I believe this is a good example of how a Board effectively handles allegations of misconduct. Hain Celestial appears to have commissioned a targeted investigation that lasted three months and resulted in sensible, non-destructive changes at the Company. Unfortunately, the Audit Committee of the MiMedx Board of Directors did not take this approach. It instead commissioned an open-ended investigation of unprecedented length that has been extravagantly expensive, destructive to the Company, and largely nonproductive.

“Pete”

Parker H. “Pete” Petit

SEC Charges The Hain Celestial Group with Internal Controls Failures

The Securities and Exchange Commission today announced settled charges against a natural and organic food company stemming from weaknesses in the company's internal controls related to end-of-quarter sales practices that were designed to help the company meet its internal sales targets. Based upon its extensive cooperation with the SEC's investigation, which included self-reporting and remediation efforts, the SEC did not impose a monetary penalty on the company.

According to the SEC's order, between 2014 and 2016, sales personnel for The Hain Celestial Group, Inc. offered the company's two largest distributors incentives at the end of fiscal quarters to encourage the purchase of sufficient inventory for Hain to meet quarterly internal sales targets. The incentives offered by Hain included rights of return for products that spoiled or expired before they were sold to retailers, as well as cash incentives of up to $500,000, substantial discounts, and extended payment terms. According to the SEC's order, some of the incentives were agreed to orally and not documented, and others were documented only in email exchanges with the distributors. The SEC's order found that the company lacked sufficient policies and procedures to ensure the incentives were properly documented and accounted for and that Hain's finance department was not aware of the quarterly incentive practices until May 2016.

After its finance department discovered the existence of the sales incentive practices, Hain undertook an internal investigation, and in August 2016, the company self-reported to the SEC its discovery of the sales incentives and announced it was delaying its financial reporting for 2016. Ten months later, Hain reported that financial restatements were not required and simultaneously disclosed material weaknesses in its internal control of financial reporting. As reflected the SEC's order, Hain has since made organizational changes, including the retention of staff in compliance positions, and has implemented changes to its revenue recognition practices.

"Hain's internal control failures and poor documentation of the sales incentives contributed to the delay in its financial reporting," said Carolyn Welshhans, Associate Director of the SEC's Division of Enforcement. "But the terms of our final settlement take into account Hain's timely self-reporting, its cooperation during our investigation, and the significant changes it voluntarily made to its organization and to its revenue recognition practices."

The SEC's order finds that Hain violated books and records and accounting controls provisions of the federal securities laws, and orders Hain to cease and desist from further violations. Hain consented to the SEC's order without admitting or denying the findings.

The investigation was conducted by Kathleen McDermott, David Miller, and Eugene Bull, and was supervised by Assistant Director Laura Josephs and Associate Director Carolyn Welshhans.