnotes.

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

Newly Adopted Accounting Pronouncements

In April 2014, the FASB issued ASU No. 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. ASU No. 2014-08 amends the requirements for reporting and disclosing discontinued operations. Under ASU No. 2014-08, a disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on the entity's operations and financial results. ASU No. 2014-08 is effective for interim and annual periods beginning after December 15, 2014, with early adoption permitted and is to be applied prospectively. The Company has elected to early adopt the provisions of ASU No. 2014-08 at the beginning of fiscal 2015. The adoption of the new guidance may impact the reporting and disclosure of any future disposals that are completed.

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Recently Issued Accounting Pronouncements Not Yet Effective

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). ASU No. 2014-09 supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance throughout the Industry Topics of the Codification. Additionally, ASU No. 2014-09 supersedes some cost guidance included in Subtopic 605-35, Revenue Recognition-Construction-Type and Production-Type Contracts. Under ASU No. 2014-09, an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU No. 2014-09 also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. ASU No. 2014-09 is effective for interim and annual periods beginning after December 15, 2016, with early application prohibited. ASU No. 2014-09 allows for either full retrospective or modified retrospective adoption. The Company is evaluating the transition method that will be elected and the potential effects of adopting the provisions of ASU No. 2014-09.

3. EARNINGS PER SHARE

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

	Three Months Ended September 30,	
	2014	2013
Numerator:		
Income from continuing operations	$18,855	$27,655
Discontinued operations	—	—
Net income	$18,855	$27,655
Denominator (in thousands):		
Denominator for basic earnings per share - weighted average shares outstanding during the period	50,341	47,706
Effect of dilutive stock options, unvested restricted stock and unvested restricted share units	987	1,228
Denominator for diluted earnings per share - adjusted weighted average shares and assumed conversions	51,328	48,934
Basic net income per common share:		
From continuing operations	$0.37	$0.58
From discontinued operations	—	—
Net income per common share - basic	$0.37	$0.58
Diluted net income per common share:		
From continuing operations	$0.37	$0.57
From discontinued operations	—	—
Net income per common share - diluted	$0.37	$0.57

Basic earnings per share excludes the dilutive effects of stock options, unvested restricted stock and unvested restricted share units. Diluted earnings per share includes 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.

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Restricted stock awards totaling 100,000 and 205,187 were excluded from the diluted earnings per share calculations for the three months ended September 30, 2014 and 2013, respectively, as such awards are contingently issuable based on market or performance conditions and such conditions had not been achieved during the respective periods.

4. ACQUISITIONS

The Company accounts for acquisitions using the acquisition method of accounting. The results of operations of the acquisitions typically have been included in the consolidated results from their respective dates of acquisition. The purchase price of each acquisition is allocated 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.

The costs related to all acquisitions have been expensed as incurred and are included in “Acquisition related expenses, restructuring and integration charges, net” in the Condensed Consolidated Statements of Income. Acquisition-related costs of $1,129 and $725 were expensed in the three months ended September 30, 2014 and 2013, respectively. The expenses incurred during the first quarter of fiscal 2015 primarily relate to the acquisition of the remaining interest in HPPC. The expenses incurred during the first quarter of fiscal 2014 primarily relate to stamp duty and additional professional fees associated with the recent acquisitions.

Fiscal 2015

On July 17, 2014, the Company acquired the remaining 51.3% of HPPC, that it did not already own, at which point HPPC became a wholly-owned subsidiary. HPPC processes, markets and distributes antibiotic-free, organic and other poultry products. Included in the acquisition is HPPC’s 19% interest in EK Holdings, Inc. (“Empire Kosher”), which grows, processes and sells kosher poultry and other products. Consideration in the transaction consisted of cash totaling $20,310 and 231,428 shares of the Company’s common stock valued at $19,690. The cash consideration paid was funded with existing cash balances. Additionally, HPPC’s existing bank borrowings were repaid on September 30, 2014 with proceeds from borrowings under the Credit Agreement (see Note 9).

The carrying amount of the pre-existing 48.7% investment in HPPC as of June 30, 2014 was $30,740. Due to the acquisition of the remaining 51.3% of HPPC, the Company adjusted the carrying amount of its pre-existing investment to its fair value. This resulted in a gain of $5,334 recorded in “Interest and other expenses, net” in the Condensed Consolidated Statements of Income. The results of HPPC are reported as a separate segment (see Note 16).

The following table summarizes the components of the preliminary purchase price allocation for the HPPC acquisition:

Carrying value of pre-existing 48.7% interest, after fair value adjustment:	$ 36,074
Purchase price of remaining 51.3% interest:	
Cash paid	20,310
Equity issued	19,690
Total investment:	$ 76,074

Allocation:	
Current assets	$ 55,261
Property, plant and equipment	35,796
Other assets, including investment in Empire Kosher	2,792
Identifiable intangible assets	17,000
Deferred taxes	(2,673)
Assumed liabilities	(41,435)
Goodwill	9,333
	$ 76,074

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The purchase price allocation for HPPC is 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 preliminary fair values assigned to identifiable intangible assets acquired were based on assumptions and estimates made by management. Identifiable intangible assets acquired consisted of customer relationships valued at $6,000 with an estimated useful life of 12 years and trade names valued at $11,000 with indefinite lives.

The following table provides unaudited pro forma results of continuing operations for the three months ended September 30, 2013, as if the acquisition of HPPC had been completed at the beginning of fiscal 2014 . The information has been provided for illustrative purposes only, and does 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, which include amortization expense associated with acquired identifiable intangible assets.

	Three Months Ended September 30, 2013
Net sales from continuing operations	$532,009
Net income from continuing operations	$28,352
Net income per common share from continuing operations - diluted	$0.58

Fiscal 2014

On April 28, 2014, the Company acquired Charter Baking Company, Inc. and its subsidiary Rudi's Organic Bakery, Inc. ("Rudi's"), a leading organic and gluten-free company with facilities in Boulder, Colorado. Under the Rudi's Organic Bakery® and Rudi's Gluten-Free Bakery brands, Rudi's offers a range of approximately 60 products including USDA certified organic breads, buns, bagels, tortillas, wraps and soft pretzels and various gluten-free products including breads, buns, pizza crusts, tortillas, snack bars and stuffing in the United States and Canada. Consideration in the transaction consisted of cash totaling $50,649 (which is net of cash acquired and subject to the finalization of a working capital adjustment) and 133,744 shares of the Company's common stock valued at $11,168. The cash consideration paid was funded with borrowings drawn under the Company's existing revolving credit facility.

On January 13, 2014, the Company acquired Tilda Limited ("Tilda"), a leading premium 100% branded Basmati and specialty rice products company. Tilda offers a range of over 60 dry rice and ready-to-heat branded products under the brand names Tilda®, Akash® and Abu Shmagh® to consumers in over 40 countries, principally in the United Kingdom, the Middle East and North Africa, Continental Europe, North America and India. On June 18, 2014, the Company also completed the acquisition of certain assets of Tilda Riceland Limited in India. Consideration in these transactions consisted of cash totaling $126,340 (which is net of cash acquired and based on the exchange rates in effect at the respective transaction dates), which remain subject to certain adjustments, 1,646,173 shares of the Company's common stock valued at $148,353 and deferred consideration (the "Vendor Loan Note") for £20,000 ($32,958 at the transaction date exchange rate) issued by the Company which is payable within one year following completion of the acquisition, with a portion being payable in Company shares at the Company's option. The cash consideration paid was funded with borrowings drawn under the Company's existing revolving credit facility.

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The following table summarizes the components of the preliminary purchase price allocations for the fiscal 2014 acquisitions:

	Tilda	Rudi’s	Total
Purchase price:			
Cash paid	$126,340	$50,649	$176,989
Equity issued	148,353	11,168	159,521
Vendor loan note	32,958	—	32,958
	$307,651	$61,817	$369,468
Allocation:			
Current assets	$86,828	$7,399	$94,227
Property, plant and equipment	39,898	3,774	43,672
Other Assets	—	659	659
Identifiable intangible assets	124,549	33,130	157,679
Assumed liabilities	(92,971)	(6,332)	(99,303)
Deferred income taxes	(25,936)	(37)	(25,973)
Goodwill	175,283	23,224	198,507
	$307,651	$61,817	$369,468

The fair values assigned to identifiable intangible assets acquired were based on assumptions and estimates made by management. Preliminary identifiable intangible assets acquired consist principally of customer relationships valued at $41,692 with a weighted average estimated useful life of 13.2 years and trade names valued at $115,987 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 Hain’s existing infrastructure to expand sales of the acquired business’ products. The goodwill recorded as a result of the acquisitions is not expected to be deductible for tax purposes.

The following table provides unaudited pro forma results of continuing operations for the three months ended September 30, 2013, as if only the acquisitions completed in fiscal 2014 (Rudi’s and Tilda) had been completed at the beginning of fiscal year 2014. The information has been provided for illustrative purposes only, and does 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, which include amortization expense associated with acquired identifiable intangible assets and interest expense associated with bank borrowings to fund the acquisitions.

	Three Months Ended September 30, 2013
Net sales from continuing operations	$538,572
Net income from continuing operations	$32,845
Net income per common share from continuing operations - diluted	$0.65

5. DISCONTINUED OPERATIONS

On February 6, 2014, the Company completed the sale of the Grains Noirs business in Europe. As result of the sale, a loss on disposal of $2,777 was recorded during the third quarter of fiscal 2014. The operating results of Grains Noirs were not material to the Company’s consolidated financial statements. The Company recorded a gain of $1,148 during the second quarter of fiscal 2014 related to the finalization of a working capital adjustment on the sale of the private-label chilled ready meals business in the United Kingdom, which was completed in fiscal 2013.

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6. INVENTORIES

Inventories consisted of the following:

	September 30, 2014	June 30, 2014
Finished goods	$221,041	$190,818
Raw materials, work-in-progress and packaging	165,212	129,433
	$386,253	$320,251

7. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following:

	September 30, 2014	June 30, 2014
Land	$36,924	$34,021
Buildings and improvements	86,049	75,895
Machinery and equipment	347,535	329,680
Furniture and fixtures	10,069	10,352
Leasehold improvements	21,687	21,836
Construction in progress	8,055	4,850
	510,319	476,634
Less: Accumulated depreciation and amortization	170,251	165,973
	$340,068	$310,661

8. GOODWILL AND OTHER INTANGIBLE ASSETS

Changes in the carrying amount of goodwill by reportable segment for the three months ended September 30, 2014 were as follows:

	United States	United Kingdom	HPPC	Rest of World	Total
Balance as of June 30, 2014 (a)	$607,326	$457,818	$—	$69,224	$1,134,368
Acquisition activity	—	—	9,333	—	9,333
Translation and other adjustments, net	(2,121)	(21,436)	—	(3,172)	(26,729)
Balance as of September 30, 2014 (a)	$605,205	$436,382	$9,333	$66,052	$1,116,972

(a) The total carrying value of goodwill for all periods in the table above is reflected net of $42,029 of accumulated 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 and indefinite lived intangible asset 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 or indefinite lived intangible assets below their carrying value, an interim test is performed.

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Amounts assigned to indefinite-life intangible assets primarily represent the values of trademarks and tradenames. At September 30, 2014, included in trademarks and other intangible assets on the balance sheet are $202,663 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, 2014	June 30, 2014
Non-amortized intangible assets:		
Trademarks and tradenames	$496,697	$498,068
Amortized intangible assets:		
Other intangibles	202,663	206,071
Less: accumulated amortization	(55,336)	(52,657)
Net carrying amount	$644,024	$651,482

Amortization expense included in continuing operations was as follows:

	Three Months ended September 30,	
	2014	2013
Amortization of intangible assets	$4,509	$3,468

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

	Fiscal Year ended June 30,				
	2015	2016	2017	2018	2019
Estimated amortization expense	$18,135	$16,955	$16,243	$15,911	$13,750

The weighted average remaining amortization period of amortized intangible assets is 10.7 years.

9. DEBT AND BORROWINGS

Debt and borrowings consisted of the following:

	September 30, 2014	June 30, 2014
Senior Notes	$150,000	$150,000
Revolving Credit Agreement borrowings payable to banks	634,542	614,502
Tilda short-term borrowing arrangements	67,140	65,975
Vendor Loan Note (see note 4)	32,478	34,056
Other borrowings	3,282	3,390
	887,442	867,923
Short-term borrowings and current portion of long-term debt	99,814	100,096
	$787,628	$767,827

The Company has $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, 2014, $150,000 of the senior notes was outstanding.

The Company’s Amended and Restated Credit Agreement (the “Credit Agreement”) provides 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.

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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 the 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 certain financial covenants are satisfied, 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. Obligations under the Credit Agreement are guaranteed by all of the Company's existing and future domestic subsidiaries, subject to certain exceptions. As of September 30, 2014, there were $634,542 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. The weighted average interest rate on outstanding borrowings under the Credit Agreement at September 30, 2014 was 1.92%. 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.

Tilda maintains short-term borrowing arrangements primarily used to fund the purchase of rice from India and other countries. The maximum borrowings permitted under all such arrangements are £52,000. Outstanding borrowings are secured by the current assets of Tilda, typically have six month terms and bear interest at variable rates typically based on LIBOR plus a margin (weighted average interest rate of approximately 2.8% at September 30, 2014.)

10. INCOME TAXES

The effective income tax rate from continuing operations was 24.4% for the three months ended September 30, 2014 and 2013. 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.

The effective tax rate for the three months ended September 30, 2014 was favorably impacted by the non-taxable gain recorded on the pre-existing ownership interest in HPPC of $5,334 (see Note 4). The effective tax rate for the three months ended September 30, 2013 was impacted by a reduction in the statutory tax rate in the United Kingdom enacted in the first quarter of fiscal 2014. Such reduction resulted in a decrease of the carrying value of net deferred tax liabilities of $3,777 which favorably impacted the effective tax rate. This amount in the prior year period was partially offset by an increase in the reserve for unrecognized tax benefits of $550 relating to an additional liability associated with an IRS audit that has since been completed.

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.

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11. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following tables present the changes in accumulated other comprehensive income (loss):

	Three Months Ended September 30,	
	2014	2013
Foreign currency translation adjustments:		
Other comprehensive income (loss) before reclassifications (1)	$(59,602)	$43,642
Amounts reclassified into income	—	—
Deferred gains/(losses) on cash flow hedging instruments:		
Other comprehensive income (loss) before reclassifications	1,510	(455)
Amounts reclassified into income (2)	(544)	(99)
Unrealized gain on available for sale investment:		
Other comprehensive income (loss) before reclassifications	(399)	(174)
Amounts reclassified into income (3)	(189)	—
Net change in accumulated other comprehensive income (loss)	$(59,224)	$42,914

(1) Foreign currency translation adjustments include intra-entity foreign currency transactions that are of a long-term investment nature of $23,048 and $11,485 for the three months ended September 30, 2014 and 2013, respectively.

(2) Amounts reclassified into income for deferred gains/(losses) on cash flow hedging instruments are recorded in "Cost of sales" in the Consolidated Statements of Income and, before taxes, were $715 and $132 for the three months ended September 30, 2014 and 2013, respectively.

(3) Amounts reclassified into income for gains on sale of available for sale investments were based on the average cost of the shares held (See Note 13). Such amounts are recorded in "Interest and other expenses, net" in the Condensed Consolidated Statements of Income and were $311 before taxes for the three months ended September 30, 2014.

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,	
	2014	2013
Compensation cost (included in selling, general and administrative expense)	$2,939	$3,237
Related income tax benefit	$1,125	$1,235

Stock Options

A summary of the stock option activity for the three months ended September 30, 2014 is as follows:

	Number of Options	Weighted Average	Weighted Average	Aggregate Intrinsic Value

			Exercise Price	Contractual Life (years)	
Options outstanding and exercisable at June 30, 2014	1,337,145		$19.65		
Exercised	(47,464	)	$25.98		
Options outstanding and exercisable at September 30, 2014	1,289,681		$19.42	1.9 years	$106,953

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	Three Months Ended September 30,	
	2014	2013
Intrinsic value of options exercised	$3,229	$1,754
Cash received from stock option exercises	$1,233	$580
Tax benefit recognized from stock option exercises	$1,210	$684

At September 30, 2014 there was no unrecognized compensation expense related to stock option awards.

Restricted Stock

A summary of the restricted stock and restricted share units activity for the three fiscal years ended September 30, 2014 is as follows:

	Number of Shares and Units	Weighted Average Grant Date Fair Value (per share)
Non-vested restricted stock and restricted share units at June 30, 2014	629,372	$50.87
Vested	(41,961)	$47.11
Forfeited	(1,931)	$71.57
Non-vested restricted stock and restricted share units at September 30, 2014	585,480	$51.07

	Three Months Ended September 30,	
	2014	2013
Fair value of restricted stock and restricted share units granted	$—	$588
Fair value of shares vested	$4,195	$1,794
Tax benefit recognized from restricted shares vesting	$1,636	$700

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. Except in the case of a change of control, termination without cause, 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, which was expected to be recognized over a weighted-average period of approximately 4.0 years. On September 28, 2012, August 27, 2013, December 13, 2013, and October 22, 2014, the four respective market conditions were satisfied. As such, the four 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, 2014, $13,054 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 2.1 years.

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Long-Term Incentive Plan

The Company maintains a long-term incentive program (the “LTI Plan”). The LTI Plan currently consists of a two-year performance-based long-term incentive plans (the “2014-2015 LTIP”) that provides for a combination of equity grants and performance awards that can be earned over each two year period. Participants in the LTI Plan include the Company’s 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. Following 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 2014-2015 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”). 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 2013 and 2014 fiscal years (the “2013-2014 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 2013-2014 LTIP totaled $7,439 (which were settled by the issuance of 74,084 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 $1,346 and $2,284 for the three months ended September 30, 2014 and 2013, respectively, related to LTI plans.

13. INVESTMENTS AND JOINT VENTURES

Equity and cost method investments

At September 30, 2014, the Company 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 the investment and advances to HHO of $535 are included on the Condensed Consolidated Balance Sheet in “Investments and joint ventures.” The investment is being accounted for under the equity method of accounting.

At September 30, 2014, HPPC owns a 19% interest in Empire Kosher (see Note 4). The investment is being accounted for as a cost method investment and its carrying value of $2,374 is included in the Condensed Consolidated Balance Sheet in “Investments and joint ventures.”

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 Company sold 782,000 of its YHS shares during the three months ended September 30, 2014 which resulted in a pre-tax gain of $311 on the sales. No shares were sold during the three months ended September 30, 2013. The remaining shares held at September 30, 2014 totaled 2,290,738. The fair value of these shares held was $3,487 (cost basis of $2,856) at September 30, 2014 and $5,314 (cost basis of $3,831) at June 30, 2014 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.

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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, 2014:

	Total	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Cash equivalents	$14,400	$14,400	$—	$—
Forward foreign currency contracts	1,807	—	1,807	—
Available for sale securities	3,487	3,487	—	—
	$19,694	$17,887	$1,807	$—
Liabilities:				
Forward foreign currency contracts	$179	$—	$179	$—
Contingent consideration, of which $2,481 is noncurrent	7,973	—	—	7,973
	$8,152	$—	$179	$7,973

The following table presents assets and liabilities measured at fair value on a recurring basis as of June 30, 2014:

	Total	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Cash equivalents	$31,902	$31,902	$—	$—
Forward foreign currency contracts	391	—	391	—
Available for sale securities	5,314	5,314	—	—
	$37,607	$37,216	$391	$—
Liabilities:				
Forward foreign currency contracts	$1,168	$—	$1,168	$—
Contingent consideration, of which $2,669 is noncurrent	8,280	—	—	8,280
Total	$9,448	$—	$—	$8,280

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 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. The Company 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. The Company is required to reassess the fair value of contingent payments on a periodic basis. During the three months ended September 30, 2014, additional expense of $281 was recorded related to the Cully & Sully acquisition, and in October 2014, $5,477 was paid to the sellers in settlement of this obligation. The significant inputs used in the estimate of the remaining obligation for GG UniqueFiber 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 liability (weighted average discount rate of 4.0% for the outstanding liability as of September 30, 2014). Although the Company believes its estimates and assumptions are reasonable, different assumptions, including those regarding the operating results of the respective businesses, or changes in the future may result in different estimated amounts.

The following table summarizes the Level 3 activity:

	Three Months Ended September 30, 2014
Balance as of June 30, 2014	$8,280
Contingent consideration adjustment	280
Translation adjustment	(587)
Balance as of September 30, 2014	$7,973

There were no transfers of financial instruments between the three levels of fair value hierarchy during the fiscal years ended September 30, 2014 or 2013.

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, 2014 were $58,096 and $1,628 of net assets. There were $69,431 of notional amount and $777 of net liabilities of foreign exchange derivative contracts outstanding at June 30, 2014. 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 13 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, 2014 and 2013, 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, 2014 and 2013.

15. COMMITMENTS AND CONTINGENCIES

On May 11, 2011, Rosminah Brown, on behalf of herself and all other similarly situated individuals, as well as a non-profit organization, filed a putative class action in the Superior Court of California, Alameda County against the Company. The complaint alleged that the labels of certain Avalon Organics® brand and JASON® brand personal care products used prior to the Company's implementation of ANSI/NSF-305 certification in mid-2011 violated certain California statutes. Defendants removed the case to the United States District Court for the Northern District of California. The action was consolidated with a subsequently-filed

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putative class action containing substantially identical allegations concerning only the JASON® brand personal care products. The consolidated actions seek an award for damages, injunctive relief, costs, expenses and attorneys' fees. These consolidated lawsuits are currently at the discovery phase. The Company intends to defend this lawsuit vigorously and believes that the plaintiffs' claims are without merit.

On August 19, 2014, the Company announced a voluntary recall on certain nut butters. In connection with the voluntary recall, the Company recorded pre-tax costs totaling $22,844 in the three months ended September 30, 2014 and previously recorded charges of $6,000 in the fourth quarter of fiscal 2014. The charges recorded primarily relate to returns of product from customers ($10,442) and inventory on-hand and other cost of goods sold charges ($9,925), and to a lesser extent consumer refunds and other administrative costs ($2,477). The charges recorded are based upon management's estimates of the total costs incurred through September 30, 2014, however it is reasonably possible that additional pre-tax costs up to $7,000 could be recorded, excluding any recovery from our insurance carrier, with whom the Company is working to recover a portion of these costs. Additionally, the Company anticipates certain ongoing period costs, primarily transportation and storage costs, to be incurred during the remainder of fiscal 2015 of approximately $800 before tax. The Company is continuing to work with the U.S. Food and Drug Administration to finalize the matter.

In addition to the contingencies described above, 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, cash flows or liquidity.

16. SEGMENT INFORMATION

The Company's operations are managed in five operating segments: United States, United Kingdom, HPPC (which was acquired on July 17, 2014), Canada and Europe. The United States, the United Kingdom and HPPC 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 the Company's Chief Operating Decision Maker ("CODM") to evaluate segment operating performance and to decide how to allocate resources to segments. The 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 the 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 and certain facility costs, are allocated based on reasonable allocation methods. Certain factory start-up costs incurred in Europe that were included in "Corporate and other" in the prior year have been reclassified to the Rest of World segment to conform to the current year presentation. Assets are reviewed by the CODM on a consolidated basis and are not reported by operating segment.

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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,	
	2014	2013
Net Sales:		
United States	$336,915	$311,995
United Kingdom	172,279	113,995
HPPC	70,670	—
Rest of World	51,393	51,494
	$631,257	$477,484
Operating Income:		
United States	$29,589	$46,366
United Kingdom	5,595	1,911
HPPC	3,820	—
Rest of World	635	2,448
	$39,639	$50,725
Corporate and other [1]	(10,812)	(10,953)
	$28,827	$39,772

(1) Includes $1,303 and $2,555 of acquisition related expenses, restructuring and integration charges for the three months ended September 30, 2014 and 2013, respectively, of which $259 is recorded in cost of sales for the three months ended September 30, 2013. Corporate and other also includes expense of $281 for contingent consideration adjustments (see Note 14) for the three months ended September 30, 2014.

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

	September 30, 2014	June 30, 2014
United States	$146,529	$139,919
Canada	9,479	9,694
United Kingdom	192,917	198,505
Europe	25,498	27,746
	$374,423	$375,864

17. SUBSEQUENT EVENTS

On November 4, 2014, the Company's Board of Directors approved a 2-for-1 stock split in the form of a dividend, subject to stockholder approval of an increase in the number of authorized shares of common stock of the Company. The proposed share increase will be voted on at the Company's annual meeting to be held on November 20, 2014.

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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, 2014 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, 2014. 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.

Overview

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," providing consumers with the opportunity to lead A Healthier Way of Life™. We are a leader in many organic and natural products categories, with an extensive portfolio of well-known brands. Our operations are managed in five operating segments: United States, United Kingdom, Hain Pure Protein ("HPPC"), 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 people, 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, drug and convenience stores. We manufacture domestically and internationally and our products are sold in more than 65 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 a part of our business strategy. We also seek to broaden the distribution of our key brands across all sales channels and geographies. 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 and provide innovation to 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 and political 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 or political 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. 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. Our management team continues to work on our worldwide sourcing and procurement initiatives to meet the needs of our growing business, and we continue to look for opportunities to supply our growth. 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.

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 acquisitions of Tilda and 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. In addition, the Tilda acquisition expands our worldwide product portfolio into the premium Basmati rice category along with other specialty rice products. We plan to grow the Tilda brand further using our existing distribution platform in the United States, Canada and Europe with Basmati and ready-to-heat rice product offerings. Additionally, Tilda’s existing markets in the Middle East, Northern Africa and India provide us with the opportunity for expansion of our global brands into new markets.

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Recent Developments

On July 17, 2014, the Company acquired the remaining 51.3% of HPPC that it did not already own, at which point HPPC became our wholly-owned subsidiary. HPPC processes, markets and distributes antibiotic-free, organic and other poultry products. Included in the acquisition is HPPC's 19% interest in EK Holdings, Inc. ("Empire Kosher"), which grows, processes and sells kosher poultry and other products. Consideration in the transaction consisted of cash totaling $20.3 million and 231,428 shares of the Company's common stock valued at $19.7 million. The cash consideration paid was funded with existing cash balances. Additionally, HPPC's existing bank borrowings were repaid on September 30, 2014 with proceeds from borrowings under our Credit Agreement.

The carrying amount of our pre-existing 48.7% investment in HPPC as of June 30, 2014 was $30.7 million. Due to the acquisition of the remaining 51.3% of HPPC, the Company adjusted the carrying amount of its pre-existing investment in the quarter to its fair value. This resulted in a recorded gain of $5.3 million at which point the fair value of the Company's pre-existing 48.7% interest was $36.1 million. The results of HPPC are reported as a separate segment.

On August 19, 2014, the Company announced a voluntary recall on certain nut butters. In connection with the voluntary recall, the Company recorded pre-tax costs totaling $22.8 million in the three months ended September 30, 2014 and previously recorded charges of $6.0 million in the fourth quarter of fiscal 2014. The charges recorded primarily relate to returns of product from customers ($10.4 million) and inventory on-hand and other cost of goods sold charges ($9.9 million), and to a lesser extent consumer refunds and other administrative costs ($2.5 million). The charges recorded are based upon management's estimates of the total costs incurred through September 30, 2014, however it is reasonably possible that additional pre-tax costs up to $7.0 million could be recorded, excluding any recovery from our insurance carrier, with whom the Company is working to recover a portion of these costs. Additionally, the Company anticipates certain ongoing period costs, primarily transportation and storage costs, to be incurred during the remainder of fiscal 2015 of approximately $0.8 million before tax. The Company is continuing to work with the U.S. Food and Drug Administration to finalize the matter.

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Results of Operations

Comparison of Three Months Ended September 30, 2014 to Three Months Ended September 30, 2013

The following table compares our results of operations, including as a percentage of net sales, on a consolidated basis, for the three months ended September 30, 2014 and 2013 (amounts in thousands, other than percentages which may not add due to rounding):

	Three Months Ended			
	September 30, 2014		September 30, 2013	
Net sales	$631,257	100.0%	$477,484	100.0%
Cost of sales	505,413	80.1%	358,361	75.1%
Gross profit	125,844	19.9%	119,123	24.9%
Selling, general and administrative expenses	90,924	14.4%	73,587	15.4%
Amortization of acquired intangibles	4,509	0.7%	3,468	0.7%
Acquisition related expenses, restructuring and integration charges	1,584	0.3%	2,296	0.5%
Operating income	28,827	4.6%	39,772	8.3%
Interest and other expenses, net	3,926	0.6%	3,938	0.8%
Income before income taxes and equity in earnings of equity-method investees	24,901	3.9%	35,834	7.5%
Provision for income taxes	6,066	1.0%	8,751	1.8%
Equity in net (income) of equity-method investees	(20)	—%	(572)	(0.1)%
Income from continuing operations	18,855	3.0%	27,655	5.8%
Discontinued operations	—	—%	—	—%
Net income	$18,855	3.0%	$27,655	5.8%

Net Sales

Net sales for the three months ended September 30, 2014 were $631.3 million, an increase of $153.8 million, or 32.2%, from net sales of $477.5 million for the three months ended September 30, 2013.

The sales increase primarily resulted from the acquisitions of HPPC in July 2014, Rudi's in April 2014 and Tilda in January 2014, which collectively accounted for $131.6 million in the first quarter, which includes the brands' growth under our ownership. Foreign exchange rates resulted in increased net sales of $8.8 million as compared to the prior year period. In addition, sales were impacted by $10.4 million of sales returns in the current quarter related to our August 2014 voluntary recall of certain nut butters. Refer to Segment Results section for additional discussion.

Gross Profit

Gross profit for the three months ended September 30, 2014 was $125.8 million, an increase of $6.7 million, or 5.6%, from last year's first quarter. The increase in gross profit resulted from the aforementioned acquisitions, which was offset partially by charges related to our August 2014 voluntary recall of certain nut butters. Such charges in the current quarter included the aforementioned sales returns and $9.9 million of inventory reserves and other cost of goods sold charges, which collectively negatively impacted gross margin by approximately 290 basis points. Additionally, we incurred incremental costs totaling $2.7 million associated with start-up activities in one of our factories in the United Kingdom. In Europe, we incurred charges totaling $1.9 million related to a non-dairy beverage withdrawal. In addition, we experienced generally higher input costs, offset partially by productivity initiatives and price increases. Finally, gross margin was impacted by our recent acquisitions. Tilda, acquired in January 2014, operates at higher margins than the other businesses in the United Kingdom segment, and HPPC operates at lower margins than the Company's other segments.

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Selling, General and Administrative Expenses

Selling, general and administrative expenses were $90.9 million, an increase of $17.3 million, or 23.6%, in the three months ended September 30, 2014 from $73.6 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. In addition, we recorded $2.5 million of charges for consumer refunds and other administrative costs associated with the nut butter recall. Selling, general and administrative expenses as a percentage of net sales was 14.4% in the three months ended September 30, 2014 and 15.4% in the prior year quarter, a decrease of 100 basis points primarily attributable to achieving additional operating leverage on our SG&A infrastructure as a result of higher sales volume and the impact of the HPPC acquisition which has a lower SG&A expense base than the other businesses.

Amortization of Acquired Intangibles

Amortization of acquired intangibles was $4.5 million, an increase of $1.0 million, or 30.0%, in the three months ended September 30, 2014 from $3.5 million in the prior year quarter. The increase is due to intangibles acquired as a result of the Company's current year acquisition of HPPC, as well as the impact of the prior year acquisitions of Tilda and Rudi's, which were acquired in the third and fourth quarters of fiscal 2014, respectively.

Acquisition Related Expenses, Restructuring and Integration Charges

We incurred acquisition, restructuring and integration related expenses aggregating $1.6 million in the three months ended September 30, 2014, of which approximately $1.0 million relate to our current period acquisition of HPPC and approximately $0.3 million relate to a charge recorded in connection with the finalization of our contingent consideration liability for the Cully & Sully acquisition completed in prior years.

We incurred acquisition, restructuring and integration related expenses aggregating $2.3 million in the three months ended September 30, 2013, which were primarily related to the acquisitions of the UK Ambient Grocery Brands, Ella's Kitchen and BluePrint, and to a lesser extent restructuring and integration charges related to the ongoing integration activities of certain functions in the United Kingdom into the Daniels operations.

Operating Income

Operating income for the three months ended September 30, 2014 was $28.8 million, a decrease of $10.9 million, or 27.5%, from $39.8 million in the three months ended September 30, 2013. Operating income as a percentage of net sales was 4.6% in the first quarter of fiscal 2015 compared with 8.3% in the first quarter of fiscal 2014. The decrease in operating income resulted primarily from our August 2014 voluntary recall of certain nut butters which negatively impacted operating income by approximately $22.7 million and operating income as a percentage of net sales by approximately 360 basis points, and to a lesser extent, the other items described above.

Interest and Other Expenses, net

Interest and other expenses, net (which includes foreign currency gains and losses) were $3.9 million for both the three months ended September 30, 2014 and 2013. Net interest expense totaled $6.5 million in the first quarter of fiscal 2015, 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 three months ended September 30, 2013 was $5.6 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 prior year acquisitions of

Tilda and Rudi’s. Net other expenses was a reduction in expense of $2.6 million for the three months ended September 30, 2014 as compared to a reduction of expense of $1.7 million for the three months ending September 30, 2013. Included in the current quarter net other expenses is a gain of $5.3 million on the Company’s pre-existing ownership interest in HPPC, offset partially by $3.2 million of unrealized foreign currency losses primarily associated with the remeasurement of foreign currency denominated intercompany balances. In the prior period quarter, the net reduction in expense was primarily related to 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, 2014 and 2013 was $24.9 million and $35.8 million, respectively. The change was due to the items discussed above.

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Income Taxes

The provision for income taxes includes federal, foreign, state and local income taxes. Our income tax expense was $6.1 million in the three months ended September 30, 2014 compared to $8.8 million in the prior year quarter. Our effective income tax rate from continuing operations was 24.4% of pre-tax income for both the three months ended September 30, 2014 and 2013. The effective tax rate for the three months ended September 30, 2014 was favorably impacted by the non-taxable gain recorded on the pre-existing ownership interest in HPPC of $5.3 million. The effective tax rate for the three months ended September 30, 2013 was impacted by a reduction in the statutory tax rate in the United Kingdom enacted in the first quarter of fiscal 2014. Such reduction resulted in a decrease of the carrying value of net deferred tax liabilities of $3.8 million which favorably impacted the effective tax rate. This amount in the prior year period was partially offset by an increase in the reserve for unrecognized tax benefits of $0.6 million relating to an additional liability associated with an IRS audit that has since been completed.

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 period to period 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, 2014 was $20 thousand compared to $572 thousand for the three months ended September 30, 2013. The decrease as compared to the prior year is due to our current year acquisition of HPPC, which prior to the acquisition, was accounted for as an equity-method investee. Subsequent to the acquisition, HPPC is no longer accounted for as an equity method investee, but rather its operations are included in the consolidated financial statements.

Income From Continuing Operations

Income from continuing operations for the three months ended September 30, 2014 and 2013 was $18.9 million and $27.7 million, or $0.37 and $0.57 per diluted share, respectively. The change was attributable to the factors noted above, including a $0.28 negative impact related to charges for the nut butter recall.

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Segment Results

The following table provides a summary of net sales and operating income by reportable segment for the three months ended September 30, 2014 and 2013:

(dollars in thousands)	United States	United Kingdom	Rest of World	HPPC	Corporate and other [1]	Consolidated
Net sales - Three months ended 9/30/14	$336,915	$172,279	$51,393	$70,670	$—	$631,257
Net sales - Three months ended 9/30/13	$311,995	$113,995	$51,494	$—	$—	$477,484
% change	8.0 %	51.1 %	(0.2)%			32.2 %
Operating income - Three months ended 9/30/14	$29,589	$5,595	$635	$3,820	$(10,812)	$28,827
Operating income - Three months ended 9/30/13	$46,366	$1,911	$2,448	$—	$(10,953)	$39,772
% change	(36.2)%	192.8 %	(74.1)%			(27.5)%
Operating income margin - Three months ended 9/30/14	8.8 %	3.2 %	1.2 %	5.4 %		4.6 %
Operating income margin - Three months ended 9/30/13	14.9 %	1.7 %	4.8 %			8.3 %

(1) Includes $1,303 and $2,555 of acquisition related expenses, restructuring and integration charges for the three months ended September 30, 2014 and 2013, respectively, of which $259 is recorded in cost of sales for the three months ended September 30, 2013. Corporate and other also includes expense of $281 for contingent consideration adjustments for the three months ended September 30, 2014.

Our operations are managed in five operating segments: United States, United Kingdom, HPPC, Canada and Europe. The United States, the United Kingdom and HPPC 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, 2014 were $336.9 million, an increase of $24.9 million, or 8.0%, from net sales of $312.0 million for the three months ended September 30, 2013. Net sales were negatively impacted by $10.4 million of sales returns in the current quarter related to our August 2014 voluntary recall of certain nut butters and further impacted by the associated interruption in production and shipping of products. The sales increase was principally due to the impact of our prior year acquisition of Rudi's, which accounted for $17.5 million of net sales in the current quarter and which includes the growth of this brand under our ownership. Additionally, our sales increased due to increases in the volume of our products sold as a result of increased consumption and expanded distribution. We experienced volume growth in many of our brands, including Sensible Portions, Earths Best, Spectrum, Garden of Eatin', Ella's Kitchen and Celestial Seasonings. Selling prices charged to customers increased from the prior year for certain products where input costs increased, however such price increases did not have a material impact on our total net sales increase in the United States. Net sales in the United States were negatively impacted by the nut butter recall which resulted in charges recorded primarily for returns of product from customers totaling $10.4 million. Operating income in the United States in the three months ended September 30, 2014 was $29.6 million, a decrease of $16.8 million from operating income of $46.4 million in the three months ended September 30, 2013. Operating income was negatively impacted by charges totaling $22.8 million for the nut butter recall. Operating income as a percentage of net sales in the United States decreased to 8.8% from 14.9% during these periods. The nut butter recall negatively impacted this

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percentage by approximately 700 basis points. The Company has continued to leverage the existing expense base and improve productivity which resulted an increase in operating income margin excluding the impact of the nut butter recall.

Our net sales in the United Kingdom in the three months ended September 30, 2014 were $172.3 million, an increase of $58.3 million, or 51.1%, from net sales of $114.0 million in the three months ended September 30, 2013. The sales increase was primarily a result of the acquisition of Tilda on January 13, 2014, which accounts for $43.3 million of the increase. Foreign currency exchange rates resulted in increased net sales of $8.7 million over the prior year quarter. The results for the prior year quarter do not include sales for a soup agreement with a major retailer, which became effective in October 2013. Operating income in the United Kingdom in the three months ended September 30, 2014 was $5.6 million, an increase of $3.7 million, from $1.9 million in the three months ended September 30, 2013. The increase in operating income and operating income margin was primarily due to the acquisition of Tilda, which operates at higher margins than the other business lines in the United Kingdom. This increase was offset partially by factory start-up costs in the current quarter totaling $2.7 million associated with new lines at the Company's chilled desserts manufacturing facility.

Our net sales at HPPC were $70.7 million in the three months ended September 30, 2014. The remaining 51.3% of HPPC that was not previously owned was acquired on July 17, 2014. HPPC's operating income for the three months ended September 30, 2014 was $3.8 million.

Our net sales in the Rest of World were $51.4 million in the three months ended September 30, 2014, a decrease of $0.1 million, or 0.2%, for the three months ended September 30, 2013. The change was primarily the result of increased sales in Canada as demand for our products remains strong, offset partially by unfavorable Canadian Dollar exchange rates. In local currency, net sales in Canada increased 15.3%. Additionally, our sales in Canada were negatively impacted by the voluntary nut butter recall as our Canada segment is dependent upon production by the United States segment for these and certain other products. In Europe, net sales were impacted by a shift in the responsibilities for certain non-dairy beverage business from the management of the Europe segment to the United Kingdom segment, which negatively impacted Europe's net sales by approximately $2.1 million. Europe's net sales were also impacted by approximately $0.9 million related to a non-dairy beverage withdrawal. Additionally, during fiscal 2014, we disposed of the Grains Noirs business and certain private label non-dairy beverage business was discontinued. Operating income as a percentage of net sales decreased to 1.2%, primarily due to the aforementioned items.

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 decreased $31.1 million at September 30, 2014 to $92.7 million, due in part to $20.3 million of cash used to acquire HPPC. Our working capital was $413.1 million at September 30, 2014, an increase of $33.7 million from $379.4 million at the end of fiscal 2014. The increase was due principally to a $31.6 million increase in accounts receivable, a $66.0 million increase in inventories, offset by a $32.4 million increase in accounts payable and accrued expenses. These changes were primarily the result of the acquisition of HPPC in July 2014.

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. As of September 30, 2014, approximately 59% ($54.3 million) of the total cash balance is held outside of the United States and Canada. 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.

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We maintain our cash and cash equivalents primarily in money market funds or their equivalent. As of September 30, 2014, 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.

	Three Months Ended September 30,	
(amounts in thousands)	2014	2013
Cash flows provided by (used in):		
Operating activities	$2,614	$53,608
Investing activities	(32,283)	(11,866)
Financing activities	2,227	(17,711)
Exchange rate changes	(3,651)	(225)
Net (decrease)/increase in cash	$(31,093)	$23,806

Net cash provided by operating activities was $2.6 million for the three months ended September 30, 2014, compared to $53.6 million in the three months ended September 30, 2013. The decrease in cash provided by operations resulted from a $11.4 million decrease in net income and other non-cash items and a decrease of $39.6 million due to changes in our working capital. Our current quarter cash flows from operations was negatively impacted primarily by our working capital requirements on a higher sales base, in the United Kingdom where our Tilda brand is building seasonal inventory but the purchases are funded through credit facility borrowings and the nut butter voluntary recall.

In the three months ended September 30, 2014, we used $32.3 million of cash in investing activities. We used $20.3 million of cash in connection with our acquisition of HPPC and and $13.3 million for capital expenditures as discussed further below. These amounts were partially offset by $1.3 million of proceeds from sales of a portion of our holding in an available for sale investment. We used cash in investing activities of $11.9 million during the three months ended September 30, 2013, which was principally for capital expenditures.

Net cash of $2.2 million was provided by financing activities for the three months ended September 30, 2014. We had proceeds from exercises of stock options of $1.2 million in the current quarter. We also had net borrowings of $21.5 million under our revolving credit facility, which was primarily used to subsequently repay HPPC's acquired borrowings. In addition, we paid $5.7 million during the quarter for stock repurchases to satisfy employee payroll tax withholdings. During the three months ended September 30, 2013, net cash of $17.7 million was used in financing activities which was primarily used for net repayments under our credit facility.

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.

	Three Months Ended September 30,	
(amounts in thousands)	2014	2013
Cash flow provided by operating activities	$2,614	$53,608
Purchase of property, plant and equipment	(13,260)	(12,347)
Operating free cash flow	$(10,646)	$41,261

Our operating free cash flow was negative $10.6 million for the three months ended September 30, 2014, a decrease of $51.9 million from the three months ended September 30, 2013. Our current quarter operating free cash flow was negatively impacted primarily by our working capital requirements on a higher sales base, in the United Kingdom where our Tilda brand is building seasonal inventory but the purchases are funded through credit facility borrowings and the nut butter voluntary recall. Our recent capital expenditures principally relate to the the acquisition of equipment for a new non-dairy production facility in Europe, the expansion of our production facilities in the United Kingdom to accommodate new products and increased volume, such as chilled desserts and soup and a new snacks factory in the United States. We expect that our capital spending for the current fiscal year will be approximately $45 million, which will include continued 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 September 30, 2014 and 2013, $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, 2014 and June 30, 2014, there were $634.5 million and $614.5 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.

Tilda maintains short-term borrowing arrangements primarily used to fund the purchase of rice from India and other countries. The maximum borrowings permitted under all such arrangements are £52 million. Outstanding borrowings are secured by the current assets of Tilda, typically have six month terms and bear interest at variable rates typically based on LIBOR plus a margin.

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 $92.7 million at September 30, 2014, 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 2015 capital expenditures of approximately $45 million, and the other expected cash requirements for at least the next twelve months.

Off Balance Sheet Arrangements

At September 30, 2014, we did not have any off-balance sheet arrangements as defined in Item 303(a)(4) of Regulation S-K.

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, 2014.

We completed our fiscal 2014 annual impairment testing of goodwill and our trade names as of April 1, 2014. The analysis and assessment of these assets indicated that no impairment was required as either the fair values equaled or exceeded the recorded carrying values (for our indefinite-lived intangible assets and certain reporting units), or our qualitative assessment resulted in a determination that it was more likely than not that the fair value of the reporting unit exceeded its carrying amount (for certain of our reporting units). Although we believe our assumptions are reasonable, different assumptions or changes in the future may result in different conclusions and expose us to impairment charges in the future. The estimated fair value of our Europe reporting unit exceeded its carrying value by approximately 10%. This reporting unit represented approximately 1% of our goodwill balance as of September 30, 2014. The estimated fair value of the New Covent Garden Soup Co.® trademark, which represents approximately 6% of our total trademarks and other intangible asset balance as of September 30, 2014, approximates its carrying value. While we believe the operations can support the values of goodwill and intangible assets reported, and there have not been

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any interim impairment indicators during the three months ended September 30, 2014, this reporting unit and tradename are the most sensitive to changes in the underlying assumptions.

Seasonality

Certain of our product lines have seasonal fluctuations. Hot tea, baking products, hot cereal, hot-eating desserts and soup sales are stronger in colder months while sales of snack foods and certain of our prepared food products are stronger in the warmer months.

Historically, excluding any timing impact of acquired businesses within a fiscal year, net sales in the second fiscal quarter are the highest, and the Company's earnings are the lowest in the first fiscal quarter and relatively consistent, but not equal, in the second, third and fourth fiscal quarters. We anticipate that this seasonality is likely to continue. Net sales and earnings for a fiscal year have been, and will be, impacted by the timing of any acquisitions we complete. As such, our results of operations and our cash flows for any particular quarter are not indicative of the results we expect for the full 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, 2014. 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," "esti "believe," "seek", "may," "potential," "can," "positioned," "should," "future," "look forward" and similar expressions, or the n 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 as well as through acquisitions; (ii) increased distribution; (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) our support of increased consumer consumption; (viii) sourcing and procurement initiatives; (ix) higher input costs and the Company's response thereto; (x) the integration of acquisitions and the opportunities for growth related thereto; (xi) nut butter recall expenses; (xii) our tax rate; (xiii) the repatriation of foreign cash balances; (xiv) our cash and cash equivalent investments having no significant exposure to interest rate risk; (xv) our expectations regarding our capital spending for fiscal year 2015; (xvi) our sources of liquidity being adequate to fund our anticipated operating and cash requirements for fiscal year 2015; (xvii) goodwill and intangible assets; (xviii) seasonality; (xix) inflation and the Company's response thereto; (xx) legal proceedings; and (xxi) the stock split. 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 2015 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;
- 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 investment to successfully execute its business plan;
- 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;

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- 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;
- product recall or market withdrawal;
- 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, 2014 from those addressed in the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2014. 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, 2014.

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.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

On May 11, 2011, Rosminah Brown, on behalf of herself and all other similarly situated individuals, as well as a non-profit organization, filed a putative class action in the Superior Court of California, Alameda County against the Company. The complaint alleged that the labels of certain Avalon Organics® brand and JASON® brand personal care products used prior to the Company's

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implementation of ANSI/NSF-305 certification in mid-2011 violated certain California statutes. Defendants removed the case to the United States District Court for the Northern District of California. The action was consolidated with a subsequently-filed putative class action containing substantially identical allegations concerning only the JASON® brand personal care products. The consolidated actions seek an award for damages, injunctive relief, costs, expenses and attorneys' fees.

These consolidated lawsuits are currently at the discovery phase. The Company will continue to defend this lawsuit vigorously and continues to believe that the plaintiffs' claims are without merit. In addition to the litigation described above, the Company is a defendant in lawsuits from time to time in the normal course of business. While the results of litigation and claims cannot be predicted with certainty, the Company believes the reasonably possible losses of such matters, individually and in the aggregate, are not material. Additionally, the Company believes the probable final outcome of such matters will not have a material adverse effect on the Company's consolidated results of operations, financial position, cash flows or liquidity.

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

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Period	(a) Total number of shares purchased (1)	(b) Average price paid per share	(c) Total number of shares purchased as part of publicly announced plans	(d) Maximum number of shares that may yet be purchased under the plans
July 2014	424	$87.47	—	—
August 2014	11,164	97.64	—	—
September 2014	45,779	100.89	—	—
Total	57,367	$100.16	—	—

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

Item 6. Exhibits

Exhibit Number	Description
10.1	Amendment to Employment Agreement between the Company and Irwin D. Simon dated September 23, 2014 (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 29, 2014).
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[(a)]	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2014, 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 Statement 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 7, 2014	/s/ Irwin D. Simon Irwin D. Simon, Chairman, President and Chief Executive Officer
Date: November 7, 2014	/s/ Stephen J. Smith Stephen J. Smith, Executive Vice President and Chief Financial Officer

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