FORM 10-Q

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Quarterly Report Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934

FOR THE QUARTERLY PERIOD ENDED: 09/30/99 COMMISSION FILE NUMBER: 0-22818

THE HAIN FOOD GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware	22-3240619
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

50 Charles Lindbergh Boulevard, Uniondale, New York	11553
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (516) 237-6200

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 requirement for the past 90 days.

Yes X No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

18,048,848 shares of Common Stock $.01 par value, as of November 8, 1999.

THE HAIN FOOD GROUP, INC.

INDEX

PART I - ITEM 1 - FINANCIAL INFORMATION
THE HAIN FOOD GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	September 30, 1999	June 30, 1999
	(Unaudited)	(Note)
ASSETS		
Current assets:		
Cash	$ 529,000	$ 510,000
Trade accounts receivable, less allowance for doubtful accounts of $473,000 and $560,000	25,532,000	24,278,000
Inventories	29,182,000	29,208,000
Recoverable income taxes	-	387,000
Other current assets	2,150,000	4,965,000
Total Current Assets	57,393,000	59,348,000
Property and equipment, net of accumulated depreciation of $2,308,000 and $1,601,000	17,580,000	17,947,000
Goodwill and other intangible assets, net of accumulated amortization of $8,161,000 and $6,884,000	215,410,000	193,398,000
Deferred financing costs, net of accumulated amortization of $262,000 and $107,000	3,457,000	3,605,000
Deferred income taxes	3,431,000	884,000
Other assets	1,880,000	6,640,000
Total Assets	$299,151,000	$281,822,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 26,394,000	$ 30,029,000
Current portion of long-term debt	12,341,000	10,442,000
Income taxes payable	1,266,000	-
Total current liabilities	40,001,000	40,471,000
Long-term debt, less current portion	42,727,000	130,683,000
Other liabilities	-	667,000
Total liabilities	82,728,000	171,821,000
Commitments and contingencies		
Stockholders' equity:		
Preferred stock - $.01 par value; authorized 5,000,000 shares, no shares issued		
Common stock - $.01 par value, authorized 40,000,000 shares, issued 18,087,924 and 14,119,640 shares	181,000	141,000
Additional paid-in capital	198,237,000	90,822,000
Retained earnings	18,280,000	19,313,000
	216,698,000	110,276,000
Less: 100,000 shares of treasury stock, at cost	275,000	275,000
Total stockholders' equity	216,423,000	110,001,000
Total liabilities and stockholders' equity	$299,151,000	$281,822,000

Note - The balance sheet at June 30, 1999 has been derived from the audited financial statements at that date.

See notes to consolidated financial statements.

THE HAIN FOOD GROUP, INC.

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three Months Ended September 30	
	1999	1998
Net sales	$ 68,064,000	$ 43,496,000
Cost of sales	40,054,000	26,721,000
Gross profit	28,010,000	16,775,000
Selling, general and administrative expenses	19,027,000	11,497,000
Amortization of goodwill and other intangible assets	1,277,000	847,000
	20,304,000	12,344,000
Operating income	7,706,000	4,431,000
Interest expense, net	2,603,000	1,243,000
Amortization of deferred financing costs	155,000	81,000
	2,758,000	1,324,000
Income before income taxes and cumulative change in accounting principle	4,948,000	3,107,000
Provision for income taxes	2,227,000	1,352,000
Income before cumulative change in accounting principle	2,721,000	1,755,000
Cumulative change in accounting principle, net of tax benefit of $2,547,000	(3,754,000)	--
Net (loss)/income	$ (1,033,000)	$ 1,755,000
Basic (loss)/earnings per common share:		
Income before cumulative change in accounting principle	$ 0.19	$ 0.13
Cumulative change in accounting principle	(0.26)	--
Net (loss)/income	$ (0.07)	$ 0.13
Diluted (loss)/earnings per common share:		
Income before cumulative change in accounting principle	$ 0.17	$ 0.12
Cumulative change in accounting principle	(0.23)	--
Net (loss)/income	$ (0.06)	$ 0.12
Weighted average common shares outstanding:		
Basic	14,327,000	13,384,000
Diluted	16,343,000	15,177,000

See notes to consolidated financial statements.

THE HAIN FOOD GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Three Months Ended SEPTEMBER 30	
	1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss)/income	$ (1,033,000)	$ 1,755,000
Adjustments to reconcile net (loss)/income to net cash provided by operating activities		
Cumulative change in accounting principle	3,754,000	--
Depreciation of property and equipment	707,000	152,000
Amortization of goodwill and other intangible assets	1,277,000	847,000
Amortization of deferred financing costs	155,000	81,000
Provision for doubtful accounts	117,000	7,000
Other	12,000	11,000
Increase (decrease) in cash attributable to changes in assets and liabilities, net of amounts applicable to acquired businesses:		
Accounts receivable	(1,371,000)	644,000
Inventories	26,000	(870,000)
Other current assets	1,024,000	(227,000)
Other assets	(810,000)	(289,000)
Accounts payable and accrued expenses	(4,535,000)	(1,980,000)
Income taxes payable	1,653,000	268,000
Net cash provided by operating activities	976,000	399,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of businesses, net of cash acquired	(4,625,000)	(20,439,000)
Acquisition of property and equipment	(552,000)	(76,000)
PROCEEDS FROM ASSETS HELD FOR SALE	212,000	--
Net cash used in investing activities	(4,965,000)	(20,515,000)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds (repayments) from/of bank revolving credit facility, net	1,500,000	(650,000)
Proceeds from term loan	--	60,000,000
Payments on term loan	(78,300,000)	(18,600,000)
Costs in connection with bank financing	(7,000)	(435,000)
Proceeds from private equity offering, net of related expenses	80,589,000	--
Proceeds from exercise of warrants and options, net of related expenses	312,000	311,000
Payment of debt from acquired company	--	(20,678,000)
Payment of other long-term debt	(86,000)	--
Other - net	--	(39,000)
Net cash provided by financing activities	4,008,000	19,909,000
Net increase (decrease) in cash	19,000	(207,000)
Cash at beginning of period	510,000	495,000
Cash at end of period	$ 529,000	$ 288,000

See notes to consolidated financial statements.

THE HAIN FOOD GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 1999

	COMMON STOCK				TREASURY STOCK		
	Shares	Amount at $.01	Additional Paid-in Capital	Retained Earnings	Shares	Amount	Total
Balance at June 30, 1999	14,119,640	$ 141,000	$ 90,822,000	$19,313,000	100,000	$(275,000)	$110,001,000
Issuance of 670,234 shares in connection with the acquisition of trademarks	670,234	7,000	19,055,000	19,062,000			
Issuance of 2,837,343 shares in connection with private equity offering, net of related expenses	2,837,343	28,000	78,870,000	78,898,000			
Conversion of promissory notes	409,507	4,000	9,167,000	9,171,000			
Exercise of Common Stock warrants, net of related expenses	50,000	1,000	299,000	300,000			
Exercise of stock options	1,200	12,000	12,000				
Non-cash compensation charge	12,000	12,000					
Net loss for the period	(1,033,000)	(1,033,000)					
Balance at September 30, 1999	18,087,924	$ 181,000	$198,237,000	$18,280,000	100,000	$(275,000)	$216,423,000

See notes to consolidated financial statements.

THE HAIN FOOD GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. GENERAL:

The Company and its subsidiaries operate in one business segment: the sale of natural, organic and other food products. Beginning with fiscal 1999, approximately 75% (100% in prior years) of the Company's revenues are derived from products which are manufactured by various co- packers. There were no co-packers who manufactured 10% or more of our products.

The Company's natural food product lines consist of Hain Pure Foods, Westbrae Natural, Arrowhead Mills, DeBoles Nutritional Foods, Health Valley Foods, Sahara Natural Foods, Breadshop's Foods, Earth's Best (baby foods), and Garden of Eatin'. Other product lines include Hollywood Foods (principally healthy cooking oils), Weight Watchers (weight-loss and portion controlled dry products), Estee (sugar-free, medically-directed foods), Kineret (kosher foods), Terra Chips (natural vegetable chips), Boston Popcorn (snack products) and Nile Spice (dry soup products).

Certain reclassifications have been made in the financial statements to conform to current year's presentation.

2. BASIS OF PRESENTATION:

All amounts in the financial statements have been rounded to the nearest thousand dollars, except share and per share amounts.

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles. In the opinion of management, all adjustments (including normal recurring accruals) considered necessary for a fair presentation have been included. Reference is made to the footnotes to the audited consolidated financial statements of the Company and subsidiaries as at June 30, 1999 and for the year then ended included in the Company's Annual Report on Form 10-K for information not included in these condensed footnotes.

3. CUMULATIVE CHANGE IN ACCOUNTING PRINCIPLE:

In April 1998, the American Institute of Certified Public Accountants issued SOP 98-5, "Reporting Costs of Start-up Activities" ("SOP 98-5"). SOP 98-5 was adopted by the Company effective July 1, 1999, and requires start-up costs capitalized prior to such date be written-off as a cumulative effect of an accounting change as of July 1, 1999, and any future start-up costs to be expensed as incurred. Start-up activities are defined broadly as those one-time activities related to introducing a new product or service, conducting business in a new territory, conducting business with a new class of customer or commencing some new operations. In accordance with SOP 98-5, the Company recorded a one-time non-cash charge in the first quarter of fiscal 2000 reflecting the cumulative effect of a change in accounting principle, in the amount of $3.8 million, net of tax benefit, representing start-up costs capitalized as of the beginning of fiscal year 2000.

4. STOCKHOLDERS' EQUITY:

On September 27, 1999, the Company announced that it had entered into a global strategic alliance with H.J. Heinz Company ("Heinz") related to the production and distribution of natural products domestically and internationally. In connection with the alliance, the Company issued 2,837,343 shares (the "Investment Shares") of its common stock, par value $.01 per share (the "Common Stock") to Earth's Best, Inc. ("Earth's Best"), a wholly owned subsidiary of Heinz, for an aggregate purchase price of $82,383,843 under a Securities Purchase Agreement dated September 24, 1999 between the Company and Earth's Best. The Company used $75 million of the proceeds from this private equity offering to reduce its borrowings under its debt facility. The remainder of the proceeds were used to pay transaction costs and for general working capital purposes.

In addition, in a separate transaction, the Company announced on September 27, 1999 that it had purchased the trademarks of Earth's Best (the "Acquisition") under a Purchase and Sale Agreement dated September 24, 1999 among the Company, Earth's Best and Heinz (the "Acquisition Agreement"). In consideration for the trademarks, the Company paid a combination of $4,620,000 in cash and 670,234 shares of Common Stock, valued at $17,380,000 (the "Acquisition Shares" and together with the Investment Shares, the "Shares"). Earth's Best has agreed to change its name following the consummation of the Acquisition. This purchase agreement terminates a license agreement dated April 6, 1999 between the Company and Heinz whereby the Company was granted exclusive sale and distribution rights of the Earth's Best baby food products into the United States retail grocery and natural food channel. Under the Acquisition, the Company will be able to sell, market and distribute the Earth's Best products both domestically and internationally and have a more efficient means to develop new products.

For accounting purposes, the two separate transactions mentioned above, were required to be accounted for using a blended stock price value of $28.44. Accordingly, the blended rate purchase price of the Earth's Best trademark from Heinz amounted to approximately $22 million, net of transaction costs.

In connection with the issuance of the Shares, the Company and Earth's Best have entered into an Investor's Agreement dated September 24, 1999 that sets forth certain restrictions and obligations of the

Company and Earth's Best and its affiliates relating to the Shares, including restrictions and obligations relating to (1) the appointment by the Company of one member to its board of directors nominated by Earth's Best and one member jointly nominated by Earth's Best and the Company, (2) an 18-month standstill period during which Earth's Best and its affiliates may not purchase or sell shares of Common Stock, subject to certain exceptions, (3) a right of first offer granted to the Company by Heinz and its affiliates to the Company upon the sale of Shares by Earth's Best and its affiliates following the standstill period, (4) preemptive rights granted to Earth's Best and its affiliates relating to the future issuance by the Company of shares of capital stock and (5) confidentiality.

In addition, the Company and Earth's Best have entered into a Registration Rights Agreement dated September 24, 1999 that provides Earth's Best and its affiliates customary registration rights relating to the Shares, including two demand registration rights and "piggy-back"

registration rights.

5. ACQUISITIONS:

On May 18, 1999, the Company acquired Natural Nutrition Group, Inc. ("NNG"). NNG is a manufacturer and marketer of premium natural and organic food products primarily under its Health Valley, Breadshop's and Sahara brands. The aggregate purchase price, including acquisition costs, amounted to approximately $82 million. The purchase price was paid by approximately $72 million in cash and the issuance of $10 million in convertible promissory notes. To finance the cash portion of the acquisition, among other things, the Company entered into a $160 million senior secured loan which provided for a $30 million revolving credit facility and $130 million in term loans. The aggregate purchase price paid in excess of net assets acquired amounted to $61.4 million. The purchase price allocations have been made on a preliminary basis, subject to adjustment.

On December 8, 1998, the Company acquired the Nile Spice soup and meal cup ("Nile Spice") business from The Quaker Oats Company. The Nile Spice product line includes premium soups and meals packaged in cups that are sold under the Nile Spice brand. In addition, the Company entered into a licensing agreement to sell products under the Near East brand through December 2000. In addition, the Company assumed certain liabilities directly related to the acquired business. The Company used its revolving credit facility to fund the purchase price.

Unaudited pro forma results of operations (in thousands, except per share amounts) for the three months ended September 30, 1998, assuming the above acquisition, excluding Nile Spice which is not material, had occurred as of July 1, 1998 are as follows:

	Three Months Ended September 30, 1998
Net sales	$ 60,618
Income before cumulative change in accounting principle	18
Net loss	$ (3,736)
Income before cumulative change in accounting principle per share:	
Basic and diluted	$ 0.00
Net loss per share:	
Basic	$ (0.28)
Diluted	(a)

The pro forma operating results shown above are not necessarily indicative of operations in the periods following acquisition.

The above acquisitions have been accounted for as purchases and, therefore, operating results have been included in the accompanying financial statements from the respective dates of acquisition. Goodwill arising from the acquisitions is being amortized on a straight-line basis over 40 years.

(a) Pro forma diluted loss per common share is not shown for the three months ended September 30, 1998, as the results would be antidilutive.

6. INVENTORIES:

Inventories consist of the following:

	September 30, 1999	June 30, 1999
Finished goods	$ 19,231,000	$18,750,000
Raw materials and packaging	9,951,000	10,458,000
	$ 29,182,000	$29,208,000

THE HAIN FOOD GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

7. PROPERTY AND EQUIPMENT:

Property and equipment consist of the following:

	September 30, 1999	June 30, 1999
Machinery & equipment	$ 8,633,000	$ 8,429,000
Assets held for sale	4,984,000	5,248,000
Furniture and fixtures	1,355,000	1,314,000
Leasehold improvements	4,916,000	4,557,000
	19,888,000	19,548,000
Less:		
Accumulated depreciation and amortization	2,308,000	1,601,000
	$17,580,000	$17,947,000

Assets held for sale were acquired in business acquisitions during the year ended June 30, 1999 and have been recorded at their respective fair values on the dates of acquisition. Management intends to dispose of these assets in fiscal 2000.

8. LONG-TERM DEBT:

Long-term debt consists of the following:

	September 30, 1999	June 30, 1999
Senior Term Loans (A)	$ 51,700,000	$130,000,000
Revolving Credit (A)	1,500,000	-
Convertible Promissory Notes (B)	829,000	10,000,000
Notes payable to sellers in connection with acquisitions of businesses, and other long-term debt (C)	1,039,000	1,125,000
	55,068,000	141,125,000
Current portion	12,341,000	10,442,000
	$ 42,727,000	$130,683,000

(A) Senior Term Loans

On May 18, 1999, in connection with the acquisition of NNG, the Company arranged for a $160 million senior secured loan facility ("Amended Facility"), which provided for a $30 million credit facility and $130 million of term loans. This Amended Facility was used to complete the acquisition of NNG, refinance the Company's then existing indebtedness, ($57.3 million) and provide for ongoing working capital needs. Under the Amended Facility, the term loans consist of a $75 million Tranche I loan and a $55 million Tranche II loan. The Tranche

I loan requires principal quarterly installments starting September 30, 1999 through June 30, 2004. The Tranche II loan has similar repayment features, but matures June 30, 2006. The Company may elect to pay interest based on the bank's base rate or the LIBOR rate. Borrowings on a base rate basis may range from 0.50% below the bank's base rate to 1.00% above the bank's base rate. Borrowings on a LIBOR basis may range from 1.75% to 3.00% over the LIBOR rate. Both Tranche loans were borrowed on a LIBOR basis.

In connection with the strategic alliance with Heinz, and proceeds from the issuance of Investment Shares, $75 million of the Tranche I and II loans were repaid, on a pro rata basis, on September 27, 1999.

Pursuant to the revolving credit line, the Company may borrow up to 85% of eligible trade receivables and 60% of eligible inventories. Amounts outstanding under the Amended Facility are collateralized by principally all of the Company's assets. The Amended Facility contains certain financial and other restrictive covenants, as amended, which, among other matters, restrict the payment of dividends and the incurrence of additional indebtedness. The Company is also required to maintain various financial ratios, including minimum working capital and interest and fixed charge coverage ratios and is required to achieve certain earnings levels. As of September 30, 1999, $28.5 million was available under the Company's revolving credit facility.

(B) Convertible Promissory Notes

In connection with the acquisition of NNG, the Company issued $10 million of convertible promissory notes (the "Notes") bearing interest at 7%, payable quarterly commencing September 30, 1999. The Notes are convertible into shares of the Company's Common Stock. The number of shares of Common Stock to be issued upon conversion of each Note is based upon the conversion price equal to the average of the closing prices of the Company's Common Stock for the ten trading days prior to the date of conversion of the Note. During the three months ended September 30, 1999, holders of approximately $9.2 million in Notes have converted such Notes into 409,507 shares of the Company's Common Stock.

(C) Other Long Term Debt

In connection with an acquisition NNG consummated on January 12, 1999, prior to the Company's acquisition of NNG, an $800,000 nonconvertible promissory note bearing interest at prime (8% at June 30, 1999), was issued to the seller. This promissory note requires payment of principal in installments starting June 30, 1999 through December 31, 2002.

THE HAIN FOOD GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

8. EARNINGS PER SHARE:

The Company reports basic and diluted earnings per share in accordance with FASB Statement No. 128, "Earnings Per Share" ("FAS 128"). Basic earnings per share excludes any dilutive effects of options and warrants. Diluted earnings per share includes all dilutive common stock equivalents such as stock options and warrants.

The following table sets forth the computation of basic and diluted earnings per share pursuant to FAS 128 for the three months ended September 30, 1999 and 1998.

	1999	1998
Numerator:		
Income before cumulative change in accounting principle - Numerator for basic and diluted earnings per share	$ 2,721,000	$ 1,755,000
Cumulative change in accounting principle	(3,754,000)	--
Net (loss)/income	$ (1,033,000)	$ 1,755,000
Denominator:		
Denominator for basic earnings per share - weighted average shares outstanding during the period(a)	14,327,000	13,384,000
Effect of dilutive securities (b):		
Stock options	1,394,000	1,028,000
Warrants	622,000	765,000
	2,016,000	1,793,000
Denominator for diluted earnings per share - adjusted weighted average shares and assumed conversions	16,343,000	15,177,000
Basic (loss)/earnings per share:		
Income before cumulative change in accounting principle	$ 0.19	$ .13
Cumulative change in accounting principle	(0.26)	--
Net (loss)/income	$ (0.07)	$ .13
Diluted (loss)/earnings per share:		
Income before cumulative change in accounting principle	$ 0.17	$ .12
Cumulative change in accounting principle	(0.23)	--
Net (loss)/income	$ (0.06)	$ .12

(a) The issuance of the Investment Shares to Heinz on September 27, 1999 did not materially affect the weighted average shares computation. The resulting increase in weighted average shares outstanding is primarily due to approximately $9.2 million in Notes converted into 409,507 shares of common stock and, since September 1998, exercises of warrants and stock options into shares of Common Stock.

(b) The increase in the amount of dilutive potential shares in the 1999 period was substantially attributable to an increase in the market price of the Company's Common Stock over the prior year.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

The Company made the following acquisitions or entered into licensing agreements during the twelve months ended September 30, 1999:

On April 6, 1999, the Company expanded its licensing agreement with Heinz for Earth's Best baby food products whereby the Company was given the exclusive sale and distribution rights of the Earth's Best baby food products into the United States retail grocery and natural food channels. On September 27, 1999, the Company announced it had purchased the trademarks of Earth's Best from Heinz, which terminated the April 6, 1999 license agreement, which allows the Company the opportunity to sell Earth's Best both in domestic and international markets and provides the Company with the ability to develop new products.

On December 8, 1998, the Company acquired the Nile Spice soup and meal cup ("Nile Spice") business from The Quaker Oats Company. The Nile Spice product line includes premium soups and meals packaged in cups that are sold under the Nile Spice and Near East brands. The Near East brand is sold under a licensing agreement through December 2000.

On May 18, 1999, the Company acquired NNG. NNG is a manufacturer and marketer of premium natural and organic food products primarily under its Health Valley, Breadshop's and Sahara brands.

All of the foregoing acquisitions ("the acquisitions" or "acquired businesses") have been accounted for as purchases. Consequently, the operations of the acquired businesses are included in the results of operations from their respective dates of acquisition.

RESULTS OF OPERATIONS

THREE MONTHS ENDED SEPTEMBER 30, 1999

Net sales for the three months ended September 30, 1999 were $68.1 million, an increase of 56% over net sales of $43.5 million in the quarter ended September 30, 1998. 87% of the increase was derived from revenues of acquired businesses or revenues resulting from licensing agreements entered into during fiscal 1999.

Gross profit for the three months ended September 30, 1999 increased by approximately $11.2 million to $28 million (41.2% of net sales) as compared to $16.8 million (38.6% of net sales) in the 1998 period. The increase in gross profit dollars was a direct result of the increased sales level in 1999. The improvement in gross profit percentage of 2.6% percentage points is due to a combination of: sales mix, integration of certain manufactured product lines into our Irwindale manufacturing facility resulting in improved gross profit percentage yields and certain acquired businesses and/or product lines from licensing agreements producing higher gross profit percentages than existing businesses.

Selling, general and administrative expenses increased by $7.5 million to $19 million for the three months ended September 30, 1999 as compared to $11.5 million in the September 30, 1998 quarter. Such expenses, as a percentage of net sales, amounted to 28% for the three months ended September 30, 1999 compared with 26.4% in the September 30, 1998 quarter. Approximately 1.9% of this increase is a result of higher trade and consumer spending offset by a favorable .3% decrease in other selling, general and administrative expense components. The improvement of .3% results from certain of the acquired businesses having lower selling expenses than the Company's other product lines, and the realization of reduced administrative expenses from integration of certain operations of the acquired businesses within the Company's existing infrastructure. Not all of the administrative functions of the businesses acquired during fiscal 1999 have as yet been integrated. It is expected that the integration process may not be completed until the end of fiscal 2000. The higher trade and consumer spending is due to the Company aggressively promoting awareness of its newly acquired brands and products in an effort to expand product distribution into existing and new market channels and territories.

The Company plans to continue to invest in consumer spending and to enhance brand equity while closely monitoring its trade spending. These consumer spending categories include, but are not limited to, consumer advertising using radio and print, coupons, direct mailing programs, and other forms of promotions. There is no guarantee that these investments in consumer spending will be successful, and as the Company attempts to monitor its trade spending and increase consumer awareness, there may be a period of overlap.

Amortization of goodwill and other intangible assets increased by $.43 million from the September 1998 period to the September 1999 period. All of this increase was attributable to amortization of goodwill acquired in connection with the acquisitions during fiscal 1999. Amortization expense in total, amounted to 1.9% of net sales for both the three months ended September 30, 1999 and September 30, 1998 periods.

Operating income increased by $3.3 million compared to the 1998 period. Operating income as a percentage of net sales, amounted to 11.3%, an increase of 1.1% over the 1998 period. This resulted principally from higher gross profit margins as a percentage of net sales offset by higher selling, general and administrative expenses as a percentage of net sales.

Interest and financing costs for the 1999 period amounted to $2.8 million, an increase of $1.4 million over the 1998 period. The increase was due to the debt incurred in connection with the fiscal year 1999 acquisitions. The $75 million repayment of loans, incurred in connection with fiscal 1999 acquisitions, as more fully described in Footnote 4 to the consolidated financial statements, on September 27, 1999 will enable the Company to achieve interest cost savings during the remainder of the fiscal year from both lower interest rates and lower outstanding debt.

Income before income taxes and cumulative change in accounting principle for the three months ended September 30, 1999 increased to $4.9 million (7.3% of net sales) from $3.1 million (7.1% of net sales) in the 1998 period. This improvement in profitability was attributable to the aforementioned increase in operating income as a percentage of sales offset by higher interest expenses, as a percentage of sales.

Income taxes increased to $2.2 million for the three months ended September 30, 1999 compared to $1.4 million in the 1998 period. The effective tax rate was 45% in the 1999 period compared with 43.5% in the 1998 period. The increase is largely a result of the increased amortization of nondeductible goodwill arising from fiscal year 1999 acquisitions.

Income before cumulative change in accounting principle for the three months ended September 30, 1999 increased by approximately $1 million over the corresponding 1998 period and amounted to 4% of net sales, which is comparable to the 4% achieved in the 1998 period.

Change in Accounting Principle:

In April 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-5, "Reporting Costs of Start-up Activities" ("SOP 98-5"). SOP 98-5 is effective beginning on July 1, 1999, and requires the start-up costs capitalized prior to such date be written-off as a cumulative effect of an accounting change as of July 1, 1999. Any future start-up costs are to be expensed as incurred. Start up activities are broadly defined as those one time activities related to introducing a new product or service, conducting business in a new territory, conducting business with a new class of customer or commencing some new operation. In accordance with SOP 98- 5, the Company recorded a one-time non-cash charge in the first quarter of fiscal 2000 reflecting the cumulative effect of a change in accounting principle, in the amount of $3.8 million, net of tax benefit, representing such start-up costs capitalized as of the beginning of fiscal year 2000.

Liquidity and Capital Resources

The Company requires liquidity for working capital needs and debt service requirements.

The Company had working capital of $17.4 million at September 30, 1999 as compared to $18.9 million at June 30, 1999. The decrease in working capital is primarily attributable to the higher current principal debt service requirements by $1.9 million at September 30, 1999 when compared to June 30, 1999. However, while the Company's current principal debt service requirements increased, the Company's ratio of current assets to current liabilities of 1.44 at September 30, 1999 is comparable to the ratio of 1.47 at June 30, 1999. This stability in the current ratio was primarily a result of higher operating cash flows of $1 million for the three months ended September 30, 1999 vs $.4 million for the same period in 1998.

On May 18, 1999, in connection with the acquisition of NNG, the Company arranged for a $160 million senior secured loan facility ("Amended Facility"), which provided for a $30 million credit facility and $130 million of term loans. This Amended Facility was used to complete the acquisition of NNG, refinance the Company's then existing indebtedness, ($57.3 million) and provide for ongoing working capital needs. Under the Amended Facility, the term loans consist of a $75 million Tranche I loan and a $55 million Tranche II loan.

On September 27, 1999, the Company announced that it had entered into a global strategic alliance with Heinz related to the production and distribution of natural products domestically and internationally. In connection with the alliance, the Company issued 2,837,343 shares of its common stock, par value $.01 per share to Earth's Best, Inc. ("Earth's Best"), a wholly owned subsidiary of Heinz, for an aggregate purchase price of $82,383,843 under a Securities Purchase Agreement dated September 24, 1999 between the Company and Earth's Best. The Company used $75 million of the proceeds from this private equity offering to reduce its borrowings under its debt facility. The remainder of the proceeds were used to pay transaction costs.

The interest rate on the Amended Facility is based partially on the ratio of outstanding debt to operating cash flow (as defined). The Company may elect to pay interest based on the bank's base rate or the LIBOR rate. Borrowings on a base rate basis may range from 0.50% below the bank's base rate to 1.00% above the bank's base rate. Borrowings on a LIBOR basis may range from 1.75% to 3.00% over the LIBOR rate. The Amended Facility term loans were borrowed on a LIBOR basis during fiscal 2000. The Tranche I loan requires principal quarterly installments starting September 30, 1999 through June 30, 2004. The Tranche II loan has similar repayment features, but matures June 30, 2006.

Amounts outstanding under the Amended Facility are collateralized by principally all of the Company's assets. The Amended Facility also contains certain financial and other restrictive covenants. The Company was in compliance with such covenants at September 30, 1999. As of September 30, 1999, $28.5 million was available under the Company's revolving credit line. Utilization of the revolving credit line varies over the course of the year based on inventory requirements and other business transactions.

The aggregate principal payments on the Amended Facility for the twelve months ending September 30, 2000 are $10.63 million. The Company believes that projected cash flows generated from its operations and amounts available under the revolving credit facility should be sufficient to fund its debt service requirements, working capital needs, anticipated capital expenditures and other operating expenses for the foreseeable future. The revolving credit facility provides the Company with available borrowings up to an aggregate principal amount of $30 million.

The Company's term loans impose certain restrictions, as amended, on the Company regarding capital expenditures, limit the Company's ability to incur additional indebtedness, dispose of assets, make repayments of indebtedness or amendments of debt instruments, pay distributions, create liens on assets, enter into sale and leaseback transactions, investments, loans or advances and acquisitions. Such restrictions could limit the Company's ability to respond to market conditions, to provide for unanticipated capital investments or to take advantage of business or acquisition opportunities.

YEAR 2000

The "Year 2000" issue is the result of computer systems that were programmed in prior years using a two digit representation for the year. Consequently, in the year 2000, date sensitive computer programs may interpret the date "00" as 1900 rather than 2000. The Company has completed an assessment of both its information and non-information systems affected by the Year 2000 issue and have found only minor issues to be addressed. The Company believes its business operations computer programs/systems are Year 2000 compliant. NNG's consumer affairs and telephone voice-mail message system, which are not considered critical to NNG's operations are not Year 2000 compliant; however, the Company will integrate or replace these systems prior to the end of 1999. Accordingly, it is anticipated that Year 2000 issues will not have a material adverse impact of the Company's financial position, liquidity or results of operations.

The Company has had communications with all of its significant suppliers and large customers to determine the extent to which the Company is vulnerable to those third parties' failure to remediate their own Year 2000 issues. The Company has commenced a process of formalizing these communications through the completion of questionnaires. While the Company believes that the Year 2000 issue will not have a material adverse effect on the Company's financial position, liquidity or results of operations, there is no guarantee that the systems of other companies on which the Company's systems rely will be timely converted and would not have an adverse effect on the Company's systems.

In the event that we do not complete our Year 2000 conversion, we will manually perform those tasks which would otherwise be performed by our non-year 2000 compliant systems until such systems are upgraded or replaced.

SEASONALITY

Sales of food products consumed in the home generally decline to some degree during the Summer vacation months (the first quarter of the Company's fiscal year). However, the Company believes that such seasonality has a limited effect on operations.

INFLATION

The Company does not believe that inflation had a significant impact on the Company's results of operations for the periods presented.

ITEM 6. - EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Financial Data Schedule (Exhibit 27)

(b) Reports on Form 8-K

On September 27, 1999, the Company filed reports on Form 8-K announcing that it had entered into a strategic alliance with H.J. Heinz Company ("Heinz") resulting in the issuance of 2,837,343 shares of its common stock. In addition, in a separate transaction, the Company also announced on September 27, 1999, it had purchased the trademarks of Earth's Best (a Heinz company) under a purchase and sale agreement dated September 24, 1999. No financial information was required to be filed in this Form 8-K in accordance with the rules and regulations of Regulation S-X.

The Company did not file any other reports on Form 8-K during the three months ended September 30, 1999.

SIGNATURES

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

THE HAIN FOOD GROUP, INC.

Date:	November 12, 1999	/S/ IRWIN D. SIMON ----------------------------- Irwin D. Simon, President and Chief Executive Officer
Date:	November 12, 1999	/S/GARY M. JACOBS ----------------------------- Gary M. Jacobs, Senior Vice President-Finance and Chief Financial Officer

5
1,000

3-MOS
Jun-30-2000
Jul-01-1999
Sep-30-1999
529
0
26005
473
29182
57393
17580
2308
299151
40001
42727
181
0
0
216242
299151
68064
68064
40054
40054
20459
0
2603
4948
2227
2721
0
0
3754
(1033)
(.07)
(.06)