

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

[X] Annual Report Under Section 13 or 15(d) of the  
Securities and Exchange Act of 1934  
For The Fiscal Year Ended June 30, 1997  
Commission File No. 0-22818

THE HAIN FOOD 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.)

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

11553  
(Zip Code)

Registrant's telephone number, including area code: (516) 237-6200  
Securities registered pursuant to Section 12(b) of the Act: None  
Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value \$.01 per share  
Title of Class

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 [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405  
of Regulation S-K is not contained herein, and will not be contained, to the  
best of registrant's knowledge, in definitive proxy or information statements  
incorporated by reference in Part III of this Form 10-K or any amendment to  
Form 10-K. [X]

State the aggregate market value of the voting stock held by non-affiliates,  
computed by reference to the price at which the stock was sold, or the average  
bid and asked prices of such stock, as of a specified date within the past 60  
days.

Class of Voting Stock and Number of Shares Held by Non-Affiliates	Market Value Held by Non-affiliates*
----- 6,776,487 shares Common Stock	----- \$71,153,000

\* Based on the last reported sale price for the Common Stock on NASDAQ on  
September 12, 1997

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

Common Stock, par value \$.01 per share, 8,781,899 shares outstanding as of  
September 12, 1997

Documents Incorporated by Reference

Document	Part of the Form 10-K into which Incorporated
----- The Hain Food Group, Inc. Definitive Proxy Statement for the Annual Meeting of Stockholders to be Held December 9, 1997	----- Part III

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PART I

THE HAIN FOOD GROUP, INC.

Item 1. Business.

General

The Hain Food Group, Inc., a Delaware corporation, and its subsidiaries (the "Company") sell, market and distribute a full line of natural foods under the "Hain" and "Farm Foods" brand names, cooking oils and certain other products under the "Hollywood" brand name, sugar-free, medically directed snack foods under the "Estee" brand name, low sodium food products under the Featherweight" brand name, snacks and cheese and mayonnaise products under the "Weight Watchers" brand name, kosher food products under the "Kineret" and "Kosherific" brand names, snack products under the Boston Popcorn brand name, and dry milk products under the Alba brand name. Kineret Foods Corporation ("Kineret") and Farm Foods Corporation ("Farm Foods") were acquired by the Company in November 1993. In April 1994, the Company acquired Hain Pure Food Co., Inc. ("Hain") from Pet, Incorporated, which acquisition included the Hollywood product line. In November 1995, the Company purchased substantially all of the business of The Estee Corporation ("Estee"). In March 1997, the Company entered into a license agreement with Weight Watchers Gourmet Food Corporation (a wholly-owned subsidiary of H. J. Heinz Company) whereby the Company will manufacture, market and sell Weight Watchers dry and refrigerated products. In May 1997, the Company purchased substantially all of the business of The Boston Popcorn Company ("Boston"). In July 1997, the Company acquired the Alba brand from H. J. Heinz Company. At the current time, Hain and Kineret constitute the Company's only subsidiaries; the other brands are operated as divisions of the Company.

On September 11, 1997, the Company executed a definitive merger agreement with Westbrae Natural, Inc. ("Westbrae"), a publicly-owned company, pursuant to which the Company commenced a tender offer on September 12, 1997 for all of the outstanding common shares of Westbrae for \$3.625 per share in cash. Pursuant to the definitive merger agreement, certain shareholders of Westbrae who own an aggregate of approximately 69% of the outstanding shares of Westbrae have agreed to tender their shares at the offer price. The aggregate purchase price for all of the outstanding shares of Westbrae and shares under option (assuming all of Westbrae's shares are tendered) is approximately \$23.5 million. In connection therewith, the Company has obtained a financing commitment from its lender for a credit facility of \$40 million, consisting of a \$30 million term loan and a \$10 million revolving line of credit. The proceeds of the term loan will be used to fund the total cost of the acquisition and to repay certain existing debt of the Company and Westbrae. This transaction, which is subject to the satisfactory completion of the Company's due diligence investigation and receipt of financing, is expected to close by late October 1997.

Westbrae (formerly known as Vestro Natural Foods, Inc.) is headquartered in Carson, California and is a leading formulator and marketer of high quality natural and organic foods sold under the brand names Westbrae Natural, Westsoy, Little Bear and Bearitos, encompassing 300 food items such as non-dairy beverages, chips, snacks, beans and soups. For its fiscal year ended December 31, 1996, Westbrae reported net sales of \$32,583,000 and net income of \$1,203,000. For the six months ended June 30, 1997, Westbrae reported net sales of \$17,502,000 (unaudited) and net income of \$708,000 (unaudited). The Company believes that the acquisition of Westbrae follows its strategy of acquiring specialty food businesses that fit well with its other brands while offering opportunities for cost efficiencies in management and operations.

The Company's products are marketed nationally to supermarkets, natural food stores, food service distributors, specialty groceries, mass merchandisers, drug stores and other independent retailers by third-party food brokers and distributors and by the Company's in-house sales personnel. The Company's products are produced by independent unaffiliated food processors ("co-packers") using specifications and formulations provided by the Company. See "Manufacturing".

The Company's overall strategy is to be a leading specialty niche food marketer by integrating all of its brands under one management with a uniform marketing, sales and distribution program. The Company's business strategy is to capitalize on the brand equity and the distribution previously achieved by each of the Company's product lines and to enhance revenues by strategic introductions of new product lines that complement existing products. The foundation of this strategy has been established through the acquisitions referred to above and the introduction of a number of new products. The Company believes that by integrating its various specialty food groups, it will achieve efficiencies of scale and enhanced market penetration. The Company considers the acquisition of specialty food companies and product lines as an integral part of its business strategy. To that end, the Company from time to time reviews and conducts preliminary discussions with acquisition candidates. Other than as set forth herein, no discussions are currently ongoing.

As of June 30, 1997, the Company employed a total of 54 full-time employees. The Company's employees are not represented by any labor union. The Company believes that its relations with its employees are good.

#### Industry Overview

#### Natural Food Products

The Company's Hain and Farm Foods businesses market and distribute a full line of natural food products. Natural foods are defined as foods which are minimally processed, largely or completely free of artificial ingredients, preservatives, and other non-naturally occurring chemicals, and are as near to their whole natural state as possible.

#### Sugar-free and Low Sodium Products

The Company's Estee and Featherweight businesses market and distribute a full line of sugar-free and low sodium products targeted towards diabetic and health conscious consumers and persons on medically-directed diets.

#### Specialty Cooking Oils

The Company's Hollywood business markets a line of specialty cooking oils which are enhanced with Vitamin E to maintain freshness and quality. The Hollywood product line also includes carrot juice, mayonnaise and margarine. Hollywood products are primarily sold directly to supermarkets and other mass merchandisers.

#### Weight Watchers

Under a license agreement, the Company manufactures, markets and sells approximately 60 Weight Watchers dry and refrigerated products.

#### Frozen Kosher Foods

The Company's Kineret business markets and distributes a line of frozen kosher food products. Kosher foods are products which are prepared in a manner consistent with Jewish dietary laws. The core target markets for Kineret Foods products are (i) people who observe Jewish dietary laws, (ii) a significant number of Muslims in the United States who frequently seek out foods with kosher certification, (iii) Seventh-Day Adventists who tend to purchase kosher food products, and (iv) other people who perceive kosher products as being of higher quality. These target markets are located in or around major metropolitan areas, primarily the greater New York City metropolitan area.

#### Snack Foods

The Boston Popcorn Company markets and distributes a line of popcorn and chip products, principally in the New England and New York City metropolitan areas.

#### Products

The Hain line of products consists of approximately 180 branded natural food products which are distributed nationwide to natural food stores, supermarkets, food service distributors, specialty groceries, mass merchandisers, drug stores and other merchants. Through Hain, the Company offers a full line of natural food products including rice cakes (which in fiscal 1997, accounted for approximately 17% of total Company sales volume as compared with 30% in fiscal 1996), cooking oils, soups, crackers, condiments and snacks. The Hain brand name has been a prominent name in the natural food industry since Hain's inception in 1926. Hain offers one of the broadest lines of natural foods. The Company believes this prominence attracts both natural food distributors and retailers.

The Company acquired the Hollywood trademark and brand name in the acquisition of Hain in April 1994. Hollywood branded products, which have been marketed since 1955, consist of approximately 15 products sold principally through the supermarket distribution channel. The flagship products are its safflower, canola, and peanut oils, and carrot juice. Hollywood was the first manufacturer of cooking oil to enhance its products with Vitamin E, thereby distinguishing Hollywood cooking oils from the competition.

The Estee and Featherweight line of products consists of approximately 110 food products which are distributed nationwide to supermarkets, food service distributors, specialty groceries, mass merchandisers, drug stores and other merchants.

Kineret offers a line of kosher frozen food products under the Kineret and Kosherific labels. The Kineret products include fish products, potato pancakes, blintzes, challah bread, pastry dough, and assorted other frozen food products.

Farm Foods products consist of non-dairy frozen dessert products, frozen entrees, and a soy-based pizza, marketed under the trademarks "Ice Bean", "Pita Classics" and "Pizsoy".

Boston Popcorn products consist of 20 items comprised of varieties of popcorn, potato chips and other snack food items.

The Company continuously evaluates its existing products for taste, nutritional value and cost and makes improvements where possible. The Company will discontinue products or stock keeping units when sales volume of those items do not warrant further production.

#### Manufacturing

All of the Company's products are manufactured at non-affiliated co-packers. The Company has selectively consolidated its co-packing arrangements for its products. The Company presently obtains all of its requirements for Hain rice cakes from two suppliers, and all of its Hollywood cooking oils from one supplier. Pursuant to its co-packing arrangements, the Company purchases substantially all of its products as finished goods. Accordingly, the Company's inventories of raw materials are not significant.

In January and February 1996, the Company sold the wafer, chocolate and hard candy, liquid packaged products and dry packaged products manufacturing equipment acquired in the acquisition of Estee to separate non-affiliated co-packers for aggregate proceeds of \$2,075,000, of which \$1,450,000 was payable at the time of closing and the balance of which is payable over 5 years. The Company has entered into five to seven year agreements with the co-packers who purchased such equipment. Such co-packers currently produce approximately 50% of Estee's total product requirements.

Kineret's products are primarily processed under the supervision of the Orthodox Union which certifies a product as kosher. Before the Orthodox Union will permit its certification, evidenced by its symbol, to be placed on a product, the Orthodox Union must approve both the ingredients contained in the product and the facility manufacturing or processing the product. The ability of the Company to continue Kineret's business of developing, marketing and distributing kosher food products is therefore dependent on its continued compliance with the requirements of the certification procedures of the Orthodox Union.

The co-packers which produce, supply or package Kineret's products must comply with strict ingredient and processing standards established by Kineret Foods. Kineret management visits each facility periodically to ensure that all products bearing Kineret labels are manufactured to Kineret's standards and to ensure maintenance of quality control and compliance with the certification standards of the Orthodox Union.

Boston Popcorn Company's products are manufactured principally by three co-packers.

The Company believes that alternative sources of supply are available if co-packing arrangements with its suppliers were to be terminated by the Company or the co-packers. However, there can be no assurance that alternative sources of supply would be able to meet the requirements of the Company, and if the Company were unable to arrange for alternative sources of supply in a timely manner, such failure could have a material adverse effect on the Company's business, operating results and financial condition.

#### New Product Development

The Company intends to continue its policy of introducing new products or product line extensions that complement its existing products. New products and product line extensions over the last three fiscal years included mini-munchie rice cakes, low fat baked crisps, Estee sugar-free rice cakes, graham crackers, rice snack bars, rice cake "ringers", cookie jar bits and a new line of 15 ounce soups.

#### Marketing and Distribution

Generally, all products marketed by the Company are sold either through independent unaffiliated food brokers or distributors. Food brokers act as agents for the Company within designated territories or for specific supermarket or related chain stores, usually on a non-exclusive basis, and receive commissions, which average 4% of sales. Food distributors purchase products from the Company for resale to retailers. Because food distributors take title to the products upon purchase, product pricing decisions are generally made in their sole discretion.

The Company utilizes retail-in-store events such as product demonstrations and product sampling, and point of sale displays. The Company also sponsors and participates in local distributor and retailer "events", distributes coupons, and conducts both retailer and distributor advertising using print in trade magazines and distributor catalogues.

The Company's customer base consists principally of mass market merchandisers, natural food distributors, grocery wholesalers and kosher food distributors. No single customer accounts for more than 10% of revenues. Foreign sales are not significant.

#### Trademarks

The Hain, Hollywood, Estee, Featherweight, Kineret, Kosherific, Boston Popcorn and Farm Foods trademarks and related trademarks and brand names are registered in the United States and a number of foreign countries. The Company believes that its trademarks and trade names are significant to the marketing and sale of the Company's products and that the inability to utilize one or more of these names could have a material adverse effect on the Company's business, results of operations and financial condition.

#### Competition

The Company faces significant competition in the marketing of all of its product lines, and competes with many larger companies, including divisions of a number of multi-national food manufacturers, all of which have substantially greater marketing, distribution and capital resources. Hain rice cakes compete with Quaker Oats and other rice cake manufacturers. Quaker Oats is the dominant supplier of rice cakes and the Company estimates that Quaker Oats has more than a two-thirds share of the total rice cake market. Hain's other products, including cooking oils, soups, crackers, etc. compete against items produced by other specialty natural foods companies, including Health Valley, Spectrum Company, Arrowhead Mills and Westbrae (see page 1), and indirectly against major food companies. Hollywood canola, safflower and peanut oils compete against similar products manufactured by Proctor & Gamble (Puritan/Crisco), ConAgra (Wesson) and RJR Nabisco (Planters) as well as with certain products produced by other companies. Estee's major competitor is Fifty-Fifty. Kineret competes with a number of companies, including Rokeach, Wilton Foods Corp. and Old Fashioned Kitchens, Inc., which are engaged in the manufacture, sale and distribution of products similar to those sold by Kineret. Boston Popcorn competes with a variety of popcorn and chip manufacturers.

## Government Regulation

The manufacture, distribution and sale of the Company's products are subject to various federal, state and local laws governing the production, sale, advertising, labeling and ingredients of food products. Although the Company believes it and its distributors and co-packers are currently in compliance with all material federal, state and local governmental laws and regulations, there can be no assurance that the Company, its distributors and co-packers will be able to comply with such laws and regulations in the future or that new governmental laws and regulations will not be introduced which would prevent or temporarily inhibit the development, distribution and sale of the Company's products to consumers. If any of the Company's distributors or co-packers were to violate any such law or regulation, it could result in fines, recalls, seizure or confiscation of products marketed by the Company.

The Company has, to its knowledge, complied with all current food labeling and packaging requirements, including significant labeling requirements that became effective during 1994.

Kineret, as a marketer of kosher food products, is subject to additional state and local regulation and inspection.

The Company has not experienced any regulatory problems in the past and has not been subject to any fines or penalties. No assurance can be given, however, that future changes in applicable law, regulations or the interpretation thereof will not necessitate significant expenditures or otherwise have a material adverse impact on the Company, particularly if the Company alters its strategy and directly manufactures its own products.

## Note Regarding Forward Looking Information

Certain statements contained in this Annual Report constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act and Sections 21E of the Exchange Act. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, levels of activity, performance or achievements of the Company, or industry results, to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following: general economic and business conditions; the ability of the Company to implement its business and acquisition strategy; the ability of the Company to obtain financing for general corporate purposes; competition; availability of key personnel; and changes in, or the failure to comply with government regulations. As a result of the foregoing and other factors, no assurance can be given as to the future results, levels of activity and achievements and neither the Company nor any person assumes responsibility for the accuracy and completeness of these statements.

Item 2. Properties.

The Company's corporate headquarters are located in 10,000 square feet of leased office space located at 50 Charles Lindbergh Boulevard, Uniondale, New York. This lease commenced on August 15, 1994 and, during 1997, was extended to February 2002. The current annual rental is approximately \$231,000. The Company's Kineret Foods 7,000 square foot warehouse and distribution center is located in East Hills, New York. This lease, which provides for annual net rental of approximately \$40,000, was renewed during 1997 and expires in August 1999. The Company's Boston Popcorn 10,000 square foot warehouse and distribution center is located in Foxboro, Massachusetts. This lease is for a three-year term and commenced on June 1, 1997. The current annual rental is approximately \$73,000. Approximately 4,000 square feet of this space is sub-leased to a major distributor of the Company's Boston Popcorn business for the same three-year term at a current annual rental of \$31,000.

The Company warehouses its products (other than Boston Popcorn and Kineret products) in bonded public warehouses from which it makes deliveries to customers.

Item 3. Legal Proceedings.

The Company is from time to time involved in incidental litigation relating to the conduct of its business. The Company is not currently a party to any litigation which in the opinion of management is likely to have a material adverse effect on the Company's business, results of operations or financial condition.

Item 4 Submission of Matters to a Vote of Security Holders.

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year ended June 30, 1997.

## PART II

## Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.

The outstanding shares of Common Stock, par value \$.01 per share, of the Company are traded on NASDAQ and since March 1995 have been traded through NASDAQ's National Market System. The following table sets forth the reported high and low closing prices for the Common Stock and the Warrants for each fiscal quarter from July 1, 1995 through September 12, 1997.

	Common Stock			
	1997		1996	
	High	Low	High	Low
First Quarter	\$4	\$3 1/16	\$4 1/2	\$3 1/2
Second Quarter	4	3 1/4	3 3/4	2 15/16
Third Quarter	5 3/4	3 3/8	3 11/16	2 15/16
Fourth Quarter	5 5/16	4 1/8	4 1/8	3 1/16
July 1 - September 12, 1997	10 1/2	4 27/32		

As at September 12, 1997, there were 79 holders of record of the Company's Common Stock.

The Company has not paid any dividends on its Common Stock to date. The Company intends to retain all future earnings for use in the development of its business and does not anticipate declaring or paying any dividends in the foreseeable future. The payment of all dividends will be at the discretion of the Company's Board of Directors and will depend on, among other things, future earnings, operations, capital requirements, contractual restrictions, the general financial condition of the Company and general business conditions. The ability of the Company to pay dividends is currently restricted by covenants contained in its Credit Agreement with its bank and its subordinated debentures.

Item 6. Selected Financial Data.

The following information has been summarized from the Company's financial statements and should be read in conjunction with such financial statements and related notes thereto (in thousands, except per share amounts):

	Year Ended June 30				April 1, 1993 (Date Operations Commenced) to June 30 1993
	1997	1996	1995	1994	1993
<b>Operating Results:</b>					
Net sales	\$65,353	\$68,606	\$58,076	\$14,963	\$137
Net income (loss)	1,069	2,134	2,365	(502)	(75)
Net income (loss) per common share	.12	.24	.28	(.19)	(.08)
<b>Financial Position:</b>					
Total Assets	\$48,895	\$47,442	\$34,921	\$31,739	\$449
Long-term debt	10,756	12,105	7,277	13,450	0
Stockholders' Equity	25,059	24,424	22,290	11,501	78

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation.

General

The Company was formed in 1993 to acquire, develop and market a line of branded specialty food products. The Company's strategy is to capitalize on brand awareness and to consolidate all product lines under one centralized management team. See "Industry Overview" for a description of the Company's product lines.

The Company made the following acquisitions since inception (see Note 3 of the Notes to Consolidated Financial Statements for further details):

In August 1993, the Company acquired the Pizsoy trademark for use in connection with a soy-based pizza product line.

In November 1993, the Company acquired Kineret, a marketer of kosher frozen food products.

In November 1993, the Company acquired certain net assets of Barricini Foods, Inc., relating to frozen natural food products. The Company operates this product line under the Farm Foods name.

On April 14, 1994, the Company acquired from Pet, Incorporated, Hain Pure Food Co., Inc., a natural foods products company which also operates the Hollywood Foods Division which principally sells healthy cooking oils. Hain was acquired from Pet, Incorporated and is a significantly larger company than the other acquired entities to date.

On November 3, 1995, the Company purchased substantially all of the assets and business, subject to certain liabilities of The Estee Corporation, a manufacturer and marketer of sugar-free and low sodium products targeted towards diabetic and health conscious consumers.

On May 23, 1997, the Company purchased substantially all of the assets and business, subject to certain liabilities of The Boston Popcorn Company, a manufacturer and marketer of popcorn and chip products principally in the New England and New York City metropolitan areas.

On July 15, 1997, the Company acquired the brand Alba Foods from Heinz USA, a division of H.J. Heinz Company.

On November 19, 1993, the Company completed an initial public offering from which it received net proceeds of approximately \$2.9 million.

On October 4, 1994, the Company called for redemption all of its Class A Warrants ("Warrants"), issued in conjunction with the initial public offering, at a redemption price of \$.10 per Warrant. As a result, holders of an aggregate of 2,450,342 Warrants (98.9%) exercised their rights to acquire 2,450,342 shares of the Company's Common Stock. The net proceeds from the exercise of the Warrants amounted to approximately \$7.6 million, and substantially all of the net proceeds were used to retire the Company's Senior Term Loan from a bank.

In addition, in late 1994, the Underwriter for the Company's initial public offering exercised its warrants and acquired approximately 323,000 shares of the Company's common stock. The proceeds of exercise amounted to approximately \$800,000, which were utilized for working capital purposes.

On March 31, 1997, the Company entered into a license agreement with Weight Watchers Gourmet Food Company (a wholly-owned subsidiary of H. J. Heinz Company) to manufacture, market and sell 60 Weight Watcher dry and refrigerated products.

## Results of Operations

### Fiscal 1997 Compared to Fiscal 1996

Net sales for 1997 decreased by approximately \$3.2 million to \$65.4 million as compared with \$68.6 million in 1996. The sales decrease was principally attributable to a \$10.5 million decrease in sales of rice cake products, offset in part by a full year of sales of the Estee division, which was acquired in November 1995 and sales of Weight Watchers products in the fourth quarter of fiscal 1997. The rice cake product category for the Company, as well as other sellers of the product (including Quaker Oats), has been under recent pressure from the growing market acceptance of other snack products and from increased competition. The Company is reacting by continuing to introduce new products in a variety of categories, with a goal of reducing reliance on rice cakes and generating a more diversified product sales mix. In addition, the Company believes that its recent license arrangement with respect to the Weight Watchers dry and refrigerated product lines and the acquisition of Boston Popcorn Company (see Notes 3 and 4 of the Notes to Consolidated Financial Statements) will ultimately more than offset reduced rice cake sales.

Gross profit for 1997 decreased by approximately \$3.1 million to \$24.6 million as compared to \$27.7 million in 1996. Gross margin percentage decreased by approximately 2.8% in 1997 compared with 1996, principally due to a change in product mix and an increase in warehousing and delivery costs.

Selling, general and administrative expenses decreased by \$1.3 million to \$19.7 million in 1997 as compared to \$20.9 million in 1996, principally as a result of lower sales promotional costs on lower sales levels. Such expenses, as a percentage of net sales, were at the same approximate level in both years.

Interest and financing costs for 1997 decreased by \$.1 million to \$2.1 million as compared to \$2.2 million for 1996.

Income before income taxes for 1997 was approximately \$1.9 million as compared to \$3.8 million in 1996. The decrease of \$1.9 million is principally a result of the aforementioned decrease in gross profit offset in part by the decrease in sales promotional costs.

Income taxes decreased to \$.8 million in 1997 from \$1.6 million in 1996. The decrease in income taxes is substantially attributable to the decrease in income before taxes. Income taxes as a percentage of pre-tax income amounted to 42.4% in 1997 as compared to 43.3% in 1996.

## Fiscal 1996 Compared to Fiscal 1995

Net sales for 1996 increased by approximately \$10.5 million to \$68.6 million as compared with \$58.1 million in 1995. The sales increase was essentially all attributable to the acquisition of Estee in November 1995.

Gross profit for 1996 increased by approximately \$5.8 million to \$27.7 million as compared to \$21.9 million in 1995, principally as a result of increased sales. Gross profit percentage increased by approximately 2.8% in 1996 compared with 1995 principally because of a sales price increase on one of the Company's major product lines and more efficient production by co-packers.

Selling, general and administrative expenses increased by \$5.6 million to \$20.9 million in 1996 as compared to \$15.3 million in 1995, principally as a result of increased promotional activity in connection with the introduction of new products. Such expenses, as a percentage of net sales, were 4.1% higher than in 1995, reflecting the aforementioned increased promotional activity. The integration of Estee did not result in any significant increases in the Company's general and administrative expenses.

Interest and financing costs for 1996 increased by \$.4 million to \$2.2 million as compared to \$1.8 million for 1995, principally because of debt incurred in connection with the acquisition of Estee in November 1995. The increase was offset, in part, by the early retirement of a term loan in November 1994, with the proceeds from the exercise of the warrants and lower interest rates.

Income before income taxes for 1996 was \$3.8 million as compared to \$4.1 million in 1995. The decrease of \$.4 million is principally a result of the aforementioned increase in the level of promotional spending offset in part by the increase in gross profit based on higher net sales in 1996.

Income taxes decreased to \$1.6 million in 1996 from \$1.8 million in 1995. The decrease in income taxes is substantially attributable to the decrease in income before taxes.

## Liquidity and Capital Resources

In November 1995, the Company purchased substantially all of the business of The Estee Corporation. In connection with the acquisition, the Company and its bank entered into an \$18 million Amended and Restated Credit Facility ("Facility") providing for a \$9 million senior term loan and a \$9 million revolving credit line. The Facility replaced the Company's existing \$6 million revolving credit line with the same bank. Borrowings under the facility bear interest at rates ranging from 1/2% to 1% over the bank's base rate. The senior term loan is repayable in quarterly principal installments, commencing March 31, 1996 through maturity of the Facility on June 30, 2000. 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 Facility are collateralized by principally all of the Company's assets. The Facility also contains certain financial and other restrictive covenants. Of the \$9 million available under the Company's revolving credit line, \$2.25 million was outstanding at June 30, 1997. From time to time, because of inventory requirements, the Company may utilize a portion of the revolving credit line.

The Company's 12.5% Subordinated Debentures ("Debentures") mature on April 14, 2004 and require principal payments of \$1,943,000 on October 14, 2000, and of \$2,307,000, \$2,125,000, and \$2,125,000, respectively on April 14 of 2002, 2003 and 2004.

The aggregate long-term debt service requirements for the year ending June 30, 1998 are approximately \$4.2 million, which includes proceeds from collections of certain receivables from the sale of equipment, which are required to be utilized for pre-payments of the senior term loan. The Company anticipates that cash flow from operations will be sufficient to meet all of its debt service and operating requirements.

Working capital at June 30, 1997 amounted to approximately \$4.5 million, which is adequate to serve the Company's operational needs. The Company purchases its products from independent co-packers and does not intend to invest in plant or equipment relating to the manufacture of products for sale. Consequently, additions to property and equipment are not expected to be material in future periods. The Company's Facility and Debentures impose limitations on the incurrence of additional indebtedness and require that the Company comply with certain financial tests and restrictive covenants. As at June 30, 1997, the Company was in compliance with such covenants.

On September 11, 1997, the Company executed a definitive merger agreement with Westbrae pursuant to which the Company commenced a tender offer on September 12, 1997 for all of the outstanding shares of Westbrae for \$3.625 per share of common stock in cash. Pursuant to the definitive merger agreement, certain shareholders of Westbrae who own an aggregate of approximately 69% of the outstanding shares of Westbrae have agreed to tender their shares at the offer price. The aggregate purchase price for all of the outstanding shares of Westbrae and shares under option (assuming all of Westbrae's shares are tendered) is approximately \$23.5 million. In connection therewith, the Company has obtained a financing commitment from its lender for a Credit Facility of \$40 million, consisting of a \$30 million term loan and a \$10 million line of revolving credit. The proceeds of the term loan will be used to fund the total cost of the acquisition and to repay certain existing debt of the Company and Westbrae. In addition, the Company requires the consent of the holders of its subordinated debentures before completing the Westbrae acquisition.

Notwithstanding the significant cash demands created by the Westbrae acquisition, the Company believes that cash provided by operations and amounts available under the Credit Facility will be sufficient for the foreseeable future to finance its operations, service interest payments on its debt and fund capital expenditures.

## Seasonality

Sales of food products consumed in the home generally decline to some degree during the Summer vacation months. 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 7A. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable, except as reported on in Item 7.

## Item 8. Financial Statements and Supplementary Data.

The following consolidated financial statements of The Hain Food Group, Inc. and subsidiaries are included in Item 8:

Consolidated Balance Sheets - June 30, 1997 and 1996

Consolidated Statements of Income - Years ended June 30, 1997, 1996 and 1995

Consolidated Statements of Cash Flows - Years ended June 30, 1997, 1996 and 1995

Consolidated Statement of Stockholders' Equity - Years ended June 30, 1997, 1996 and 1995

Notes to Consolidated Financial Statements

The following consolidated financial statement schedule of The Hain Food Group, Inc. and subsidiaries are included in Item 14 (a):

Schedule II Valuation and qualifying accounts

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and therefore have been omitted.

Report of Independent Auditors

The Stockholders and Board of Directors  
The Hain Food Group, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of The Hain Food Group, Inc. and Subsidiaries as of June 30, 1997 and 1996, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended June 30, 1997. Our audits also included the financial statement schedule listed in the index at Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Hain Food Group, Inc. and Subsidiaries at June 30, 1997 and 1996, and the consolidated results of their operations and their cash flows for each of the three years in the period ended June 30, 1997, in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Melville, New York  
September 3, 1997

## THE HAIN FOOD GROUP, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

	June 30	
	1997	1996
	-----	-----
ASSETS		
Current assets:		
Cash	\$219,000	\$306,000
Trade accounts receivable, less allowance for doubtful accounts of \$265,000 and \$58,000	8,447,000	8,069,000
Inventories	6,635,000	7,346,000
Receivables from sale of equipment - current portion	408,000	632,000
Other current assets	818,000	639,000
	-----	-----
Total current assets	16,527,000	16,992,000
Property and equipment, net of accumulated depreciation of \$577,000 and \$399,000	743,000	685,000
Receivables from sale of equipment - non-current portion	150,000	310,000
Goodwill and other intangible assets, net of accumulated amortization of \$2,074,000 and \$1,334,000	29,188,000	27,140,000
Deferred financing costs, net of accumulated amortization of \$1,049,000 and \$706,000	975,000	1,312,000
Other assets	1,312,000	1,003,000
	-----	-----
Total assets	\$48,895,000	\$47,442,000
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Accounts payable and accrued expenses	\$7,568,000	\$5,560,000
Current portion of long-term debt	4,178,000	4,619,000
Income taxes payable	299,000	273,000

Total current liabilities	12,045,000	10,452,000
---------------------------	------------	------------

Long-term debt, less current portion	10,756,000	12,105,000
Other liabilities	483,000	
Deferred income taxes	552,000	461,000

Total liabilities	23,836,000	23,018,000
-------------------	------------	------------

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 8,881,899 and 8,866,899 shares	89,000	89,000
Additional paid-in capital	20,804,000	20,413,000
Retained earnings	4,991,000	3,922,000

	25,884,000	24,424,000
--	------------	------------

Less: 300,000 shares of treasury stock, at cost	825,000	
---	---------	--

Total stockholders' equity	25,059,000	24,424,000
----------------------------	------------	------------

Total liabilities and stockholders' equity	\$48,895,000	\$47,442,000
--	--------------	--------------

See notes to consolidated financial statements.

## THE HAIN FOOD GROUP, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

	Year Ended June 30		
	1997	1996	1995
	-----	-----	-----
Net sales	\$65,353,000	\$68,606,000	\$58,076,000
Cost of sales	40,781,000	40,884,000	36,220,000
Gross profit	24,572,000	27,722,000	21,856,000
	-----	-----	-----
Selling, general and administrative expenses	19,651,000	20,905,000	15,334,000
Depreciation of property and equipment	178,000	184,000	158,000
Amortization of goodwill and other intangible assets	740,000	651,000	474,000
	-----	-----	-----
	20,569,000	21,740,000	15,966,000
	-----	-----	-----
Operating income	4,003,000	5,982,000	5,890,000
	-----	-----	-----
Interest expense, net	1,639,000	1,745,000	1,351,000
Amortization of deferred financing costs	509,000	473,000	419,000
	-----	-----	-----
	2,148,000	2,218,000	1,770,000
	-----	-----	-----
Income before income taxes	1,855,000	3,764,000	4,120,000
Provision for income taxes	786,000	1,630,000	1,755,000
	-----	-----	-----
Net income	\$1,069,000	\$2,134,000	\$2,365,000
	=====	=====	=====
Net income per common and common equivalent share	\$0.12	\$0.24	\$0.28
	=====	=====	=====
Weighted average number of common shares and common share equivalents	8,993,000	8,964,000	8,597,000
	=====	=====	=====

See notes to consolidated financial statements.

## THE HAIN FOOD GROUP, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended June 30		
	1997	1996	1995
	-----	-----	-----
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income	\$1,069,000	\$2,134,000	\$2,365,000
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation of property and equipment	178,000	184,000	158,000
Amortization of goodwill and other intangible assets	740,000	651,000	474,000
Amortization of deferred financing costs	509,000	473,000	419,000
Provision for doubtful accounts	290,000	123,000	44,000
Other	(34,000)		
Deferred income taxes	91,000	36,000	198,000
Increase (decrease) in cash attributable to changes in assets and liabilities, net of amounts applicable to acquired businesses:			
Accounts receivable	(383,000)	(218,000)	(2,775,000)
Inventories	899,000	1,172,000	(499,000)
Other current assets	(347,000)	(166,000)	(255,000)
Other assets	(309,000)	81,000	(974,000)
Accounts payable and accrued expenses	276,000	(2,153,000)	(1,413,000)
Income taxes payable	26,000	(1,023,000)	1,058,000
	-----	-----	-----
Net cash provided by (used in) operating activities	3,005,000	1,294,000	(1,200,000)
	-----	-----	-----
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of businesses, net of long-term debt issued to seller	(666,000)	(9,758,000)	
Acquisition of property and equipment	(146,000)	(215,000)	(429,000)
	-----	-----	-----
Net cash used in investing activities	(812,000)	(9,973,000)	(429,000)
	-----	-----	-----
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from senior term loan		9,000,000	
Proceeds from bank revolving credit facility	850,000	1,100,000	300,000
Purchase of treasury stock	(825,000)		
Costs in connection with bank financing	(6,000)	(256,000)	(20,000)
Payment of senior term loan	(1,234,000)	(2,919,000)	(8,015,000)
Proceeds from exercise of warrants and options, net of related expenses	52,000		8,424,000
Collections of receivables from equipment sales	552,000	2,011,000	582,000
Payment of 10% Junior Subordinated Note	(1,269,000)		
Payment of other long-term debt	(400,000)	(138,000)	(127,000)
	-----	-----	-----
Net cash (used in) provided by financing activities	(2,280,000)	8,798,000	1,144,000
	-----	-----	-----
Net (decrease) increase in cash	(87,000)	119,000	(485,000)
Cash at beginning of year	306,000	187,000	672,000
	-----	-----	-----
Cash at end of year	\$219,000	\$306,000	\$187,000
	=====	=====	=====

See notes to consolidated financial statements.

THE HAIN FOOD GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

YEARS ENDED JUNE 30, 1995, 1996 AND 1997

	Common Stock Shares	Common Stock Amount at \$.01	Additional Paid-in Capital	Retained Earnings (Deficit)	Treasury Stock Shares	Treasury Stock Amount	Total
	-----	-----	-----	-----	-----	-----	-----
Balance at June 30, 1994	5,933,478	\$59,000	\$12,019,000	(\$577,000)			\$11,501,000
Proceeds from exercise of Common Stock warrants and other stock issuances, net of related expenses	2,933,421	30,000	8,394,000				8,424,000
Net income for the year ended June 30, 1995				2,365,000			2,365,000
Balance at June 30, 1995	8,866,899	89,000	20,413,000	1,788,000			22,290,000
Net income for the year ended June 30, 1996				2,134,000			2,134,000
Balance at June 30, 1996	8,866,899	89,000	20,413,000	3,922,000			24,424,000
Acquisition of treasury stock					300,000	(\$825,000)	(825,000)
Exercise of stock options and other	15,000	-	79,000				79,000
Value ascribed to warrants			312,000				312,000
Net income for the year ended June 30, 1997				1,069,000			1,069,000
Balance at June 30, 1997	8,881,899	\$89,000	\$20,804,000	\$4,991,000	300,000	(\$825,000)	\$25,059,000

See notes to consolidated financial statements.

1. BUSINESS:

The Company and its subsidiaries operate in one business segment: the sale of specialty food products which are manufactured by various co-packers.

The Company's principal product lines consist of Hain Pure Foods (natural foods), Hollywood Foods (principally healthy cooking oils), Estee (sugar-free, medically directed snacks), Featherweight (low sodium food products), Kineret Foods (frozen kosher foods), Weight Watchers (dry and refrigerated products), and Boston Popcorn (snacks).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

Consolidation Policy:

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. Material intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition:

Sales are recognized upon the shipment of finished goods to customers. Allowances for cash discounts are recorded in the period in which the related sale is recognized.

Advertising Costs:

Media advertising costs, which are included in selling, general and administrative expenses, amounted to \$236,000, \$22,000, and \$52,000 for fiscal 1997, 1996 and 1995, respectively. Such costs are expensed as incurred.

Income Taxes:

The Company follows the liability method of accounting for income taxes. Under the liability method, deferred taxes are determined based on the differences between the financial statement and tax bases of assets and liabilities at enacted rates in effect in the years in which the differences are expected to reverse.

Concentration of Credit Risk:

Substantially all of the Company's trade accounts receivable are due from food distributors and food retailers located throughout the United States. The Company performs credit evaluations of its customers and generally does not require collateral. Credit losses are provided for in the consolidated financial statements and consistently have been within management's expectations.

Inventories:

Inventories consist principally of finished goods, raw materials and packaging materials, and are stated at the lower of cost (first-in, first-out basis) or market.

Fair Values of Financial Instruments:

As at June 30, 1997 and 1996, the Company had no cash equivalents. The carrying amount of the receivables from sale of equipment approximates their fair value. The Company believes that the interest rates set forth in the Company's debt instruments approximates its current borrowing rate and, accordingly, the carrying amounts of such debt at June 30, 1997 and 1996 approximate fair value.

Property and Equipment:

Property and equipment is stated at cost less accumulated depreciation. Depreciation is provided under the straight-line method over the estimated useful lives of the related assets.

Goodwill and Other Intangible Assets:

Goodwill consists of the excess of the cost of acquired businesses over the fair value of the assets and liabilities acquired or assumed, and is being amortized over a period of 40 years from date of acquisition (see Note 7).

Other intangible assets, which are not significant in the aggregate, are being amortized over their respective applicable lives.

#### Amortizable Long-Lived Assets:

Financial Accounting Standards Board Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" ("FAS 121"), requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the asset carrying amount. FAS 121 also addresses the accounting for long-lived assets that are expected to be disposed of. The Company adopted FAS 121 effective for the fiscal year beginning July 1, 1996. The adoption did not have an effect on the Company's consolidated results of operations, cash flows or financial position.

#### Deferred Financing Costs:

Costs associated with obtaining debt financing are capitalized and amortized over the related lives of the applicable debt instruments. The unamortized deferred financing costs at June 30, 1997 and 1996 relate to the bank Credit Facility and Subordinated Debentures (see Note 8).

#### Earnings Per Common Share:

Net income per share for 1997, 1996 and 1995 is based on the weighted average number of common shares and dilutive common equivalent shares.

In February 1997, the FASB issued Statement No. 128, "Earnings Per Share" ("FAS 128"), which is effective for both interim and annual financial statements for periods ending after December 15, 1997. At that time, the Company will be required to change the method currently used to compute earnings per share and restate all periods. Under the new requirements for calculating basic earnings per share, the dilutive effect of stock options and warrants will be excluded. The impact of adopting FAS 128 is not expected to be material.

#### Supplemental Earnings Common Per Share:

In November 1995, the Company used the proceeds of the exercise of the Company's Class A Warrants ("Warrants") to repay its Senior Term Loan. Had the Warrants been exercised as of July 1, 1994, the net income per share for the year ended June 30, 1995 (based on interest savings, net of tax of approximately \$144,000 and an assumed issuance of shares in connection with the exercise of the Warrants as of July 1, 1994), would have been the same (\$.28 per share), as historically reported.

### 3. ACQUISITIONS:

On May 23, 1997, the Company purchased substantially all of the assets and business, subject to certain liabilities, of The Boston Popcorn Company, Inc. Boston Popcorn is a manufacturer and marketer of popcorn and chip snack products, principally in the New England and New York City metropolitan areas. The purchase price amounted to approximately \$870,000 of which \$645,000 was paid in cash and \$225,000 by the issuance of a note, with a maturity date in 2002. In addition, the Company assumed certain liabilities. Pro forma information with respect to the foregoing acquisition is not significant.

On November 3, 1995, the Company purchased substantially all of the assets and business, subject to certain liabilities, of The Estee Corporation. Estee is a manufacturer and marketer of sugar-free and low sodium products targeted towards diabetic and health conscious consumers. The purchase price, after giving effect to the early redemption of the junior subordinated note referred to below (see Note 8), amounted to approximately \$11.32 million of which \$9.75 million was paid in cash and \$1.75 million by the issuance of a junior subordinated note, with a maturity date in 2005. In addition, the Company issued a warrant to purchase 200,000 shares of the Company's common stock at an exercise price of \$6.50. See Note 10.

The above acquisitions have been accounted for as purchases and, therefore, operating results of the acquired businesses have been included in the accompanying financial statements from the date of acquisition.

Unaudited pro forma results of operations for the year ended June 30, 1996, assuming that the Estee acquisition had occurred as of July 1, 1995 are as follows:

	1996
	-----
Net sales	\$75,749,000
Net income	2,316,000
Net income per share	\$ .26

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

4. LICENSE AGREEMENT:

On March 31, 1997, the Company entered into a license agreement with Weight Watchers Gourmet Food Company ("WWGF" - a wholly-owned subsidiary of H. J. Heinz Company). Under the agreement, the Company will manufacture, market and sell approximately 60 Weight Watcher dry and refrigerated products. Sales of these products were approximately \$17 million (unaudited) for the 12 months ended March 31, 1997. The agreement provides, among other matters, for a royalty payment to WWGF based on the sales of Weight Watchers products and payment of a share of the pre-tax profits (as defined) from sale of the such products. In connection with the license agreement, the Company purchased approximately \$600,000 of inventory, using borrowings under the Company's revolving credit facility.

5. RECEIVABLES FROM SALE OF EQUIPMENT:

In connection with the acquisitions of Hain, Estee and Boston Popcorn, the Company acquired certain food manufacturing equipment, which has been sold to co-packers for selling prices equal to the fair value of such equipment recorded at date of acquisition. The balance of the receivables are due in various installments over a five year period through 2001. The proceeds of sale of the Estee equipment are required to be utilized to pay down the bank debt referred to in Note 8.

6. INVENTORIES:

Inventories consist of the following:

	1997	1996
Finished goods	\$5,418,000	\$6,641,000
Raw materials and packaging	1,217,000	705,000
	\$6,635,000	\$7,346,000

7. GOODWILL AND OTHER INTANGIBLE ASSETS:

Goodwill and other intangible assets consist of the following:

	1997	1996
	-----	-----
Goodwill	\$30,645,000	\$28,209,000
Other intangible assets	617,000	265,000
	-----	-----
	31,262,000	28,474,000
Less: Accumulated amortization	2,074,000	1,334,000
	-----	-----
	\$29,188,000	\$27,140,000
	=====	=====

Substantially all unamortized goodwill relates to the acquisition of Hain, Estee, Boston Popcorn and Kineret Foods. The entities have been in operation for many years and are viewed to have an unlimited life. Accordingly, such goodwill is being amortized over the maximum period (40 years) permitted by Accounting Principles Board Opinion No. 17. The increase in goodwill during 1997 is principally attributable to the acquisition of The Boston Popcorn Company and the increase in 1996 is all attributable to the acquisition of Estee.

8. LONG-TERM DEBT:

Long-term debt consists of the following:

	1997	1996
	-----	-----
Senior Term Loan	\$ 4,847,000	\$ 6,081,000
Revolving Credit	2,250,000	1,400,000
12.5% Subordinated Debentures net of unamortized original issue discount of \$1,195,000 and \$1,361,000	7,305,000	7,139,000
10% Junior Subordinated Note		1,750,000
Notes payable to sellers in connection with acquisition of companies, and other long-term debt	532,000	354,000
	-----	-----
	14,934,000	16,724,000
Current portion	4,178,000	4,619,000
	-----	-----
	\$10,756,000	\$12,105,000
	=====	=====

In connection with the acquisition of Estee in November 1995, the Company and its bank entered into a \$18 million Amended and Restated Credit Facility ("Facility") providing for a \$9 million senior term loan and a \$9 million revolving credit line. The Facility replaced the Company's existing \$6 million revolving credit line with the same bank. Borrowings under the facility bear interest at rates ranging from 1/2% to 1% over the bank's base rate, which was 8.5% and 8.25% at June 30, 1997 and 1996, respectively. The senior term loan is repayable in quarterly principal installments, commencing March 31, 1996 through maturity of the Facility on June 30, 2000. 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 Facility are collateralized by principally all of the Company's assets. The Company borrowed the full \$9 million senior term loan and \$2 million under the revolving credit line to fund the cash purchase price and related closing costs of the acquisition.

At June 30, 1997 and 1996, the interest rate on the Credit Facility was 9.50% and 9.25%, respectively.

The Credit Facility, as amended, contains certain restrictive covenants 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 ratios, the achievement of certain earnings levels, and interest and fixed charge coverage ratios. The Company was in compliance with all such covenants at June 30, 1997.

The 12.5% Subordinated Debentures ("Debentures") provide for the payment of interest semi-annually in arrears, and principal payments of \$1,943,000 in October 2000, \$2,307,000 in April 2002, \$2,125,000 in April 2003 and a final maturity payment of \$2,125,000 in April 2004. The agreement relating to the issuance of the Debentures also contains certain restrictive covenants which are generally less restrictive than those contained in the Credit Facility. In connection with the issuance of the Debentures, the Company also issued 768,229 shares of common stock to the Debenture holders. Such shares were valued at \$1,644,000 and applied as a discount of the value of the Debentures. The discount is being amortized using the interest method over the life of the Debentures. Amortization expense for the years ended June 30, 1997, 1996 and 1995 amounted to \$166,000, \$141,000 and \$108,000, respectively.

The 10% junior subordinated note ("Estee Note"), which was issued to the seller in connection with the acquisition of Estee, provided for the payment of interest semi-annually in arrears and a maturity in November 2005. Pursuant to an option contained in the Estee Note, in April 1997 the note was redeemed by the Company for \$1,269,000. Substantially all of the discount of \$481,000, resulting from such redemption was applied as a reduction of the purchase price of Estee, resulting in a reduction of goodwill.

Maturities of long-term debt at June 30, 1997, are as follows:

Year Ending June 30 -----	
1998	\$ 4,178,000
1999	1,993,000
2000	1,372,000
2001	1,988,000
2002	2,348,000
Thereafter	4,250,000
	-----
	16,129,000
Less: Unamortized original issue discount	1,195,000
	-----
Total long-term debt	\$14,934,000
	=====

Interest paid during the years ended June 30, 1997, 1996 and 1995 amounted to \$1,768,000, \$1,820,000 and \$1,440,000, respectively

9. INCOME TAXES:

The provision for income taxes for the years ended June 30, 1997, 1996 and 1995 are as follows:

	1997 -----	1996 -----	1995 -----
Current:			
Federal	\$541,000	\$1,337,000	\$1,262,000
State	154,000	257,000	295,000
	-----	-----	-----
	695,000	1,594,000	1,557,000
Deferred Federal and State	91,000	36,000	198,000
	-----	-----	-----
Total	\$786,000	\$1,630,000	\$1,755,000
	=====	=====	=====

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Components of the Company's deferred tax liability for the years ended June 30, 1997 and 1996 are as follows:

	1997	1996
	-----	-----
Difference in carrying amount of receivables from sale of equipment	\$ (8,000)	\$ (35,000)
Difference in amortization period on Estee Goodwill	(186,000)	(111,000)
Basis difference on property and equipment	(102,000)	(93,000)
Basis difference on inventory	134,000	67,000
Deferred charges	(462,000)	(294,000)
Allowance for doubtful accounts	72,000	5,000
	-----	-----
Net deferred tax liability	\$ (552,000)	\$ (461,000)
	=====	=====

Reconciliations of expected income taxes at the U.S. federal statutory rate to the Company's provision for income taxes for the years ended June 30, 1997, 1996, and 1995 are as follows:

	1997	%	1996	%	1995	%
	-----	----	-----	----	-----	----
Expected U.S. federal income tax at statutory rate	\$630,000	34.0%	\$1,280,000	34.0%	\$1,401,000	34.0%
State income taxes, net of federal benefit	102,000	5.5	172,000	4.6	195,000	4.8
Non-deductible expenses	169,000	9.1	167,000	4.4	154,000	3.7
Other	(115,000)	(6.2)	11,000	.3	5,000	.1
	-----	----	-----	----	-----	----
Provision for income taxes	\$786,000	42.4%	\$1,630,000	43.3%	\$1,755,000	42.6%
	=====	=====	=====	=====	=====	=====

Income taxes paid during the years ended June 30, 1997, 1996 and 1995 amounted to \$669,000, \$2,623,000 and \$233,000, respectively.

## 10. STOCKHOLDERS' EQUITY:

### Common Stock:

In June 1996, the Board of Directors of the Company adopted a Common Stock repurchase program authorizing the Company to repurchase up to \$2 million of the Company's common stock. In a private transaction in November 1996, the Company acquired 300,000 shares of its common stock for treasury at \$2.75 per share for an aggregate cost of \$825,000.

### Preferred Stock:

The Company is authorized to issue "blank check" preferred stock (up to 5 million shares) with such designations, rights and preferences as may be determined from time to time by the Board of Directors. Accordingly, the Board of Directors is empowered to issue, without stockholder approval, preferred stock with dividends, liquidation, conversion, voting, or other rights which could decrease the amount of earnings and assets available for distribution to holders of the Company's common stock. As at June 30, 1997 and 1996, no preferred stock was issued or outstanding.

### Warrants:

In December 1994, the Company issued 125,000 shares of Common Stock as a result of the exercise of a warrant issued by the Company in connection with the Company's 12.5% Subordinated Debentures. The proceeds from such exercise were nominal.

In connection with services provided by CIBC Wood Gundy Securities Corp. ("CIBC" - formerly Argosy Group, L.P.), the Company's investment banking firm, the Company issued in April 1994, to an affiliate of CIBC, warrants to acquire 550,000 shares of the Company's common stock at a price of \$3.25 per share. The exercise price approximates the fair market value of the Company's common stock at the time the warrant was negotiated. None of these warrants have been exercised.

In connection with the acquisition of Estee, the Company issued a warrant to the seller to purchase 200,000 shares of the Company's common stock at an exercise price of \$6.50 per share. In August and September 1997, the seller exercised all of the warrants and the Company issued 200,000 shares of Common Stock out of treasury for aggregate proceeds of \$1,300,000.

In connection with the Weight Watchers agreement, the Company issued warrants on March 31, 1997, to acquire 250,000 shares of the Company's common stock at prices ranging from \$7.00 to \$9.00 per share. The value ascribed to these warrants of approximately \$312,000 will be amortized over ten years.

During the last three fiscal years, the Company issued a total of 200,000 warrants in connection with services rendered by third party consultants at prices ranging from \$4.13 to \$8.00 per share.

As at June 30, 1997, there are 2,940,000 shares of common stock reserved for issuance of warrants (1,200,000) and Employee and Director Stock Options (1,740,000). See Note 12.

#### 11. LEASES:

The Company's corporate headquarters are located in leased office space in Uniondale, New York, under a lease which expires in March 2002. This lease provides for additional payments of real estate taxes and other operating expenses over a base period amount. In addition, the Company leases warehouse space for a subsidiary and a division under net leases which expire in August 1999 and May 2000.

The aggregate minimum future lease payments for these operating leases are as follows:

Year Ending June 30	
-----	
1998	\$ 321,000
1999	325,000
2000	301,000
2001	274,000
2002	191,000
	-----
	\$1,412,000
	=====

Rent expense charged to operations for the years ended June 30, 1997, 1996 and 1995 was \$224,000, \$162,000 and \$187,000, respectively.

#### 12. STOCK OPTION PLANS:

In December 1994, the Company adopted the 1994 Long-Term Incentive and Stock Award Plan ("Plan"), which amended and restated the Company's 1993 stock option plan. The Plan provides for the granting of incentive stock options to employees, directors and consultants to purchase up to an aggregate of 855,000 shares of the Company's common stock. All of the options granted to date under the Plan have been qualified stock options providing for exercise prices equivalent to the fair market price at date of grant, and expire 10 years after date of grant. Vesting terms are determined at the discretion of the Company. During 1995, options to purchase 111,500 shares were granted at prices from \$3.50 to \$5.00 per share. During 1996, options to purchase 103,500 shares were granted at prices from \$2.94 to \$3.25 per share. During 1997, options to purchase 475,000 shares were granted at prices from \$3.00 to \$4.81 per share. At June 30, 1997, no options were available for grant.

In December 1995, the Company adopted a Directors Stock Option Plan. The Plan provides for the granting of stock options to non-employee directors to purchase up to an aggregate of 300,000 shares of the Company's common stock. During 1996, options for an aggregate of 90,000 shares were granted at a price of \$3.50 per share. During 1997, options for an aggregate of 67,500 shares were granted at a price of \$3.38 per share. At June 30, 1997, 142,500 options are available for grant.

The Company also has a 1993 Executive Stock Option Plan pursuant to which it granted Mr. Irwin D. Simon, its founder and Chief Executive Officer, options to acquire 600,000 shares of the Company's common stock. As a result of the Company achieving certain sales thresholds, all of such shares are currently exercisable. The exercise price of options designed to qualify as incentive options is \$3.58 per share and the exercise price of non-qualified options is \$3.25 per share. None of Mr. Simon's options have been exercised. The options expire in 2003.

The Company has elected to follow APB Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related Interpretations, in accounting for stock options because, as discussed below, the alternative fair value accounting provided for under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("FAS 123"), requires use of option valuation models that were not developed for use in valuing employee stock options. Under APB 25, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on date of grant, no compensation expense is recognized.

Pro-forma information regarding net income and net income per share is required by FAS 123, and has been determined as if the Company has accounted for its stock options under the fair value method of that Statement. The fair value for these options was estimated at the date of grant using a Black-Sholes option pricing model with the following weighted-average assumptions: risk free interest rates, ranging from 5.26% to 6.77%; no dividend yield; volatility factor of the expected market price of the Company's Common Stock at 40%; and a weighted-average expected life of the options of 5 years at June 30, 1997 and 1996.

The Black-Sholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information is as follows:

	1997	1996
	-----	-----
Pro forma net income	\$747,000	\$1,997,000
Pro forma net income per share	\$ .08	\$ .22

The FAS 123 method of accounting has not been applied to options granted prior to July 1, 1995. As a result, the pro forma compensation cost may not be representative of that to be expected in future years.

A summary of the transactions pursuant to the Company's stock options plans for the three years ended June 30, 1997 follows:

	1997		1996		1995	
	Options	Weighted Exercise Price	Options	Weighted Exercise Price	Options	Option Exercise Price
	-----	-----	-----	-----	-----	-----
Outstanding at beginning of year	1,090,000	\$3.52	911,500	\$3.57	855,000	\$3.25-\$3.58
Granted	542,000	3.82	193,500	3.25	111,500	3.50- 5.00
Exercised	(15,000)	3.50				
Terminated	(20,000)	4.75	(15,000)	3.25	(55,000)	3.25
	-----		-----		-----	
Outstanding at end of year	1,597,000	\$3.61	1,090,000	\$3.52	911,500	\$3.52-\$5.00
	=====	=====	=====	=====	=====	
Exercisable at end of year	1,323,000		1,069,000		885,000	
	=====		=====		=====	
Weighted average fair value of options granted during year	\$1.57		\$1.33			
	=====		=====			

The following table summarizes information for stock options outstanding at June 30, 1997:

Exercise Price	Options Outstanding	Options Exercisable	Weighted Average Remaining Contractual Life in Years
\$2.94 - \$3.125	92,000	92,000	8.5
3.25 - 3.58	1,255,000	1,055,000	7.3
4.50 - 4.813	250,000	176,000	9.5
	-----	-----	---
	1,597,000	1,323,000	7.7
	=====	=====	===

13. 401(k) SAVINGS PLAN:

On July 1, 1994, the Company adopted a 401(k) Employee Retirement Plan ("Plan") to provide retirement benefits for eligible employees. All full-time employees of the Company and its subsidiaries who have attained the age of 21 are eligible to participate upon the completion of 30 days of service. Participants may elect to make voluntary contributions to the Plan in amounts not exceeding federal guidelines. On an annual basis, commencing in January 1995, the Company may, in its sole discretion, make certain matching contributions. For the years ended June 30, 1997, 1996 and 1995, the Company made contributions of \$21,000, \$15,000 and \$9,000, respectively.

14. QUARTERLY FINANCIAL DATA (UNAUDITED):

Unaudited quarterly financial data (in thousands, except per share amounts) for fiscal 1997 and 1996 is summarized as follows:

	Three Months Ended			
	September 30, 1996	December 31, 1996	March 31, 1997	June 30, 1997
Net sales	\$15,437	\$17,117	\$13,623	\$19,176
Gross profit	5,729	6,578	5,030	7,235
Operating income	1,170	1,246	600	987
Income before income taxes	589	752	57	457
Net income	336	428	33	272
Net income per common share	\$ .04	\$ .05	\$ .00	\$ .03

Three Months Ended

	September 30, 1995	December 31, 1995	March 31, 1996	June 30, 1996
Net sales	\$13,527	\$18,122	\$17,218	\$19,739
Gross profit	5,364	7,355	6,812	8,191
Operating income	1,094	1,796	1,489	1,603
Income before income taxes	736	1,210	855	963
Net income	426	701	504	503
Net income per common share	\$ .05	\$ .08	\$ .06	\$ .06

15. SUBSEQUENT EVENT:

On September 11, 1997, the Company executed a definitive merger agreement with Westbrae Natural, Inc. ("Westbrae"), a publicly-owned company, pursuant to which the Company commenced a tender offer on September 12, 1997 for all of the outstanding shares of Westbrae for \$3.625 per share of common stock in cash. Pursuant to the definitive merger agreement, certain shareholders of Westbrae who own an aggregate of approximately 69% of the outstanding shares of Westbrae have agreed to tender their shares at the offer price. The aggregate purchase price for all of the outstanding shares of Westbrae and shares under option (assuming all of Westbrae's shares are tendered) is approximately \$23.5 million. In connection therewith, the Company has obtained a financing commitment from its lender for a Credit Facility of \$40 million, consisting of a \$30 million term loan and a \$10 million line of revolving credit. The proceeds of the term loan will be used to fund the total cost of the acquisition and to repay certain existing debt of the Company and Westbrae.

The tender offer expires on October 9, 1997 (unless extended), and this transaction, which is subject to the completion of final diligence procedures, is expected to close by late October 1997.

Westbrae (formerly known as Vestro Natural Foods, Inc.), headquartered in Carson, California, is a leading formulator and marketer of high quality natural and organic foods sold under the brand names Westbrae Natural, Westsoy, Little Bear and Bearitos, encompassing 300 food items such as non-dairy beverages, chips, snacks, beans and soups. For its fiscal year ended December 31, 1996, Westbrae reported net sales of \$32,583,000 and net income of \$1,203,000. For the six months ended June 30, 1997, Westbrae reported net sales of \$15,502,000 (unaudited) and net income of \$708,000 (unaudited).

Item 9. Changes in and Disagreements with Accountants  
on Accounting and Financial Disclosure.

There were no changes in or disagreements with Accountants on Accounting and Financial Disclosure.

PART III

Item 10, "Directors and Executive Officers of the Registrant, Item 11, "Executive Compensation", Item 12, "Security Ownership of Certain Beneficial Owners and Management", and Item 13, "Certain Relationships and Related Transactions", have been omitted from this report inasmuch as the Company will file with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after the end of the fiscal year covered by this report a definitive Proxy Statement for the Annual Meeting of Stockholders of the Company to be held on December 9, 1997, at which meeting the stockholders will vote upon election of the directors. This information under the caption "Election of Directors" in such Proxy Statement is incorporated herein by reference.

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

(a) (1) List of Financial statements

Consolidated Balance Sheets - June 30, 1997 and 1996

Consolidated Statements of Income - Years ended June 30, 1997,  
1996 and 1995

Consolidated Statements of Cash Flows - Years ended June 30, 1997,  
1996 and 1995

Consolidated Statement of Stockholders' Equity - Years ended  
June 30, 1997, 1996 and 1995

Notes to Consolidated Financial Statements

(2) List of Financial Statement Schedules

Valuation and Qualifying Accounts (Schedule II)

(3) List of Exhibits

Exhibit 27 - Financial Data Schedule

(b) Reports on Form 8-K

The Company filed no reports on Form 8-K during the fourth quarter  
of Fiscal 1997.

THE HAIN FOOD GROUP, INC. AND SUBSIDIARIES

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

Column A	Column B	Column C		Column D	Column E
		Additions			
	Balance at beginning of period	Charged to cost and expenses	Charged to other accounts- describe	Deductions describe	Balance end of period
Year ended June 30, 1997 Deducted from asset accounts: Allowance for doubtful accounts	58,000	290,000	66,000 (1)	149,000 (2)	265,000
Year ended June 30, 1996 Deducted from asset accounts: Allowance for doubtful accounts	120,000	123,000	41,000 (1)	226,000 (2)	58,000
Year ended June 30, 1995 Deducted form asset accounts: Allowance for doubtful accounts	95,000	44,000		19,000 (2)	120,000

- (1) Allowance for doubtful accounts at date of acquisition of acquired businesses.
- (2) Uncollectible accounts written off, net of recoveries.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, on the 25th day of September 1997.

THE HAIN FOOD GROUP, INC.

By: /s/ Irwin D. Simon  
Irwin D. Simon  
President and Chief Executive Officer

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

Signature	Title	Date
/s/ Andrew R. Heyer Andrew R. Heyer	Chairman of the Board of Directors	September 25, 1997
/s/ Irwin D. Simon Irwin D. Simon and Director	President, Chief Executive Officer	September 25, 1997
/s/ Jack Kaufman Jack Kaufman	Vice President-Chief Financial Officer	September 25, 1997
/s/ Beth L. Bronner Beth L. Bronner	Director	September 25, 1997
William P. Carmichael	Director	September 25, 1997
/s/ William Fox William Fox	Director	September 25, 1997
/s/ Jack Futterman Jack Futterman	Director	September 25, 1997
Barry Gordon	Director	September 25, 1997
/s/ Steven S. Schwartzreich Steven S. Schwartzreich	Director	September 25, 1997

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