HAIN CELESTIAL GROUP INC
Form 10-Q
May 08, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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FORM 10-Q

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(Mark One)
ý Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2018
or
¨ Transition Report pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934
for the transition period from to
Commission File No. 0-22818

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

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| | |
|---|---|
| Delaware | 22-3240619 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 1111 Marcus Avenue<br>Lake Success, New York | 11042 |
| (Address of principal executive offices) | (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<br>(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 Exchange Act).
Yes ¨ No ý

As of April 30, 2018, there were 108,383,245 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 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” section 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,” “potential 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, improve existing products and execute on stock keeping unit (“SKU”) rationalization plans, changes in relationships with customers, suppliers, independent distributors, 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 and remediation 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, freight and commodity costs and fuel, our ability to execute and realize cost savings initiatives under Project Terra, the availability of organic and natural ingredients, risks relating to the protection of intellectual property, cybersecurity risks, 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
MARCH 31, 2018 AND JUNE 30, 2017
(In thousands, except par values)

| | March 31, 2018 (Unaudited) | June 30, 2017 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $117,152 | $137,055 |
| Accounts receivable, less allowance for doubtful accounts of $1,953 and $404, respectively | 261,517 | 225,765 |
| Inventories | 399,156 | 341,995 |
| Prepaid expenses and other current assets | 62,635 | 46,179 |
| Current assets of discontinued operations | 315,201 | 123,787 |
| Total current assets | 1,155,661 | 874,781 |
| Property, plant and equipment, net | 314,237 | 291,866 |
| Goodwill | 1,056,954 | 1,018,892 |
| Trademarks and other intangible assets, net | 540,234 | 521,228 |
| Investments and joint ventures | 20,126 | 18,998 |
| Other assets | 33,312 | 30,235 |
| Noncurrent assets of discontinued operations | — | 175,104 |
| Total assets | $3,120,524 | $2,931,104 |
| LIABILITIES AND STOCKHOLDERS’ EQUITY | | |
| Current liabilities: | | |
| Accounts payable | $214,743 | $186,193 |
| Accrued expenses and other current liabilities | 111,326 | 106,727 |
| Current portion of long-term debt | 25,677 | 9,626 |
| Current liabilities of discontinued operations | 61,941 | 37,948 |
| Total current liabilities | 413,687 | 340,494 |
| Long-term debt, less current portion | 723,457 | 740,135 |
| Deferred income taxes | 83,402 | 98,346 |
| Other noncurrent liabilities | 24,211 | 15,975 |
| Noncurrent liabilities of discontinued operations | — | 23,322 |
| Total liabilities | 1,244,757 | 1,218,272 |
| Commitments and contingencies (Note 15) | | |
| 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: 108,383 and 107,989 shares, respectively; outstanding: 103,925 and 103,702 shares, respectively | 1,084 | 1,080 |
| Additional paid-in capital | 1,147,978 | 1,137,724 |
| Retained earnings | 948,457 | 868,822 |
| Accumulated other comprehensive loss | (115,584) | (195,479) |
| | 1,981,935 | 1,812,147 |
| Less: Treasury stock, at cost, 4,458 and 4,287 shares, respectively | (106,168) | (99,315) |
| Total stockholders’ equity | 1,875,767 | 1,712,832 |
| Total liabilities and stockholders’ equity | $3,120,524 | $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 NINE MONTHS ENDED MARCH 31, 2018 AND 2017
(In thousands, except per share amounts)

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Net sales | $632,720 | $588,798 | $1,838,171 | $1,740,614 |
| Cost of sales | 499,707 | 449,595 | 1,447,820 | 1,365,080 |
| Gross profit | 133,013 | 139,203 | 390,351 | 375,534 |
| Selling, general and administrative expenses | 86,063 | 76,169 | 258,586 | 237,657 |
| Amortization of acquired intangibles | 4,713 | 4,206 | 13,859 | 12,887 |
| Acquisition related expenses, restructuring and integration charges | 4,831 | 2,083 | 13,750 | 2,652 |
| Accounting review and remediation costs, net of insurance proceeds | 3,313 | 7,124 | 6,406 | 20,089 |
| Long-lived asset impairment | 4,839 | — | 8,290 | — |
| Operating income | 29,254 | 49,621 | 89,460 | 102,249 |
| Interest and other financing expense, net | 6,782 | 5,399 | 19,543 | 15,491 |
| Other (income)/expense, net | (1,560) | 2,072 | (5,447) | 246 |
| Income from continuing operations before income taxes and equity in net income of equity-method investees | 24,032 | 42,150 | 75,364 | 86,512 |
| Provision (benefit) for income taxes | (1,310) | 9,149 | (11,516) | 19,512 |
| Equity in net loss (income) of equity-method investees | 101 | 177 | (104) | (45) |
| Net income from continuing operations | $25,241 | $32,824 | $86,984 | $67,045 |
| Net (loss) income from discontinued operations, net of tax | (12,555) | (1,496) | (7,349) | 72 |
| Net income | $12,686 | $31,328 | $79,635 | $67,117 |
| | | | | |
| Net income (loss) per common share: | | | | |
| Basic net income per common share from continuing operations | $0.24 | $0.32 | $0.84 | $0.65 |
| Basic net (loss) income per common share from discontinued operations | (0.12) | (0.01) | (0.07) | — |
| Basic net income per common share | $0.12 | $0.30 | $0.77 | $0.65 |
| | | | | |
| Diluted net income per common share from continuing operations | $0.24 | $0.31 | $0.83 | $0.64 |
| Diluted net (loss) income per common share from discontinued operations | (0.12) | (0.01) | (0.07) | — |
| Diluted net income per common share | $0.12 | $0.30 | $0.76 | $0.64 |
| | | | | |
| Shares used in the calculation of net income per common share: | | | | |
| Basic | 103,918 | 103,687 | 103,821 | 103,584 |
| Diluted | 104,503 | 104,246 | 104,473 | 104,232 |

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 NINE MONTHS ENDED MARCH 31, 2018 AND 2017
(In thousands)

| | Three Months Ended March 31, 2018 | | | March 31, 2017 | | |
|---|---|---|---|---|---|---|
| | Pre-tax amount | Tax (expense) benefit | After-tax amount | Pre-tax amount | Tax (expense) benefit | After-tax amount |
| Net income | | | $12,686 | | | $31,328 |
| Other comprehensive income (loss): | | | | | | |
| Foreign currency translation adjustments | $37,868 | $ — | 37,868 | $14,630 | $ — | 14,630 |
| Change in deferred gains (losses) on cash flow hedging instruments | — | — | — | (21) | 4 | (17) |
| Change in unrealized gain (loss) on available for sale investment | (68) | (33) | (101) | 83 | (33) | 50 |
| Total other comprehensive income (loss) | $37,800 | $ (33) | $37,767 | $14,692 | $ (29) | $14,663 |
| Total comprehensive income | | | $50,453 | | | $45,991 |

| | Nine Months Ended March 31, 2018 | | | March 31, 2017 | | |
|---|---|---|---|---|---|---|
| | Pre-tax amount | Tax (expense) benefit | After-tax amount | Pre-tax amount | Tax (expense) benefit | After-tax amount |
| Net income | | | $79,635 | | | $67,117 |
| Other comprehensive income (loss): | | | | | | |
| Foreign currency translation adjustments | $80,065 | $ — | 80,065 | $(68,329) | $ — | (68,329) |
| Change in deferred gains (losses) on cash flow hedging instruments | (82) | 15 | (67) | (464) | 42 | (422) |
| Change in unrealized gain (loss) on available for sale investment | (70) | (33) | (103) | (6) | (3) | (9) |
| Total other comprehensive income (loss) | $79,913 | $ (18) | $79,895 | $(68,799) | $ 39 | $(68,760) |
| Total comprehensive income (loss) | | | $159,530 | | | $(1,643) |

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 NINE MONTHS ENDED MARCH 31, 2018
(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 | | | | 79,635 | | | | 79,635 |
| Other comprehensive income (loss) | | | | | | | 79,895 | 79,895 |
| Issuance of common stock pursuant to stock-based compensation plans | 394 | 4 | (4) | | | | | — |
| Shares withheld for payment of employee payroll taxes due on shares issued under stock-based compensation plans | | | | | 171 | (6,853) | | (6,853) |
| Stock-based compensation expense | | | 10,258 | | | | | 10,258 |
| Balance at March 31, 2018 | 108,383 | $ 1,084 | $ 1,147,978 | $ 948,457 | 4,458 | $ (106,168) | $ (115,584) | $ 1,875,767 |

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 NINE MONTHS ENDED MARCH 31, 2018 AND 2017
(In thousands)

| | Nine Months Ended March 31, 2018 | 2017 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | $79,635 | $67,117 |
| Net (loss) income from discontinued operations | (7,349) | 72 |
| Net income from continuing operations | 86,984 | 67,045 |
| Adjustments to reconcile net income from continuing operations to net cash provided by operating activities from continuing operations: | | |
| Depreciation and amortization | 45,139 | 44,735 |
| Deferred income taxes | (30,115) | (6,543) |
| Equity in net income of equity-method investees | (104) | (45) |
| Stock-based compensation | 10,258 | 7,519 |
| Impairment of long-lived assets | 8,290 | — |
| Bad debt expense | 1,860 | 19 |
| Other non-cash items, net | (3,885) | 1,824 |
| Increase (decrease) in cash attributable to changes in operating assets and liabilities, net of amounts applicable to acquisitions: | | |
| Accounts receivable | (23,998) | 30,891 |
| Inventories | (43,355) | (20,415) |
| Other current assets | (8,153) | 21,000 |
| Other assets and liabilities | 5,367 | (929) |
| Accounts payable and accrued expenses | 19,082 | 18,078 |
| Net cash provided by operating activities - continuing operations | 67,370 | 163,179 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisitions of businesses, net of cash acquired | (13,064) | — |
| Purchases of property and equipment | (48,368) | (30,650) |
| Proceeds from sale of business | — | 5,419 |
| Other | 124 | 1,000 |
| Net cash used in investing activities - continuing operations | (61,308) | (24,231) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Borrowings under bank revolving credit facility | 45,000 | 22,000 |
| Repayments under bank revolving credit facility | (355,185) | (67,500) |
| Borrowings under term loan | 299,245 | — |
| Borrowings (repayments) of other debt, net | 3,111 | (17,863) |
| Funding of discontinued operations entities | (17,167) | (22,473) |
| Acquisition related contingent consideration | — | (2,498) |
| Shares withheld for payment of employee payroll taxes | (6,853) | (7,936) |
| Net cash used in financing activities - continuing operations | (31,849) | (96,270) |
| Effect of exchange rate changes on cash | 5,884 | (4,850) |

| | | |
|---|---|---|
| CASH FLOWS FROM DISCONTINUED OPERATIONS | | |
| Cash used in operating activities | (11,783 ) | (11,889 ) |
| Cash used in investing activities | (8,531 ) | (13,414 ) |
| Cash provided by financing activities | 17,011 | 22,191 |
| Net cash flows used in discontinued operations | (3,303 ) | (3,112 ) |
| | | |
| Net (decrease) increase in cash and cash equivalents | (23,206 ) | 34,716 |
| Cash and cash equivalents at beginning of period | 146,992 | 127,926 |
| Cash and cash equivalents at end of period | $123,786 | $162,642 |
| Less: cash and cash equivalents of discontinued operations | $(6,634 ) | $(9,820 ) |
| Cash and cash equivalents of continuing operations at end of period | $117,152 | $152,822 |

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.

Discontinued Operations

In March 2018, the Company’s Board of Directors approved a plan to sell all of the operations of the Hain Pure Protein Corporation (“HPPC”) and EK Holdings, Inc. (“Empire”) operating segments, which are reported in the aggregate as the Hain Pure Protein reportable segment. These dispositions are being undertaken to reduce complexity in the Company’s operations and simplify the Company’s brand portfolio, in addition to allowing additional flexibility to focus on opportunities for growth and innovation in the Company’s more profitable core businesses.
Collectively, these dispositions represent a strategic shift that will have a major impact on the Company’s operations and financial results and have been accounted for as discontinued operations. See Note 4, Discontinued Operations, for additional information.

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 16, 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 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 nine months ended March 31, 2018 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 fiscal year ended June 30, 2017 (the “Form 10-K”) for information not included in these condensed notes.

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The Company is presenting the operating results and cash flows of the Hain Pure Protein reportable segment within discontinued operations in the current and prior periods. The assets and liabilities of the Hain Pure Protein reportable segment are presented as assets and liabilities of discontinued operations in the Consolidated Balance Sheets for all periods presented.

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:

- As required, we prospectively recognized a discrete tax expense of $6 and a discrete tax benefit of $830, respectively, in the income tax line item of our consolidated income statements for the three and nine months ended March 31, 2018 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 $3,338 for the nine months ended March 31, 2017.
- 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 nine months ended March 31, 2018.
- 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 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

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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.

3. EARNINGS PER SHARE

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

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Numerator: | | | | |
| Net income from continuing operations | $25,241 | $32,824 | $86,984 | $67,045 |
| Net (loss) income from discontinued operations, net of tax | (12,555 ) | (1,496 ) | (7,349 ) | 72 |
| Net income | $12,686 | $31,328 | $79,635 | $67,117 |
| | | | | |
| Denominator: | | | | |
| Basic weighted average shares outstanding | 103,918 | 103,687 | 103,821 | 103,584 |
| Effect of dilutive stock options, unvested restricted stock and unvested restricted share units | 585 | 559 | 652 | 648 |
| Diluted weighted average shares outstanding | 104,503 | 104,246 | 104,473 | 104,232 |
| | | | | |
| Basic net income (loss) per common share: | | | | |
| Continuing operations | $0.24 | $0.32 | $0.84 | $0.65 |
| Discontinued operations | (0.12 ) | (0.01 ) | (0.07 ) | — |
| Basic net income per common share | $0.12 | $0.30 | $0.77 | $0.65 |
| | | | | |
| Diluted net income (loss) per common share: | | | | |
| Continuing operations | $0.24 | $0.31 | $0.83 | $0.64 |
| Discontinued operations | (0.12 ) | (0.01 ) | (0.07 ) | — |
| Diluted net income per common share | $0.12 | $0.30 | $0.76 | $0.64 |

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 559 and 271 stock-based awards excluded from our diluted earnings per share calculations for the three and nine months ended March 31, 2018 and 2017, 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, 5 restricted stock awards were excluded from our diluted earnings per share calculation for the three and nine months ended March 31, 2017 as such awards were antidilutive. Restricted stock awards excluded from our diluted earnings per share calculation for the three and nine months ended March 31, 2018 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 March 31, 2018, the Company had not repurchased any shares under this program and had $250,000 of remaining capacity under the share repurchase program.

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4. DISCONTINUED OPERATIONS

In March 2018, the Company's Board of Directors approved a plan to sell all of the operations of the HPPC and Empire operating segments, which are reported in the aggregate as the Hain Pure Protein reportable segment ("Hain Pure Protein"). Collectively, these dispositions represent a strategic shift that will have a major impact on the Company's operations and financial results and have been accounted for as discontinued operations. The Company is actively marketing the sale of Hain Pure Protein, and a sale is anticipated to occur within the next twelve months. The Company is presenting the operating results and cash flows of Hain Pure Protein within discontinued operations in the current and prior periods. The assets and liabilities of Hain Pure Protein are presented as assets and liabilities of discontinued operations in the Consolidated Balance Sheets for all periods presented.

The following table presents the major classes of Hain Pure Protein's line items constituting the "Net (loss) income from discontinued operations, net of tax" in our Consolidated Statements of Income:

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Net sales | $118,198 | $117,765 | $396,227 | $387,413 |
| Cost of sales | 113,629 | | | |