

HAIN CELESTIAL GROUP INC

Form PRE 14A

October 10, 2017

[Table of Contents](#)

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

THE HAIN CELESTIAL GROUP, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

- 1) Title of each class of securities to which transaction applies:

- 2) Aggregate number of securities to which transaction applies:

- 3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

- 4) Proposed maximum aggregate value of transaction:

- 5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

- 1) Amount Previously Paid:

- 2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

Table of Contents

Notice of the 2017 Annual Meeting and Proxy Statement

Thursday, November 16, 2017 at 11:00 a.m., Eastern Time

1111 Marcus Avenue, Lake Success, New York 11042

[Table of Contents](#)

LETTER TO OUR SHAREHOLDERS

THE HAIN CELESTIAL GROUP, INC.

1111 Marcus Avenue

Lake Success, NY 11042

516-587-5000

[October , 2017]

Dear Fellow Stockholder:

You are cordially invited to attend the fiscal year 2017 Annual Meeting of Stockholders (the ***Annual Meeting***) of The Hain Celestial Group, Inc., which will be held at 1111 Marcus Avenue, Lake Success, New York on Thursday, November 16, 2017, at 11:00 a.m. Eastern Time.

At our Annual Meeting, our stockholders will vote on (1) the election of the 11 director nominees named in the accompanying proxy statement, (2) a proposal to amend our By-Laws to implement advance notice procedures for stockholder proposals, (3) a proposal to amend our By-Laws to implement proxy access, (4) an advisory vote regarding the compensation of our named executive officers for the fiscal year ended June 30, 2017, as set forth in the accompanying proxy statement, (5) an advisory vote regarding the frequency of holding advisory votes on executive compensation and (6) the ratification of the appointment of our registered independent accountants.

In addition to these formal items of business, we will review the major developments of the past year and share with you some of our plans for the future. You will have an opportunity to ask questions and express your views to the senior management and members of the Board of Directors of The Hain Celestial Group, Inc., who are also expected to be present.

Your vote is important. Whether or not you plan to attend the Annual Meeting, please submit your vote.

I hope you will join us on November 16th.

Sincerely,

Irwin D. Simon

Founder, President, Chief Executive

Officer and Chairman of the Board

Table of Contents

THE HAIN CELESTIAL GROUP, INC.

1111 Marcus Avenue

Lake Success, NY 11042

516-587-5000

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS AND PROXY STATEMENT

To the Stockholders of THE HAIN CELESTIAL GROUP, INC.:

The 2017 Annual Meeting of Stockholders (the ***Annual Meeting***) of The Hain Celestial Group, Inc. will be held on Thursday, November 16, 2017 at 11:00 a.m., Eastern Time at 1111 Marcus Avenue, Lake Success, New York for the following purposes:

1. To elect the 11 director nominees specified herein to serve until the next Annual Meeting of Stockholders and until their successors are duly elected and qualified;
2. To approve an amendment of our By-Laws to implement advance notice procedures for stockholder proposals;
3. To approve an amendment of our By-Laws to implement proxy access;
4. To approve, on an advisory basis, named executive officer compensation for the fiscal year ended June 30, 2017, as set forth in the attached proxy statement;
5. To approve, on an advisory basis, the frequency of holding future advisory votes on named executive officer compensation (***Say on Pay Frequency***);
6. To ratify the appointment of Ernst & Young LLP as our registered independent accountants for the fiscal year ending June 30, 2018; and
7. To transact such other business as may properly come before the Annual Meeting (including any adjournments or postponements thereof).

These matters are more fully described in the attached proxy statement, which is made a part of this notice.

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Only stockholders of record as of the close of business on September 25, 2017 are entitled to notice of, and to vote at, the Annual Meeting, or any adjournment or postponement thereof. A list of these stockholders will be available for inspection by any stockholder for any purpose germane to the Annual Meeting for a period of ten days prior to the Annual Meeting at our principal executive office located at 1111 Marcus Avenue, Lake Success, NY 11042, and will also be available at the Annual Meeting.

Your vote is important. Whether or not you expect to attend the Annual Meeting in person, please submit your vote as soon as possible. If you received a paper copy of the proxy card by mail, you may mark, sign and date the proxy card and return it in the enclosed postage-paid envelope. If you attend the Annual Meeting, you may choose to vote in person even if you have previously voted your shares.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON NOVEMBER 16, 2017: A complete set of proxy materials relating to our Annual Meeting is available on the Internet. These materials, consisting of the Notice of Annual Meeting of Stockholders, Proxy Statement and Annual Report on Form 10-K to Stockholders for the fiscal year ended June 30, 2017, may be viewed at <http://www.hain.com/proxy>.

By order of the Board of Directors,

Denise M. Faltischek

Executive Vice President and General Counsel,

Corporate Secretary

Dated: [October , 2017]

Table of Contents

Directions to the Annual Meeting of Stockholders

From New York City: Take the Long Island Expressway East to the Cross Island Parkway South (Exit 31S), to the Grand Central Parkway East (Exit 29E). The Grand Central Parkway becomes the Northern State Parkway. Take Exit 25 towards Lakeville Road/New Hyde Park Road/Great Neck. Cross over Marcus Avenue into the 1111 Marcus Avenue complex. Park in HAIN designated spots in the northwest parking lot. Enter Building 1.

From Eastern Long Island: Take the Northern State Parkway West to Exit 25 towards Lakeville Road/New Hyde Park Road/Great Neck. Turn right onto Lakeville Road. Make the first left onto Marcus Avenue. 1111 Marcus Avenue will be on the right. Park in HAIN designated spots in the northwest parking lot. Enter Building 1.

Long Island Rail Road: Take the Port Jefferson Branch Line to the New Hyde Park Station. Take a taxi to 1111 Marcus Avenue, Lake Success, New York. Enter Building 1.

Table of Contents

THE HAIN CELESTIAL GROUP, INC.

PROXY STATEMENT

TABLE OF CONTENTS

<u>PROXY STATEMENT SUMMARY</u>	1
<u>QUESTIONS AND ANSWERS ABOUT THIS PROXY MATERIAL AND VOTING</u>	7
<u>PROPOSAL NO. 1 ELECTION OF DIRECTORS</u>	11
<u>BOARD OF DIRECTORS AND CORPORATE GOVERNANCE</u>	17
<u>PROPOSAL NO. 2 APPROVAL OF AN AMENDMENT TO THE COMPANY S BY-LAWS TO IMPLEMENT ADVANCE NOTICE</u>	23
<u>PROPOSAL NO. 3 APPROVAL OF AN AMENDMENT TO THE COMPANY S BY-LAWS TO IMPLEMENT PROXY ACCESS</u>	25
<u>MANAGEMENT</u>	28
<u>EXECUTIVE COMPENSATION</u>	29
<u>COMPENSATION DISCUSSION AND ANALYSIS</u>	29
<u>Executive Compensation Tables</u>	42
<u>Potential Payments Upon Termination or Change in Control</u>	45
<u>Compensation Committee Interlocks and Insider Participation</u>	48
<u>Compensation Committee Report</u>	48
<u>PROPOSAL NO. 4 ADVISORY VOTE REGARDING THE COMPENSATION OF THE COMPANY S NAMED EXECUTIVE OFFICERS</u>	49

<u>PROPOSAL NO. 5 ADVISORY VOTE ON THE FREQUENCY OF FUTURE ADVISORY VOTES ON EXECUTIVE COMPENSATION</u>	51
<u>PROPOSAL NO. 6 RATIFICATION OF APPOINTMENT OF REGISTERED INDEPENDENT ACCOUNTANTS</u>	52
<u>OWNERSHIP OF COMMON STOCK BY MANAGEMENT AND CERTAIN BENEFICIAL OWNERS</u>	56
<u>CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS</u>	58
<u>OTHER MATTERS</u>	59
<u>STOCKHOLDER PROPOSALS AND OTHER COMMUNICATIONS</u>	60
<u>HOUSEHOLDING</u>	60
<u>RECONCILIATION OF NON-U.S. GAAP FINANCIAL MEASURES TO U.S. GAAP FINANCIAL MEASURES</u>	60
<u>Annex A Advance Notice Amendments to By-Laws</u>	A-1
<u>Annex B Advance Notice Amendments to By-Laws</u>	B-1

Table of Contents**PROXY STATEMENT SUMMARY****YOUR VOTE IS IMPORTANT**

Proxy materials, including this proxy statement, are first being sent to stockholders beginning on or about October 1, 2017. This summary highlights information contained within this proxy statement. You should read the entire proxy statement carefully and consider all information before voting. Page references are supplied to help you find further information in this proxy statement.

VOTING MATTERS AND VOTE RECOMMENDATION

Voting Matter	Board Vote Recommendation	See Page Number for more information
Election of Directors	FOR each nominee	11
Amendment of our By-Laws to Implement Advance Notice	FOR	23
Amendment of our By-Laws to Implement Proxy Access	FOR	25
Advisory Vote to Approve Named Executive Officer Compensation	FOR	49
Advisory Vote on Say on Pay Frequency	EVERY YEAR	51
Ratification of Appointment of Independent Registered Public Accounting Firm	FOR	52

OVERVIEW

During fiscal year 2016, in order to best position Hain Celestial for the future, we commenced a strategic review of our business. We set out to identify opportunities to fuel and sustain our future growth, including supply chain optimization, procurement and rationalization of our product portfolio, and to reinvest incremental cost savings into the business to further brand building efforts in order to drive distribution and household penetration. As consumers increasingly choose their purchases based on health and wellness, ingredient transparency and environmental sustainability, we believe our ability to operate our businesses with a greater sense of purpose will continue to differentiate us.

We look to simplify our business through Project Terra. Terra means from the Earth, and Project Terra represents a bottoms-up approach to streamline our business and drive cost savings and efficiencies in our business, allowing us to invest more in our leading brands and serve as a more strategic partner to our customers to bring better products to more consumers around the world, unleashing and maximizing the value of our assets. We have identified opportunities that we believe will help us to achieve approximately \$350 million of cost savings globally over the next three years.

We have created seven core platforms To Create and Inspire A Healthier Way of Life starting with Hain Celestial United States. These platforms are defined by common customer need, route-to-market or internal advantage, and are aligned with our strategic roadmap to continue our leadership position in the organic, natural and better-for-you market. We also formed Cultivate to strategically invest and incubate lifestyle brands, concepts, products and technology, which focus on health and wellness.

Table of Contents

PROXY STATEMENT SUMMARY

In fiscal year 2017 we embarked on a multi-year strategic plan to transform the Company by building upon our strong brands around the world and focused on driving improvements in almost every aspect of our business. With a strong balance sheet and cash position, and a business model that generates strong cash flow, we are in a position to invest in our brands.

In addition, during fiscal year 2017, we executed on the following initiatives:

Concluded Accounting Review with No Material Changes to Previously Reported Financial Statements

Self-initiated, exhaustive review process.

Fully independent review initiated by the Audit Committee, which retained independent counsel and third party experts to assist in the review.

Implemented improved financial control with strong finance team, including new hires.

Fiscal Year 2017 Financial Highlights

\$2.9 billion net sales, a 1% decrease on a GAAP basis and up 3% in constant currency compared to fiscal year 2016 net sales as Hain Celestial United States returned to growth in the fourth quarter of fiscal year 2017.

Generated Operating Cash Flow of \$217 million and spent \$63 million on Capital Expenditures, resulting in \$154 million of Operating Free Cash Flow.

Net repayment of \$111 million in debt.

Managed expenses and balance sheet.

Project Terra

Established new core category platforms:

Better-For-You Baby, Better-For-You Pantry, Better-For-You Snacking, Fresh Living, Tea, Pure Personal Care and Cultivate.

Implemented stock-keeping unit (SKU) rationalization, eliminating \$24 million in net sales, or approximately 20% of the SKUs, in the United States reporting segment.

Expanded global cost savings initiative to \$350 million through fiscal year 2020.

2	The Hain Celestial Group, Inc. <i>2017 Proxy Statement</i>
---	--

Table of Contents

PROXY STATEMENT SUMMARY

Invested in Top Brands and Capabilities Globally

Increased strategic investments and consumer engagement in brand building assets

Enhanced in-market and online retail activation

Introduced over 200 new innovative products worldwide

Strategic Transactions

Expanded branded portfolio through two strategic acquisitions in the growing chilled category:

Yorkshire Provender under Hain Daniels and

Better Bean under Cultivate

Entered into a strategic joint venture with the Future Group in India

Licensed Rosetto® brand to Rosetto Foods LLC, a joint venture in which the Company holds a minority interest

Divested own-label freshly squeezed fruit juice business in the United Kingdom

Enhanced Leadership Team to Deliver Strategic Plan

Strengthened management team with seasoned professionals including deep consumer products, brand building and natural product experience as well as financial experience

Corporate Governance and Shareholder Communication

Appointed Andrew Heyer as Lead Independent Director

Refreshed Board of Directors with the addition of six highly-qualified independent directors with valuable industry experience

Robust Stockholder Engagement

We are focused on four key initiatives, which we refer to as our Four-Point Strategic Plan, in the coming years:

Invest in Top Brands and Capabilities to Grow Globally

Expand Project Terra Cost Savings Globally

Enhance the Leadership Team to Deliver Strategic Plan

Return Capital to Shareholders

See "Reconciliation of Non-U.S. GAAP Financial Measures to U.S. GAAP Financial Measures" for a discussion of the non-U.S. GAAP financial measures used herein and for reconciliation to the most directly comparable U.S. GAAP Financial Measure. In addition, detailed information on our financial and operational performance can be found in our Annual Report on Form 10-K for our fiscal year ended June 30, 2017.

ACCOUNTING REVIEW

As previously reported, during the fourth quarter of fiscal year 2016, the Company identified concessions that were granted to certain distributors in the United States and commenced an internal accounting review in order to determine whether the revenue associated with those concessions was accounted for in the correct period and to evaluate its internal control over financial reporting. The Audit Committee of the Company's Board of Directors separately conducted an independent review of these matters and retained independent counsel to assist in their review. On November 16, 2016, the Company announced that the independent review of the Audit Committee had been completed, which found no evidence of intentional wrongdoing in connection with the Company's financial statements.

In connection with its evaluation of the timing of the recognition of revenue, the Company conducted a comprehensive evaluation of the appropriate accounting methodology for the United States segment's largest distributors and determined

Table of Contents

PROXY STATEMENT SUMMARY

that the revenue associated with such distributors had been properly accounted for in the correct period. The Company also identified certain immaterial adjustments unrelated to revenue recognition, which are not material to the financial statements reported in any interim or annual period and therefore did not result in a restatement to previously filed financial statements. The Company also identified certain deficiencies in its internal control over financial reporting. These control deficiencies could have resulted in misstatements of the aforementioned accounts and disclosures that would have resulted in a material misstatement to the annual or interim consolidated financial statements that would not have been prevented or detected in a timely manner. Accordingly, we have determined that these control deficiencies constitute material weaknesses.

Management is committed to the planning and implementation of remediation efforts to address the material weaknesses. These remediation efforts, summarized below, which have been implemented or are in the process of implementation, are intended to both address the identified material weaknesses and to enhance our overall financial control environment. In this regard, our initiatives include:

Organizational Enhancements The Company has identified and implemented several organizational enhancements as follows: (i) the creation of a new position, Global Revenue Controller, which is responsible for all aspects of the Company's revenue recognition policies, procedures and the proper application of accounting to the Company's sales arrangements; (ii) the hiring of a new Controller for the Company's United States segment, who is responsible for all accounting functions in the United States segment; (iii) the establishment of an internal audit function that reports directly to the Audit Committee; (iv) the identification and hiring of a Chief Compliance Officer, who is focused on establishing standards and implementing procedures to ensure that the compliance programs throughout the Company are effective and efficient in identifying, preventing, detecting and correcting noncompliance with applicable rules and regulations; and (v) the enhancement of the Company's organizational structure over all finance functions and an increase of the Company's accounting personnel with people that have the knowledge, experience, and training in U.S. GAAP to ensure that a formalized process for determining, documenting, communicating, implementing and monitoring controls over the financial reporting and disclosure processes is maintained.

Information Technology General Controls and IT Dependent Controls The Company has identified and begun to implement several enhancements including (i) the hiring of a new Chief Information Officer; (ii) the centralization of the management of certain key IT systems under the corporate IT organization to provide consistent user access and change management controls; (iii) the establishment of a more comprehensive review and approval process for authorizing and monitoring user access to key systems; and (iv) the evaluation of the design and implementation of the process-level controls over the existence, completeness, and accuracy of data included in various reports and spreadsheets that support the financial statements.

Revenue Practices The Company has evaluated its revenue practices and has implemented improvements in those practices, including: (i) the development of more comprehensive revenue recognition policies and improved procedures to ensure that such policies are understood and consistently applied; (ii) better communication among all functions involved in the sales process (e.g., sales, legal, accounting, finance); (iii) increased standardization of contract documentation and revenue analyses for individual transactions; and (iv) the development of a more comprehensive review process and monitoring controls over contracts with customers, customer payments and incentives, including corporate review of related accruals and presentation of trade promotions and incentives.

Training Practices The Company has developed a comprehensive revenue recognition and contract review training program. This training is focused on senior-level management and customer-facing employees as well as finance, sales and marketing personnel.

When fully implemented and operational, we believe the measures described above will remediate the material weaknesses we have identified and strengthen our internal control over financial reporting. We are working to have these material weaknesses remediated as soon as possible and significant progress has been made to date. We are committed to continuing to improve our internal control processes and will continue to diligently and vigorously review our financial reporting controls and procedures.

4	The Hain Celestial Group, Inc. <i>2017 Proxy Statement</i>
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Table of Contents

PROXY STATEMENT SUMMARY

CORPORATE GOVERNANCE

Corporate Governance Strengths

We are committed to good corporate governance, which promotes the long-term interests of our stockholders and strengthens our Board and management accountability. Highlights of our corporate governance practices include the following:

Majority voting in uncontested elections

Annual Say-on-Pay vote

100% independent Committee members

Lead independent director

Strict policy of no pledging or hedging of company shares

Clawback policy

Stock ownership guidelines for directors and officers

Robust Code of Business Conduct and Ethics

Annual Board and Committee self-evaluations

Periodic reviews of Committee Charters, Corporate Governance Guidelines and Code of Business Conduct and Ethics

STOCKHOLDER ENGAGEMENT

We greatly value our stockholders' perspectives and, at the direction of our Compensation Committee, launched a formal stockholder engagement process in fiscal 2014. This engagement effort focused on our compensation and corporate governance practices and supplemented our ongoing stockholder engagement process with institutional investors. During the summer and fall of 2015, we had discussions with and

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received valuable feedback on our executive compensation practices and corporate governance policies from investors representing approximately 46% of our outstanding shares. See the **Stockholder Engagement Compensation and Governance Action** section within our Compensation Discussion and Analysis on page [] of this proxy statement for details on our stockholder engagement efforts.

In light of the results of our 2015 Say-on-Pay vote and the feedback we received from our investors during our stockholder engagement, the Compensation Committee has modified key elements of our executive compensation program to enhance the link between executive pay and company performance, increase the alignment of our management with our stockholders and mitigate risk. In addition, as a result of stockholder feedback, we made certain changes to our governance practices:

Changes to Compensation and Governance Practices Since 2015 Annual Meeting

WHAT WE HEARD	WHAT WE HAVE DONE IN RESPONSE	INTENDED OUTCOME	WHEN EFFECTIVE
Net revenue and EBITDA were duplicative performance metrics in both the annual and long-term incentive plans	Adopted a different performance measure, relative total stockholder return (Relative TSR), for the long-term incentive plan	Provides stockholders with another basis on which to long-evaluate the Company's performance	2016-2018 Long-Term Incentive Plan (adopted in late calendar year 2015)
	Eliminated EBITDA as a performance measure in the long-term incentive plan		

Table of Contents**PROXY STATEMENT SUMMARY**

WHAT WE HEARD	WHAT WE HAVE DONE IN RESPONSE	INTENDED OUTCOME	WHEN EFFECTIVE
The Company should consider adopting a performance measure that is relative so that stockholders can better evaluate the Company's performance against its peers.	Adopted Relative TSR as one of the measures for the long-term incentive plan	Provides stockholders with the ability to evaluate the Company's performance against a predetermined peer group	2016-2018 Long-Term Incentive Plan
The Company should consider increasing the performance period under the long-term incentive plan from two years to three years	Increased the performance period under the long-term incentive plan to three years	Incentivizes long-term growth	2016-2018 Long-Term Incentive Plan
The Company should further align pay and performance	Eliminated the time-based vesting portion of the long-term incentive award (25% of award)	All awards under the long-term incentive plan are 100% performance-based thereby increasing stockholder alignment	2016-2018 Long-Term Incentive Plan
The Company should consider eliminating the use of a CEO Founder Peer Group	We are now using a single compensation peer group for all executive compensation decisions	Provides for clearer and more concise information	2016
The Board of Directors should consider appointing a lead independent director	The Board of Directors appointed a lead independent director	The lead independent director provides leadership to the independent directors and advises the Board of Directors on matters where there may be an actual or perceived conflict of interest	May 2017
Proxy access is a right that is important to stockholders	<p>The Board of Directors supported a stockholder proposal for proxy access in the 2015 proxy statement</p> <p>Based on the majority of our stockholders casting votes in support of such proposal, the Board of Directors approved a Bylaw amendment implementing proxy access to be submitted for stockholder approval</p>	Provides stockholders meeting certain requirements the right to nominate candidates for election to our Board and have their nominees included in our proxy statement	After our 2017 Annual Meeting, assuming stockholders approval is received
The financial performance measures in the annual incentive plans should be weighted more than the non-financial performance measures	The financial performance measures in the annual incentive plans are weighted at 75% of the target award	Financial performance measures have greater significance in the annual incentive plan and the award is based on more objective measures	Fiscal Year 2018

Table of Contents

PROXY STATEMENT SUMMARY

QUESTIONS AND ANSWERS ABOUT THIS PROXY MATERIAL AND VOTING

What is a proxy statement and why is it important?

The Hain Celestial Group, Inc.'s fiscal year 2017 Annual Meeting of Stockholders (the **Annual Meeting**) will be held on November 16, 2017. There will be certain items of business that must be voted on by our stockholders at the Annual Meeting, and our Board of Directors (sometimes referred to as the **Board**) is seeking your proxy to vote on these items. This proxy statement contains important information about The Hain Celestial Group, Inc. and the matters that will be voted on at the Annual Meeting. Please read these materials carefully so that you have the information you need to make informed decisions. Throughout this proxy statement, we will refer to ourselves as **we**, **us**, **our**, **the Company** or **Hain Celestial**.

What is a proxy?

A proxy is your legal designation of another person to vote the stock that you own. The person you designate to vote your shares is also called a proxy. If you received a paper copy of our proxy materials, you also can vote using the proxy card enclosed with those materials. On our proxy card, you will find the names of the persons designated by the Company to act as proxies to vote your shares at the Annual Meeting. When you submit a valid proxy, the people named on the proxy card as proxies are required to vote your shares at the Annual Meeting in the manner you have instructed.

What are the items of business for the Annual Meeting?

The items of business for the Annual Meeting are as stated in the Notice of Annual Meeting of Stockholders and Proxy Statement, included herein. There are six matters scheduled for a vote:

To elect the 11 director nominees specified herein to serve until the next Annual Meeting of Stockholders and until their successors are duly elected and qualified;

To approve an amendment of our By-Laws to implement advance notice procedures for stockholder proposals;

To approve an amendment of our By-Laws to implement proxy access;

To approve, on an advisory basis, the named executive officers (**NEOs**) compensation for the fiscal year ended June 30, 2017, as set forth in this proxy statement;

To approve, on an advisory basis, the frequency of holding future advisory votes on NEO compensation (**Say on Pay Frequency**); and

To ratify the appointment of Ernst & Young LLP as our registered independent accountants for the fiscal year ending June 30, 2018.

Who is entitled to vote?

You may vote if you owned shares of common stock of the Company as of the close of business on September 25, 2017, the record date for the Annual Meeting. On the record date, there were [104,688,102] shares of common stock outstanding and entitled to vote.

How many votes do I have?

On each matter to be voted upon, you have one vote for each share of common stock you owned as of September 25, 2017.

How can I vote my shares before the Annual Meeting?

Stockholder of Record: Shares Registered in Your Name

If on September 25, 2017, your shares were registered directly in your name with the Company's transfer agent, Continental Stock Transfer & Trust Company, then you are a stockholder of record, and our proxy materials were provided to you directly. Registered stockholders can vote any one of four ways:

By Telephone: Call [INSERT TELEPHONE NUMBER] from the United States. You will need to use the control number you were provided on your proxy card. You will need to follow the instructions given by the voice prompts.

Table of Contents

PROXY STATEMENT SUMMARY

Via the Internet: Go to [INSERT WEBSITE] to vote via the Internet using the control number you were provided on your proxy card. You will need to follow the instructions on the website.

By Mail: If you received a paper copy of the proxy materials and a proxy card in the mail, you may mark, sign, date and return your proxy card in the enclosed postage-paid envelope. If you sign and return your proxy card, but do not give voting instructions, the shares represented by that proxy will be voted as recommended by the Board as described in this proxy statement. If any other matters are properly brought up at the Annual Meeting (other than the proposals contained in this proxy statement), then the named proxies will have the authority to vote your shares on those matters in accordance with their discretion and judgment. The Board currently does not know of any matters to be raised at the Annual Meeting other than the proposals contained in this proxy statement. If you vote via the Internet or by telephone, your electronic vote authorizes the named proxies in the same manner as if you signed, dated and returned a proxy card by mail.

In Person: Attend the Annual Meeting or send a personal representative with an appropriate proxy to vote at the meeting. For information about how to attend the Annual Meeting, please see [What do I need to be admitted to the Annual Meeting?](#) below.

Beneficial Owner: Shares Registered in the Name of a Broker or Bank

If on September 25, 2017, your shares were held in an account at a broker, bank or other agent, then you are the beneficial owner of shares held in [street name](#), and our proxy materials are being forwarded to you by that organization. You may vote by submitting your voting instructions to your broker, bank or other nominee. In most instances, you will be able to do this over the Internet, by telephone, or by mail as indicated above. Please refer to the information from your bank, broker or other nominee on how to submit voting instructions.

What do I need to be admitted to the Annual Meeting?

You will need a form of personal identification (such as a driver's license) along with either your proxy card or proof of stock ownership to enter the Annual Meeting. If your shares are held beneficially in the name of a bank, broker or other holder of record and you wish to be admitted to the Annual Meeting, you must present proof of your ownership of The Hain Celestial Group, Inc. stock, such as a bank or brokerage account statement.

Can I vote at the Annual Meeting?

If you are a *stockholder of record*, you can vote at the Annual Meeting any shares that were registered in your name as the stockholder of record as of the record date. To vote in person, come to the Annual Meeting, and we will give you a ballot.

If you are a *beneficial owner*, you are not a holder of record of those shares and cannot vote them at the Annual Meeting unless you have a legal proxy from the holder of record. If you plan to attend and vote your shares held in [street name](#) at the Annual Meeting, you should request a legal proxy from your broker, bank or other holder of record and bring it with you to the Annual Meeting.

Whether or not you plan to attend the Annual Meeting, we strongly encourage you to vote by proxy prior to the Annual Meeting.

For information about how to attend the Annual Meeting, please see [What do I need to be admitted to the Annual Meeting?](#)

What if I return a proxy card but do not make specific choices?

If you return a signed and dated proxy card without marking any voting selections, your shares will be voted as follows:

Proposal

Vote

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- | | | |
|-------|--|--------------|
| No. 1 | Election of the 11 director nominees named in this proxy statement, each to serve to the next Annual Meeting of Stockholders and until their successors are duly elected and qualified | FOR |
| | | all nominees |
| No. 2 | Amendment of our By-Laws to implement advance notice procedures for stockholder proposals | FOR |

- 8 The Hain Celestial Group, Inc. *2017 Proxy Statement*

Table of Contents**PROXY STATEMENT SUMMARY**

	Proposal	Vote
No. 3	Amendment of our By-Laws to implement proxy access	FOR
No. 4	Approval, on an advisory basis, of NEO compensation for the fiscal year ended June 30, 2017, as set forth in this proxy statement	FOR
No. 5	Advisory Vote on the frequency of holding future advisory votes on NEO compensation	EVERY YEAR
No. 6	Ratification of Ernst & Young LLP as our independent accountants for the fiscal year ending June 30, 2018	FOR
The Company does not expect that any matters other than those described in the Notice of Annual Meeting of Stockholders and Proxy Statement to be brought before the Annual Meeting. The persons appointed as proxies will vote in their discretion on any other matters that may properly come before the Annual Meeting or any postponement or adjournments thereof, including any vote to postpone or adjourn the Annual Meeting.		

Who is paying for this proxy solicitation?

We will bear the cost of soliciting proxies. We expect that the solicitation of proxies will be primarily by mail. Proxies may also be solicited by our officers and employees, at no additional cost to us, in person, by telephone, or by other means of communication. We have retained the proxy solicitation firm of MacKenzie Partners, Inc. to assist us in the distribution and solicitation of proxies, and we intend to pay a fee of approximately \$12,500, plus reasonable expenses, for these services. We may reimburse custodians, nominees and fiduciaries holding our common stock for their reasonable expenses in sending proxy materials to beneficial owners and obtaining their proxy.

What does it mean if I receive more than one proxy card?

If you receive more than one proxy card, your shares are registered in more than one name or are registered in different accounts. Please complete, sign and return each proxy card to ensure that all of your shares are voted.

How do I revoke my proxy?

If on September 25, 2017, you are a *stockholder of record*, you may revoke your proxy if we receive your revocation at any time before the final vote at the Annual Meeting. You may revoke your proxy by sending a written notice stating that you are revoking your proxy before it is voted at the Annual Meeting to the Corporate Secretary at The Hain Celestial Group, Inc., 1111 Marcus Avenue, Lake Success, New York 11042 or by attending the Annual Meeting and voting in person.

If on September 25, 2017, you are a *beneficial owner* of shares registered in the name of your broker, bank, or other agent, your ability to revoke your proxy depends on the voting procedures of the broker, bank or other agent. Please follow the directions provided to you by your bank or broker.

How are votes counted?

Votes will be counted by the inspector of election appointed for the Annual Meeting, who will separately count For and Against votes, abstentions and broker non-votes.

How are broker non-votes and abstentions counted?

A broker non-vote occurs when a broker holding shares for a beneficial owner does not vote on a particular proposal because the broker does not have discretionary voting power with respect to that proposal and has not received instructions with respect to that proposal from the beneficial owner. Broker non-votes on a proposal are not counted or deemed present or represented and entitled to vote for determining whether stockholders have approved that proposal. Therefore, broker non-votes have no effect and will not be counted towards the vote total for any proposal.

Under the rules that govern brokers who are voting with respect to shares held in street name and are not instructed by their client how to vote, brokers only have the discretion to vote those shares on routine matters, but not on non-routine matters. Routine matters include ratification of independent public accountants. Non-routine matters include the election

The Hain Celestial Group, Inc. <i>2017 Proxy Statement</i>
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9

Table of Contents

PROXY STATEMENT SUMMARY

of directors, the advisory vote regarding compensation paid to our named executive officers, the advisory vote regarding Say on Pay Frequency and stockholder proposals, if any. If you are a beneficial owner and do not provide specific voting instructions to your broker, the organization that holds your shares will not be authorized to vote on most items being put to a vote at the Annual Meeting, including Proposal Nos. 1, 2, 3, 4 and 5, and will only have discretion to vote on Proposal No. 6, the ratification of Ernst & Young LLP as our independent accountants for the fiscal year ending June 30, 2018.

With respect to Proposal Nos. 1 and 5, shares voting ☐ abstain have no effect. With respect to Proposal Nos. 2, 3, 4 and 6, if you ☐ abstain from voting, it will have the same effect as an ☐ Against vote.

How many votes are needed to approve each proposal?

With respect to Proposal No. 1, each director must receive a ☐ For vote from the majority of votes cast either in person or by proxy. Abstentions and broker non-votes will have no effect. In the event of a contested election, where the number of director nominees exceeds the number of directors to be elected, directors will be elected by a plurality vote.

To be approved, Proposal Nos. 2, 3, 4 and 6 must receive a ☐ For vote from the majority of shares present and entitled to vote either in person or by proxy. If you ☐ Abstain from voting, it will have the same effect as an ☐ Against vote. Broker non-votes will have no effect.

With respect to Proposal No. 5, the frequency alternative (every year, every two years or every three years) that receives the highest number of votes will be considered the frequency that is recommended by the stockholders.

What is the quorum requirement?

A quorum of stockholders is necessary to hold a valid Annual Meeting. A quorum will exist if at least a majority of the outstanding shares entitled to vote at the Annual Meeting are present in person or represented by proxy. On the record date, there were [104,688,102 shares] outstanding and entitled to vote at the Annual Meeting. Thus, [52,344,052] shares must be represented in person or by proxy to have a quorum.

Your shares will be counted towards the quorum only if you submit a valid proxy (or one is submitted on your behalf by your broker or bank) or if you vote in person at the Annual Meeting. Abstentions and broker non-votes will be counted towards the quorum requirement. If there is no quorum, the chairman of the Annual Meeting or holders of a majority of the shares present in person or by proxy at the Annual Meeting may adjourn or postpone the Annual Meeting to another time or date.

How can I find out the results of the voting at the Annual Meeting?

Preliminary voting results will be announced at the Annual Meeting. We will publish final results in a Current Report on Form 8-K that we expect to file with the United States Securities and Exchange Commission (*SEC*) within four business days of the Annual Meeting. After the Form 8-K is filed, you may obtain a copy by visiting our website or contacting our Investor Relations Department by calling (516) 587-5000, by writing to the Investor Relations Department, The Hain Celestial Group, Inc., 1111 Marcus Avenue, Lake Success, New York 11042 or by sending an email to investorrelations@hain.com.

Table of Contents

PROPOSAL NO. 1 ELECTION OF DIRECTORS

In fiscal year 2017, our Board of Directors oversaw the implementation of a strategic business review of the Company including operational, financial, strategic and governance aspects. We implemented key governance reforms, oversaw an in-depth accounting investigation, refreshed our ranks and supported strategic initiatives so we can benefit from a rapidly changing competitive environment. We ask that you support our Directors' re-election to enable us to continue moving the Company forward.

Cooperation Agreement

Pursuant to a cooperation agreement (the "**Cooperation Agreement**") we entered into with certain individuals affiliated with and investment funds managed by Engaged Capital, LLC (the "**Engaged Group**") on September 27, 2017, we temporarily increased the size of our Board of Directors to 14 directors and appointed each of Dr. Celeste A. Clark, R. Dean Hollis, Shervin J. Korangy, Jack L. Sinclair, Glenn W. Welling and Dawn M. Zier and agreed to include them in the Company's slate of nominees for the 2017 and 2018 Annual Meetings of Stockholders. Pursuant to the terms of the Cooperation Agreement, the size of the Board will be reduced to 11 directors and three members of the incumbent Board (Richard C. Berke, Raymond W. Kelly and Scott M. O'Neil) will not stand for re-election. During the standstill period (the "**Standstill Period**"), which begins on the date of the Cooperation Agreement and extends through and includes the date of the 2018 Annual Meeting, neither the Board nor any committee of the Board may modify the size of the Board from 11 directors without the unanimous approval of the Board.

With respect to the shares of the Company's common stock owned by the Engaged Group and its Affiliates (as defined in the Cooperation Agreement), the Engaged Group has agreed to certain standstill, voting and other similar provisions in connection with entry into the Cooperation Agreement. In particular, during the Standstill Period, the Engaged Group has agreed that it will, and shall cause each of its Affiliates to, among other things, vote all shares of common stock of the Company beneficially owned by the Engaged Group or such Affiliate (or otherwise for which it has voting rights) at such meeting (1) in favor of the slate of directors recommended by the Board and any other proposal supported by a majority of the Board; provided, however, the Engaged Group and its Affiliates are permitted to vote at their discretion with respect to the say-on-pay proposal brought before the stockholders at the 2017 Annual Meeting, (2) against any stockholder proposals or director nominations at such annual or special meeting which are not supported by the Board, and (3) in favor of the ratification of the appointment of such accounting firm as may be determined by the Board as the Company's independent registered public accounting firm for the relevant fiscal year.

Pursuant to the Cooperation Agreement, during the Standstill Period, except following unanimous approval of the Board, the Engaged Group has agreed that neither it nor its Affiliates will purchase or cause to be purchased or otherwise acquire (1) beneficial ownership of any common stock or other securities of the Company (other than securities issued pursuant to a plan established by the Board for members of the Board or a stock split, stock dividend or similar corporate action initiated by the Company with respect to any securities beneficially owned by the members of the Engaged Group or its Affiliates), if immediately after the taking of such action, the Engaged Group together with its Affiliates would, in the aggregate, beneficially own more than 14.9% of the then outstanding shares of Common Stock, or (2) interests in any of the Company's indebtedness.

General

Our Board of Directors is currently composed of 14 members, of which 11 will stand for re-election at the annual meeting. It is proposed that the 11 incumbent directors standing for re-election be elected to hold office until the next annual meeting and until their successors are elected and qualified. Richard C. Berke, Raymond W. Kelly and Scott M. O'Neil are not standing for re-election, and the Company thanks them for their service and many contributions to the Company.

The Board has nominated, and the proxies will vote to elect, unless otherwise directed, the following individuals as members of the Board of Directors to serve until the next Annual Meeting of Stockholders and until their respective successors are duly elected and qualified: Irwin D. Simon, Dr. Celeste A. Clark, Andrew R. Heyer, R. Dean Hollis, Shervin J. Korangy, Roger Meltzer, Adrienne Shapira, Jack L. Sinclair, Glenn W. Welling, Dawn M. Zier and Lawrence S. Zilavy. Each nominee has consented to be nominated and to serve, if elected.

The Board of Directors recommends that you vote **FOR the election of each of the nominees.**

Table of Contents**PROPOSAL NO. 1 ELECTION OF DIRECTORS****Information about the Nominees****Irwin D. Simon, Founder, President, Chief Executive Officer and Chairman of the Board****Age:** 59**Board Committees:****Director Since:** 1993

None

Irwin D. Simon is the Founder of The Hain Celestial Group, Inc. and has been our President and Chief Executive Officer (**CEO**) and a director since our inception in 1993. Mr. Simon was appointed Chairman of the Board of Directors in April 2000. Previously, Mr. Simon was employed in various marketing capacities at Slim-Fast Foods Company, a dietary food and beverage company, and The Haagen-Dazs Company, a frozen dessert company, then a division of Grand Metropolitan, PLC, a portfolio of luxury brands and companies. Mr. Simon currently serves as the lead director of MDC Partners Inc., a provider of marketing, activation and communications solutions and services and of Chop t Creative Salad Company, a fast casual dining company. He also serves as the Vice Chairman of the board of directors of Tulane University and on the board of trustees of Poly Prep Country Day School. During the last five years, Mr. Simon also served as a director of Jarden Corporation, a consumer products company, until its merger with Newell Rubbermaid Inc. Mr. Simon also served as an independent non-executive director of Yeo Hiap Seng Limited, a food and beverage company based in Singapore.

Key Attributes, Experience and Skills:

As Founder, President and CEO since our inception in 1993, Mr. Simon has a demonstrated record of innovation, achievement and leadership. Mr. Simon brings to the Board more than 30 years of extensive experience in the global consumer packaged goods industry including brand marketing, commerce, operations and mergers, acquisitions and divestitures. Under his leadership the Company has completed over 55 acquisitions and strategic transactions. Mr. Simon provides the Board with unique perspectives and invaluable, in-depth knowledge of the Company, including strategic growth opportunities, personnel, relationships with key customers and suppliers around the world, competitive positioning, history, culture, and all other aspects of its operations. As President and CEO of a publicly traded company, Mr. Simon brings experience working with the investor community and financial institutions as well as capital markets expertise. In addition as a Founder and early pioneer, Mr. Simon is a recognized prominent visionary and leader in the organic and natural products industry with an in-depth knowledge among manufacturers, distributors and retailers across varying channels of distribution. Further, Mr. Simon's prior employment experience and directorships bring him valuable insight into the global consumer packaged goods and educational industries, as well as the marketing and communications industry, including advertising, public relations branding, digital, social and event marketing and consumer insights.

Celeste A. Clark, Ph.D., Director

Age: 64

Board Committees:

Director Since: 2017

None

Celeste A. Clark has been a director since September 2017. She currently serves as adjunct professor at Michigan State University, East Lansing, Michigan in the Department of Food Science and Human Nutrition, where she has served in such position since January 2012. She has been the principal of Abraham Clark Consulting, LLC, a consulting firm, since November 2011 and consults on nutrition and health policy, regulatory affairs and leadership development. Dr. Clark previously served as a senior executive of Kellogg Company, a food manufacturing company, where she was a member of the Global Executive Management Team and had an accomplished career spanning nearly 35 years in the food industry. She was responsible for leading the development and implementation of health, nutrition and regulatory science initiatives and worked across 180 global markets to ensure consistency in approach and implementation within regulatory guidelines. In addition to nutrition, she also led and managed the global functions of corporate communications, public affairs, sustainability, philanthropy and several administrative areas while at Kellogg Company. Dr. Clark is currently a director of AAA Michigan, a travel, road service and insurance entity where she has served as the chairperson of the Nominating and Governance Committee since 2012 and a director of Omega Protein, Inc., a manufacturer of fish meal and fish oils, where she serves on the Nominating and Governance and Compensation Committees. Dr. Clark previously served as a director of Mead Johnson Nutrition Company, a pediatric nutrition company, beginning in 2011 until the acquisition of the company by Reckitt Benckiser plc, as a director of Diamond Foods, Inc., a leading branded snacks supplier, beginning in 2014 until the acquisition of the company by Synder s-Lance, Inc. in 2016; and as a director at AdvancePierre Foods Holdings, Inc., a producer and distributor of ready-to-eat sandwiches, where she chaired the Nominating and Governance Committee, and served as a member of the Audit Committee.

Key Attributes, Experience and Skills:

Dr. Clark brings significant industry experience in various nutrition, consumer products, public policy, risk management and governance matters to our Board. She has served on a number of public company boards, which have provided her with a broad understanding of the operational, financial and strategic issues facing public companies.

Table of Contents**PROPOSAL NO. 1 ELECTION OF DIRECTORS****Andrew R. Heyer, Director****Age:** 60**Board Committees:****Director Since:** 2012

Audit (Chair)

Andrew R. Heyer has been a director since November 2012 and previously served as a director from November 1993 until November 2009. He currently serves as the lead independent director and is the chairperson of the Audit Committee. Mr. Heyer is the CEO and Founder of Mistral Equity Partners, a private equity fund. Prior to founding Mistral Equity Partners in 2007, from 2000 through 2007 he served as a Founding Managing Partner of Trimaran Capital Partners, L.L.C. Mr. Heyer was formerly a Vice Chairman of CIBC World Markets Corp. and co-head of CIBC Argosy Merchant Banking Funds. Prior to joining CIBC World Markets Corp. in 1995, Mr. Heyer was a founder and Managing Director of The Argosy Group L.P. Before Argosy, Mr. Heyer was a Managing Director at Drexel Burnham Lambert Incorporated, and previous to that, he worked at Shearman/American Express. Mr. Heyer currently serves as a director of Jamba, Inc. and Form Holdings. Mr. Heyer also serves as a member of the Executive Committee and Board of Trustees of the University of Pennsylvania and as Chair of the University of Pennsylvania Health System.

Key Attributes, Experience and Skills:

Mr. Heyer brings significant finance, investment, capital markets and consumer products experience to the Board. He has served on a number of public and private boards, which have provided him with a broad understanding of the operational, financial and strategic issues facing public and private companies. In addition, Mr. Heyer's business, financial and investment experience in the consumer product and services industries makes him qualified for service on our Board.

R. Dean Hollis, Director**Age:** 57**Board Committees:****Director Since:** 2017

None

R. Dean Hollis has been a director since September 2017. He is a senior advisor for Oaktree Capital, a \$100 billion world-wide private equity firm. Prior to 2008, Mr. Hollis was president and chief operating officer, ConAgra Foods, Consumer Foods and International. In that role, Mr. Hollis developed and executed a worldwide business transformation strategy, while overseeing the largest part of the ConAgra Foods portfolio, including its \$12 billion consumer and customer branded businesses, consisting of over 40 global brands in 110 countries. During his 21 years with ConAgra Foods, he held many executive level positions, including Executive Vice President, Retail Products; President, Grocery Foods; President, Frozen Foods; President, Specialty Foods; and President, Gilardi Foods. Since October 2016, he has been a director and chairperson of the board of directors of SunOpta Inc., a world-wide leader in healthy foods, specializing in non-GMO and organic products. From 2008 until its recent sale to Tyson Foods, Mr. Hollis served as chairperson of the board of directors and on the Compensation Committee

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of AdvancePierre Foods Holdings, Inc., a producer and distributor of ready-to-eat sandwiches. Until its sale to Snyder's-Lance Inc. in early 2016, he also served on the board of Diamond Foods, Inc. a leading branded snacks supplier, where he served on the Audit and Nominating and Governance Committees. Also, until its sale to Pinnacle Foods Inc. in January of 2016, Mr. Hollis served as chairperson of the board of directors and on the Audit committee of Boulder Brands, Inc. a leader and innovator in health and wellness foods. Until October 2015, he also served on the board of Landec Corporation, a developer and marketer of patented polymer products for food, agriculture and licensed partner applications, where he chaired the Compensation Committee.

Key Attributes, Experience and Skills:

As a result of the various positions he has held in the food industry, Mr. Hollis brings relevant operational experience to our Board. In addition, he has served on a number of public company boards, which have provided him with a broad understanding of the operational, financial and strategic issues facing public companies.

Table of Contents**PROPOSAL NO. 1 ELECTION OF DIRECTORS****Shervin J. Korangy****Age:** 42**Board Committees:****Director Since:** 2017

None

Shervin J. Korangy has been a director since September 2017. Since April 2017, he has served as the Chief Financial Officer and Head of Strategy of Beaver-Visitec International (**BVI**), a Texas Pacific Group portfolio company that is a global developer, manufacturer and marketer of specialized surgical products. Prior to his role with BVI, Mr. Korangy served as a senior executive of Novartis Group AG, a diversified healthcare products company, until March 2017. During his more than six years at Novartis commencing in 2010, he served in various international capacities spanning strategy, M&A, integrations, sales & marketing and general management including the Global Head of Corporate Finance based in Switzerland, Business Unit Manager based in France and Managing Director based in the United Kingdom. Previously, he was a Managing Director at The Blackstone Group, an investment firm, which he joined in 1996. During his more than 14 years at Blackstone, he served both as an advisor in the Restructuring & Reorganization business (where he worked with companies in the telecom, manufacturing, retail and financial services industries) and as an investor in the Private Equity business (where he focused on the consumer products, financial services and packaging industries). Mr. Korangy has served on the board of directors of Motus GI, a manufacturer and marketer of medical device products for the gastroenterology, since April 2017 (and as chairperson of its Audit Committee), and as a senior advisor to Sight Sciences LLC, a provider of surgical and nonsurgical systems for use by ophthalmologists and optometrists, since June 2011. Mr. Korangy's previous Board experience includes having served as a director of Pelican Rouge Group, a consumer coffee manufacturer and distributor, from 2014 to 2017 (and as chairperson of its Audit Committee), Pinnacle Foods Inc., a manufacturer, marketer and distributor of high-quality branded food products, from 2007 to 2009, Bayview Financial, a mortgage finance company, from 2008 to 2009, Ultra Music, a worldwide music media entity, from 2005 to 2010, and as a board observer for Graham Packaging, a leading designer and manufacturer of custom blow-molded plastic containers for consumer products.

Key Attributes, Experience and Skills:

Mr. Korangy's position as the Chief Financial Officer and Head of Strategy at a global company, together with his significant financial and consumer packaged goods business experience, makes him a valuable addition to our Board of Directors. In addition to his strong financial expertise, the Company values his competencies in strategy, mergers and acquisitions, integration and general management.

Roger Meltzer, Director**Age:** 66**Board Committees:****Director Since:** 2000

None

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Roger Meltzer has been a director since December 2000. Mr. Meltzer has practiced corporate and securities law for more than 40 years, representing clients in a range of finance transactions, including mergers, acquisitions and dispositions, public offerings and public and private placements of debt and equity securities. In February 2007, Mr. Meltzer joined the law firm of DLA Piper LLP (US) as a partner, Global Chair of the Corporate and Finance practice, and a member of the firm's executive committee. Mr. Meltzer is now a member of the Global Board of DLA Piper, Co-Chair of DLA Piper LLP (Americas), and Global Co-Chair. Prior to February 2007, he was a partner and a member of the executive committee of the law firm of Cahill Gordon & Reindel LLP.

Key Attributes, Experience and Skills:

The Company values the significant legal and financial expertise Mr. Meltzer brings to the Board through his extensive experience in corporate and securities laws as well as board governance matters. As Global Co-Chair of DLA Piper, Mr. Meltzer has oversight of a global law firm with lawyers located in more than 40 countries and therefore brings a wealth of international experience to the Board. In addition, the Board values Mr. Meltzer's experience as the Company continues to grow through strategic acquisitions. Finally, as the long-time legal advisor to the Company, Mr. Meltzer brings in-depth knowledge about the Company's history to the Board.

Table of Contents**PROPOSAL NO. 1 ELECTION OF DIRECTORS****Adrianne Shapira****Age:** 47**Board Committees:****Director Since:** 2014

Audit and Compensation

Adrianne Shapira has been a director since November 2014 and is a member of the Audit Committee and Compensation Committee. Ms. Shapira is the Managing Director of Eurazeo Brands, an investment division of the global private equity firm, since August 2017. Ms. Shapira was previously the Chief Financial Officer of David Yurman Enterprises LLC, a designer jewelry company, from October 2012 to February 2016. From September 1999 to September 2012, Ms. Shapira was Managing Director at The Goldman Sachs Group, Inc., an investment banking firm, where she was an equity research analyst covering the discount, department store, dollar store, warehouse club, apparel manufacturer, luxury and grocery sectors. Prior to joining Goldman Sachs, Ms. Shapira worked as an equity analyst at Robertson Stephens, an investment banking firm, and Neuberger & Berman, an investment management company. Ms. Shapira currently serves as a director and a member of the audit committee and governance and nominating committee of Kohl's Corporation, an American department store retail chain. Ms. Shapira also previously served as a director of Gilt Groupe, an online luxury flash-sale shopping website.

Key Attributes, Experience and Skills:

Ms. Shapira's status as a former Chief Financial Officer of a luxury consumer products company, coupled with her significant experience as an equity analyst in sectors related to the Company's business makes her a valuable addition to our Board of Directors. Ms. Shapira has strong financial expertise, as well a broad understanding of the consumer products industry. In addition, her experience in e-commerce is an asset to the Company's Board, as the Company continues to expand distribution in this area.

Jack L. Sinclair, Director**Age:** 57**Board Committees:****Director Since:** 2017

None

Jack Sinclair has been a director since September 2017. He is a business executive who has spent his career working in the food retail industry in both Europe and the United States. Since August 2015, he has served as the chief merchandising officer of 99 Cents Only Stores LLC, a California-based dollar store operator. Prior to joining 99 Cents Only Stores LLC, he spent over seven years as a senior merchandising executive at Wal-Mart Stores, Inc. from December 2007 to April 2015. Previously Mr. Sinclair spent 15 years at Safeway PLC in the United Kingdom, where he held several senior management positions and served on its board of directors, a position he left after Safeway PLC's 2004 merger with Wm Morrison Supermarkets plc.

Key Attributes, Experience and Skills:

Mr. Sinclair brings significant global retail industry experience to the Board. In addition, Mr. Sinclair's various employment experiences bring him valuable insight into the broader consumer packaged goods industry, including merchandising, advertising, marketing and consumer insights.

Glenn W. Welling, Director

Age: 47

Board Committees:

Director Since: 2017

None

Glenn W. Welling has been a director since September 2017. Mr. Welling has been the Chief Investment Officer and Principal of Engaged Capital, LLC since its founding in 2012. Prior to founding Engaged Capital, Mr. Welling was a principal and managing director of research at Relational Investors, LLC, an investment fund, which he joined in July 2008 and was responsible for the research in the equity fund's consumer, healthcare and utility group. From February 2002 to May 2008, Mr. Welling was a Managing Director of Credit Suisse Group AG, an investment bank, where he also served as the Head of the Investment Banking Department's Advisory Business. Mr. Welling has been a member of the board of directors of TiVo Corporation, a provider of consumer media and entertainment products, since May 2015, where he also serves as chairperson of its Compensation Committee. Mr. Welling has been a member of the board of directors of Jamba, Inc., a leading restaurant retailer of better-for-you food and beverage offerings, since January 2015, where he also serves as the chairperson of its Compensation Committee and as a member of its Finance Committee. Mr. Welling has been a member of the board of directors of Medifast, Inc., a manufacturer and provider of weight-loss and healthy living products and programs, since June 2015, where he also serves as a member of its Audit, Compensation and Mergers & Acquisitions Committees.

Table of Contents**PROPOSAL NO. 1 ELECTION OF DIRECTORS****Key Attributes, Experience and Skills:**

Mr. Welling brings significant finance, investment and consumer products experience to the Board, which makes him a valuable contributor. In addition, he has served on a number of public boards, which have provided him with a broad understanding of the operational, financial and strategic issues facing public companies.

Dawn M. Zier, Director**Age:** 52**Board Committees:****Director Since:** 2017

None

Dawn M. Zier has been a director since September 2017. Since November 2012, Ms. Zier has served as the President and Chief Executive Officer of Nutrisystem, Inc., an innovative provider of weight loss programs offering a wide variety of home-delivered, nutritionally balanced meal plans, retail products and advanced digital tools. From April 2011 until November 2012, Ms. Zier served as the President of International at Reader's Digest Association, Inc., a global media and direct marketing company. In February 2013, RDA Holdings, Co., the holding and parent of Reader's Digest Association, filed voluntary petitions for reorganization relief pursuant to Chapter 11 of the United States Bankruptcy Code. In addition to being a member of Nutrisystem's board of directors, Ms. Zier also serves on the board of directors for Spirit Airlines. Over the years, she has previously served on boards and chaired committees for multiple marketing and media entities, including the Data and Marketing Association's (DMA) Board from 2008 to 2015, where she was a voting director and on the executive committee.

Key Attributes, Experience and Skills:

Ms. Zier is qualified to serve on our Board based on her extensive management leadership experience, which has provided her with significant knowledge of sound corporate governance practices. In addition, she has significant experience in the food industry and digital marketing, which makes her a valuable contributor to the Board.

Lawrence S. Zilavy, Director

Age: 66

Board Committees:

Director Since: 2002

Audit and Corporate Governance and Nominating (Chair)

Lawrence S. Zilavy has been a director since November 2002 and is the chairperson of the Corporate Governance and Nominating Committee and a member of the Audit Committee. Since September 2009, Mr. Zilavy has been employed by a private family investment and philanthropic office. From May 2006 until September 2009, Mr. Zilavy served as Senior Vice President of Barnes & Noble College Booksellers, Inc. Mr. Zilavy was Executive Vice President, Corporate Finance and Strategic Planning for Barnes & Noble, Inc. from May 2003 to November 2004 and was Chief Financial Officer of Barnes & Noble, Inc. from June 2002 through April 2003. Prior to joining Barnes & Noble, Inc., Mr. Zilavy worked as a banker for nearly 25 years. Mr. Zilavy is currently the lead director and a member of the audit committee and nominating and corporate governance committee of GameStop Corp. Mr. Zilavy also served as a director of Barnes & Noble, Inc. from 2006 to 2010.

Key Attributes, Experience and Skills:

Through his nearly 25 years of experience as a banker, coupled with his significant executive-level experience in a large retail company, Mr. Zilavy provides financial and operating expertise to the Board. In addition, Mr. Zilavy's involvement on public company boards provides meaningful risk management insight and valuable governance skills, making him a valuable contributor to the Board.

Table of Contents

BOARD OF DIRECTORS AND CORPORATE GOVERNANCE

The Board of Directors

The stockholders of the Company elect the Board of Directors, whose primary responsibility is to foster the long-term health, overall success and financial condition of the Company, consistent with its fiduciary duty to our stockholders. The Board serves as the ultimate decision-making body of the Company, except for those matters reserved to or shared with the stockholders. The Board selects and oversees the members of senior management, who are charged by the Board with conducting the business of the Company. In addition, the Board has responsibility for establishing broad corporate policies and overseeing our direction, affairs and management.

Director Independence

A majority of the current Board, consisting of Ms. Clark, Shapira and Zier as well as Messrs. Berke, Heyer, Hollis, Kelly, Korangy, Meltzer, O Neil, Sinclair, Welling and Zilavy, are independent directors as defined in the listing standards of the Nasdaq Global Select Market (*Nasdaq*). Mr. Simon was determined not to be independent because he is our President and CEO.

Board Meetings and Attendance

The Board typically holds regular meetings at least once every quarter and holds special meetings when necessary. During the 2017 fiscal year, the Board held twenty meetings. We expect directors to attend Board meetings, the Annual Meeting of Stockholders, and meetings of the committees on which they serve. All directors standing for re-election attended at least 75% of the meetings of the Board and of the committees on which they served during the fiscal year. All of the directors standing for re-election who were also directors at our last Annual Meeting of Stockholders attended such meeting.

Board Leadership Structure

Our Corporate Governance Guidelines provide that the Board has no policy with respect to the need to separate or combine the offices of Chairman of the Board and CEO of the Company. The Board believes that stockholders are best served if the Board retains flexibility to decide what leadership structure works best for the Company based on the facts and circumstances existing from time to time. Mr. Simon currently serves as our Chairman of the Board, President and CEO. Mr. Simon has been our President and CEO and a director since our inception and is our Founder. As a result, Mr. Simon possesses a great depth of knowledge and experience regarding the Company, its business and the organic and natural products industry. Mr. Simon was appointed Chairman of the Board of Directors in April 2000. During his tenure as Chairman and CEO, Mr. Simon has consistently demonstrated that his service in this combined capacity has fostered timely and clear communication with both the Board and Company management regarding significant issues facing the Company, effective decision-making, clear accountability and efficient execution of business strategies and plans. The Board believes that, given the knowledge, experience and performance described above, it is in the best interests of the Company and its stockholders for Mr. Simon to continue to serve in a position that provides unified leadership and focus to both the Board and Company management, as well as a uniform voice to constituencies outside of the Company. Additionally, pursuant to Mr. Simon's employment agreement, we have agreed that so long as he is a member of our Board he will serve as Chairman of the Board unless he and the Company determine otherwise. If he is not re-appointed as Chairman of the Board, he will be entitled to terminate his employment with the rights and entitlements available to him under his employment agreement as if his employment was terminated by him for

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good reason as defined therein.

Our current Lead Independent Director is Andrew R. Heyer. Mr. Heyer is an engaged and active director who is uniquely positioned to work collaboratively with Mr. Simon, while providing strong independent oversight. The Lead Independent Director is elected by a majority of independent directors to serve for a one-year term. The Board believes that the appointment of a strong Lead Independent Director and the use of regular executive sessions of the non-management and independent directors, along with the Board's strong committee system and the independence of all directors except for Mr. Simon, allow it to maintain effective oversight of management.

The Hain Celestial Group, Inc. 2017 Proxy Statement

17

Table of Contents

		Monitronics Int'l, Inc., Guaranteed Notes, 11.75%, due 9/1/10	B3	B-	3,389,961
3,105,000					
		Rural/Metro Corp., Guaranteed Notes, 9.88%, due 3/15/15	B3	CCC+	499,938
475,000					
					14,033,386
Telecom - Fixed Line (0.5%)					
		Level 3 Financing, Inc., Guaranteed Notes, 9.25%, due 11/1/14	B3	CCC+	853,450
845,000					
Telecom - Integrated/Services (7.6%)					
		Citizens Utilities Co., Senior Unsecured Notes, 7.13%, due 3/15/19	Ba2	BB+	4,016,250
4,250,000					
		Dycom Industries, Inc., Guaranteed Notes, 8.13%, due 10/15/15	Ba3	B+	1,388,400
1,335,000					
		Intelsat Bermuda Ltd., Guaranteed Notes, 9.25%, due 6/15/16	B2	B+	2,337,500
2,200,000					
		Nordic Telephone Co. Holdings, Secured Notes, 8.88%, due 5/1/16	B2	B	1,081,200 ⁿ
1,020,000					
		Qwest Corp., Senior Notes, 7.88%, due 9/1/11	Ba1	BBB-	1,141,537
1,095,000					
		Qwest Corp., Senior Unsecured Notes, 7.50%, due 10/1/14	Ba1	BBB-	410,000
400,000					
		Windstream Corp., Guaranteed Notes, 8.13%, due 8/1/13	Ba3	BB-	1,400,300
1,340,000					
		Windstream Corp., Guaranteed Notes, 8.63%, due 8/1/16	Ba3	BB-	2,019,825
1,910,000					
					13,795,012

See Notes to Schedule of Investments 10

PRINCIPAL AMOUNT		RATING		MARKET VALUE	
		Moody's	S&P		
Theaters & Entertainment (1.2%)					
\$	1,230,000	AMC Entertainment, Inc., Guaranteed Notes, Ser. B, 8.63%, due 8/15/12	Ba3	B-	\$ 1,282,275
	820,000	AMC Entertainment, Inc., Guaranteed Notes, 11.00%, due 2/1/16	B2	CCC+	906,100
					2,188,375
Transportation Excluding Air/Rail (1.1%)					
	2,055,000	Stena AB, Senior Unsecured Notes, 7.00%, due 12/1/16	Ba3	BB-	2,055,000
		Total Corporate Debt Securities (Cost \$260,727,172)			262,016,053
NUMBER OF SHARES					
Short-Term Investments (5.4%)					
	9,734,678	Neuberger Berman Prime Money Fund Trust Class (Cost \$9,734,678)			9,734,678 ^{#@00}
		Total Investments (149.2%) (Cost \$270,461,850)			271,750,731 ^{##}
		Cash, receivables and other assets, less liabilities (0.2%)			404,282
		Money Market Cumulative Preferred Shares [(49.4%)]			(90,000,000)
		Total Net Assets Applicable to Common Shareholders (100.0%)			\$ 182,155,013

See Notes to Schedule of Investments 11

Notes to Schedule of Investments (Unaudited)

Investments in debt securities by Lehman Brothers First Trust Income Opportunity Fund (the "Fund") are valued daily by obtaining bid price quotations from independent pricing services on all securities available in each service's database. For all other debt securities requiring daily quotations, bid price quotations are obtained from principal market makers in those securities. The Fund values all other securities, including securities for which the necessary last sale, asked and/or bid prices are not readily available, by methods the Board of Trustees has approved on the belief that they reflect fair value. Numerous factors may be considered when determining the fair value of a security, including available analyst, media or other reports, trading in futures or ADRs and whether the issuer of the security being fair valued has other securities outstanding. Securities with remaining maturities of 60 days or less are valued at amortized cost. This method involves valuing a portfolio security initially at its cost and thereafter assumes a constant amortization to maturity of any discount or premium.

At cost, which approximates market value.

At June 30, 2007, the cost of investments for U.S. federal income tax purposes was \$270,743,172. Gross unrealized appreciation of investments was \$4,659,789 and gross unrealized depreciation of investments was \$3,652,230, resulting in net unrealized appreciation of \$1,007,559, based on cost for U.S. federal income tax purposes.

@ Neuberger Berman Prime Money Fund ("Prime Money") is also managed by Neuberger Berman Management Inc. and may be considered an affiliate since it has the same officers, Board members, and investment manager as the Fund and because, at times, the Fund may own 5% or more of the outstanding voting securities of Prime Money (see Notes A & E of Notes to Financial Statements).

ñ Restricted security subject to restrictions on resale under federal securities laws. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers under Rule 144A and have been deemed by the investment manager to be liquid. At June 30, 2007, these securities amounted to \$77,210,108 or 42.4% of net assets applicable to common shareholders.

^^ Denotes a step-up bond: a zero coupon bond that converts to a fixed rate of interest at a designated future date.

Ø All or a portion of this security was purchased on a when-issued basis. At June 30, 2007, these securities amounted to \$1,976,812, or 1.1% of net assets applicable to common shareholders.

ØØ All or a portion of this security is segregated as collateral for when-issued securities and/or interest rate swap contracts.

μ Floating rate securities are securities whose yields vary with a designated market index or market rate. These securities are shown at their current rates as of June 30, 2007.

Statement of Assets and Liabilities (Unaudited)

Lehman Brothers First Trust Income Opportunity Fund		June 30, 2007
Assets		
Investments in securities, at value* (Notes A & E) see Schedule of Investments:		
Unaffiliated issuers	\$	262,016,053
Affiliated issuers		9,734,678
		271,750,731
Cash		39,300
Receivable for securities sold		3,894,034
Interest receivable		4,775,548
Receivable for Fund shares sold		7,632
Interest rate swaps, at market value (Note A)		122,620
Prepaid expenses and other assets		52,426
Total Assets		280,642,291
Liabilities		
Distributions payable preferred shares		25,878
Distributions payable common shares		7,657
Payable for securities purchased		8,311,732
Payable to investment manager net (Notes A & B)		131,040
Payable to administrator (Note B)		10,971
Total Liabilities		8,487,278
Money Market Cumulative Preferred Shares (3,600 shares issued and outstanding) at liquidation value		90,000,000
Net Assets applicable to Common Shareholders at value	\$	182,155,013
Net Assets applicable to Common Shareholders consist of:		
Paid-in capital common shares	\$	173,930,043
Undistributed net investment income (loss)		87,392
Accumulated net realized gains (losses) on investments		6,728,697
Net unrealized appreciation (depreciation) in value of investments		1,408,881
Net Assets applicable to Common Shareholders at value	\$	182,155,013
Common Shares Outstanding, no par value; unlimited number of shares authorized		12,254,585
Net Asset Value per Common Share Outstanding	\$	14.86
*Cost of investments:		
Unaffiliated issuers	\$	260,727,172
Affiliated issuers		9,734,678
Total cost of investments	\$	270,461,850

See Notes to Financial Statements 13

Statement of Operations (Unaudited)

	For the Six Months Ended June 30, 2007
Lehman Brothers First Trust Income Opportunity Fund	
Investment Income	
Income (Note A):	
Interest income unaffiliated issuers	\$ 11,347,181
Income from investments in affiliated issuers (Notes A & E)	142,180
Total income	11,489,361
Expenses:	
Investment management fees (Note B)	820,776
Administration fees (Note B)	37,316
Investor service fees (Note B)	68,398
Custodian fees and other service fees (Note B)	93,457
Basic maintenance expense (Note B)	6,493
Audit fees	26,882
Shareholder reports	29,094
Preferred shares auction fees	110,669
Insurance expense	2,991
Trustees' fees and expenses	11,786
Miscellaneous	27,776
Total expenses	1,235,638
Investment management fees waived (Notes A & B)	(2,206)
Expenses reduced by custodian fee expense offset arrangement (Note B)	(1,104)
Total net expenses	1,232,328
Net investment income (loss)	10,257,033
Realized and Unrealized Gain (Loss) on Investments (Note A):	
Net realized gain (loss) on:	
Sales of investment securities of unaffiliated issuers	5,968,778
Interest rate swap contracts	274,657
Change in net unrealized appreciation (depreciation) in value of:	
Unaffiliated investment securities	(7,955,017)
Interest rate swap contracts	(394,457)
Net gain (loss) on investments	(2,106,039)
Distributions to preferred shareholders	(2,330,886)
Net increase (decrease) in net assets applicable to Common Shareholders resulting from operations	\$ 5,820,108

See Notes to Financial Statements 14

Statement of Changes in Net Assets

Lehman Brothers First Trust Income Opportunity Fund	Six Months Ended June 30, 2007 (Unaudited)	Year Ended December 31, 2006
Increase (Decrease) in Net Assets:		
From Operations:		
Net investment income (loss)	\$ 10,257,033	\$ 20,166,158
Net realized gain (loss) on investments	6,243,435	2,693,328
Change in unrealized appreciation (depreciation) of investments	(8,349,474)	4,853,489
Distributions to Preferred Shareholders From (Note A):		
Net investment income	(2,330,886)	(4,487,200)
Net increase in net assets applicable to common shares resulting from operations	5,820,108	23,225,775
Distributions to Common Shareholders From (Note A):		
Net investment income	(8,087,081)	(16,566,992)
From Capital Shares Transactions (Note D):		
Proceeds from reinvestment of dividends	32,614	72,014
Net increase (decrease) in net assets applicable to common shareholders	(2,234,359)	6,730,797
Net Assets Applicable to Common Shareholders:		
Beginning of period	184,389,372	177,658,575
End of period	\$ 182,155,013	\$ 184,389,372
Undistributed net investment income (loss) at end of period	\$ 87,392	\$ 248,326

See Notes to Financial Statements 15

Notes to Financial Statements Lehman Brothers First Trust Income Opportunity Fund (Unaudited)

Note A Summary of Significant Accounting Policies:

1 General: Lehman Brothers First Trust Income Opportunity Fund (the "Fund") was organized as a Delaware statutory trust on April 8, 2003, and is registered under the Investment Company Act of 1940, as amended (the "1940 Act"), as a diversified, closed-end management investment company. Prior to February 2007, Lehman Brothers Asset Management Inc. was investment adviser to the Fund. Effective February 2007, Neuberger Berman Management Inc. ("Management") became the investment adviser. Lehman Brothers Asset Management LLC ("LBAM LLC") is the sub-adviser to the Fund. The Fund's common shares are listed on the New York Stock Exchange under the symbol LBC.

The Fund's investment objective is to seek high total return (income plus capital appreciation). The Fund pursues its investment objective by investing its assets primarily in high yield debt securities.

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires Management to make estimates and assumptions at the date of the financial statements. Actual results could differ from those estimates.

2 Portfolio valuation: Investment securities are valued as indicated in the notes following the Schedule of Investments.

3 Securities transactions and investment income: Security transactions are recorded on trade date for financial reporting purposes. Dividend income is recorded on the ex-dividend date. Interest income, including amortization of premium and accretion of discount on securities, where applicable, is recorded on an accrual basis. Realized gains and losses on securities transactions are recorded on the basis of identified cost and stated separately in the Statement of Operations.

4 Income tax information: It is the policy of the Fund to continue to qualify as a regulated investment company by complying with the requirements of Subchapter M of the Internal Revenue Code applicable to regulated investment companies and to distribute substantially all of its earnings to its shareholders. Therefore, no federal income or excise tax provision is required.

Income distributions and capital gain distributions are determined in accordance with income tax regulations, which may differ from U.S. generally accepted accounting principles. These differences are primarily due to differing treatments of income and gains on various investment securities held by the Fund, timing differences and differing characterization of distributions made by the Fund as a whole.

As determined on December 31, 2006, permanent differences resulting primarily from different book and tax accounting due to the tax treatment for paydown gains and losses on mortgage backed securities, the tax treatment for swaps and amortization of bond premium were reclassified at fiscal year-end. These reclassifications had no effect on net income, net asset value applicable to common shareholders or net asset value per common share of the Fund.

The tax character of distributions paid during the years ended December 31, 2006 and December 31, 2005 was as follows:

Ordinary Income		Distributions Paid From:				Total	
		Long-Term Capital Gain	Tax Return of Capital				
2006	2005	2006	2005	2006	2005	2006	2005
\$ 21,054,192	\$ 21,925,912	\$	\$ 568,757	\$	\$ 49,045	\$ 21,054,192	\$ 22,543,714

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As of December 31, 2006, the components of distributable earnings (accumulated losses) on a U.S. federal income tax basis were as follows:

Undistributed Ordinary Income	Undistributed Long-Term Gain	Unrealized Appreciation (Depreciation)	Loss Carryforwards and Deferrals	Total
\$ 248,326	\$ 739,125	\$ 9,504,492	\$	\$ 10,491,943

The difference between book basis and tax basis distributable earnings is attributable primarily to the timing differences of wash sales.

5 Distributions to shareholders: The Fund earns income, net of expenses, daily on its investments. The Fund intends to make monthly distributions of net investment income to common shareholders, after payments of any distributions on outstanding Money Market Cumulative Preferred Shares ("MMP"). There is no assurance that the Fund will always be able to pay distributions of a particular size, or that distributions will consist solely of net investment income and realized capital gains. The composition of the Fund's distributions for the year ended December 31, 2007 will be reported to Fund shareholders on IRS Form 1099DIV. The Fund may pay additional distributions to avoid excise tax or to satisfy the requirements of Subchapter M of the Internal Revenue Code. Distributions to common shareholders are recorded on the ex-date. Net realized capital gains, if any, will be offset to the extent of any available capital loss carryforwards. Distributions to preferred shareholders are accrued and determined as described in note A-7.

On July 12, 2007, the Fund declared three monthly distributions to common shareholders in the amount of \$0.11 per share per month, payable after the close of the reporting period, on July 31, 2007, August 31, 2007 and September 28, 2007, respectively, to shareholders of record on July 24, 2007, August 24, 2007 and September 21, 2007, respectively.

6 Expense allocation: Certain expenses are applicable to multiple funds. Expenses directly attributable to the Fund are charged to the Fund. Expenses borne by the complex of related investment companies, which includes open-end and closed-end investment companies for which Management or its affiliates serve as investment manager, that are not directly attributed to the Fund are allocated among the Fund and the other investment companies in the complex or series thereof on the basis of relative net assets, except where a more appropriate allocation of expenses to each investment company in the complex or series thereof can otherwise be made fairly.

7 Money market cumulative preferred shares: The Fund is authorized to issue 3,750 MMP, each without par value. On October 22, 2003, the Fund issued 3,600 MMP with proceeds of \$90,000,000 in a public offering. The underwriting commissions and offering costs of \$1,236,545 were incurred in connection with the offering and were charged directly to paid-in capital of the common shares. Distributions to preferred shareholders are cumulative at a rate which is generally reset every twenty-eight days based on the results of an auction. The Fund pays commissions to certain broker-dealers at the end of each auction at an annual rate of 0.25% for a regular distribution period and at a rate agreed to by the Fund and the broker-dealers for a special distribution period. For the six months ended June 30, 2007, Lehman Government Securities, Inc., an affiliate of Management, earned \$0 in commissions.

Distributions to preferred shareholders are recorded daily and are payable at the end of each distribution period. Each distribution payment period for the MMP is generally twenty-eight days. For the six months ended June 30, 2007, the distribution rates for MMP ranged from 5.24% to 5.27%. The distribution rate for MMP on June 30, 2007 was 5.25%. In addition, at least annually, the Fund intends to distribute net capital gains, if any.

The MMP are redeemable at the option of the Fund at a redemption price equal to \$25,000 per share, plus accumulated and unpaid distributions, on any distribution payment date. The MMP are also subject to mandatory redemption at a redemption price equal to \$25,000 per share, plus accumulated and unpaid distributions, if the Fund defaults on its asset maintenance requirements with respect to the MMP and fails to cure such a default within the time permitted. If the distributions on the MMP shall remain unpaid in an amount equal to two full years' distributions, the holders of the MMP, as a class, have the right to elect a majority of the Board of Trustees. In

general, the holders of the MMP and the common shares have one vote for each dollar, and a proportionate fraction of a vote for each fraction of a dollar, of the net asset value per share, and vote together as a single class, except that the holders of the MMP, as a separate class, have the right to elect at least two members of the Board of Trustees and to vote under certain other circumstances specified in the Fund's Amended By-Laws. The Fund is required to maintain certain asset coverage with respect to the MMP as defined in the Fund's Amended By-Laws and the 1940 Act.

8 Interest rate swaps: The Fund may enter into interest rate swap transactions, with institutions that Management has determined are creditworthy, to reduce the risk that an increase in short-term interest rates could reduce common share net earnings as a result of leverage. Under the terms of the interest rate swap contracts, the Fund agrees to pay the swap counter party a fixed-rate payment in exchange for the counter party's paying the Fund a variable-rate payment that is intended to approximate all or a portion of the Fund's variable-rate payment obligation on the Fund's MMP. The fixed-rate and variable-rate payment flows are netted against each other, with the difference being paid by one party to the other on a monthly basis. The Fund segregates cash or liquid securities having a value at least equal to the Fund's net payment obligations under any swap transaction, marked to market daily.

Risks may arise if the counter party to a swap contract fails to comply with the terms of its contract. The loss incurred by the failure of a counter party is generally limited to the net interest payment to be received by the Fund and/or the termination value at the end of the contract. Additionally, risks may arise if there is no liquid market for these agreements or from movements in interest rates unanticipated by Management.

Periodic expected interim net interest payments or receipts on the swaps are recorded as an adjustment to unrealized gains/losses, along with the fair value of the future periodic payment streams on the swaps. The unrealized gains/losses associated with the periodic interim net interest payment are reclassified to realized gains/losses in conjunction with the actual net receipt or payment of such amounts. The reclassifications do not impact the Fund's total net assets applicable to common shareholders or its total net increase (decrease) in net assets applicable to common shareholders resulting from operations. At June 30, 2007, the Fund had outstanding interest rate swap contracts as follows:

Swap Counter Party	Notional Amount	Termination Date	Rate Type		Accrued Net Interest Receivable (Payable)	Unrealized Appreciation (Depreciation)	Total Fair Value
			Fixed-rate Payments Made by the Fund	Variable-rate Payments Received by the Fund ⁽¹⁾			
Citibank, N.A.	\$ 22,500,000	September 28, 2007	3.22%	5.32%	\$ 2,620	\$ 120,000	\$ 122,620

(1) 30 day LIBOR (London Interbank Offered Rate) at June 26, 2007.

9 Repurchase agreements: The Fund may enter into repurchase agreements with institutions that LBAM LLC has determined are creditworthy. Each repurchase agreement is recorded at cost. The Fund requires that the securities purchased in a repurchase agreement be transferred to the custodian in a manner sufficient to enable the Fund to assert a perfected security interest in those securities in the event of a default under the repurchase agreement. The Fund monitors, on a daily basis, the value of the securities transferred to ensure that their value, including accrued interest, is greater than amounts owed to the Fund under each such repurchase agreement.

10 Reverse repurchase agreements: The Fund may enter into reverse repurchase agreements with institutions deemed creditworthy by Management. A reverse repurchase agreement involves the sale of a security by the Fund, with an agreement to repurchase the same or substantially similar security at an agreed upon price and date. Securities purchased subject to repurchase agreements must have an aggregate market value greater than or equal to the repurchase price plus accrued interest at all times. Reverse repurchase agreements involve the risk that the market value of the securities purchased with the proceeds from the sale of securities received by the Fund may decline below the price of the securities that the Fund is obligated to repurchase. There were no reverse repurchase agreements outstanding at June 30, 2007.

11 Transactions with other funds managed by Neuberger Berman Management Inc.: Pursuant to an Exemptive Order issued by the Securities and Exchange Commission, the Fund may invest in a money market fund managed by Management or an affiliate. The Fund invests in Neuberger Berman Prime Money Fund ("Prime Money"), as approved by the Board. Prime Money seeks to provide the highest available current income consistent with safety and liquidity. For any cash that the Fund invests in Prime Money, Management waives a portion of its management fee equal to the management fee it receives from Prime Money on those assets (the "Arrangement"). For the six months ended June 30, 2007, management fees waived under this Arrangement amounted to \$2,206 and are reflected in the Statement of Operations under the caption "Investment management fees waived." For the six months ended June 30, 2007, income earned under this Arrangement amounted to \$142,180 and is reflected in the Statement of Operations under the caption "Income from investments in affiliated issuers."

12 Concentration of credit risk: The Fund will normally invest at least 80% of its Managed Assets (as defined in Note B) in investments offering high current income, which generally will be in the lower rating categories of recognized rating agencies. These investments are regarded as predominantly speculative with respect to the issuer's capacity to pay interest and repay principal in accordance with the terms of the obligations and will generally involve more credit risk than securities in the higher rating categories. In addition, the trading market for high yield investments may be relatively less liquid than the market for higher-rated investments.

Due to the inherent volatility and illiquidity of the high yield securities in which the Fund invests and the real or perceived difficulty of issuers of those high yield securities to meet their payment obligations during economic downturns or because of negative business developments relating to the issuer or its industry in general, the value and/or price of the Fund's shares may fluctuate more than would be the case if the Fund did not concentrate in high yield securities.

13 Risk associated with the use of leverage: The Fund's use of leverage through the issuance of preferred shares and borrowings, as well as the economic leverage inherent in certain derivatives, including credit default swaps, creates risks for holders of common shares. There is no assurance that the Fund's leveraging strategies will be successful. If the Fund issues preferred shares or borrows money to make additional investments and the income and capital appreciation from those investments exceed the distributions payable on the preferred shares or the costs of borrowing, the Fund's investment return will be greater than if leverage had not been used. However, if the distributions payable on the preferred shares or the costs of borrowing exceed the income and capital appreciation from the additional investments, the Fund would lose money and its investment return will be lower than if leverage had not been used. Leverage creates risk which may adversely affect the return for holders of common shares, including:

- (a) the likelihood of greater volatility of net asset value and market price of the Fund's common shares;
- (b) the possibility either that common share income will fall if the preferred share distribution rate rises or the Fund's borrowing costs increase, or that common share income will fluctuate because of changes in the preferred share distribution rates or borrowing costs.

14 Indemnifications: Like many other companies, the Fund's organizational documents provide that its officers and trustees are indemnified against certain liabilities arising out of the performance of their duties to the Fund. In addition, both in some of its principal service contracts and in the normal course of its business, the Fund enters into contracts that provide indemnifications to other parties for certain types of losses or liabilities. The Fund's maximum exposure under these arrangements is unknown as this could involve future claims against the Fund.

Note B Management Fees, Administration Fees, Distribution Arrangements, and Other Transactions with Affiliates:

The Fund pays all expenses incurred in connection with the operations of the Fund. These expenses, among others, include custodian and fund accounting and administrative fees, legal and audit fees, fees and expenses of the Trustees who are not "interested persons" within the meaning of the 1940 Act ("Independent Fund Trustees"), and printing expenses.

The Fund pays Management a monthly fee computed at an annual rate of 0.60% of the Fund's average daily "Managed Assets" (net assets, including assets attributable to any outstanding preferred shares, plus the aggregate principal amount of any borrowings). Management is responsible for developing, implementing and supervising the Fund's investment program and providing certain administrative services to the Fund. Management has retained LBAM LLC to serve as the sub-adviser of the Fund and to manage the Fund's investment portfolio. Management compensates LBAM LLC for its services as sub-adviser. Management pays LBAM LLC a monthly sub-advisory fee calculated at the following annual percentage rates of the Fund's average daily Managed Assets: 0.55% on the Fund's first \$25 million of Managed Assets, 0.45% on the next \$25 million of Managed Assets, 0.35% on the next \$50 million of Managed Assets, and 0.30% on Managed Assets that are in excess of \$100 million. Management and LBAM LLC are wholly owned subsidiaries of Lehman Brothers Holdings Inc., a publicly traded corporation.

First Trust Portfolios L.P. ("First Trust") serves as the Fund's distribution and marketing agent, and investor servicing agent. As the Fund's distribution and marketing agent, First Trust provides certain distribution and marketing services for the Fund's common shares including preparing marketing materials and presentations, developing contacts with brokers whose clients may have an interest in acquiring Fund shares and replying to information requests from prospective investors. In consideration for these services, First Trust receives a fee paid by Management.

First Trust, as the investor servicing agent, developed and maintains a website for the Fund, assists in the review of shareholder materials, assists in the dissemination of the Fund's net asset value and market price, provides ongoing shareholder and account maintenance services, replies to information requests from shareholders and aids in secondary market support. In consideration for these services, the Fund pays First Trust a monthly fee computed at the annual rate of 0.05% of the Fund's average daily Managed Assets. For the six months ended June 30, 2007, the Fund paid First Trust, as the investor servicing agent, a fee equal to \$68,398.

The Fund pays no compensation to its officers or to its Trustees who are interested Trustees of Management or its affiliates.

In order to satisfy rating agencies' requirements, the Fund is required to provide each rating agency a report on a monthly basis verifying that the Fund is maintaining eligible assets having a discounted value equal to or greater than the MMP Basic Maintenance Amount, which is the minimum level set by each rating agency as one of the conditions to maintain the AAA/Aaa rating on the MMP. "Discounted value" refers to the fact that the rating agencies require the Fund, in performing this calculation, to discount portfolio securities below their face value, at rates determined by the rating agencies. Prior to March 23, 2007, the Fund paid Investors Bank & Trust Company ("Investors Bank") for the preparation of this report. Effective March 23, 2007, the Fund pays State Street Bank & Trust Company ("State Street") for the preparation of this report, which is reflected in the Statement of Operations under the caption "Basic maintenance expense."

Prior to March 23, 2007, Investors Bank served as the Fund's custodian and administrator and as transfer agent, registrar and dividend paying agent for the common shares. For the six months ended June 30, 2007, the Fund paid Investors Bank \$73,906 for these services, which is reflected in the Statement of Operations under the caption "Custodian fee and other service fees." Effective March 23, 2007, State Street serves as the Fund's custodian, and The Bank of New York serves as the Fund's transfer agent, registrar and dividend paying agent.

Effective March 23, 2007, the Fund retains Management as its administrator under an Administration Agreement. The Fund pays Management an administration fee at the annual rate of 0.05% of its average daily Managed Assets under this agreement. Additionally, Management retains State Street as its sub-administrator under a Sub-Administration Agreement. Management pays State Street a fee for all services received under the agreement.

Effective March 23, 2007, the Fund has an expense offset arrangement in connection with its custodian contract. For the six months ended June 30, 2007, the impact of this arrangement was a reduction of expenses of \$1,104.

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Note C Securities Transactions:

For the six months ended June 30, 2007, there were purchases and sales of investments (excluding short-term securities and interest rate swap contracts) of \$198,519,779 and \$186,629,675, respectively.

Note D Capital:

At June 30, 2007, the common shares outstanding and the common shares of the Fund owned by Neuberger were as follows:

Common Shares Outstanding	Common Shares Owned by Neuberger
12,254,585	

The Fund's Declaration of Trust authorizes the Trustees to issue an unlimited number of common shares for the Fund, each without par value. Transactions in common shares for the six months ended June 30, 2007 and the year ended December 31, 2006 were as follows:

Reinvestment of Dividends and Distributions		Net Increase in Common Shares Outstanding	
2007	2006	2007	2006
2,143	4,904	2,143	4,904

Note E Investments In Affiliates*:

Name of Issuer	Balance of Shares Held December 31, 2006	Gross Purchases and Additions	Gross Sales and Reductions	Balance of Shares Held June 30, 2007	Value June 30, 2007	Income from Investments in Affiliated Issuers Included in Total Income
Neuberger Berman Prime Money Fund Trust Class**		56,053,939	46,319,261	9,734,678	\$ 9,734,678	\$ 142,180

* Affiliated issuers, as defined in the 1940 Act.

** Prime Money is also managed by Management and may be considered an affiliate since it has the same officers, Board members, and investment manager as the Fund and because, at times, the Fund may own 5% or more of the outstanding voting securities of Prime Money.

Note F Recent Accounting Pronouncement:

In September 2006, the Financial Accounting Standards Board ("FASB") issued FASB Statement No. 157, "Fair Value Measurement" ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Management believes the adoption of SFAS 157 will not have a material impact on the Fund's financial positions or results of operations.

Note G Unaudited Financial Information:

The financial information included in this interim report is taken from the records of the Fund without audit by an independent registered public accounting firm. Annual reports contain audited financial statements.

Financial Highlights

Lehman Brothers First Trust Income Opportunity Fund

The following table includes selected data for a share outstanding throughout each period and other performance information derived from the Financial Statements.

	Six Months Ended June 30, 2007 (Unaudited)	Year Ended December 31,			For the Period July 28, 2003 through December 31,
		2006	2005	2004	2003^
Net Asset Value, Beginning of Period (Common Shares)	\$ 15.05	\$ 14.51	\$ 15.58	\$ 15.51	\$ 14.33 [@]
Net Investment Income [¢]	0.84	1.65	1.71	1.72	0.64
Net Realized and Unrealized Gain (Loss) on Investments	(0.18)	0.61	(0.94)	0.11	1.31
Dividends to Preferred Shareholders from Net Investment Income [¢]	(0.19)	(0.37)	(0.24)	(0.11)	(0.02)
Total From Investment Operations Applicable to Common Shareholders	0.47	1.89	0.53	1.72	1.93
Less Distributions to Common Shareholders					
From Net Investment Income	(0.66)	(1.35)	(1.58)	(1.55)	(0.60)
From Net Realized Gains			(0.02)	(0.10)	(0.02)
From Return of Capital			(0.00)		
Total Distributions to Common Shareholders	(0.66)	(1.35)	(1.60)	(1.65)	(0.62)
Common Shares Offering Costs Charged to Paid-in Capital					(0.03)
Preferred Shares Underwriting Commissions and Offering Costs Charged to Paid in Capital					(0.10)
Net Asset Value, End of Period (Common Shares)	\$ 14.86	\$ 15.05	\$ 14.51	\$ 15.58	\$ 15.51
Market Value - End of Period (Common Shares)	\$ 15.33	\$ 15.18	\$ 15.61	\$ 16.48	\$ 15.91
Total Return on Net Asset Value (Common Shares) (%)	3.11**	13.91	3.63	11.99	12.73**
Total Return on Market Value (Common Shares) (%)	5.46**	6.79	5.40	15.48	10.47**
Ratio of Gross Expenses (excluding interest expense) to Average Net Assets Applicable to Common Shares (%) [#]	1.33*	1.49	1.53	1.48	1.42*
Ratio of Net Expenses (excluding interest expense) to Average Net	1.33* [§]	1.49	1.53	1.48	1.42*

Assets Applicable to					
Common Shares (%)					
Ratio of Interest Expense to Average Net Assets Applicable to Common					
Shares (%)					0.19*
Ratio of Net Investment Income to Average Net Assets Applicable to Common					
Shares (%)	11.10*	11.29	11.44	11.36	10.00*
Portfolio Turnover Rate (%)					
	70.70**	111.49	96.18	106.76	32.08
Net Assets Applicable to Common Shares, End of Period (000)					
	\$ 182,155	\$ 184,389	\$ 177,659	\$ 190,700	\$ 189,644
Money Market Cumulative Preferred Shares					
Preferred Shares Outstanding, End of Period (000)					
	\$ 90,000	\$ 90,000	\$ 90,000	\$ 90,000	\$ 90,000
Asset Coverage Per Share[@]					
	\$ 75,606	\$ 76,284	\$ 74,400	\$ 77,975	\$ 77,675
Involuntary Liquidation Preference Per Share					
	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000
Approximate Market Value Per Share					
	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000

See Notes to Financial Highlights 22

Notes to Financial Highlights Lehman Brothers First Trust Income Opportunity Fund

(Unaudited)

Total return based on per share net asset value reflects the effects of changes in net asset value on the performance of the Fund during each fiscal period. Total return based on per share market value assumes the purchase of common shares at the market price on the first day and sales of common shares at the market price on the last day of the period indicated. Distributions, if any, are assumed to be reinvested at prices obtained under the Fund's distribution reinvestment plan. Results represent past performance and do not guarantee future results. Current returns may be lower or higher than the performance data quoted. Investment returns may fluctuate and shares when sold may be worth more or less than original cost.

The Fund is required to calculate an expense ratio without taking into consideration any expense reductions related to expense offset arrangements.

§ After waiver of a portion of the investment management fee by Management. Had Management not undertaken such action, the annualized net expenses to average daily net assets would have been:

**Six Months
Ended
June 30,
2007**

1.34%

^ The date investment operations commenced.

* Annualized.

** Not annualized.

@ Calculated by subtracting the Fund's total liabilities (excluding accumulated unpaid distributions on MMP) from the Fund's total assets and dividing by the number of MMP outstanding.

Expense ratios do not include the effect of distribution payments to preferred shareholders. Income ratios include income earned on assets attributable to MMP outstanding.

¢ Calculated based on the average number of shares outstanding during each fiscal period.

@@ Net asset value at beginning of period reflects the deduction from the \$15.00 offering price of the sales load of \$0.675 per share paid by the shareholder.

Dividend Reinvestment Plan

The Fund has a Dividend Reinvestment Plan (the "Plan") commonly referred to as an "opt-out" plan. Each common shareholder will have all distributions of dividends and capital gains automatically reinvested in additional common shares by The Bank of New York, as agent for shareholders pursuant to the Plan (the "Plan Agent"), unless the shareholder elects to receive cash or unless the shares are registered in the name of a broker-dealer or other nominee (that is, in "street name") and the respective nominee does not participate in the Plan. For Plan participants, the Plan Agent will either (i) effect purchases of common shares under the Plan in the open market or (ii) distribute newly issued common shares of the Fund. Shareholders who elect not to participate in the Plan will receive all distributions in cash paid by check mailed directly to the shareholder of record (or if the shares are held in street or other nominee name, then to the nominee) by the Plan Agent, as dividend disbursing agent. Certain broker-dealers and nominees do not permit their clients to participate in dividend reinvestment plans. Shareholders whose common shares are held in the name of a broker or nominee should contact the broker or nominee to determine whether and how they may participate in the Plan.

The Plan Agent serves as agent for the shareholders in administering the Plan. After the Fund declares a dividend or makes a capital gain distribution, the Plan Agent will, as agent for the participants, either (i) receive the cash payment and use it to buy common shares in the open market, on the New York Stock Exchange or elsewhere, for the participants' accounts or (ii) distribute newly issued common shares of the Fund on behalf of the participants. The Plan Agent will receive cash from the Fund with which to buy common shares in the open market if, on the determination date, the net asset value per share exceeds the market price per share plus estimated brokerage commissions on that date. The Plan Agent will receive the dividend or distribution in newly issued common shares of the Fund if, on the determination date, the market price per share plus estimated brokerage commissions equals or exceeds the net asset value per share of the Fund on that date. The number of shares to be issued will be computed at a per share rate equal to the greater of (i) the net asset value or (ii) 95% of the closing market price per share on the payment date.

Participants in the Plan may withdraw from the Plan upon written notice to the Plan Agent. Such withdrawal will be effective immediately if received not less than ten days prior to a distribution record date; otherwise, it will be effective for all subsequent dividend record dates. When a participant withdraws from the Plan or upon termination of the Plan as provided below, certificates for whole common shares credited to his or her account under the Plan will be issued and a cash payment will be made for any fraction of a common share credited to such account. In the alternative, upon receipt of the participant's instructions, common shares will be sold and the proceeds sent to the participant less brokerage commissions and any applicable taxes.

The Plan Agent maintains each shareholder's account in the Plan and furnishes confirmations of all acquisitions made for the participant. Common shares in the account of each Plan participant will be held by the Plan Agent on behalf of the participant. Proxy material relating to shareholders' meetings of the Fund will include those shares purchased as well as shares held pursuant to the Plan.

In the case of shareholders, such as banks, brokers or nominees, which hold common shares for others who are the beneficial owners, the Plan Agent will administer the Plan on the basis of the number of common shares certified from time to time by the record shareholders as representing the total amount registered in the record shareholder's name and held for the account of beneficial owners who are participants in the Plan.

The Plan Agent's fees for the handling of reinvestment of dividends and other distributions will be paid by the Fund. Each participant will pay a pro rata share of brokerage commissions incurred with respect to the Plan Agent's open market purchases in connection with the reinvestment of distributions. There are no other charges to participants for reinvesting dividends or capital gain distributions; however, the Fund reserves the right to amend the Plan to include a service charge payable by the participants.

The automatic reinvestment of dividends and other distributions will not relieve participants of any income tax that may be payable or required to be withheld on such dividends or distributions.

The Fund and the Plan Agent reserve the right to amend or terminate the Plan.

Directory

Investment Manager and Administrator

Neuberger Berman Management Inc.
605 Third Avenue, 2nd Floor
New York, NY 10158-0180
800.877.9700 or 212.476.8800
Institutional Services 800.366.6264

Sub-Adviser

Lehman Brothers Asset Management LLC
200 South Wacker Drive
Suite 2100
Chicago, IL 60601

Custodian and Shareholder Servicing Agent

State Street Bank and Trust Company
225 Franklin Street
Boston, MA 02110

Stock Transfer Agent

The Bank of New York
101 Barclay Street, II-E
New York, NY 10286

Address correspondence to:

Neuberger Berman Management Inc.
605 Third Avenue, 2nd Floor
New York, NY 10158-0180
Attn: Institutional Services 800.366.6264

Legal Counsel

Kirkpatrick & Lockhart Preston Gates Ellis LLP
1601 K Street, NW
Washington, DC 20006

Independent Registered Public Accounting Firm

Ernst & Young LLP
200 Clarendon Street
Boston, MA 02116

Proxy Voting Policies and Procedures

A description of the policies and procedures that the Fund uses to determine how to vote proxies relating to portfolio securities is available, without charge, by calling 1-800-877-9700 (toll-free) and on the website of the Securities and Exchange Commission, at www.sec.gov. Information regarding how the Trust voted proxies relating to portfolio securities during the most recent 12-month period ended June 30 is also available without charge, by calling 1-800-877-9700 (toll-free), on the website of the Securities and Exchange Commission, at www.sec.gov, and at www.lbftincomeopportunity.com.

Quarterly Portfolio Schedule

The Fund files a complete schedule of portfolio holdings with the Securities and Exchange Commission for the first and third quarters of each fiscal year on Form N-Q. The Fund's Forms N-Q are available on the Securities and Exchange Commission's website at www.sec.gov and may be reviewed and copied at the Securities and Exchange Commission's Public Reference Room in Washington, DC. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330. The information on Form N-Q is available upon request, without charge, by calling 1-800-877-9700 (toll-free).

Amendment to Amended and Restated Declaration of Trust

The Amended and Restated Declaration of Trust of the Fund was amended in December 2006 to clarify that each shareholder will have one vote for each dollar, and a proportionate fraction of a vote for each fraction of a dollar, of the net asset value of each share owned on the record date.

Board Consideration of the Management and Sub-Advisory Agreements

At meetings held on February 14, 2007 and February 26, 2007, the Board of Trustees ("Board") of Lehman Brothers First Trust Income Opportunity Fund ("Fund"), including the Trustees who are not "interested persons" of the Fund ("Independent Fund Trustees"), approved the continuance of the Management and Sub-Advisory Agreements ("Agreements") for the Fund. In addition, the Board approved the transfer of the Management Agreement from Lehman Brothers Asset Management Inc. ("LBAM Inc.") to Neuberger Berman Management Inc. ("Management") and authorized Management to assume from LBAM Inc. the Sub-Advisory Agreement with Lehman Brothers Asset Management LLC ("LBAM LLC").

In evaluating the Agreements, the Board, including the Independent Fund Trustees, reviewed materials furnished by Management and LBAM LLC in response to questions submitted by counsel to the Independent Fund Trustees, and met with senior representatives of Management and LBAM LLC regarding their personnel and operations. The Independent Fund Trustees were advised by counsel that is experienced in investment company matters and that is independent of Management and Neuberger. The Independent Fund Trustees annually receive a memorandum from independent counsel discussing the legal standards for their consideration of the proposed continuance of the Agreements. They met with such counsel separately from representatives of Management to discuss the annual contract review. In addition, during this process, the Board held a separate meeting devoted to reviewing and discussing Fund performance.

The Board considered the following factors, among others, in connection with its approval of the transfer and continuance of the Agreements: (1) the nature, extent, and quality of the services provided by LBAM LLC and to be provided by Management; (2) the performance of the Fund compared to relevant market indices and a peer group of investment companies; (3) the costs of the services provided and/or profits historically realized by LBAM Inc./LBAM LLC and their affiliates from the relationship with the Fund; (4) the extent to which economies of scale might be realized as the Fund grows, noting that the Fund's closed-end structure limits its prospects for growth; and (5) whether fee levels reflect economies of scale for the benefit of investors in the Fund. In their deliberations, the Board members did not identify any particular information that was all-important or controlling, and each Trustee may have attributed different weights to the various factors.

The Board evaluated the terms of the Agreements and whether the Agreements were in the best interests of the Fund and its shareholders. The Board considered the nature, extent and quality of the services provided under the Agreements and the overall fairness of the Agreements to the Fund.

With respect to the nature, extent and quality of the services provided, the Board considered the performance of the Fund and the degree of risk undertaken by the portfolio managers. The Board considered the experience and staffing of portfolio management and the investment research personnel of LBAM LLC who perform services for the Fund. The Board noted that Management also will provide certain administrative services, including fund accounting and compliance oversight. The Board also considered Management's and LBAM LLC's policies and practices regarding brokerage and allocation of portfolio transactions for the Fund, noting that the Fund does not execute transactions through any affiliate, and discussed the quality of execution. The Board noted that as a fixed income fund, the Fund engaged almost exclusively in principal trades, and thus did not generate soft dollar commissions. In addition, the Board noted the positive compliance history of Management and LBAM LLC, as each firm has been free of significant compliance problems.

With respect to the performance of the Fund, the Board considered the performance of the Fund on both a market return and net asset value basis relative to its benchmark and a peer group of investment companies pursuing broadly similar strategies. The Board also considered the performance in relation to the degree of risk undertaken by the portfolio managers.

With respect to the overall fairness of the Agreements, the Board considered the fee structure of the Agreements as compared to a peer group of comparable funds and any fall-out benefits likely to accrue to Management or LBAM LLC or their affiliates. The Board also considered the profitability of Management and its affiliates from their association with the Fund.

The Board reviewed a comparison of the Fund's overall expense ratio to a peer group of comparable funds. The Board considered the mean and median of the management fees and expense ratios of the peer group, and the effects of specific portfolio management or administration needs on the advisory fee.

The Board considered whether there were other funds that were sub-advised by Management or LBAM LLC or their affiliates or separate accounts managed by Management or LBAM LLC with similar investment objectives, policies and strategies as the Fund. The Board compared the fees charged to comparable sub-advised funds and/or separate accounts to the fees charged to the Fund at various asset levels. The Board considered the appropriateness and reasonableness of the differences between the fee charged between the Fund and the comparable sub-advised funds and/or separate accounts and determined that the differences in fees were consistent with the differences in management and other services provided.

The Board also evaluated any actual or anticipated economies of scale in relation to the services Management provides to the Fund. The Board noted that the sub-advisory fee contains breakpoints at various asset levels and that the management fee did not contain breakpoints. The Board requested an analysis of the impact of these breakpoints on overall profitability.

In concluding that the benefits accruing to Management and its affiliates by virtue of their relationship to the Fund were reasonable in comparison with the costs of providing the investment advisory services and the benefits accruing to the Fund, the Board reviewed specific data as to LBAM Inc.'s profit or loss on the Fund for recent periods and the trend in profit or loss over recent years. The Board also carefully examined Management's cost allocation methodology. The Board recognized that Management should be entitled to earn a reasonable level of profits for services it provides to the Fund and, based on its review, concluded that Management's level of profitability from its relationship with the Fund would not be excessive. The Board also determined that the level of profitability from the sub-advisory relationship with the Fund was not excessive.

Conclusions

In approving the Agreements, the Board concluded that the terms of each Agreement are fair and reasonable and that approval of the Agreements is in the best interest of the Fund and its shareholders. In reaching this determination, the Board considered that, based on prior experience, Management and LBAM LLC could be expected to provide a high level of service to the Fund; that the performance of the Fund was satisfactory over time and that the Board retained confidence in Management's and LBAM LLC's capabilities to manage the Fund; that the Fund's fee structure appeared to the Board to be reasonable given the quality of services expected to be provided; and that the benefits accruing to Management and its affiliates by virtue of their relationship to the Fund were reasonable in comparison with the costs of providing the investment advisory services and the benefits accruing to the Fund.

Report of Votes of Shareholders

An annual meeting of shareholders of Lehman Brothers First Trust Income Opportunity Fund was held on April 16, 2007. Shareholders voted on the following matter: (1) To elect five Class II Directors (one of which is to be elected only by holders of the Fund's preferred shares) to serve until the annual meeting of shareholders in 2010, or until their successors are elected and qualified. Class I and III Directors continue to hold office until the annual meetings in 2009 and 2008, respectively.

Proposal 1 To elect five Class II Directors (one of which is to be elected only by holders of the Fund's preferred shares) to serve until the annual meeting of shareholders in 2010.

Common and Preferred Shares

	Votes For	Votes Withheld	Abstentions	Broker Non-Votes
C. Anne Harvey	230,965,658.000	1,461,302.000		
George Morriss	231,126,751.000	1,300,209.000		
Jack Rivkin	231,073,202.000	1,353,758.000		
Tom D. Seip	231,021,559.000	1,405,402.000		

Preferred Shares

	Votes For	Votes Withheld	Abstentions	Broker Non-Votes
John Cannon	64,400,000.000			

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Investment manager: **Neuberger Berman Management Inc.**

Sub-adviser: **Lehman Brothers Asset Management LLC**

Neuberger Berman Management Inc.

605 Third Avenue 2nd Floor

New York, NY 10158-0180

Retail Services: 800.877.9700

Broker/Dealer and Institutional Services: 800.366.6264 Web site: www.nb.com

Statistics and projections in this report are derived from sources deemed to be reliable but cannot be regarded as a representation of future results of the Fund. This report is prepared for the general information of shareholders and is not an offer of shares of the Fund. Shares are sold only through the currently effective prospectus, which must precede or accompany this report.

H0547 08/07

Item 2. Code of Ethics

The Board of Trustees of Lehman Brothers First Trust Income Opportunity Fund (Registrant or Fund) adopted a code of ethics that applies to the Registrant's principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions (Code of Ethics). For the period covered by this Form N-CSR, there were no amendments to the Code of Ethics and there were no waivers from the Code of Ethics granted to the Registrant's principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions.

A copy of the Code of Ethics was included as an exhibit to Registrant's Form N-CSR filed on March 12, 2007.

Item 3. Audit Committee Financial Expert

The Board has determined that the Registrant has three audit committee financial experts serving on its audit committee. The Registrant's audit committee financial experts are Martha Goss, Howard Mileaf and George Morriss. Ms. Goss, Mr. Mileaf and Mr. Morriss are independent trustees as defined by Form N-CSR.

Item 4. Principal Accountant Fees and Services

Only required in the annual report.

Item 5. Audit Committee of Listed Registrants

Only required in the annual report.

Item 6. Schedule of Investments

The complete schedule of investments for the Fund is disclosed in the Registrant's Semi-Annual Report, which is included as Item 1 of this Form N-CSR.

Item 7. Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies

Only required in the annual report.

Item 8. Portfolio Managers of Closed-End Management Investment Companies.

Only required in the annual report.

Item 9. Purchases of Equity Securities by Closed-End Management Investment Company and Affiliated Purchasers

No reportable purchases for the period covered by this report.

Item 10. Submission of Matters to a Vote of Security Holders

There were no changes to the procedures by which shareholders may recommend nominees to the Board.

Item 11. Controls and Procedures

(a)

Based on an evaluation of the disclosure controls and procedures (as defined in rule 30a-3(c) under the Investment Company Act of 1940, as amended (the "Act")) as of a date within 90 days of the filing date of this document, the Chief Executive Officer and Treasurer and Principal Financial and Accounting Officer of the Registrant have concluded that such disclosure controls and procedures are effectively designed to ensure that information required to be disclosed by the Registrant in the reports it files or submits on Form N-CSR and Form N-Q is accumulated and communicated to the Registrant's management to allow timely decisions regarding required disclosure.

(b)

There were no significant changes in the Registrant's internal controls over financial reporting (as defined in rule 30a-3(d) under the Act) that occurred during the Registrant's second fiscal quarter of the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Registrant's internal control over financial reporting.

Item 12. Exhibits

(a)(1)

A copy of the Code of Ethics is incorporated by reference to Registrant's Form N-CSR, Investment Company Act file number 811-21342 (filed March 12, 2007).

(a)(2)

The certifications required by Rule 30a-2(a) of the Act and Section 302 of the Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley Act) are filed herewith.

(a)(3)

Not applicable to the Registrant.

(b)

The certifications required by Rule 30a-2(b) of the Act and Section 906 of the Sarbanes-Oxley Act are filed herewith.

The certifications provided pursuant to Rule 30a-2(b) of the Act and Section 906 of the Sarbanes-Oxley Act are not deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 ("Exchange Act"), or otherwise subject to the liability of that section. Such certifications will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act, except to the extent that the Registrant specifically incorporates them by reference.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Lehman Brothers First Trust Income Opportunity Fund

By: /s/Peter E. Sundman

Peter E. Sundman

Chief Executive Officer

Date: August 24, 2007

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

By: /s/Peter E. Sundman

Peter E. Sundman

Chief Executive Officer

Date: August 24, 2007

By: /s/John M. McGovern

John M. McGovern

Treasurer and Principal Financial
and Accounting Officer

Date: August 24, 2007