HAIN CELESTIAL GROUP INC
Form 10-Q
February 07, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
ý Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended December 31, 2017

¨ Transition Report pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934
for the transition period from to .
Commission File No. 0-22818

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

Delaware (State or other jurisdiction of incorporation or organization)	22-3240619 (I.R.S. Employer Identification No.)
1111 Marcus Avenue Lake Success, New York (Address of principal executive offices)	11042 (Zip Code)

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

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ý No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ý No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	ý	Accelerated filer	¨	
Non-accelerated filer (Do not check if a smaller reporting company)	¨	Smaller reporting company	¨	Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes ¨ No ý

As of January 31, 2018, there were 103,918,020 shares outstanding of the registrant's Common Stock, par value $.01 per share.

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Cautionary Note Regarding Forward Looking Information

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, relating to our business and financial outlook, which are based on our current beliefs, assumptions, expectations, estimates, forecasts and projections about future events only as of the date of this Quarterly Report on Form 10-Q, and are not statements of historical fact. We make such forward-looking statements pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995.

Many of our forward-looking statements include discussions of trends and anticipated developments under the "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" sections of this Quarterly Report on Form 10-Q. In some cases, you can identify forward-looking statements by terminology such as the use of "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "projects," "intends," "predicts," "continue" and similar expressions, or the negative of those expressions. These forward-looking statements include, among other things, our beliefs or expectations relating to our business strategy, growth strategy, market price, brand portfolio and product performance, the seasonality of our business, our results of operations and financial condition, our Securities and Exchange Commission ("SEC") filings, enhancing internal controls and remediating material weaknesses. These forward-looking statements are not guarantees of our future performance and involve risks, uncertainties, estimates and assumptions that are difficult to predict. Therefore, our actual outcomes and results may differ materially from those expressed in these forward-looking statements. You should not place undue reliance on any of these forward-looking statements. Further, any forward-looking statement speaks only as of the date hereof, unless it is specifically otherwise stated to be made as of a different date. We undertake no obligation to further update any such statement to reflect new information, the occurrence of future events or circumstances or otherwise.

The forward-looking statements in this filing do not constitute guarantees or promises of future performance. Factors that could cause or contribute to such differences may include, but are not limited to, the impact of competitive products, changes to the competitive environment, changes to consumer preferences, general economic and financial market conditions, our ability to introduce new products and improve existing products, changes in relationships with customers, suppliers, strategic partners and lenders, risks associated with our international sales and operations, legal proceedings and government investigations (including any potential action by the Division of Enforcement of the SEC and securities class action and stockholder derivative litigation), our ability to manage our financial reporting and internal control systems and processes, the identification of material weaknesses in our internal control over financial reporting, the expected sales of our products, our ability to identify and complete acquisitions or divestitures and integrate acquisitions, changes in raw materials, commodity costs and fuel, the availability of organic and natural ingredients, risks relating to the protection of intellectual property, the reputation of our brands, changes to and the interpretation of governmental regulations, unanticipated expenditures, and other risks described in Part I, Item 1A of the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2017 under the heading "Risk Factors" and Part II, Item 1A, "Risk Factors" set forth herein, as well as in other reports that we file in the future.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE HAIN CELESTIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2017 AND JUNE 30, 2017
(In thousands, except par values)

	December 31, 2017 (Unaudited)	June 30, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$139,216	$146,992
Accounts receivable, less allowance for doubtful accounts of $1,201 and $1,447, respectively	274,728	248,436
Inventories	502,372	427,308
Prepaid expenses and other current assets	62,994	52,045
Total current assets	979,310	874,781
Property, plant and equipment, net	386,077	370,511
Goodwill	1,083,696	1,059,981
Trademarks and other intangible assets, net	583,911	573,268
Investments and joint ventures	19,301	18,998
Other assets	35,042	33,565
Total assets	$3,087,337	$2,931,104
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$263,395	$222,136
Accrued expenses and other current liabilities	112,677	108,514
Current portion of long-term debt	25,021	9,844
Total current liabilities	401,093	340,494
Long-term debt, less current portion	742,125	740,304
Deferred income taxes	98,127	121,475
Other noncurrent liabilities	23,446	15,999
Total liabilities	1,264,791	1,218,272
Commitments and contingencies (Note 14)		
Stockholders' equity:		
Preferred stock - $.01 par value, authorized 5,000 shares; issued and outstanding: none	—	—
Common stock - $.01 par value, authorized 150,000 shares; issued: 108,371 and 107,989 shares, respectively; outstanding: 103,918 and 103,702 shares, respectively	1,084	1,080
Additional paid-in capital	1,145,042	1,137,724
Retained earnings	935,771	868,822
Accumulated other comprehensive loss	(153,351)	(195,479)
	1,928,546	1,812,147
Less: Treasury stock, at cost, 4,453 and 4,287 shares, respectively	(106,000)	(99,315)
Total stockholders' equity	1,822,546	1,712,832
Total liabilities and stockholders' equity	$3,087,337	$2,931,104

See notes to consolidated financial statements.

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THE HAIN CELESTIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2017 AND 2016
(In thousands, except per share amounts)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2017	2016	2017	2016
Net sales	$775,204	$739,999	$1,483,480	$1,421,463
Cost of sales	630,933	601,606	1,207,606	1,173,203
Gross profit	144,271	138,393	275,874	248,260
Selling, general and administrative expenses	90,372	85,187	181,093	170,154
Amortization of acquired intangibles	4,909	4,693	9,820	9,421
Acquisition related expenses, restructuring and integration charges	4,797	108	10,643	568
Accounting review and remediation costs, net of insurance proceeds	4,451	7,005	3,093	12,966
Long-lived asset impairment	3,449	—	3,449	—
Operating income	36,293	41,400	67,776	55,151
Interest and other financing expense, net	6,513	5,097	12,828	10,178
Other (income)/expense, net	(760)	(1,353)	(3,897)	(1,865)
Income before income taxes and equity in net income of equity-method investees	30,540	37,656	58,845	46,838
(Benefit)/provision for income taxes	(16,369)	10,509	(7,899)	11,271
Equity in net income of equity-method investees	(194)	(38)	(205)	(222)
Net income	$47,103	$27,185	$66,949	$35,789
Net income per common share:				
Basic	$0.45	$0.26	$0.65	$0.35
Diluted	$0.45	$0.26	$0.64	$0.34
Shares used in the calculation of net income per common share:				
Basic	103,837	103,597	103,773	103,532
Diluted	104,440	104,204	104,379	104,225

See notes to consolidated financial statements.

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THE HAIN CELESTIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)
FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2017 AND 2016
(In thousands)

	Three Months Ended December 31, 2017			December 31, 2016		
	Pre-tax amount	Tax (expense) benefit	After-tax amount	Pre-tax amount	Tax benefit	After-tax amount
Net income			$47,103			$27,185
Other comprehensive income (loss):						
Foreign currency translation adjustments	$8,336	$ —	8,336	$(51,222)	$ —	(51,222)
Change in deferred gains (losses) on cash flow hedging instruments	—	—	—	(13)	3	(10)
Change in unrealized gain (loss) on available for sale investment	8	(3)	5	(32)	13	(19)
Total other comprehensive income (loss)	$8,344	$ (3)	$8,341	$(51,267)	$ 16	$(51,251)
Total comprehensive income (loss)			$55,444			$(24,066)

	Six Months Ended December 31, 2017			December 31, 2016		
	Pre-tax amount	Tax (expense) benefit	After-tax amount	Pre-tax amount	Tax benefit	After-tax amount
Net income			$66,949			$35,789
Other comprehensive income (loss):						
Foreign currency translation adjustments	$42,197	$ —	42,197	$(82,958)	$ —	(82,958)
Change in deferred gains (losses) on cash flow hedging instruments	(82)	15	(67)	(443)	38	(405)
Change in unrealized gain (loss) on available for sale investment	(2)	—	(2)	(89)	30	(59)
Total other comprehensive income (loss)	$42,113	$ 15	$42,128	$(83,490)	$ 68	$(83,422)
Total comprehensive income (loss)			$109,077			$(47,633)

See notes to consolidated financial statements.

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THE HAIN CELESTIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)
FOR THE SIX MONTHS ENDED DECEMBER 31, 2017
(In thousands, except par values)

	Common Stock		Additional		Treasury Stock		Accumulated Other	
	Shares	Amount at $.01	Paid-in Capital	Retained Earnings	Shares	Amount	Comprehensive Income (Loss)	Total
Balance at June 30, 2017	107,989	$ 1,080	$ 1,137,724	$ 868,822	4,287	$ (99,315)	$ (195,479)	$ 1,712,832
Net income				66,949				66,949
Other comprehensive income (loss)							42,128	42,128
Issuance of common stock pursuant to stock-based compensation plans	382	4	(4)					—
Shares withheld for payment of employee payroll taxes due on shares issued under stock-based compensation plans					166	(6,685)		(6,685)
Stock-based compensation expense			7,322					7,322
Balance at December 31, 2017	108,371	$ 1,084	$ 1,145,042	$ 935,771	4,453	$ (106,000)	$ (153,351)	$ 1,822,546

See notes to consolidated financial statements.

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THE HAIN CELESTIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
FOR THE SIX MONTHS ENDED DECEMBER 31, 2017 AND 2016
(In thousands)

	Six Months Ended December 31,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$66,949	$35,789
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	34,972	34,168
Deferred income taxes	(28,808)	(5,300)
Equity in net income of equity-method investees	(205)	(222)
Stock based compensation	7,322	5,235
Impairment of long-lived assets	3,449	—
Other non-cash items, net	(1,716)	130
Increase (decrease) in cash attributable to changes in operating assets and liabilities, net of amounts applicable to acquisitions:		
Accounts receivable	(19,194)	15,885
Inventories	(65,431)	(31,921)
Other current assets	(4,521)	20,854
Other assets and liabilities	4,636	(1,038)
Accounts payable and accrued expenses	27,973	42,547
Net cash provided by operating activities	25,426	116,127
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of businesses, net of cash acquired	(13,064)	—
Purchases of property and equipment	(31,027)	(28,725)
Proceeds from sale of business	—	5,419
Other	—	1,000
Net cash used in investing activities	(44,091)	(22,306)
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings under bank revolving credit facility	35,000	22,000
Repayments under bank revolving credit facility	(35,000)	(56,500)
Borrowings (repayments) of other debt, net	13,809	(13,690)
Acquisition related contingent consideration	—	(2,498)
Shares withheld for payment of employee payroll taxes	(6,685)	(7,934)
Net cash provided by (used in) financing activities	7,124	(58,622)
Effect of exchange rate changes on cash	3,765	(6,000)
Net (decrease) increase in cash and cash equivalents	(7,776)	29,199
Cash and cash equivalents at beginning of period	146,992	127,926
Cash and cash equivalents at end of period	$139,216	$157,125

See notes to consolidated financial statements.

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THE HAIN CELESTIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(Amounts in thousands, except par values and per share data)

1. BUSINESS

The Hain Celestial Group, Inc., a Delaware corporation (collectively along with its subsidiaries, the "Company," and herein referred to as "Hain Celestial," "we," "us" and "our"), was founded in 1993 and is headquartered in Lake Success, New York. The Company's mission has continued to evolve since its founding, with health and wellness being the core tenet — To Create and Inspire A Healthier Way of Life™ and be the leading marketer, manufacturer and seller of organic and natural, "better-for-you" products by anticipating and exceeding consumer expectations in providing quality, innovation, value and convenience. The Company is committed to growing sustainably while continuing to implement environmentally sound business practices and manufacturing processes. Hain Celestial sells its products through specialty and natural food distributors, supermarkets, natural food stores, mass market and e-commerce retailers, food service channels and club, drug and convenience stores in over 80 countries worldwide.

With a proven track record of strategic growth and profitability, the Company manufactures, markets, distributes and sells organic and natural products under brand names that are sold as "better-for-you" products, providing consumers with the opportunity to lead A Healthier Way of Life™. Hain Celestial is a leader in many organic and natural products categories, with many recognized brands in the various market categories it serves, including Almond Dream®, Arrowhead Mills®, Bearitos®, Better Bean™, BluePrint®, Celestial Seasonings®, Clarks™, Coconut Dream®, Cully & Sully®, Danival®, DeBoles®, Earth's Best®, Ella's Kitchen®, Empire®, Europe's Best®, Farmhouse Fare®, Frank Cooper's®, FreeBird®, Gale's®, Garden of Eatin'®, GG UniqueFiber™, Hain Pure Foods®, Hartley's®, Health Valley®, Imagine®, Johnson's Juice Co.®, Joya®, Kosher Valley®, Lima®, Linda McCartney's® (under license), MaraNatha®, Natumi®, New Covent Garden Soup Co.®, Plainville Farms®, Rice Dream®, Robertson's®, Rudi's Gluten-Free Bakery®, Rudi's Organic Bakery®, Sensible Portions®, Spectrum Organics®, Soy Dream®, Sun-Pat®, SunSpire®, Terra®, The Greek Gods®, Tilda®, Walnut Acres®, WestSoy®, Yorkshire Provender™ and Yves Veggie Cuisine®. The Company's personal care products are marketed under the Alba Botanica®, Avalon Organics®, Earth's Best®, JASON®, Live Clean® and Queen Helene® brands.

Changes in Segments

Effective July 1, 2017, due to changes to the Company's internal management and reporting structure, the United Kingdom operations of the Ella's Kitchen® brand ("Ella's Kitchen UK"), which was previously included within the United States reportable segment, was moved to the United Kingdom reportable segment. See Note 15, Segment Information, for additional information on the Company's operating and reportable segments.

2. BASIS OF PRESENTATION

The Company's unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by U.S. GAAP. The amounts as of and for the periods ended June 30, 2017 are derived from the Company's audited annual financial statements. The unaudited consolidated financial statements reflect all normal recurring adjustments which, in management's opinion, are necessary for a fair presentation for interim periods. Operating results for the three and six months ended December 31, 2017 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2018. Please refer to the Notes to the Consolidated Financial Statements as of June 30, 2017 and for the fiscal year then ended included in the Company's Annual Report on Form

10-K for the period ended June 30, 2017 (the “Form 10-K”) for information not included in these condensed notes.

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

Newly Adopted Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. This ASU, among other things, changes the treatment of share-based payment transactions by recognizing the impact of excess tax benefits or deficiencies related to exercised or vested awards in income tax expense in the period of exercise or vesting, instead of additional paid in capital. The updated guidance is effective for fiscal years beginning after December 15, 2016 and interim periods within those annual periods. The Company adopted this new guidance effective July 1, 2017. As a result of this adoption:

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- As required, we prospectively recognized discrete tax benefits of $237 and $836, respectively, in the income tax line item of our consolidated income statement for the three and six months ended December 31, 2017 related to excess tax benefits upon vesting or settlement in that period.
- We elected to adopt the cash flow presentation of the excess tax benefits retrospectively. As a result, we decreased our cash used in financing activities by $3,314 for the six months ended December 31, 2016.
- We have elected to continue to estimate the number of stock-based awards expected to vest, rather than electing to account for forfeitures as they occur to determine the amount of compensation costs to be recognized in each period.
- We have not changed our policy on statutory withholding requirements and will continue to allow an employee to withhold at the minimum statutory withholding requirements. Amounts paid by us to taxing authorities when directly withholding shares associated with employees' income tax withholding obligations are classified as a financing activity in our cash flow statement.
- We excluded the excess tax benefits from the assumed proceeds available to repurchase shares in the computation of our diluted earnings per share for the three and six months ended December 31, 2017.
- We did not have any material excess tax benefits previously recognized in additional paid-in capital; therefore, it was not necessary to record a deferred tax asset for the unrecognized tax benefits with an adjustment to opening retained earnings.

Recently Issued Accounting Pronouncements Not Yet Effective

In February 2016, the FASB issued ASU 2016-02, Leases. ASU 2016-02 revises accounting for operating leases by a lessee, among other changes, and requires a lessee to recognize a liability to make lease payments and an asset representing its right to use the underlying asset for the lease term in the balance sheet. The standard is effective for the first interim and annual periods beginning after December 15, 2018, with early adoption permitted. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. We are still evaluating the impact of our pending adoption of the new standard on our consolidated financial statements. We are currently assessing the impact the new standard will have on our Consolidated Financial Statements, which will consist primarily of a balance sheet gross up of our operating leases to show equal and offsetting lease assets and lease liabilities.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). This guidance outlines a single, comprehensive model for accounting for revenue from contracts with customers, providing a single five-step model to be applied to all revenue transactions. The guidance also requires improved disclosures to assist users of the financial statements to better understand the nature, amount, timing and uncertainty of revenue that is recognized. Subsequent to the issuance of ASU 2014-09, the FASB has issued various additional ASUs clarifying and amending this new revenue guidance. The guidance is effective for public entities for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that period, and we will adopt the new guidance in fiscal 2019. Entities have the choice to apply these ASUs either retrospectively to each reporting period presented or by recognizing the cumulative effect of applying these standards at the date of initial application and not adjusting comparative information. We are currently performing a diagnostic review of our arrangements with customers across our significant businesses, including our practices of offering rebates, refunds, discounts, and other price allowances, and trade and consumer promotion programs. We are evaluating our methods of estimating the amount and timing of these various forms of variable consideration. We are continuing to evaluate the impact the new guidance will have on our consolidated financial statements, but we currently expect to adopt ASU 2014-09 using the modified retrospective option.

Refer to Note 2, Summary of Significant Accounting Policies and Practices, in the Notes to the Consolidated Financial Statements as of June 30, 2017 and for the fiscal year then ended included in the Form 10-K for a detailed discussion on additional recently issued accounting pronouncements not yet adopted by the Company. There has been no change to the statements made in the Form 10-K as of the date of filing of this Form 10-Q.

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3. EARNINGS PER SHARE

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2017	2016	2017	2016
Numerator:				
Net income	$47,103	$27,185	$66,949	$35,789
Denominator:				
Basic weighted average shares outstanding	103,837	103,597	103,773	103,532
Effect of dilutive stock options, unvested restricted stock and unvested restricted share units	603	607	606	693
Diluted weighted average shares outstanding	104,440	104,204	104,379	104,225
Net income per common share:				
Basic	$0.45	$0.26	$0.65	$0.35
Diluted	$0.45	$0.26	$0.64	$0.34

Basic earnings per share excludes the dilutive effects of stock options, unvested restricted stock and unvested restricted share units. Diluted earnings per share includes the dilutive effects of common stock equivalents such as stock options and unvested restricted stock awards.

There were 567 and 275 stock-based awards excluded from our diluted earnings per share calculations for the three and six months ended December 31, 2017 and 2016, respectively, as such awards were contingently issuable based on market or performance conditions, and such conditions had not been achieved during the respective periods. Additionally, 27 restricted stock awards were excluded from our diluted earnings per share calculation for the three and six months ended December 31, 2016 as such awards were antidilutive. Restricted stock awards excluded from our diluted earnings per share calculation for the three and six months ended December 31, 2017 were de minimis.

Share Repurchase Program

On June 21, 2017, the Company's Board of Directors authorized the repurchase of up to $250,000 of the Company’s issued and outstanding common stock. Repurchases may be made from time to time in the open market, pursuant to pre-set trading plans, in private transactions or otherwise. The authorization does not have a stated expiration date. The extent to which the Company repurchases its shares and the timing of such repurchases will depend upon market conditions and other corporate considerations, including the Company’s historical strategy of pursuing accretive acquisitions. As of December 31, 2017, the Company had not repurchased any shares under this program and had $250,000 of remaining capacity under the share repurchase program.

4. ACQUISITIONS

The Company accounts for acquisitions in accordance with ASC 805, Business Combinations. The results of operations of the acquisitions have been included in the consolidated results from their respective dates of acquisition. The purchase price of each acquisition is allocated to the tangible assets, liabilities and identifiable intangible assets acquired based on their estimated fair values. Acquisitions may include contingent consideration, the fair value of which is estimated on the acquisition date as the present value of the expected contingent payments, determined using weighted probabilities of possible payments. The fair values assigned to identifiable intangible assets acquired were determined primarily by using an income approach which was based on assumptions and estimates made by management. Significant assumptions utilized in the income approach were based on company-specific information and projections which are not observable in the market and are thus considered Level 3 measurements as defined by authoritative guidance. The excess of the purchase price over the fair value of the identified assets and liabilities has been recorded as goodwill.

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The costs related to all acquisitions have been expensed as incurred and are included in “Acquisition related expenses, restructuring and integration charges” in the Consolidated Statements of Income. Acquisition related costs of $215 and $329 were expensed in the three and six months ended December 31, 2017, respectively. Acquisition related costs of $253 were expensed in the six months ended December 31, 2016. The Company did not incur any acquisition-related costs in the three months ended December 31, 2016. The expenses incurred primarily related to professional fees and other transaction-related costs associated with our recent acquisitions.

Fiscal 2018

On December 1, 2017, the Company acquired Clarks UK Limited, (“Clarks”), a leading maple syrup and natural sweetener brand, in the United Kingdom. Clarks produces natural sweeteners under the Clarks™ brand, including maple syrup, honey and carob, date and agave syrups, which are sold in leading retailers and used by food service and industrial customers in the United Kingdom. Consideration for the transaction consisted of cash, net of cash acquired, totaling £9,698 (approximately $13,064 at the transaction date exchange rate). Additionally, contingent consideration of up to a maximum of £1,500 is payable based on the achievement of specified operating results over the 18-month period following completion of the acquisition. Clarks is included in our United Kingdom operating segment. Net sales and income before income taxes attributable to the Clarks acquisition included in our consolidated results represented less than 1% of our consolidated results.

Fiscal 2017

On June 19, 2017, the Company acquired Sonmundo, Inc. d/b/a The Better Bean Company (“Better Bean”), which offers prepared beans and bean-based dips sold in refrigerated tubs under the Better Bean™ brand. Consideration for the transaction consisted of cash, net of cash acquired, totaling $3,434. Additionally, contingent consideration of up to a maximum of $4,000 is payable based on the achievement of specified operating results over the three-year period following the closing date. Better Bean is included in our Cultivate operating segment, which is part of Rest of World. Net sales and income before income taxes attributable to the Better Bean acquisition included in our consolidated results represented less than 1% of our consolidated results.

On April 28, 2017, the Company acquired The Yorkshire Provender Limited (“Yorkshire Provender”), a producer of premium branded soups based in North Yorkshire in the United Kingdom. Yorkshire Provender supplies leading retailers, on-the-go food outlets and food service providers in the United Kingdom. Consideration for the transaction consisted of cash, net of cash acquired, totaling £12,465 (approximately $16,110 at the transaction date exchange rate). Additionally, contingent consideration of up to a maximum of £1,500 is payable based on the achievement of specified operating results at the end of the three-year period following the closing date. Yorkshire Provender is included in our United Kingdom operating and reportable segment. Net sales and income before income taxes attributable to Yorkshire Provender included in our consolidated results represented less than 1% of our consolidated results.

5. INVENTORIES

Inventories consisted of the following:

	December 31, 2017	June 30, 2017
Finished goods	$ 295,927	$264,148
Raw materials, work-in-progress and packaging	206,445	163,160
	$ 502,372	$427,308

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6. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net consisted of the following:

	December 31, 2017	June 30, 2017
Land	$ 34,713	$33,930
Buildings and improvements	113,672	116,723
Machinery and equipment	367,366	350,689
Computer hardware and software	53,302	51,486
Furniture and fixtures	18,067	15,993
Leasehold improvements	30,290	29,296
Construction in progress	32,059	16,119
	649,469	614,236
Less: Accumulated depreciation and amortization	263,392	243,725
	$ 386,077	$370,511

Depreciation and amortization expense for the three months ended December 31, 2017 and 2016 was $10,043 and $9,888, respectively. Such expense for the six months ended December 31, 2017 and 2016 was $20,338 and $20,116, respectively.

In the second quarter of fiscal 2018, the Company determined that it was more likely than not that certain fixed assets at one of its manufacturing facilities in the United States would be sold or otherwise disposed of before the end of their estimated useful lives due to the Company's decision to utilize third-party manufacturers. As such, the Company recorded a $3,449 non-cash impairment charge related to the closure of the facility and included $4,851 as assets held for sale within "Prepaid expenses and other current assets", in its December 31, 2017 Consolidated Balance Sheet.

7. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

The following table shows the changes in the carrying amount of goodwill by business segment:

	United States	United Kingdom	Hain Pure Protein	Rest of World	Total
Balance as of June 30, 2017 (a)	$591,416	$329,135	$41,089	$98,341	$1,059,981
Acquisition activity	—	6,936	—	—	6,936
Reallocation of goodwill between reporting units (b)	(35,519)	35,519	—	—	—
Translation and other adjustments, net	134	13,567	—	3,078	16,779
Balance as of December 31, 2017 (a)	$556,031	$385,157	$41,089	$101,419	$1,083,696

(a) The total carrying value of goodwill is reflected net of $126,577 of accumulated impairment charges, of which $97,358 related to the Company's United Kingdom operating segment and $29,219 related to the Company's Europe operating segment.

(b) Effective July 1, 2017, due to changes to the Company's internal management and reporting structure, the United Kingdom operations of the Ella's Kitchen® brand, which was previously included within the United States reportable segment, was moved to the United Kingdom reportable segment. Goodwill totaling $35,519 was reallocated to the

United Kingdom reportable segment in connection with this change. See Note 1, Business, and Note 15, Segment Information, for additional information on the Company’s operating and reportable segments.

The Company performs its annual test for goodwill and indefinite lived intangible asset impairment as of the first day of the fourth quarter of its fiscal year. In addition, if and when events or circumstances change that would more likely than not reduce the fair value of any of its reporting units or indefinite-life intangible assets below their carrying value, an interim test is performed.

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The change in operating segments as described above was deemed a triggering event, resulting in the Company performing an interim goodwill impairment analysis on the reporting units impacted by this segment change as of immediately before and immediately after the change. There were no impairment indicators resulting from this analysis which was performed in the first quarter of fiscal 2018.

Other than as described above, there were no events or circumstances that warranted an interim impairment test for goodwill or indefinite lived intangible assets during the six months ended December 31, 2017.

Other Intangible Assets

The following table sets forth balance sheet information for intangible assets, excluding goodwill, subject to amortization and intangible assets not subject to amortization:

	December 31, 2017	June 30, 2017
Non-amortized intangible assets:		
Trademarks and tradenames (a)	$ 436,106	$424,817
Amortized intangible assets:		
Other intangibles	259,343	247,712
Less: accumulated amortization	(111,538)	(99,261)
Net carrying amount	$ 583,911	$573,268

(a) The gross carrying value of trademarks and tradenames is reflected net of $60,202 of accumulated impairment charges.

Amortized intangible assets, which are deemed to have a finite life, primarily consist of customer relationships and are amortized over their estimated useful lives of 3 to 25 years. Amortization expense included in continuing operations was as follows:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2017	2016	2017	2016
Amortization of acquired intangibles	$4,909	$4,693	$9,820	$9,421

8. DEBT AND BORROWINGS

Debt and borrowings consisted of the following:

	December 31, 2017	June 30, 2017
Credit Agreement borrowings payable to banks	$ 735,088	$733,715
Tilda short-term borrowing arrangements	19,094	7,761
Other borrowings	12,964	8,672
	767,146	750,148
Short-term borrowings and current portion of long-term debt	25,021	9,844
Long-term debt, less current portion	$ 742,125	$740,304

Credit Agreement

On December 12, 2014, the Company entered into the Second Amended and Restated Credit Agreement (the "Credit Agreement") which provides for a $1,000,000 unsecured revolving credit facility which may be increased by an additional uncommitted $350,000, provided certain conditions are met. The Credit Agreement expires in December 2019. Borrowings under the Credit Agreement may be used to provide working capital, finance capital expenditures and permitted acquisitions, refinance certain existing indebtedness and for other lawful corporate purposes. The Credit Agreement provides for multicurrency borrowings in Euros, Pounds Sterling and Canadian Dollars as well as other currencies which may be designated. In addition, certain wholly-owned foreign subsidiaries of the Company may be designated as co-borrowers. The Credit Agreement contains restrictive covenants, which are usual and customary for facilities of its type, and include, with specified exceptions, limitations on the Company's ability to engage in certain business activities, incur debt, have liens, make capital expenditures, pay dividends or make other distributions, enter into affiliate transactions, consolidate, merge or acquire or dispose of assets, and make certain investments, acquisitions and loans. The Credit Agreement also requires the Company to satisfy certain financial covenants, such as maintaining a consolidated interest coverage ratio (as defined in the Credit Agreement) of no less than 4.0 to 1.0 and a consolidated leverage ratio (as defined in the Credit Agreement) of no more than 3.5 to 1.0. The consolidated leverage ratio is subject to a step-up to 4.0 to 1.0 for the four full fiscal quarters following an acquisition. Obligations under the Credit Agreement are guaranteed by certain existing and future domestic subsidiaries of the Company. As of December 31, 2017, there were $735,088 of borrowings and $8,976 letters of credit outstanding under the Credit Agreement and $255,936 available, and the Company was in compliance with all associated covenants.

The Credit Agreement provides that loans will bear interest at rates based on (a) the Eurocurrency Rate, as defined in the Credit Agreement, plus a rate ranging from 0.875% to 1.70% per annum; or (b) the Base Rate, as defined in the Credit Agreement, plus a rate ranging from 0.00% to 0.70% per annum, the relevant rate being the Applicable Rate. The Applicable Rate will be determined in accordance with a leverage-based pricing grid, as set forth in the Credit Agreement. Swing line loans and Global Swing Line loans denominated in U.S, dollars will bear interest at the Base Rate plus the Applicable Rate, and Global Swing Line loans denominated in foreign currencies shall bear interest based on the overnight Eurocurrency Rate for loans denominated in such currency plus the Applicable Rate. The weighted average interest rate on outstanding borrowings under the Credit Agreement at December 31, 2017 was 3.00%. Additionally, the Credit Agreement contains a Commitment Fee, as defined in the Credit Agreement, on the amount unused under the Credit Agreement ranging from 0.20% to 0.30% per annum. Such Commitment Fee is determined in accordance with a leverage-based pricing grid, as set forth in the Credit Agreement.

Amended Credit Agreement

On February 6, 2018, the Company entered into the Third Amended and Restated Credit Agreement (the “Amended Credit Agreement”). The Amended Credit Agreement provides for the extension of our existing $1,000,000 unsecured revolving credit facility through February 6, 2023 and provides for an additional $300,000 term loan. Under the Amended Credit Agreement, the credit facility may be increased by an additional uncommitted $400,000, provided certain conditions are met. The financial covenants, interest rates, and general terms and conditions of both the unsecured revolving credit facility and term loan under the Amended Credit Agreement are substantially the same as our existing Credit Agreement.

The term loan is payable on the last day of each fiscal quarter commencing June 30, 2018 in an amount equal to $3,750 and can be prepaid in whole or in part without premium or penalty.

Tilda Short-Term Borrowing Arrangements

Tilda maintains short-term borrowing arrangements primarily used to fund the purchase of rice from India and other countries. The maximum borrowings permitted under all such arrangements are £52,000. Outstanding borrowings are collateralized by the current assets of Tilda, typically have six-month terms and bear interest at variable rates typically based on LIBOR plus a margin (weighted average interest rate of approximately 3.20% at December 31, 2017).

Other Borrowings

Other borrowings primarily relate to a cash pool facility in Europe and an uncommited revolving credit facility in India.

The cash pool facility provides our Europe operating segment with sufficient liquidity to support the Company’s growth objectives within this segment. The maximum borrowings permitted under the cash pool arrangement are

€12,500. Outstanding borrowings bear interest at variable rates typically based on EURIBOR plus a margin of 1.10% (weighted average interest rate of approximately 1.10% at December 31, 2017).

During the three months ended December 31, 2017, our Tilda Hain Indian subsidiary entered into an uncommitted revolving credit facility to fund its working capital needs. The maximum borrowings permitted under the arrangement are $4,000. There were no amounts outstanding at December 31, 2017.

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9. INCOME TAXES

The Company uses an estimated annual effective tax rate, which is based on expected annual income and statutory tax rates in the various jurisdictions in which the Company operates, to determine its quarterly provision for income taxes. Certain significant or unusual items are separately recognized in the quarter in which they occur and can be a source of variability in the effective tax rates from quarter to quarter. The Company's effective tax rate may change from period-to-period based on recurring and non-recurring factors including the geographical mix of earnings, enacted tax legislation, state and local income taxes and tax audit settlements.

The effective income tax rate was (53.6)% and 27.9% for the three months ended December 31, 2017 and 2016, respectively, and (13.4)% and 24.1% for the six months ended December 31, 2017 and 2016, respectively. The effective tax rate for the three and six months ended December 31, 2017 was primarily impacted by the enactment of the Tax Cuts and Jobs Act (the "Act") on December 22, 2017. The Act significantly revised the U.S. corporate income tax regime by lowering the U.S. federal corporate tax rate from 35% to 21% effective January 1, 2018, repealing the deduction for domestic production activities, imposing additional limitations on the deductibility of executive officers' compensation, implementing a territorial tax system and imposing a transition tax on deemed repatriated earnings of foreign subsidiaries. The Act provides for numerous significant tax law changes with varying effective dates. As a fiscal year-end taxpayer, certain provisions of the Act impacted the Company in our second quarter ended December 31, 2017, while other provisions will impact the Company beginning in fiscal 2019.

As the Company has a June 30 fiscal year-end, the lower corporate income tax rate will be phased in, resulting in a U.S. federal statutory rate of approximately 28.1% for fiscal 2018 and a 21% U.S. federal statutory rate for subsequent fiscal years. The three and six months ended December 31, 2017 included the impact of a $29,266 reduction to the value of the Company's net deferred tax liabilities as a result of the lowering of the U.S. corporate income tax rate, partially offset by an estimated $5,211 transition tax imposed on the deemed repatriation of deferred foreign income.

ASC 740 requires recording the effects of tax law changes in the period enacted as discrete items. However, the SEC issued Staff Accounting Bulletin No. 118 which permits filers to record provisional amounts during a measurement period ending no later than one year from the date of the Act's enactment. As of December 31, 2017, the Company had not completed its accounting for the tax effects of the Act; however, the Company has made a reasonable estimate of the effects on the existing deferred balances as well as the computation of the one-time transition tax. The final transition impacts of the Act may materially differ from the Company's estimates. Both the tax benefit and the tax charge represent provisional amounts and are subject to change due to further interpretations of the Act, legislative action to address questions that arise because of the Act, any changes in accounting standards for income taxes or related interpretations in response to the Act and/or any updates or changes to estimates the Company has utilized to calculate the transition impacts, including historical records, changes to current year earnings estimates and foreign exchange rates of foreign subsidiaries as well as the Company's ongoing analysis of the Act. No additional income taxes have been provided for distributing remaining undistributed foreign earnings or any additional outside basis differences inherent in the entities, as these amounts continue to be indefinitely reinvested in foreign operations. However, we do intend to further study changes enacted by the Act, costs of repatriation and the current and future cash needs of foreign operations to determine whether there is an opportunity to repatriate foreign cash balances in the future on a tax-efficient basis.

The effective tax rate for the three and six months ended December 31, 2016 was favorable as compared to the statutory rate as a result of the geographical mix of earnings and was also impacted by a reduction in the statutory tax rate in the United Kingdom enacted in the first quarter of fiscal 2017. Such reduction resulted in a decrease to the carrying value of net deferred tax liabilities of $2,086, which favorably impacted the effective tax rate.

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10. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2017	2016	2017	2016
Foreign currency translation adjustments:				
Other comprehensive income (loss) before reclassifications [1]	$8,336	$(51,222)	$42,197	$(82,958)
Deferred gains/(losses) on cash flow hedging instruments:				
Other comprehensive income before reclassifications	—	45	39	101
Amounts reclassified into income [2]	—	(55)	(106)	(506)
Unrealized gain/(loss) on available for sale investment:				
Other comprehensive loss before reclassifications	5	(19)	(2)	(69)
Amounts reclassified into income [3]	—	—	—	10
Net change in accumulated other comprehensive income (loss)	$8,341	$(51,251)	$42,128	$(83,422)

(1) Foreign currency translation adjustments included intra-entity foreign currency transactions that were of a long-term investment nature and were a gain of $315 and a loss of $12,908 for the three months ended December 31, 2017 and 2016, respectively, and a gain of $1,066 and a loss of $20,061 for the six months ended December 31, 2017 and 2016, respectively.

(2) Amounts reclassified into income for deferred gains/(losses) on cash flow hedging instruments are recorded in "Cost of sales" in the Consolidated Statements of Income and, before taxes, were $530 for the three months ended December 31, 2016 and $132 and $1,150 for the six months ended December 31, 2017 and 2016, respectively. There were no amounts reclassified into income for deferred gains/(losses) on cash flow hedging instruments for the three months ended December 31, 2017.

(3) Amounts reclassified into income for losses on sale of available for sale investments were based on the average cost of the shares held (See Note 12, Investments and Joint Ventures). Such amounts are recorded in "Other (income)/expense, net" in the Consolidated Statements of Income and were $16 before taxes for the six months ended December 31, 2016. There were no amounts reclassified into income for losses on sale of available for sale investments for the three and six months ended December 31, 2017.

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11. STOCK-BASED COMPENSATION AND INCENTIVE PERFORMANCE PLANS

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

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2017	2016	2017	2016
Compensation cost (included in selling, general and administrative expense)	$ 4,158	$ 2,531	$ 7,322	$ 5,235
Related income tax benefit	$ 1,187	$ 949	$ 2,421	$ 1,963

Stock Options

A summary of the stock option activity for the six months ended December 31, 2017 is as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Contractual Life (years)	Aggregate Intrinsic Value
Options outstanding and exercisable at June 30, 2017	122	$ 2.26		
Exercised	—	$ —		
Options outstanding and exercisable at December 31, 2017	122	$ 2.26	13.5	$ 4,893

	Six Months Ended December 31,	
	2017	2016
Intrinsic value of options exercised	—	6,507
Tax benefit recognized from stock option exercises	—	2,538

At December 31, 2017, there was no unrecognized compensation expense related to stock option awards.

Restricted Stock

A summary of the restricted stock and restricted share unit activity for the six months ended December 31, 2017 is as follows:

	Number of Shares	Weighted Average Grant Date Fair

	and Units	Value (per share)
Non-vested restricted stock, restricted share units, and performance units at June 30, 2017	992	$ 27.59
Granted	431	$ 33.85
Vested	(382)	$ 36.96
Forfeited	(14)	$ 29.59
Non-vested restricted stock, restricted share units, and performance units at December 31, 2017	1,027	$ 26.71

	Six Months Ended December 31,	
	2017	2016
Fair value of restricted stock and restricted share units granted	$14,595	$—
Fair value of shares vested	$14,238	$9,004
Tax benefit recognized from restricted shares vesting	$4,887	$3,464

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On July 3, 2012, the Company entered into a Restricted Stock Agreement (the “Agreement”) with Irwin D. Simon, the Company’s Chairman, President and Chief Executive Officer. The Agreement provides for a grant of 800 shares of restricted stock (the “Shares”), the vesting of which is both market and time-based. The market condition is satisfied in increments of 200 Shares upon the Company’s common stock achieving four share price targets. On the last day of any forty-five consecutive trading day period during which the average closing price of the Company’s common stock on the Nasdaq Global Select Market equals or exceeds the following prices: $31.25, $36.25, $41.25 and $50.00, respectively, the market condition for each increment of 200 Shares will be satisfied. The market conditions were required to be satisfied prior to June 30, 2017. Once each market condition has been satisfied, a tranche of 200 Shares will vest in equal amounts annually over a five-year period. Except in the case of a change of control, termination without cause, death or disability (each as defined in Mr. Simon’s Employment Agreement), the unvested Shares are subject to forfeiture unless Mr. Simon remains employed through the applicable market conditions and time vesting periods. The grant date fair value for each tranche was separately estimated based on a Monte Carlo simulation that calculated the likelihood of goal attainment and the time frame most likely for goal attainment. The total grant date fair value of the Shares was estimated to be $16,151, which was expected to be recognized over a weighted-average period of approximately 4.0 years. On September 28, 2012, August 27, 2013, December 13, 2013 and October 22, 2014, the four respective market conditions were satisfied. As such, the four tranches of 200 Shares each are expected to vest in equal amounts over the five-year period commencing on the first anniversary of the date the market condition for the respective tranche was satisfied.

At December 31, 2017, $18,620 of unrecognized stock-based compensation expense, net of estimated forfeitures, related to non-vested restricted stock awards, inclusive of the Shares, was expected to be recognized over a weighted-average period of approximately 1.9 years.

Long-Term Incentive Plan

The Company maintains a long-term incentive program (the “LTI Plan”). The LTI Plan currently consists of a two-year performance-based long-term incentive plan (the “2015-2016 LTIP”) and two performance-based long-term incentive plans (the “2016-2018 LTIP” and the “2017-2019 LTIP”) that provide for performance equity awards that can be earned over the respective three-year performance period. Participants in the LTI Plan include the Company’s executive officers, including the Chief Executive Officer, and certain other key executives.

The Compensation Committee administers the LTI Plan and is responsible for, among other items, selecting the specific performance measures for awards and setting the target performance required to receive an award after the completion of the performance period. The Compensation Committee determines the specific payout to the participants. Such awards may be paid in cash and/or unrestricted shares of the Company’s common stock at the discretion of the Compensation Committee, provided that any such stock-based awards shall be issued pursuant to and be subject to the terms and conditions of the Amended and Restated 2002 Long-Term Incentive and Stock Award Plan, as in effect and as amended from time-to-time.

Upon the adoption of the 2015-2016 LTIP, the Compensation Committee granted an initial award to each participant in the form of equity-based instruments (restricted stock or restricted share units), for a portion of the individual target awards (the “Initial Equity Grants”). These Initial Equity Grants were subject to the achievement of minimum performance goals and vested on a pro rata basis over the three-year period. The 2015-2016 LTIP awards contain an additional year of time-based vesting. The Initial Equity Grants were expensed over the vesting period of three years on a straight-line basis through November 2017.

Upon adoption of the 2016-2018 LTIP and 2017-2019 LTIP, the Compensation Committee granted performance units to each participant, the achievement of which is dependent upon a defined calculation of relative total shareholder return over the period from July 1, 2015 to June 30, 2018 and from July 1, 2017 to June 30, 2019 (the “TSR Grant”), respectively. The grant date fair value for these awards was separately estimated based on a Monte Carlo simulation that calculated the likelihood of goal attainment. Each performance unit translates into one unit of common stock. The TSR grant represents half of each participant’s target award. The other half of the 2016-2018 LTIP and 2017-2019 LTIP is based on the Company’s achievement of specified net sales growth targets over the respective three-year period, if the targets are achieved, the award in connection with the 2016-2018 LTIP may be paid in cash and/or unrestricted shares of the Company’s common stock at the discretion of the Compensation Committee, while the award in connection with the 2017-2019 LTIP may be paid only in unrestricted shares of the Company’s common stock.

The Company recorded a net benefit (in addition to the stock-based compensation expense associated with the Initial Equity Grants and the TSR Grant) of $21 and net expense of $525 for the three and six months ended December 31, 2017, respectively, due to the Company’s current estimates of achievement under the plans. The Company recorded expense of $1,128 and $2,255 for the three and six months ended December 31, 2016, respectively, related to the LTI Plan.

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12. INVESTMENTS AND JOINT VENTURES

Equity method investments

In October 2009, the Company formed a joint venture, Hutchison Hain Organic Holdings Limited (“HHO”), with Hutchison China Meditech Ltd. (“Chi-Med”), a majority-owned subsidiary of CK Hutchison Holdings Limited, to market and distribute certain of the Company’s brands in Hong Kong, China and other surrounding markets. Voting control of the joint venture is shared equally between the Company and Chi-Med, although, in the event of a deadlock, Chi-Med has the ability to cast the deciding vote, and therefore, the investment is being accounted for under the equity method of accounting. At December 31, 2017 and June 30, 2017, the carrying value of the Company’s 50.0% investment in, and advances to, HHO were $2,407 and $1,629, respectively, and are included in the Consolidated Balance Sheet as a component of “Investments and joint ventures.”

On October 27, 2015, the Company acquired a 14.9% interest in Chop’t Creative Salad Company LLC (“Chop’t”). Chop’t develops and operates fast-casual, fresh salad restaurants in the Northeast and Mid-Atlantic United States. Chop’t markets and sells certain of the Company’s branded products and provides consumer insight and feedback. The investment is being accounted for as an equity method investment due to the Company’s representation on the Board of Directors. During the three months ended December 31, 2017, the Company’s ownership interest was reduced to 14.3% due to the distribution of additional ownership interests. Further ownership interest distributions could potentially dilute the Company’s ownership interest to as low as 11.9%. At December 31, 2017 and June 30, 2017, the carrying value of the Company’s investment in Chop’t was $16,014 and $16,487, respectively, and is included in the Consolidated Balance Sheets as a component of “Investments and joint ventures.”

Available-For-Sale Securities

The Company has a less than 1% equity ownership interest in Yeo Hiap Seng Limited (“YHS”), a Singapore-based natural food and beverage company listed on the Singapore Exchange, which is accounted for as an available-for-sale security. The shares held at December 31, 2017 totaled 933. The fair value of these shares held was $880 (cost basis of $1,164) at December 31, 2017 and $882 (cost basis of $1,164) at June 30, 2017 and is included in “Investments and joint ventures,” with the related unrealized gain or loss, net of tax, included in “Accumulated other comprehensive loss” in the Consolidated Balance Sheet. The Company concluded that the decline in its YHS investment below its cost basis is temporary and, accordingly, has not recognized a loss in the Consolidated Statements of Operations. In making this determination, the Company considered its intent and ability to hold the investment until the cost is recovered, the financial condition and near-term prospects of YHS, the magnitude of the loss compared to the investment’s cost and publicly available information about the industry and geographic region in which YHS operates.

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13. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

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

- Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2 – Quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability; and
- Level 3 – Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

The following table presents by level within the fair value hierarchy assets and liabilities measured at fair value on a recurring basis as of December 31, 2017:

	Total	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Cash equivalents	$20,813	$20,813	$ —	$ —
Forward foreign currency contracts	39	—	39	—
Available for sale securities	880	880	—	—
Total	$21,732	$21,693	$ 39	$ —
Liabilities:				
Forward foreign currency contracts	$216	$—	$ 216	$ —
Contingent consideration, non-current	4,559	—	—	4,559
Total	$4,775	$—	$ 216	$ 4,559

The following table presents by level within the fair value hierarchy assets and liabilities measured at fair value on a recurring basis as of June 30, 2017:

	Total	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Cash equivalents	$21,800	$21,800	$ —	$ —
Forward foreign currency contracts	99	—	99	—
Available for sale securities	882	882	—	—
Total	$22,781	$22,682	$ 99	$ —
Liabilities:				
Forward foreign currency contracts	$53	$—	$ 53	$ —
Contingent consideration, non-current	2,656	—	—	2,656
Total	$2,709	$—	$ 53	$ 2,656

Available for sale securities consist of the Company’s investment in YHS (see Note 12, Investments and Joint Ventures). Fair value is measured using the market approach based on quoted prices. The Company utilizes the income approach to measure fair value for its foreign currency forward contracts. The income approach uses pricing models that rely on market observable inputs such as yield curves, currency exchange rates and forward prices.

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The Company estimates the original fair value of the contingent consideration as the present value of the expected contingent payments, determined using the weighted probabilities of the possible payments. The Company reassesses the fair value of contingent payments on a periodic basis. Although the Company believes its estimates and assumptions are reasonable, different assumptions, including those regarding the operating results of the respective businesses, or changes in the future may result in different estimated amounts.

The following table summarizes the Level 3 activity for the six months ended December 31, 2017.

Balance as of June 30, 2017	$2,656
Fair value of initial contingent consideration[a]	1,547
Contingent consideration adjustment [b]	325
Translation adjustment	31
Balance as of December 31, 2017	$4,559

(a) In connection with the acquisition of Clarks during fiscal 2018, payment of a portion of the purchase price is contingent upon the achievement of certain operating results. Contingent consideration of up to a maximum of £1,500 is payable based on the achievement of specified operating results over the 18-month period following completion of the acquisition.

(b) The change in the fair value of contingent consideration is included in “Acquisition related expenses, restructuring and integration charges” in the Company’s Consolidated Statements of Income.

There were no transfers of financial instruments between the three levels of fair value hierarchy during the six months ended December 31, 2017 or December 31, 2016.

The carrying amount of cash and cash equivalents, accounts receivable, net, accounts payable and certain accrued expenses and other current liabilities approximate fair value due to the short-term maturities of these financial instruments. The Company’s debt approximates fair value due to the debt bearing fluctuating market interest rates (See Note 8, Debt and Borrowings).

Derivative Instruments

The Company primarily has exposure to changes in foreign currency exchange rates relating to certain anticipated cash flows and firm commitments from its international operations. The Company may enter into certain derivative financial instruments, when available on a cost-effective basis, to manage such risk. Derivative financial instruments are not used for speculative purposes. The fair value of these derivatives is included in prepaid expenses and other current assets and accrued expenses and other current liabilities in the Consolidated Balance Sheet. For derivative instruments that qualify as hedges of probable forecasted cash flows, the effective portion of changes in fair value is temporarily reported in accumulated other comprehensive income and recognized in earnings when the hedged item affects earnings. Fair value hedges and derivative instruments not designated as hedges are marked-to-market each reporting period with any unrealized gains or losses recognized in earnings.

Derivative instruments designated at inception as hedges are measured for effectiveness at the inception of the hedge and on a quarterly basis. These assessments determine whether derivatives designated as qualifying hedges continue to be highly effective in offsetting changes in the cash flows of hedged items. Any ineffective portion of change in fair value is not deferred in accumulated other comprehensive income and is included in current period results. The

Company will discontinue cash flow hedge accounting when the forecasted transaction is no longer probable of occurring on the originally forecasted date or when the hedge is no longer effective. There were no discontinued foreign exchange hedges for the three and six months ended December 31, 2017 and December 31, 2016.

There were no cash flow hedges outstanding as of December 31, 2017. The notional and fair value amounts of cash flow hedges at June 30, 2017 were $1,828 and $84 of net assets, respectively. The notional and fair value amounts of derivatives designated as fair value hedges at December 31, 2017 were $4,500 and $94 of net liabilities, respectively. There were no fair value hedges outstanding as of June 30, 2017.

The notional and fair value amounts of derivatives not designated as hedges at December 31, 2017 were $17,903 and $83 of net liabilities, respectively. There were $6,114 of notional amount and $38 of net liabilities of derivatives not designated as hedges as of June 30, 2017.

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Gains and losses related to both designated and non-designated foreign currency exchange contracts are recorded in the Company's Consolidated Statements of Operations based upon the nature of the underlying hedged transaction and were not material for the three and six months ended December 31, 2017 and December 31, 2016.

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14. COMMITMENTS AND CONTINGENCIES

Securities Class Actions Filed in Federal Court

On August 17, 2016, three securities class action complaints were filed in the Eastern District of New York against the Company alleging violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. The three complaints are: (1) Flora v. The Hain Celestial Group, Inc., et al., (the "Flora Complaint"); (2) Lynn v. The Hain Celestial Group, Inc., et al. (the "Lynn Complaint"); and (3) Spadola v. The Hain Celestial Group, Inc., et al. (the "Spadola Complaint" and, together with the Flora and Lynn Complaints, the "Securities Complaints"). On June 5, 2017, the court issued an order for consolidation, appointment of Co-Lead Plaintiffs and approval of selection of co-lead counsel. Pursuant to this order, the Securities Complaints were consolidated under the caption In re The Hain Celestial Group, Inc. Securities Litigation (the "Consolidated Securities Action"), and Rosewood Funeral Home and Salamon Gimpel were appointed as Co-Lead Plaintiffs. On June 21, 2017, the Company received notice that plaintiff Spadola voluntarily dismissed his claims without prejudice to his ability to participate in the Consolidated Securities Action as an absent class member. The Co-Lead Plaintiffs in the Consolidated Securities Action filed a Consolidated Amended Complaint on August 4, 2017 and a Corrected Consolidated Amended Complaint on September 7, 2017 on behalf of a purported class consisting of all persons who purchased or otherwise acquired Hain Celestial securities between November 5, 2013 and February 10, 2017 (the "Amended Complaint"). The Amended Complaint names as defendants the Company and certain of its current and former officers (collectively, the "Defendants") and asserts violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 based on allegedly materially false or misleading statements and omissions in public statements, press releases and SEC filings regarding the Company's business, prospects, financial results and internal controls. Defendants filed a motion to dismiss on October 3, 2017. Co-Lead Plaintiffs filed an opposition on December 1, 2017, and Defendants filed the reply on January 16, 2018. The motion to dismiss is pending before the Court.

Stockholder Derivative Complaints Filed in State Court

On September 16, 2016, a stockholder derivative complaint, Paperny v. Heyer, et al. (the "Paperny Complaint"), was filed in New York State Supreme Court in Nassau County against the Board of Directors and certain officers of the Company alleging breach of fiduciary duty, unjust enrichment, lack of oversight and corporate waste. On December 2, 2016 and December 29, 2016, two additional stockholder derivative complaints were filed in New York State Supreme Court in Nassau County against the Board of Directors and certain officers under the captions Scarola v. Simon (the "Scarola Complaint") and Shakir v. Simon (the "Shakir Complaint" and, together with the Paperny Complaint and the Scarola Complaint, the "Derivative Complaints"), respectively. Both the Scarola Complaint and the Shakir Complaint allege breach of fiduciary duty, lack of oversight and unjust enrichment. On February 16, 2017, the parties for the Derivative Complaints entered into a stipulation consolidating the matters under the caption In re The Hain Celestial Group (the "Consolidated Derivative Action") in New York State Supreme Court in Nassau County, ordering the Shakir Complaint as the operative complaint. On November 2, 2017, the parties agreed to stay the Consolidated Derivative Action until April 11, 2018.

Additional Stockholder Class Action and Derivative Complaints Filed in Federal Court

On April 19, 2017 and April 26, 2017, two class action and stockholder derivative complaints were filed in the Eastern District of New York against the Board of Directors and certain officers of the Company under the captions Silva v. Simon, et al. (the "Silva Complaint") and Barnes v. Simon, et al. (the "Barnes Complaint"), respectively. Both the Silva Complaint and the Barnes Complaint allege violation of securities law, breach of fiduciary duty, waste of corporate assets and unjust enrichment.

On May 23, 2017, an additional stockholder filed a complaint under seal in the Eastern District of New York against the Board of Directors and certain officers of the Company. The complaint alleges that the Company's directors and certain officers made materially false and misleading statements in press releases and SEC filings regarding the Company's business, prospects and financial results. The complaint also alleges that the Company violated its by-laws and Delaware law by failing to hold its 2016 Annual Stockholders Meeting and includes claims for breach of fiduciary duty, unjust enrichment and corporate waste. On August 9, 2017, the Court granted an order to unseal this case and reveal Gary Merenstein as the plaintiff.

On August 10, 2017, the court granted the parties stipulation to consolidate the Barnes Compliant, the Silva Complaint and the Merenstein Compliant under the caption In re The Hain Celestial Group, Inc. Stockholder Class and Derivative Litigation (the "Consolidated Stockholder Class and Derivative Action") and to appoint Robbins Arroyo LLP and Scott+Scott as Co-Lead Counsel, with the Law Offices of Thomas G. Amon as Liaison Counsel for Plaintiffs. On September 14, 2017, a related complaint was filed under the caption Oliver v. Berke, et al. (the "Oliver Complaint"), and on October 6, 2017, the Oliver Complaint was consolidated with the Consolidated Stockholder Class and Derivative Action. The Plaintiffs filed their consolidated amended complaint under seal on October 26, 2017. On December 20, 2017, the parties agreed to stay Defendants' time to answer, move,

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or otherwise respond to the consolidated amended complaint through and including 30 days after a decision is rendered on the motion to dismiss the Amended Complaint in the consolidated Securities Class Actions, described above.

SEC Investigation

As previously disclosed, the Company voluntarily contacted the SEC in August 2016 to advise it of the Company's delay in the filing of its periodic reports and the performance of the independent review conducted by the Audit Committee. The Company has continued to provide information to the SEC on an ongoing basis, including, among other things, the results of the independent review of the Audit Committee as well as other information pertaining to its internal accounting review relating to revenue recognition. The SEC has issued subpoenas to the Company relevant to its investigation. The Company is in the process of responding to the SEC's requests for information and intends to cooperate fully with the SEC.

Other

In addition to the litigation described above, the Company is and may be a defendant in lawsuits from time to time in the normal course of business. While the results of litigation and claims cannot be predicted with certainty, the Company believes the reasonably possible losses of such matters, individually and in the aggregate, are not material. Additionally, the Company believes the probable final outcome of such matters will not have a material adverse effect on the Company's consolidated results of operations, financial position, cash flows or liquidity.

15. SEGMENT INFORMATION

Prior to July 1, 2017, the Company's operations were managed in eight operating segments: the United States, United Kingdom, Tilda, Hain Pure Protein Corporation ("HPPC"), EK Holdings, Inc. ("Empire"), Canada, Europe and Cultivate. The United States operating segment was also a reportable segment. The United Kingdom and Tilda operating segments were reported in the aggregate as "United Kingdom", while HPPC and Empire were reported in the aggregate as "Hain Pure Protein," and Canada, Europe and Cultivate were combined and reported as "Rest of World."

Effective July 1, 2017, due to changes to the Company's internal management and reporting structure, the United Kingdom operations of the Ella's Kitchen® brand, which was previously included within the United States reportable segment, was moved to the United Kingdom reportable segment. As a result, the Company is now managed in nine operating segments: the United States, United Kingdom, Tilda, Ella's Kitchen UK, HPPC, Empire, Europe, Canada and Cultivate. Ella's Kitchen UK is now combined with the United Kingdom and Tilda operating segments and is reported within the United Kingdom reportable segment. There were no changes to the Hain Pure Protein reportable segment or Rest of World. The prior period segment information contained below has been adjusted to reflect the Company's new operating and reporting structure.

Net sales and operating income are the primary measures used by the Company's Chief Operating Decision Maker ("CODM") to evaluate segment operating performance and to decide how to allocate resources to segments. The CODM is the Company's Chief Executive Officer. Expenses related to certain centralized administration functions that are not specifically related to an operating segment are included in "Corporate and Other." Corporate and Other expenses are comprised mainly of the compensation and related expenses of certain of the Company's senior executive officers and other selected employees who perform duties related to the entire enterprise, as well as expenses for certain professional fees, facilities, and other items which benefit the Company as a whole. Additionally, acquisition related expenses, restructuring and integration charges and other, along with accounting review and remediation costs, are included in "Corporate and Other." Expenses that are managed centrally, but can be attributed to a segment, such as employee benefits and certain facility costs, are allocated based on reasonable allocation methods. Assets are reviewed by the CODM on a consolidated basis and therefore are not reported by operating segment.

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2017	2016	2017	2016
Net Sales:				
United States	$270,303	$278,640		