SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

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

Date of Report (Date of earliest event reported)
April 27, 1999

THE HAIN FOOD GROUP, INC

(Exact name of registrant as specified in its charter)

Delaware	0-22818	22-3240619
(State or other jurisdiction of incorporation)	(Commission File Number)	(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

Item 5. Other Events

On April 6, 1999, The Hain Food Group, Inc. (the "Company") announced that it had executed a merger agreement pursuant to which the Company would acquire the stock of privately held Natural Nutrition Group, Inc. ("NNG"), a manufacturer and marketer of premium natural and organic food products sold under the Health Valley(R), Breadshop's(R) and Casbah(R) brands.

Under the terms of the merger agreement, the purchase price consists of $70 million in cash and a $10 million convertible note. Consummation of the acquisition is subject to certain conditions, including satisfaction of the applicable requirements of the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

Item 7. Financial Statements and Exhibits.

(a) Financial Statements of business acquired or to be acquired.

(i) The audited consolidated balance sheets of NNG and Subsidiaries (formerly known as Intrepid Food Holdings, Inc.) as of December 31, 1997 and 1998, and the related audited consolidated statements of operations, stockholders' deficit and cash flows for each of the three years in the period ended December 31, 1998 and (ii) the related reports of independent auditors are included on pages F-1 and F-23.

(b) Pro forma financial information.

The unaudited pro forma combined consolidated balance sheets of the Company as of December 31, 1998 and the unaudited pro forma combined consolidated statements of operations for the year ended June 30, 1998 and the six months ended December 31, 1998 are included in pages F-24 through F-35.

(c) Exhibits.

(2.1) Agreement and Plan of Merger by and among The Hain Food Group, Inc., Hain Acquisition Corp. and Natural Nutrition Group, Inc. dated April 6, 1999.

(4.1) Form of Convertible Note.

INDEX TO FINANCIAL STATEMENTS

Consolidated balance sheets of NNG and Subsidiaries (formerly known as Intrepid Food Holdings, Inc.) as of December 31, 1997 and 1998 and the related consolidated statements of operations, stockholders' deficit and cash flows for each of the three years in the period ended December 31, 1998 (audited)

Pro Forma Combined Consolidated Financial Information (unaudited)

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
Natural Nutrition Group, Inc. and subsidiaries
(formerly known as Intrepid Food Holdings, Inc.)

We have audited the accompanying balance sheets of Natural Nutrition Group, Inc. and subsidiaries (formerly known as Intrepid Food Holdings, Inc.) (the Company) as of December 31, 1997 and 1998, and the related consolidated statements of operations, stockholders' deficit, and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements 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, such consolidated financial statements present fairly, in all material respects, the financial position of Natural Nutrition Group, Inc. and subsidiaries (formerly known as Intrepid Food Holdings, Inc.) as of December 31, 1997 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

DELOITTE & TOUCHE LLP

February 18, 1999, except for Note 7,
as to which the date is March 30, 1999

NATURAL NUTRITION GROUP, INC. AND SUBSIDIARIES
(formerly known as Intrepid Food Holdings, Inc.)

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 1997 AND 1998
(Dollars in thousands, except share data)

	1997	1998
ASSETS		
CURRENT ASSETS:		
Cash	$ 1	$ 7
Accounts receivable, net of allowance for doubtful accounts of $75 (1997) and $60 (1998)	4,009	3,117
Other receivables	187	66
Inventories (Note 4)	5,278	5,870
Deferred income taxes (Note 3)	2,188	--
Prepaid expenses and other current assets	376	869
Total current assets	12,039	9,929
PLANT AND EQUIPMENT, net (Note 5)	23,358	16,908
INTANGIBLE AND OTHER ASSETS, net (Note 6)	14,815	14,760
	$50,212	$41,597

See accompanying notes to
consolidated financial statements.

NATURAL NUTRITION GROUP, INC. AND SUBSIDIARIES
(formerly known as Intrepid Food Holdings, Inc.)

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 1997 AND 1998 (Continued)

(Dollars in thousands, except share data)

	1997	998
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Bank overdraft	$1,315	$ 452
Accounts payable	1,474	5,635
Accrued liabilities (Note 13)	3,878	6,386
Current portion of long-term debt (Note 7)	3,025	1,943
Total current liabilities	9,692	14,416
LONG-TERM LIABILITIES:		
Long-term debt, net of current portion (Note 7)	18,835	17,131
Deferred income taxes (Note 3)	1,048	-
Other accrued expenses	251	63
Total long-term liabilities	20,134	17,194
COMMITMENTS AND CONTINGENCIES (Note 8)		
MANDATORY REDEMPTION SERIES A PREFERRED STOCK at redemption value including cumulative dividends in arrears of $3,412 and $5,710 in December 31, 1997 and 1998, respectively; 19,567 shares outstanding in December 31, 1997 and 1998, respectively (Note 9)	22,979	25,277
STOCKHOLDERS' DEFICIT:		
Preferred stock, $.001 par value, 2,000,000 shares authorized, no shares issued and outstanding		
Common stock, $.001 par value; 65,000 shares authorized at December 31, 1997 and 50,000,000 shares authorized at December 31, 1998; 4,156,664 shares issued and outstanding at December 31, 1997 and 1998, respectively	4	4
Additional paid-in-capital	1,429	1,429
Accumulated deficit	(4,026)	(16,723)
Total stockholders' deficit	(2,593)	(15,290)
	$50,212	$41,597

See accompanying notes to
consolidated financial statements.

NATURAL NUTRITION GROUP, INC. AND SUBSIDIARIES
(formerly known as Intrepid Food Holdings, Inc.)

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 1996, 1997 AND 1998

(Dollars in thousands, except share data)

	1996	1997	1998
NET SALES	$39,942	$67,898	$67,420
COST OF SALES:			
Recurring	27,180	42,370	42,293
Restructuring	-	-	376
GROSS PROFIT	12,762	25,528	24,751
OPERATING EXPENSES:			
Marketing, selling, and distribution	7,177	17,366	19,116
General and administrative	5,148	5,759	5,352
Restructuring and other charges (Note 10)	-	-	7,673
Total operating expenses	12,325	23,125	32,141
OPERATING INCOME (LOSS)	437	2,403	(7,390)
INTEREST EXPENSE	1,052	1,911	1,733
(LOSS) INCOME BEFORE INCOME TAX PROVISION	(615)	492	(9,123)
INCOME TAX PROVISION (Note 3)	13	387	1,276
NET (LOSS) INCOME	$ (628)	$ 105	$(10,399)

See accompanying notes to
consolidated financial statements.

NATURAL NUTRITION GROUP, INC. AND SUBSIDIARIES
(formerly known as Intrepid Food Holdings, Inc.)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED DECEMBER 31, 1996, 1997 AND 1998

(Dollars in thousands, except share data)

	Common Stock Shares	Common Stock Amount	Additional paid-in capital	Accumulated deficit	Total stockholders' deficit
BALANCE, December 31, 1995	1,450,000	$2	$498	$(91)	$ 409
Issuance of common stock on April 12, 1996	2,416,664	2	831		833
Preferred dividend (Note 9)	-	-	-	(1,330)	(1,330)
Net Loss	-	-	-	(628)	(628)
BALANCE, December 31, 1996	3,866,664	4	1,329	(2,049)	(716)
Issuance of common stock on January 28, 1997	290,000	-	100	-	100
Preferred dividend (Note 9)				(2,082)	(2,082)
Net Income	-	-	-	105	105
BALANCE December 31, 1997	4,156,664	4	1,429	(4,026)	(2,593)
Preferred dividend (Note 9)	-	-	-	(2,298)	(2,298)
Net loss	-	-	-	(10,399)	(10,399)
BALANCE December 31, 1998	4,156,664	$4	$1,429	$(16,723)	$(15,290)

See accompanying notes to
consolidated financial statements.

NATURAL NUTRITION GROUP, INC. AND SUBSIDIARIES
(formerly known as Intrepid Food Holdings, Inc.)

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 1996, 1997 AND 1998

(Dollars in thousands, except share data)

	1996	1997	1998
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net (loss) income	$ (628)	$ 105	$(10,399)
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Depreciation and amortization	2,344	3,445	3,541
Write-off of plant and equipment	-	-	4,179
Write-off of inventories	-	-	376
Noncash litigation settlement	-	-	2,029
Deferred income taxes	(187)	499	1,140
Gain on sale of plant and equipment	(31)	(24)	(32)
Effect on cash of changes in operating assets and liabilities:			
Accounts receivable, net	634	(243)	892
Inventories, net	(333)	(292)	(968)
Prepaid expenses and other current assets	972	224	(372)
Accounts payable	(1,061)	(610)	3,298
Accrued liabilities	602	(2,836)	291
Net cash provided by operating activities	2,312	268	3,975
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of plant and equipment	(62)	(446)	(618)
Acquisitions, net of cash acquired	(43,592)	-	-
Proceeds from sale of plant and equipment	31	390	110
Decrease (increase) in intangible and other assets	424	(801)	(675)
Net cash used in investing activities	(43,199)	(857)	(1,183)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net proceeds from revolving line of credit	2,356	3,250	239
Proceeds from long-term debt	19,012	-	-
Principal payments on long-term debt	(690)	(3,448)	(3,025)
Issuance of common stock	833	51	-
Issuance of mandatory redemption preferred stock	18,667	424	-

NATURAL NUTRITION GROUP, INC. AND SUBSIDIARIES
(formerly known as Intrepid Food Holdings, Inc.)

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 1996, 1997 AND 1998 (Continued)

(Dollars in thousands, except share data)

	1996	1997	1998
Net cash provided by (used in) financing activities	40,178	277	(2,786)
NET (DECREASE) INCREASE IN CASH	(709)	(312)	6
CASH, beginning of period	$ 1,022	$ 313	$ 1
CASH, end of period	$ 313	$ 1	$ 7
SUPPLEMENTAL INFORMATION Cash paid during the year for:			
Interest	$ 1,886	$ 978	$ 1,651
Income taxes	$ 406	$ 4	$ 4
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:			
Issuance of preferred and common stock in exchange for debt	$ -	$ 525	$ -
Mandatory accrued preferred dividends	$ 1,330	$ 2,082	$ 2,298
Purchase of acquisitions, net of cash acquired:			
April 15, 1996 acquisition of Health Valley Company:			
Fair value of assets	$ 43,462		
Goodwill	4,902		
Liabilities assumed	(14,025)		
Net cash used to acquire business	34,339		
October 31, 1996 acquisition of The Breadshop:			
Fair value of assets	2,472		
Trademarks	5,493		
Goodwill	3,519		
Liabilities assumed	(2,231)		
Net cash used to acquire business	9,253		
Net cash used to acquire businesses	$ 43,592		

(Dollars in thousands, except share data)

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - Natural Nutritional Group, Inc. (formerly known as Intrepid Food Holdings, Inc.) (NNG) was incorporated in the State of Delaware in October 1995 to acquire and develop natural and organic food companies. In April 1996, NNG acquired the outstanding capital stock of Health Valley Foods, Inc. and Health Valley Manufacturing Company (Predecessor Company). In October 1996, NNG acquired The Breadshop, Inc. (Breadshop) (Note 2).

NNG is a manufacturer and marketer of premium natural and organic food products in the United States. NNG markets (i) breakfast cereals and granolas, (ii) granola bars, cereal bars, cookies, crackers and other baked goods and (iii) canned and instant soups and chilies, as well as other food products, primarily under its Health Valley(R) and Breadshop(R) brands.

Basis of Presentation - The accompanying consolidated statements of operations and cash flow include the combined activities of NNG and its subsidiaries from the dates of acquisition. Certain amounts in the 1996 financial statements have been reclassified to conform with the 1997 and 1998 presentations.

Principles of Consolidation - The accompanying consolidated financial statements include the accounts and operations of NNG and its subsidiaries (the Company). All material intercompany balances and transactions have been eliminated.

Stock Split - During 1998, the Company effected a 290-for-1 stock split of its common stock in connection with an initial public offering which did not become effective. All share and per share amounts included in the accompanying consolidated financial statements and footnotes have been restated to reflect the stock split.

Inventories - Inventories are valued at the lower of first-in, first-out cost (FIFO) or market value.

(Dollars in thousands, except share data)

Plant and Equipment - Plant and equipment, including capitalized lease assets, are stated at cost. Depreciation is provided for on the straight-line method over the estimated useful lives of the assets. Amortization of leasehold improvements is based on the lesser of their estimated useful lives or the terms of the related leases and is calculated using the straight-line method. Useful lives are as follows:

Machinery and equipment	3 to 20 years
Furniture and fixtures	3 to 14 years
Leasehold improvements	5 to 10 years

Repairs and maintenance are expensed as incurred, whereas significant improvements, which materially increase values or extend useful lives, are capitalized and depreciated over the estimated useful lives of the related assets. The cost of assets retired or otherwise disposed of and the related accumulated depreciation are eliminated from the accounts in the year of disposal. Gains or losses resulting from the disposal of assets are charged or credited to operations as incurred.

Fair Value of Financial Instruments - The carrying values of accounts receivable and accounts payable approximate fair value due to the short maturities of such instruments. The carrying values of term loans approximate fair value due to the fact that they are based on variable interest rates.

Revenue Recognition - The Company records revenue at the time the related products are shipped to the customer.

Customer Concentration - The Company had significant sales to a significant distributor who accounted for 14% of revenue for the fiscal year ended December 31, 1996. The Company also had significant sales to two individual distributors who accounted for 14% and 13% of revenue for the fiscal year ended December 31, 1997, and 17% and 22% of revenue for the fiscal year ended December 31, 1998. Given the significant amount of revenues derived from certain customers, collectibility issues arising from financial difficulties of any of these customers or the loss of any such customers

could have a material adverse effect on the Company's business.

Vendor Concentration - The Company also utilizes a single contract manufacturer for the production of canned soups and chilis, which accounted for approximately 25% of revenues for each of the two years ended December 31, 1996 and 1997 and 23% of revenues for the year ending December 31, 1998. The inability of the contract manufacturer to supply the Company with sufficient product quantities in a timely manner could have a material adverse effect until alternate sources could be identified or developed.

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

Long-Lived Assets - In accordance with Statement of Financial Accounting Standards (SFAS) No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, the Company periodically evaluates the recoverability of the net carrying value of plant and equipment and intangible assets using current and anticipated net income and undiscounted cash flows, and, if necessary, an impairment is recorded. During 1998, the Company recorded $1,656 to reflect the impairments of plant and equipment and $476 to writedown the values of assets held for sale to net realizable values. These charges are included in restructuring and other charges in the accompanying consolidated financial statements. The carrying values of the assets written down to net realizable values were approximately $2,545 at December 31, 1998. The Company also wrote off $2,047 of leasehold improvements related to vacated warehouse facilities (Notes 5 and 10).

Intangible and Other Assets - The excess of purchase price over the fair value of net assets acquired, as well as

trademarks related to the Breadshop acquisition, are included in intangible and other assets and are being amortized on a straight-line basis over a 40-year period. Accumulated amortization of intangibles amounted to $113, $499 and $1,229 at December 31, 1996, 1997 and 1998, respectively.

In 1997, the Company undertook a program to update its packaging designs. Costs of $420 and $782, associated with development of new packaging designs, were capitalized during 1997 and 1998, respectively, and are being amortized over three years, beginning with related product shipments.

Comprehensive Income - The Company adopted SFAS No. 130, Reporting Comprehensive Income, on January 1, 1998. SFAS No. 130 requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. The Company does not have any comprehensive income components requiring separate disclosure.

Stock-Based Compensation - The Financial Accounting Standards Board's SFAS No. 123, Accounting for Stock-Based Compensation, requires expanded disclosures of stock-based compensation arrangements with employees. The standard defines a fair value method of accounting for stock options and other equity instruments. Under the fair value method, compensation cost is measured at the grant date based on the fair value of the award and is recognized over the service period, which is usually the vesting period. As permitted by the SFAS No. 123, the Company has elected to continue to account for such transactions under Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and discloses, in a note to the financial statements, pro forma net income and earnings per share as if the Company had applied the fair value method of accounting. The Company will continue to use APB Opinion No. 25 for measurement and recognition of employee stock-based transactions.

2. ACQUISITIONS

On April 15, 1996, pursuant to a stock purchase agreement, NNG acquired all of the outstanding capital stock of the Predecessor Company for $34,339, in cash, including $2,339 in transaction costs. Additionally, pursuant to the stock purchase agreement, the former owner was granted an option to purchase 100 shares of common stock of Health Valley at $22,222.22 per share. During 1997, this option was terminated and a new option was issued. The new option enables the former owner to purchase 406,000 shares of NNG common stock at $.34 per share, and up to an unspecified number of shares of Series A preferred stock at $1,000 per share to be determined based on the number of shares of Series A preferred stock redeemed prior to the exercise of such option.

The acquisition was accounted for using the purchase method. Accordingly, the purchase price was allocated to assets acquired based on their estimated fair values. This treatment resulted in approximately $4,903 of cost in excess of the fair value of net assets acquired. This goodwill is being amortized on a straight-line basis over 40 years. Health Valley results of operations have been included in the accompanying financial statements from the date of acquisition.

On October 31, 1996, the Company completed its acquisition of all of the outstanding capital stock of Breadshop for $9,253 in cash, including $502 in transaction costs. The acquisition was accounted for using the purchase method. Accordingly, the purchase price was allocated to assets acquired based on their estimated fair values. This treatment resulted in approximately $3,519 of cost in excess of the fair value of net assets acquired as of October 31, 1996, and a trademark valuation of $5,493. These amounts are being amortized on a straight-line basis over 40 years. Breadshop's results have been included in the accompanying consolidated financial statements from the date of acquisition. The results of the Company, had Breadshop been acquired as of April 15, 1996 and included in the accompanying financial statements, would be as follows:

(Dollars in thousands, except share data)

Revenue	$45,969
Net loss	$ (779)

3. INCOME TAXES

In accordance with SFAS No. 109, Accounting for Income Taxes, deferred tax assets and deferred tax liabilities reflect the tax consequences in future years of differences between the income tax bases of assets and liabilities and the corresponding bases used for financial reporting purposes. Measurement of the deferred items is based on enacted tax laws. In the event the future consequences of differences between financial reporting bases and tax bases of the Company's assets and liabilities result in a deferred tax asset, SFAS No. 109 requires an evaluation of the probability of being able to realize the future benefits indicated by such asset. A valuation allowance related to a deferred tax asset is recorded when it is more likely than not that some portion or all of the deferred tax asset will not be realized. The Predecessor Company's income tax benefit for the period January 1, 1996 to April 15, 1996 reflects the future income tax benefit expected to be realized.

Components of the income tax expense are as follows at December 31:

	1996	1997	1998
Current:			
Federal	$ 86	$ -	$ 131
State	11	3	5
Other	-	(115)	_ _
	97	(112)	136
Deferred:			
Federal	(225)	535	(3,413)
State	141	(36)	(333)
	(84)	499	(3,746)
Change in valuation allowance	-	-_	4,886_
	$ 13	$ 387	$ 1,276

(Dollars in thousands, except share data)

Major components of the Company's net deferred taxes at December 31, 1997 and 1998 are as follows:

	1997	1998
Net operating loss carryforwards	$2,172	$6,126
Accruals	197	1,320
Reserves	359	760
Basis difference in acquired assets	(1,198)	(1,477)
Depreciation and amortization	(787)	(2,007)
AMT credit and carryforwards	80	84
Capitalization of inventory costs	63	80
Other, including state taxes	254	-
	1,140	4,886
Valuation allowance	-	(4,886)
Net deferred tax asset (liability)	$1,140	$ -

At December 31, 1998, the Company has available net operating loss (NOL) carryforwards of approximately $15,150 and $9,313, for federal and California income taxes, respectively. These NOLs will begin to expire in the Years 2010 and 2000, respectively. The Internal Revenue Code of 1986, as amended, contains provisions that may limit the Company's utilization of its NOL carryforward because of the change in ownership of the Company's stock. The limitation, if any, applies to NOL generated prior to the change in ownership (prior to April 15, 1996). Management believes that the limitations, if any, do not have a material impact on the Company's ability to utilize such net operating losses to offset future earnings.

Based on the Company's assessment of future realizability of its deferred tax assets, a valuation allowance has been provided, primarily related to net operating loss carryforwards, as it is more likely than not that sufficient taxable

(Dollars in thousands, except share data)

income will not be generated to realize these temporary differences.

In connection with the acquisition of the Predecessor Company and Breadshop by the Company, a tax liability was recorded to reflect the increase in book basis over tax basis for tax basis for such net assets acquired. Such amount is included in noncurrent deferred liabilities in 1997.

4. INVENTORIES

Inventories consist of the following:

	1997	1998
Raw materials	$2,457	$2,622
Work-in-progress	237	167
Finished goods	2,584	3,081
	$5,278	$5,870

5. PLANT AND EQUIPMENT

Plant and equipment consists of the following:

	1997	1998
Machinery and equipment	$15,135	$13,715
Leasehold improvements	8,994	6,521
Furniture and fixtures	2,074	2,211
Assets not in use	2,437	2,006
	28,640	24,453
Less accumulated depreciation	(5,282)	(7,545)
	$23,358	$16,908

Equipment held for sale as of December 31, 1997 and 1998, is included in assets not in use. These properties are classified as noncurrent assets and are carried at the lower of cost or net realizable values of $1,821 and $1,345 at December 31, 1997 and 1998, respectively. During 1998, the Com-

(Dollars in thousands, except share data)

pany recorded approximately $476 to adjust the carrying values of these assets to estimated net realizable values (Note 1).

6. INTANGIBLE AND OTHER ASSETS

Intangible and other assets consist of the following:

	1997	1998
Goodwill	$8,881	$8,881
Trademarks	5,493	5,493
Other	940	1,615
	15,314	15,989
Less accumulated amortization	(499)	(1,229)
	$14,815	$14,760

7. LONG-TERM DEBT

Debt consists of the following at December 31:

	1997	1998
Revolving line of credit	$4,732	$4,971
Term Loan A	10,700	9,050
Term Loan B	5,930	4,910
Other	498	143
	21,860	19,074
Less current portion	(3,025)	(1,943)
	$18,835	$17,131

As of December 31, 1998, the Company's bank credit agreement consisted of a $6,500 revolving line of credit facility, and two term loan facilities. All of the borrowings were collateralized by substantially all of the assets of the Company's wholly owned subsidiary. Effective December 31, 1998, the interest rate on the revolving line of credit was

8%, the interest rate on Term Loan A was 7.81%, and the interest rate on Term Loan B was 7.76%. The revolving line of credit facility limited the Company's borrowing, based on eligible balances of receivables and inventories. The maximum credit available was $3,680, $4,844 and $5,231 as of December 31, 1996, 1997 and 1998, respectively. At December 31, 1998, the Company was in violation of certain ratio covenants, and on March 30, 1999, obtained a waiver from the lender through April 30, 1999.

On January 12, 1999, in conjunction with the acquisition of Sahara Natural Foods, Inc. (Note 15), the Company's bank agreement was amended. The amended agreement included the establishment of a single-term loan, the principal amount of which was increased by $2,500 to $16,460 and, the availability on the revolving credit facility was increased by $1,000 to $7,500.

The new term loan matures January 15, 2004 and the amended revolving credit facility matures January 15, 2002. The new term loan requires quarterly principal payments, which commence on March 31, 1999, and end December 31, 2003, in increasing amounts, beginning at $450 and ending at $1,018. All of these borrowings are collateralized by substantially all of the assets of the Company's wholly owned subsidiary.

Interest on the borrowings under these agreements are at varying rates based, at the Company's option, on the bank's prime rate plus .25% per annum, or the London Interbank Offered Rate (LIBOR) plus 2.5% per annum. The borrowings at prime rates have daily terms, while the LIBOR borrowings have terms of one to six months. Interest payments are made at the end of each quarter for prime rate borrowings, and the end of each respective period for LIBOR borrowings. The Company pays an annual commitment fee of .375% on the unused portion of the revolving credit facility.

The long-term debt agreement contains various restrictive covenants which include a prohibition on payment of dividends, specified minimum net worth and current ratio levels, and specific limitations on leverage ratios and capital expenditure amounts. The agreement also contains a mandatory

(Dollars in thousands, except share data)

requirement to make accelerated payments on the term debt in the event of (i) a significant sale or disposition of fixed assets or (ii) of excess cash flow (as defined) being generated in a fiscal year. The revolving line of credit facility limits the Company's borrowing, based on eligible balances of receivables and inventories.

Other debt includes notes payable to a financing company, with underlying fixed assets as collateral, payable in monthly installments ranging from $2 to $8, bearing interest rates of 9.64% to 11.81%, and maturing at various dates through July 2000.

The scheduled repayments of debt, incorporating the amended credit agreement are as follows:

1999	$ 1,943
2000	2,800
2001	3,820
2002	8,941
2003	4,070
	$21,574

8. COMMITMENTS AND CONTINGENCIES

Operating Leases - The Company leases its facilities under the terms of operating leases. These leases are for terms of five years. During 1998, the Company exercised its option to renew the lease for a five-year term commencing October 1, 1998. However, the monthly rental amount is currently being determined in accordance with the terms of the lease. Currently, the Company is paying a monthly rental of $75. Rent expense related to these leases amounted to $812, $1,147, and $1,132 for the years ended December 31, 1996, 1997 and 1998, respectively.

Contingencies - The Company is a party to various legal proceedings arising from the normal course of operations, including litigation relating to claims alleging misrepresentation in connection with the Predecessor Company's prac-

tices regarding the packaging of certain of its canned products. During 1998, the Company reached a tentative settlement relating to the packaging claims. At December 31, 1998, approximately $2,415 is accrued for the packaging litigation based on the terms of a settlement agreement. Although the ultimate disposition of other proceedings is not determinable, management, based on advice of legal counsel, does not believe that adverse determinations in any or all of such proceedings will have a material adverse effect on the Company's financial position, results of operations, and cash flows.

9. MANDATORY REDEMPTION 10% PREFERRED STOCK

The Company's Series A preferred stock has a mandatory redemption value of $9,783 on each of the seventh and eighth anniversary dates from the original issuance or April 12, 2003 and 2004, respectively, plus any accrued but unpaid dividends. Dividends on the Series A preferred stock are cumulative and accrue at a 10% annual rate based on a redemption value of $1,000 per share. In the event of liquidation, dissolution, qualifying sale, or merger of the Company, each holder of Series A preferred stock has a liquidation preference equal to $1,000 per share plus any accrued but unpaid dividends. Subject to certain limitations, the Company, at its option, may redeem all or part of the outstanding shares of Series A preferred stock at the redemption value plus all accrued but unpaid dividends. During fiscal year 1997, the Company issued 900 shares of Series A preferred stock, liquidation value of $1,000 per share, as repayment for $900 of debt. As the Series A preferred stock has characteristics similar to debt instruments, the balance of preferred shares have been classified above shareholders' equity in the financial statements.

10. RESTRUCTURING AND OTHER CHARGES

During 1998, the Company recorded a $8,049 charge to operations reflecting its decision to restructure certain operations of the Company in light of revisions in its business strategies, and for other nonrecurring charges. Approximately $4,814 was recorded as a restructuring charge com-

prised of the following components (i) a $2,047 noncash charge for the write-off of the leasehold improvements in the Company's distribution warehouse as a result of the Company's decision to outsource this function and not renew the lease on the warehouse, (ii) a $1,656 noncash charge for the writedown to net realizable value of certain manufacturing assets whose values have been impaired by the Company's revised product offering and (iii) a $1,111 charge for the writedown and buyback of inventories resulting from the Company's decision to accelerate the introduction of new products and packaging. Other nonrecurring charges of $3,235 consists of (iv) a $476 noncash charge for the writedown to net realizable value of certain assets which the Company is holding for sale, (v) approximately $730 of costs incurred by the Company for an initial public offering which did not become effective and, (vi) net litigation settlement expenses of $2,029 (Note 8).

11. RETIREMENT PLANS

The Company maintains a defined contribution retirement plan (401(k) Savings Plan) (the Plan) that covers all eligible employees who elect to participate. Employees may contribute between 1% and 15% of their earnings under the Plan, subject to annual limits set by the Internal Revenue Service. The Company matches 50% of the participant's contributions, up to 3% of each participant's earnings. In addition, the Company is able to make additional discretionary contributions. The Company's contributions for the periods ended December 31, 1996, 1997 and 1998, were $103, $110 and $120, respectively.

12. RELATED-PARTY TRANSACTIONS

Frontenac Company, a private equity firm and the general partner of Frontenac VI Limited Partnership, provides consulting and financial services to the Company. Such services include, but are not limited to, addressing issues related to strategic direction, long-term growth, acquisitions and divestitures, executive recruitment, and new financings. Two directors of the Company are affiliates of Frontenac Company.

(Dollars in thousands, except share data)

Fees paid by the Company to Frontenac Company in 1996 include a $395 transaction fee related to the Health Valley acquisition and a $100 transaction fee related to the Breadshop acquisition. During 1996, in conjunction with the Breadshop acquisition, the Company entered into a 10% Convertible Promissory note in the amount of $1,000 which was due to Frontenac VI Limited Partnership. This note and the related interest was satisfied on January 31, 1997, through a cash payment of $500 and an issuance of stock valued at $525. Expenses incurred by the Company from Frontenac Company for the years ended December 31, 1996, 1997 and 1998 include Board of Directors fees of $83, $88 and $41, respectively. Management believes that the charges incurred in these transactions were substantially the same as charges which would have been incurred had similar services been provided by unrelated parties.

13. ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	1997	1998
Accrued salaries, vacation, and related benefits	$ 897	$ 1,038
Accrued packaging litigation (Note 8)	412	2,415
Accrued acquisition expenses	1,348	615
Other accrued liabilities	1,221	2,318
	$3,878	$6,386

14. STOCK OPTIONS

In January 1997, the Company amended the Management Option Agreement (Option Agreement) with its Chairman and President. The Option Agreement granted options to purchase 96,570 common shares at increasing option prices in excess of the fair value ($.34 per share) of the stock at the grant date. The options become fully vested and exercisable on the earlier of: (1) a qualified public offering or approved sale or (2) on the third anniversary from the date of grant.

(Dollars in thousands, except share data)

The Option Agreement also contains certain antidilution provisions.

In March 1997, the Company adopted the 1997 Stock Option Plan (the Option Plan) to provide for and formalize the grant of stock options to key employees. In connection with the adoption of the Option Plan, the Company formalized the grant of options for 212,280 shares at $.34 per share to key employees. These options vest one third on the first anniversary date of employment subsequent to the date of grant and one-third on each of the two subsequent anniversary dates. Options granted under the Plan will become fully vested in the event of a fundamental change or stock sale (as defined within the Plan) of the Company.

At December 31, 1998, 129,920 options were vested and exercisable having a weighted average exercise price of $.34 per share. During fiscal year 1998, 10,150 options were granted, no options were exercised and 9,280 options were forfeited.

The Company applies APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations in accounting for the Plan. No compensation cost has been recognized for the Plan. Had compensation cost for the Company's plan been determined based on the fair value at the grant date for awards under those plans consistent with the method of SFAS No. 123, the Company's net income would have decreased by the pro forma amounts indicated below:

	December 31,	
	1997	1998
Net income (loss):		
As reported	$ 105	$(10,399)
Pro forma	$ 101	$(10,403)

The fair value of stock options formalized in 1997 and 1998 had a weighted average fair value of $.34 per share at December 31, 1998. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model, with the following assumptions used for grants in 1997 and 1998; dividend yield of 0% for all grants

risk-free rate of 5.5% in 1998 and 6.68% in 1997; expected life of three years in 1997 and 1998. Volatility of 0% was used (as the Company is not a public entity). Forfeitures are recognized as they occur.

15. SUBSEQUENT EVENTS (UNAUDITED)

Acquisition - On January 12, 1999, the Company acquired Sahara Natural Foods, Inc. (Sahara) a California corporation engaged in the manufacture and distribution of natural and organic food products. Under the terms of the acquisition, to be accounted for as a purchase, the Company acquired all of Sahara's common stock for an initial purchase price of $6,700, consisting of a combination of cash and a $400 convertible and an $800 nonconvertible promissory note. The purchase price is subject to a post-closing adjustment based on working capital.

Amendment of Certificate of Incorporation and By-Laws - In February 1999, the Company approved a third amendment (the third amendment) to its Certificate of Incorporation and approved a reverse 1-for-290 split of each outstanding share of common stock. Effective upon the filing of the third amendment, the Company will have the authority to issue 65,000 shares of common stock at a $.001 per share par value and 35,000 shares of preferred stock at a $.001 per share par value. The 35,000 shares of the preferred stock will be designated "Series A preferred stock."

UNAUDITED PRO FORMA COMBINED CONSOLIDATED FINANCIAL STATEMENTS

The following unaudited pro forma combined consolidated financial statements are presented to give effect to the purchase agreement and the anticipated acquisition of Natural Nutrition Group, Inc. ("NNG") under the purchase method of accounting. In addition, the pro forma combined consolidated financial statements are presented to also include the historical and pro forma adjusted information of Sahara Natural Foods, Inc. ("Sahara"), which NNG acquired on January 12, 1999 under the purchase method of accounting (collectively, the Company's acquisition of NNG and the NNG acquisition of Sahara, are referred to as the "NNG Acquisition"). The balance sheet assumes that the NNG Acquisition had been consummated on December 31, 1998. The statement of operations for the year ended June 30, 1998, assumes that the NNG Acquisition, the July 1, 1998 acquisition of Arrowhead, Terra and Garden of Eatin' (collectively, the "Acquired Companies") and the October 14, 1997 acquisition of Westbrae Natural, Inc. ("Westbrae") had been consummated on July 1, 1997. The statement of operations for the six months ended December 31, 1998 assumes that the NNG Acquisition had been consummated at July 1, 1998. Hain management anticipates that it will be able to achieve significant cost synergies and savings as a result of the NNG Acquisition. However, in accordance with the rules for presentation of pro forma financial information, no effect to such cost savings has been included herein. In addition, the NNG historical results include certain restructuring and other nonrecurring charges for the year ended June 30, 1998 and six months ended December 31, 1998 that are not expected to continue following the NNG Acquisition. The pro forma financial statements are not necessarily indicative of the results of operations or the financial position which would have occurred had the NNG Acquisition, the Acquired Companies acquisition and the Westbrae acquisition been consummated at such times, nor are they necessarily indicative of future results of operations or financial position. The unaudited pro forma combined consolidated financial statements should be read in conjunction with the historical consolidated financial statements of Hain, including the notes thereto, incorporated by reference herein and the financial statements of NNG, included herein, and the Acquired Companies, incorporated by reference herein, including the notes thereto.

THE HAIN FOOD GROUP, INC. AND SUBSIDIARIES
PRO FORMA COMBINED CONSOLIDATED BALANCE SHEET
December 31, 1998
(in thousands)
(Unaudited)

	Historical			Sahara Acquisition Pro Forma Adjustments	Pro Forma NNG Sahara Combined	Pro Forma as Adjusted for Companies Acquired	Pro Forma as Adjusted for NNG Acquisition
	Hain	NNG	Sahara				
				(Note 1)		(Note 2)	
ASSETS							
Current assets:							
Cash	$ 471	$ 7	$ 43	$2,500(a)	$2,550	$(2,500)(b)	$ 521
Trade accounts receivable, net	18,714	3,183	497		3,680		22,394
Inventories	18,691	5,870	722		6,592		25,283
Other current assets	3,024	869	25		894		3,918
Total current assets	40,900	9,929	1,287	2,500	13,716	(2,500)	52,116
Property and equipment, net	7,601	16,908	247		17,155		24,756
Goodwill and other intangible assets, net	130,043	8,381		6,140(c)	14,521	(14,521)(a)	188,451
						58,408 (a)	
Deferred financing costs, net	1,790	302		200(b)	502	(502)(b)	3,790
						2,000 (b)	
Other assets	3,711	6,077	30	150(d)	6,257		9,986
Total assets	$184,045	$41,597	$1,564	$8,990	$52,151	$42,885	$279,081
LIABILITIES AND STOCK-HOLDERS' EQUITY							
Current liabilities:							
Accounts payable and accrued expenses	$15,807	$12,473	$652	$ 200(a)	$13,325	$2,500 (c)	$31,632
Current portion of long-term debt	9,267	1,943			1,943	(11,043)(b)	167
Revolving credit facility						3,728 (b)	3,728
Income taxes payable	1,122						1,122
Total current liabilities	26,196	14,416	652	200	15,268	(4,815)	36,649
Long-term debt, less current portion	55,630	17,131	152	2,500(a)	19,783	(75,413)(b)	
Term Loan A						75,000 (b)	75,000
Term Loan B						55,000 (b)	55,000
Seller Notes				1,200(a)	1,200	10,000 (a)	10,000
						(1,200)(b)	
Other liabilities	2,742	63		150(d)	213		2,955
Deferred income taxes	1,221						1,221
Total liabilities	85,789	31,610	804	4,050	36,464	58,572	180,825
Commitments and contingencies							
Mandatory Redemption Series A Preferred Stock		25,777			25,277	(25,277)(b)	
Stockholders' equity:							
Preferred stock - no shares issued							
Common stock	136	4	19	(19)(a) 6 (a)	10	(29)(b)	136
Additional paid-in capital	85,793	1,429		5,694 (a)	7,123	(7,123)(b)	85,793
Retained earnings	12,602	(16,723)	741	(741)(a)	(16,723)	16,742 (b)	12,602
	98,531	(15,290)	760	4,940	(9,590)	9,590	98,531
Less: treasury stock, at cost	275						275
Total stockholders' equity	98,256	(15,290)	760	4,940	(9,590)	9,590	98,256
Total liabilities and stockholders' equity	$184,045	$41,597	$1,564	$8,990	$52,151	$42,885	$279,081

See notes to unaudited pro forma combined consolidated financial information.

Pro Forma Balance Sheet Adjustments

Note 1 - Sahara Acquisition

(a) On January 12, 1999, NNG acquired all of the common stock of Sahara in a business combination accounted for as a purchase. The purchase price consisted of $5.5 million in cash (of which $.3 million was paid in December 1998), plus $.2 million of transaction costs, the issuance of a $.8 million promissory note (bearing interest at prime, 7.75%) and the issuance of a $.4 million convertible note (bearing interest at prime, 7.75%). The cash portion of the purchase price was funded by an equity infusion by one of NNG's principal shareholders immediately prior to the Sahara transaction. Such equity infusion amounted to $5.7 million in exchange for common stock of NNG. In addition, on January 12, 1999, NNG borrowed $2.5 million from its bank under an amended term loan agreement.

In connection with Hain's pending acquisition of NNG, all indebtedness, including that described above, will be paid at closing by NNG.

(b) Represents the financing costs associated with the increase in term loan of $2.5 million.

(c) Represents the adjustment to record the excess of the estimated purchase price over the net assets acquired in connection with this acquisition amounting to $6.14 million.

(d) Represents the value assigned to the noncompete agreement entered into with the former owner of Sahara.

Note 2 - NNG Acquisition

(a) Adjustment to record the excess of the estimated purchase price over the net assets acquired in connection with this acquisition of $58.4 million, after elimination of NNG's pro forma goodwill of $15.02 million. A portion of the financing for this acquisition was done through the issuance of a $10 million convertible promissory note bearing interest at 7%.

(b) Adjustment to record the elimination of the equity (including $25.3 million mandatory redemption Series A preferred stock) of NNG of $15.7 million, the NNG debt of $22.9 million (including $.5 million of debt issuance costs) not assumed by Hain, and elimination of the Company's existing current and long term debt of $64.9 million. Adjustment to record the proceeds used under the Company's $160 million Senior Secured loan facility, net of available excess cash. The Company incurred approximately $2.0 million of financing costs associated with this new loan facility.

(c) Adjustment for estimated transaction costs (other than financing costs), including but not limited to, legal and accounting fees, due diligence services and other costs.

THE HAIN FOOD GROUP, INC. AND SUBSIDIARIES
PRO FORMA COMBINED CONSOLIDATED STATEMENT OF OPERATIONS
For the Year Ended June 30, 1998
Amounts in thousands, except per share amounts.
(Unaudited)

	Pro Forma as Adjusted for Companies Acquired July 1, 1998 (from page F-29)	Pro Forma NNG as Adjusted for Sahara Acquisition (from page F-31)	NNG Pro Forma Adjustments (note 4)		Pro Forma as Adjusted for NNG Acquisitions
Net sales	$173,249	$74,043			$247,292
Cost of sales	105,513	45,696			151,209
Gross profit	67,736	28,347			96,083
Management fees and restructuring expenses		6,943			6,943
Selling, general and administrative expenses	48,340	25,796			74,136
Depreciation of property and equipment	565	861			1,426
			$(365)	(18)	(365)
Amortization of goodwill and other intangibles	3,276	616	1,460	(19)	5,352
	52,181	34,216	1,095		87,492
Operating income (loss)	15,555	(5,869)	(1,095)		8,591
			(7,740)	(20)	
Interest expense	5,658	2,082	11,219	(21)	11,219
Amortization of deferred financing costs	469	88	312	(22)	869
	6,127	2,170	3,791		12,088
Income(loss) before income taxes	9,428	(8,039)	(4,886)		(3,497)
		0			
Provision for income taxes	4,148	(2,580)	(1,219)	(23)	349
Income (loss) from continuing operations	$5,280	$(5,459)	$(3,667)		$(3,846)
Earnings (loss) per common share from continuing operations					
Basic	$0.44				($0.32)
Diluted	$0.39				(a)
Common equivalent shares weighted:					
Basic	11,985				11,895
Diluted	13,609				

See notes to unaudited pro forma combined consolidated financial information.

(a) Diluted loss per common share from continuing operations is not shown as such would be anti-dilutive.

THE HAIN FOOD GROUP, INC. AND SUBSIDIARIES
PRO FORMA COMBINED CONSOLIDATED STATEMENT OF OPERATIONS
For the Year Ended June 30, 1998
Amounts in thousands, except per share amounts.
(Unaudited)
(continued)

	Pro Forma as Adjusted for Westbrae Acquisition (from page F-30)	Companies Acquired July 1, 1998 Historical	Companies Acquired July 1, 1998 Pro Forma Adjustments (note 2)	Pro Forma as Adjusted for Companies Acquired July 1, 1998 (to page F-28)
Net sales	$114,892	$58,357		$173,249
Cost of sales	68,043	37,470		105,513
Gross profit	46,849	20,887		67,736
Management fees and restructuring expenses		1,479	$(1,479)(7)	
Selling, general and administrative expenses	33,822	14,518		48,340
Depreciation of property and equipment	257	1,333	(1,025)(8)	565
Amortization of goodwill and other intangibles	1,393	139	(138)(9) 1,882(10)	3,276
	35,472	17,469	(760)	52,181
Operating income	11,377	3,418	760	15,555
Interest expense	2,606	1,518	(1,518)(11) 3,052 (12)	5,658
Write-off of deferred loan financing fees		560	(560)(13)	
Amortization of deferred financing costs	469			469
	3,075	2,078	974	6,127
Income(loss) before income taxes	8,302	1,340	(214)	9,428
Provision for income taxes	3,427	979	(258)(14)	4,148
Income from continuing operations	$4,875	$361	$44	$5,280
Earnings per common share from continuing operations				
Basic	$0.47			$0.44
Diluted	$0.41			$0.39
Common equivalent shares weighted:				
Basic	10,269			11,985
Diluted	11,893			13,609

See notes to unaudited pro forma combined consolidated financial information.

THE HAIN FOOD GROUP, INC. AND SUBSIDIARIES
PRO FORMA COMBINED CONSOLIDATED STATEMENT OF OPERATIONS
For the Year Ended June 30, 1998
Amounts in thousands, except per share amounts.
(Unaudited)
(continued)

	Hain Historical	Westbrae July 1, 1997 to October 13, 1997 Historical	Westbrae Pro Forma Adjustments (note 1)	Pro Forma as Adjusted for Westbrae Acquisition (to page F-29)
Net sales	$104,253	$10,639		$114,892
Cost of sales	61,797	6,246		68,043
Gross profit	42,456	4,393		46,849
Management fees and restructuring expenses				
Selling, general and administrative expenses	30,402	3,706	$(286)(1)	33,822
Depreciation of property and equipment	257			257
Amortization of goodwill and other intangibles	1,311		(54)(2) 136 (3)	1,393
	31,970	3,706	(204)	35,472
Operating income	10,486	687	204	11,377
Interest expense	2,128	31	447 (4)	2,606
Amortization of deferred financing costs	474		(5)(5)	469
	2,602	31	442	3,075
Income(loss) before income taxes	7,884	656	(238)	8,302
Provision for income taxes	3,250	31	146 (6)	3,427
Income (loss) from continuing operations	$4,634	$625	$(384)	$4,875
Earnings per common share from continuing operations				
Basic	$0.45			$0.47
Diluted	$0.39			$0.41
Common equivalent shares weighted:				
Basic	10,269			10,269
Diluted	11,893			11,893

See notes to unaudited pro forma combined consolidated financial information.

THE HAIN FOOD GROUP, INC. AND SUBSIDIARIES
PRO FORMA COMBINED CONSOLIDATED STATEMENT OF OPERATIONS
For the Year Ended June 30, 1998
Amounts in thousands, except per share amounts.
(Unaudited)
(continued)

	NNG Historical	Sahara Historical	Sahara Pro Forma Acquisitions (note 3)	Pro Forma NNG as Adjusted for Sahara Acquisitions (to page F-28)
Net sales	$68,660	$5,383		$74,043
Cost of sales	42,723	2,973		45,696
Gross profit	25,937	2,410		28,347
Management fees and restructuring expenses	6,943			6,943
Selling, general and administrative expenses	23,362	2,434		25,796
Depreciation of property and equipment	851	10		861
Amortization of goodwill and other intangibles	462		$154 (15)	616
	31,618	2,444	154	34,216
Operating income (loss)	(5,681)	(34)	(154)	(5,869)
Interest expense	1,789		293 (16)	2,082
Amortization of deferred financing costs	48		40 (17)	88
	1,837		333	2,170
Loss before income taxes	(7,518)	(34)	(487)	(8,039)
Provision for income taxes	(2,580)			(2,580)
Loss from continuing operations	$(4,938)	$(34)	$(487)	$(5,459)

See notes to unaudited pro forma combined consolidated financial information.

THE HAIN FOOD GROUP, INC. AND SUBSIDIARIES
PRO FORMA COMBINED CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE SIX MONTHS ENDED DECEMBER 31, 1998
Amounts in thousands except per Share Amounts.
(Unaudited)

	Hain	Historical NNG	Sahara	Sahara Pro-Forma Adjustments (note 3)	Combined Pro Forma as Adjusted for Sahara Acquisition	NNG Pro Forma Adjustments (note 4)	Pro Forma as Adjusted for NNG Acquisitions
Net sales.....	$94,098	$34,592	$3,110		$37,702		$131,800
Cost of sales.....	57,080	21,859	1,856		23,715		80,795
Gross profit.....	37,018	12,733	1,254		13,987		51,005
Selling, general and administrative expenses.....	24,783	11,691	1,325		13,016		37,799
Depreciation of property and equipment.....	314	421	10		431		745
Amortization of goodwill and other intangible assets..	1,702	384		77(15)	461	$ (192)(18) 730 (19)	(192) 2,893
Restructuring and Other charges.....		730			730		730
	26,799	13,226	1,335	77		538	41,975
Operating income (loss).....	10,219	(493)	(81)	(77)	(651)	(538)	9,030
Interest expense, net.	2,412	815		147(16)	962	5,610 (21)	5,487
Amortization of deferred financing costs.....	163	24		20(17)	44	156 (22)	363
	2,575	839		167	1,006	2,269	5,850
Income(loss) before income taxes.....	7,644	(1,332)	(81)	(244)	(1,657)	(2,807)	3,180
Provision for income taxes.....	3,325	4,136	29		4,165	(5,394)(23)	2,096
Net income (loss).....	$4,319	$(5,468)	$(110)	$(244)	$(5,822)	$2,586	$1,083
Earnings Per Common Share:							
Basic.....	$0.32						$0.08
Diluted.....	$0.28						$0.07
Common equivalent shares weighted:							
Basic.....	13,429						13,429
Diluted.....	15,402						15,402

Pro Forma Combined Consolidated Financial Information

Pro Forma Statement of Operations Adjustments:

Note 1 - Westbrae Acquisition:

General

On October 14, 1997, the Company completed the acquisition of Westbrae in a transaction that has been accounted for as a purchase. The cost of the acquisition (including transaction costs) amounted to approximately $24 million, plus the repayment of Westbrae debt of $2.1 million. To finance this acquisition, the Company repaid its existing credit facility with IBJ Whitehall Bank & Trust Company ("IBJ") with IBJ providing for a then new $30 million senior term loan and a $10 million revolving credit facility.

Details of the pro forma adjustments relating to this acquisition and the financing are set forth below.

(1) Adjustment to give effect to the reduction of certain costs and expenses associated with the elimination of the principal corporate office of Westbrae.

(2) Elimination of Westbrae historical amortization of goodwill.

(3) Goodwill amortization with respect to goodwill acquired in the acquisition of Westbrae.

(4) Increase in interest costs resulting from the financing of the Westbrae acquisition.

(5) Adjustment of amortization of financing costs resulting from the New Credit Facility.

(6) Adjustment to historical provision for income taxes to eliminate the effect of net operating loss carryforwards utilized by Westbrae and to adjust taxes to the expected effective tax rate following acquisition.

Note 2 - Acquired Companies

General

On July 1, 1998, the Company acquired the following businesses and brands from the Shansby Group and other investors: Arrowhead Mills, Inc., DeBoles Nutritional Foods, Dana Alexander, Inc. (Terra Chips) and Garden of Eatin', Inc. ("Companies Acquired July 1, 1998") in a transaction that has been accounted

for as a purchase. The purchase price was $80 million, less the assumption of approximately $20 million of debt. Approximately $40 million of the purchase price was paid by the issuance of 1,716 million shares of the Company's Common Stock. The Company borrowed approximately $40 million under a New Credit Facility with IBJ to fund the cash portion of the purchase price and to repay the $20 million of existing debt of the Acquired Companies.

Details of the pro forma adjustments relating to this acquisition and the financing are set forth below.

(7) Elimination of management fees paid to former owners and restructuring expenses incurred under prior ownership that will not be recurring following the acquisition.

(8) Adjustment of depreciation expense based on revaluation of fixed assets of the Acquired Companies.

(9) Elimination of historical goodwill amortization of the Acquired Companies.

(10) Goodwill amortization arising from the acquisition of the Acquired Companies.

(11) Elimination of historical interest expense of the Acquired Companies.

(12) Adjustment of historical interest expense to reflect the additional long-term debt that will be incurred in connection with the acquisition of the Acquired Companies.

(13) Elimination of the write-off of deferred financing costs applicable to debt of the acquired companies paid off at the closing of the acquisition.

(14) Adjustment of income taxes to give effect to the pro forma pretax adjustments, and to adjust for the expected effective income tax rate following acquisition.

Note 3 - Sahara Acquisition

Details of the pro forma adjustments relating to this acquisition and the financing are set forth below.

(15) Goodwill amortization with respect to goodwill acquired in the acquisition of Sahara for the year ended June 30, 1998 and six months ended December 31, 1998.

(16) Increase in interest cost resulting from the increased proceeds of the NNG term loan and issuance of the promissory

note in connection with the acquisition of Sahara for the year ended June 30, 1998 and six months ended December 31, 1998.

(17) Reflects the adjustment to record the increased amortization associated with NNG's financing costs on its increased term loan for the year ended June 30, 1998 and six months ended December 31, 1998.

Note 4 - NNG Acquisition

Details of the pro forma adjustments relating to this acquisition and the financing are set forth below.

(18) Elimination of NNG pro forma combined historical amortization expense of goodwill for the year ended June 30, 1998 and six months ended December 31, 1998.

(19) Goodwill amortization arising from the NNG acquisition (assuming a 40 year life) for the year ended June 30, 1998 and six months ended December 31, 1998.

(20) Elimination of historical interest expense of all acquired companies for the year ended June 30, 1998 and for the six months ended December 31, 1998.

(21) Adjustment of historical interest expense to reflect the new revolving credit facility, long term debt and convertible note issued in connection with the NNG acquisition for the year ended June 30, 1998 and six months ended December 31, 1998.

(22) Reflects the adjustment to record the increased amortization associated with the Company's financing costs on its new senior secured facility offset by the elimination of NNG's financing cost amortization for the year ended June 30, 1998 and six months ended December 31, 1998.

(23) Adjustment of income taxes to give effect to the pro forma pre-tax adjustments, and to adjust for the expected effective income tax rate following the acquisition for the year ended June 30, 1998 and for the six months ended December 31, 1998.

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 hereunto duly authorized.

THE HAIN FOOD GROUP, INC.

Dated: April 27, 1999

By: /s/ Gary M. Jacobs

Gary M. Jacobs
Chief Financial Officer

EXHIBIT INDEX

Number	Description
(2.1)	Agreement and Plan of Merger by and among The Hain Food Group, Inc. Hain Acquisition Corp. and Natural Nutrition Group, Inc. dated April 6, 1999.
(4.1)	Form of Convertible Note.

EXHIBIT 2.1

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AGREEMENT AND PLAN OF MERGER

dated as of April 6, 1999

by and among

HAIN ACQUISITION CORP.,

THE HAIN FOOD GROUP, INC.

and

NATURAL NUTRITION GROUP, INC.

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AGREEMENT AND PLAN OF MERGER

THIS AGREEMENT AND PLAN OF MERGER (this "Agreement"), dated as of April 6, 1999, is by and among The Hain Food Group, Inc., a Delaware corporation ("Parent"), Hain Acquisition Corp., a Delaware corporation and a wholly-owned subsidiary of Parent ("Buyer"), and Natural Nutrition Group, Inc., a Delaware corporation (the "Company").

RECITALS

A. The Persons listed as stockholders (collectively, the "Stockholders") on Section A of the Disclosure Schedule attached hereto (the "Disclosure Schedule") own all of the issued and outstanding shares of (i) the Company's Common Stock, par value $0.001 per share (the "Common Stock"), and (ii) the Company's Series A Preferred Stock, par value $0.001 per share (the "Preferred Stock"), and the Persons listed as optionholders on Section A of the Disclosure Schedule (collectively, together with the holders of the Sahara Convertible Note (as hereinafter defined), the "Optionholders") own all of the options or other rights (collectively, together with the Sahara Convertible Note, the "Options") to purchase or acquire Common Stock and Preferred Stock described thereon.

B. Subject to and in accordance with the terms and conditions of this Agreement, the respective boards of directors and stockholders of the Company and Buyer and the board of directors of Parent have approved the merger of Buyer with and into the Company (the "Merger"), and the Company, Parent and Buyer desire to consummate the Merger in accordance with the terms and conditions set forth herein.

AGREEMENT

For good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged by all of the parties to this Agreement, the parties to this Agreement agree as follows:

SECTION 1. DEFINITIONS

1.1. Definitions. As used in this Agreement, in addition to terms elsewhere defined herein, the following terms shall have the following respective meanings:

"Adjusted Cash Value to Common Equivalents" shall mean (i) the Aggregate Cash Purchase Price, minus (ii) the amount of the Debt outstanding as of the Closing, minus

(iii) the Aggregate Preferred Stock Redemption Value, plus (iv) the Aggregate Option Exercise Price Value, minus (v) the Aggregate Option Exercise Price Value of all Note Only In-The-Money Options.

"Adjusted Fully Diluted Number of Shares" shall mean (i) the Fully Diluted Number of Shares minus (ii) the number of shares of Common Stock that would be issuable upon exercise of Part II In-The-Money Options and Note Only In-The-Money Options.

"Adjusted Value Per Common Equivalent" shall mean the quotient obtained by dividing (A) the sum of (i) the Adjusted Cash Value to Common Equivalents plus (ii) the Principal Amount of the Hain Note by (B) the Fully Diluted Number of Shares.

"Affiliate" shall mean any Person that, directly or indirectly through one or more intermediaries, controls or is controlled by, or under common control with, the Person specified. A Person shall be deemed to control a corporation (or other entity) if such Person possesses, directly or indirectly, the power to direct or cause the direction of the management and policies of such corporation (or other entity), whether through the ownership of voting securities, by contract or otherwise.

"Aggregate Cash Purchase Price" shall mean $70,000,000 minus the unpaid Stockholder Expenses as of the Effective Time.

"Aggregate Option Exercise Price Value" shall mean (i) the amount of consideration actually paid by any Optionholder to the Company upon exercise of any Options on or after the date hereof and prior to the Closing plus (ii) the amount of consideration that would be payable upon exercise of the In-The-Money Options with respect to those Options that are not exercised prior to the Closing and are canceled and converted at the Effective Time in accordance with Section 2.6(a)(iii) or Section 2.6(a)(iv) hereof.

"Aggregate Preferred Stock Redemption Value" shall mean the aggregate Preferred Stock Redemption Value of all shares of Preferred Stock which are outstanding immediately prior to the Closing.

"Agreement" shall mean this Agreement and Plan of Merger, including all Schedules (including the Disclosure Schedule and the Revised Disclosure Schedule) and Exhibits hereto and amendments hereto or thereto.

"Bank Debt" shall mean the indebtedness of HVC under that certain Amended and Restated Credit Agreement, dated as of October 31, 1996, by and among HVC and LaSalle National Bank, as amended from time to time, including any prepayment penalties or similar payments required upon early termination thereof.

"Cados Non-Compete Agreement" shall mean the Non-Competition Agreement, dated as of January 12, 1999, between HVC, Sahara and Dimitri V. Cados.

"Cados Stockholder" shall mean Dimitri V. Cados and Navah Cados, as Trustees of that certain Cados Family Trust under agreement dated June 3, 1992.

"Cash Amount Per Adjusted Common Equivalent" shall mean (i) the Net Cash Available For Adjusted Common Equivalents divided by (ii) the Adjusted Fully Diluted Number of Shares.

"Cash Option Value" shall mean, with respect to a Part I In-The-Money Option, the greater of (i) (a) the product of (x) the Cash Amount Per Adjusted Common Equivalent and (y) the number of shares of Common Stock issuable upon exercise of such Option minus (b) an amount equal to the Option Exercise Price of such Option and (ii) zero (0).

"CERCLA" shall mean the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended.

"Certificate of Merger" shall mean the Certificate of Merger to be filed with the Secretary of State of the State of Delaware in connection with the Merger.

"Certificates" shall mean certificates representing shares of Common Stock or Preferred Stock prior to the Effective Time.

"Code" shall mean the Internal Revenue Code of 1986, as amended.

"Company Material Adverse Change" shall mean any material adverse change, or any development resulting in a material adverse change, in the financial condition, assets, operations or operating results of the Company and its Subsidiaries taken as a whole.

"Company Material Adverse Effect" shall mean, with respect to any event, matter, condition or circumstance, an effect that would have a material adverse effect upon the financial condition, assets, operations or operating results of the Company and its Subsidiaries taken as a whole.

"Confidentiality Agreement" shall mean that certain Confidentiality Agreement between Parent and the Company dated March 2, 1999.

"Debt" shall mean the sum of (i) the principal amount outstanding under the Bank Debt, (ii) the principal amount outstanding under the Sahara Non-Convertible Note, (iii) the present value (assuming a discount rate of 9%) of the outstanding lease payments under leases to which the Company, HVC or Sahara is a party as lessee and which leases are required to be accounted for as "capital leases" in accordance with GAAP, (iv) the present value

(assuming a discount rate of 9%) of the amounts owed under the Cados Non-Compete Agreement, (v) the principal amount outstanding under the Sahara Convertible Note (and including any change of control premium), but only to the extent such note is not converted into Common Stock simultaneously with, or prior to, the Closing, and (vi) "bank" or "cash" overdrafts (net of cash receipts which have not been applied against the Bank Debt).

"Environment" shall mean any surface water, ground water, drinking water supply, land surface or subsurface strata, or ambient air and shall include, without limitation, any indoor location.

"Environmental Claim" shall mean (A) any written notice or claim by any governmental authority or Person received or made prior to the Closing alleging liability (including, without limitation, such liability for investigatory costs, cleanup costs, remedial, removal or other response costs, governmental costs (including, without limitation, oversight costs), or harm, injury or damage to any person, property or natural resources, and any fines or penalties) arising out of or resulting from (1) the emission, discharge, disposal or other release or threatened release in or into the Environment of any Hazardous Substance or (2) any violation of any Environmental Requirement or (B) any liabilities, damages, costs, fines, penalties or expenses (including, without limitation, reasonable attorneys' and consultants' fees and disbursements) arising out of, based upon, resulting from or relating to any investigatory, remedial, removal or other response action required under any Environmental Requirement and arising out of or resulting from or required under the operations of the Company or any of its Subsidiaries or any Predecessor in Interest, in each case, as existing prior to the Closing Date.

"Environmental Requirements" shall mean all federal, state and local statutes, laws, regulations and rules of common law relating to pollution or the protection of public health or the Environment or worker health and safety, including laws and regulations relating to emissions, discharges, releases or threatened releases of Hazardous Substances in or into the Environment or otherwise relating to the manufacture, generation, processing, distribution, use, treatment, storage, disposal, transport or handling of Hazardous Substances.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

"Exhibits" shall mean the Exhibits annexed to this Agreement, each of which is hereby incorporated as a part of this Agreement.

"Financing Amendment" shall mean any amendment, modification, replacement, renewal or refinancing of the Parent's Third Amended and Restated Revolving Credit and Term Loan Agreement dated as of July 1, 1998 among the Parent, the Lenders named therein and IBJ Whitehall Bank & Trust Company, as agent, in connection with the consum-

mation of this Agreement and the Merger and the transactions contemplated hereby and thereby.

"Fully Diluted Number of Shares" shall mean the sum of (i) the number of outstanding shares of Common Stock immediately prior to the Closing plus (ii) with respect to Options (other than the Sahara Convertible Note) not exercised prior to the Closing, the number of shares of Common Stock that would be issuable upon exercise of all the In-The-Money Options if all such Options were vested and exercisable as of the Closing plus (iii) with respect to the Sahara Convertible Note, the number of shares of Common Stock actually issued upon conversion of such note simultaneously with, or prior to, the Closing. The Fully Diluted Number of Shares shall not include any number of shares of Common Stock issuable upon exercise of Options which are not In-The-Money Options.

"Hain Notes" shall mean the Convertible Notes in the form of Exhibit A hereto in the initial aggregate principal amount equal to the Principal Amount of the Hain Notes issued by the Parent to each Noteholder.

"Hazardous Substance" shall mean any solid waste or hazardous, toxic or radioactive substance, material or waste, as defined, listed or regulated under any Environmental Requirement including, without limitation, petroleum, oil and any petroleum or oil product, derivative, constituents or waste.

"HVC" shall mean Health Valley Company, a Delaware corporation.

"In-The-Money Options" shall mean those Options for which the Adjusted Value Per Common Equivalent exceeds the Option Exercise Price for such Options.

"Net Cash Available For Adjusted Common Equivalents" shall mean the Adjusted Cash Value to Common Equivalents minus the product of (i) the Adjusted Value Per Common Equivalent multiplied by (ii) the aggregate number of shares of Common Stock issuable upon exercise of all Part II In-The-Money Options.

"Note Amount Per Adjusted Common Equivalent" shall mean (i) (a) the Principal Amount of the Hain Note minus (b) the principal amount of Hain Notes issued to holders of Note Only In-The-Money Options pursuant to Section 2.6(a)(iii) hereof, divided by (ii) the Adjusted Fully Diluted Number of Shares.

"Noteholders" shall mean each of the Stockholders and each Optionholder with Part I In- The-Money Options.

"Note Only In-The-Money Option" shall mean any Part I In-The-Money Option with a Cash Option Value equal to zero.

"Note Shares" shall mean shares of Parent Common Stock issued or issuable upon conversion of the Hain Notes.

"Option Exercise Price" shall mean, with respect to each Option which is not exercised prior to the Closing, the consideration which would be payable to the Company upon the exercise of such Option. For purposes of this Agreement, the Option Exercise Price of the Sahara Convertible Note shall be zero (0). "Option Value" shall mean, with respect to a Part I In-The-Money Option, (a) the product of (i) the number of shares of Common Stock issuable upon exercise of such Option multiplied by (ii) the Adjusted Value Per Common Equivalent minus (b) an amount equal to the Option Exercise Price for such Option.

"Parent Common Stock" shall mean Common Stock, par value $0.01 per share, of Parent.

"Parent Material Adverse Change" shall mean any material adverse change or any development resulting in a material adverse change in the financial condition, assets, operations or operating results of Parent and its subsidiaries taken as a whole.

"Parent Material Adverse Effect" shall mean, with respect to any event, matter, condition or circumstance, an effect that would have a material adverse effect upon the financial condition, assets, operations or operating results of Parent and its Subsidiaries taken as a whole.

"Part I In-The-Money Options" shall mean In-The-Money Options held by Optionholders listed in Part I of Section A of the Disclosure Schedule.

"Part II In-The-Money Options" shall mean In-The-Money Options held by Optionholders listed in Part II of Section A of the Disclosure Schedule, to the extent such Options have not been exercised prior to the Closing.

"Person" shall include any individual, corporation, trust, estate, partnership, limited liability company, joint venture, company, organization or association (whether incorporated or not), governmental bureau, department or agency thereof, or other entity of whatsoever kind or nature.

"Preferred Stock Redemption Value" shall mean, with respect to any share of Preferred Stock which is outstanding immediately prior to the Closing, the redemption price of such share of Preferred Stock, which redemption price is determined as of the Closing pursuant to the Certificate of Incorporation of the Company.

"Principal Amount of the Hain Notes" shall mean $10,000,000.

"Sahara" shall mean Sahara Natural Foods, Inc., a California corporation.

"Sahara Convertible Note" shall mean the Convertible Note in the initial principal amount of $400,000, dated as of January 12, 1999, issued by the Company to the Cados Stockholder, which Promissory Note is convertible into shares of Common Stock.

"SEC" shall mean the Securities and Exchange Commission.

"Securities Act" shall mean the Securities Act of 1933, as amended, and the rules and regulations promulgated pursuant thereunder.

"Sahara Non-Convertible Note" shall mean the Non-Convertible Note in the initial principal amount of $800,000, dated as of January 12, 1999, issued by the Company to the Cados Stockholder.

"Security Interest" shall mean any mortgage, pledge, security interest, encumbrance, charge or other lien, other than (i) mechanic's, materialmen's and similar liens, (ii) liens for Taxes not yet due and payable or for Taxes that the taxpayer is contesting in good faith through appropriate proceedings and for which the Company has set aside adequate reserves on its books with respect thereto, (iii) liens arising under worker's compensation, unemployment insurance, social security, retirement and similar legislation, (iv) liens arising in connection with sales of foreign receivables, (v) liens on goods in transit incurred pursuant to documentary letters of credit, (vi) purchase money liens and liens securing rental payments under capital lease arrangements and (vii) other liens arising in the ordinary course of business and not incurred in connection with the borrowing of money which do not, individually or in the aggregate, have a Company Material Adverse Effect.

"Stockholder Expenses" shall mean the fees, costs and expenses incurred by the Company in connection with this Agreement and the consummation of the transactions contemplated hereby, including attorneys' fees and expenses.

"Stockholder Representative" shall mean Roger S. McEniry, in his capacity as representative of the Stockholders and Optionholders.

"Subsidiary" of a Person shall mean an Affiliate controlled by such Person, directly or indirectly through one or more intermediaries.

"Tax" or "Taxes" shall mean (i) all federal, state, local or foreign taxes, charges, fees, imposts, levies or other assessments, including, without limitation, all net income, alternative minimum, gross receipts, capital, sales, use, ad valorem, value added, trans-

fer, franchise, profits, inventory, capital stock, license, withholding, payroll, employment, social security, unemployment, excise, severance, stamp, occupation, property and estimated taxes, customs duties, fees, assessments, and charges of any kind whatsoever, (ii) all interest, penalties, fines, additions to tax or other additional amounts imposed by any taxing authority in connection with any item described in clause (i) and (iii) all transferee, successor, joint and several or contractual liability (including, without limitation, liability pursuant to Treas. Reg. ss. 1.1502-6 (or any similar state, local or foreign provision)) in respect of any items described in clause (i) or (ii).

"Tax Returns" shall mean any return, report, estimate, declaration, information return or other document (including schedules or any related or supporting information) filed or required to be filed with any governmental entity or other authority in connection with the determination, assessment or collection of any Tax or the administration of any laws, regulations or administrative requirements relating to any Tax.

1.2.....Other Defined Terms. The capitalized terms set forth below are defined in the following sections of this Agreement:

Defined Term	Section
Agreement	Preface
Buyer	Preface
Buyer's Representatives	6.2
Closing	3.1
Closing Date	3.1
Common Stock	Recitals
Company	Preface
Disclosure Schedule	Recitals
Effective Time	2.2
Environmental Requirements	5.17(a)
ERISA	5.14(a)
GAAP	5.5
General Corporation Law	2.1
HSR Act	4.5
HVC	5.1(b)
Latest Month End	8.1(i)
Latest Monthly Balance Sheet	8.1(i)
Latest Monthly Financials	8.1(i)
Leases	5.7(a)
Material Contracts	5.9
Merger	Recitals

Merger Consideration	2.6(a)
Notices	11.1
Obligations	9.12
Options	Recitals
Optionholders	Recitals
Parent	Preface
Parent Indemnified Parties	10.4
Pension Plans	5.14(a)
Plans	5.14(a)
Predecessor In Interest	5.17
Preferred Stock	Recitals
Proprietary Rights	5.10
Process	5.24
Prospectus	10.4
Registrable Shares	10.1(c)
Registration Statement	10.1(a)(i)
Revised Disclosure Schedule	6.3
Stockholder Indemnified Parties	10.4
Stockholders	Recitals
Surviving Corporation	2.1
Welfare Plans	5.14(a)
Year 2000 Complaint	5.24
Y2K Project Plan	5.24
1998 Audited Financials	5.5

1.3.....Interpretation. The following rules shall be used in interpreting this Agreement:

(a) the language used in this Agreement shall be deemed to be the language chosen by the parties hereto to express their mutual intent, and no rule of strict construction shall be applied against any Person;

(b) the descriptive headings of this Agreement are inserted for convenience of reference only and do not constitute part of this Agreement and shall not be used in the interpretation of this Agreement;

(c) the use of the word "including" in this Agreement shall be by way of example rather than by limitation; and

(d) "the Company's knowledge" shall mean the actual knowledge of any of the executive officers of the Company.

SECTION 2. THE MERGER

2.1. The Merger. Subject to and in accordance with the terms and conditions of this Agreement and in accordance with the General Corporation Law of the State of Delaware (the "General Corporation Law"), at the Effective Time, Buyer shall be merged with and into the Company. As a result of the Merger, the separate corporate existence of Buyer shall cease and the Company shall continue as the surviving corporation (sometimes referred to herein as the "Surviving Corporation") and shall succeed to and assume all of the rights and obligations of Buyer in accordance with the General Corporation Law.

2.2. Consummation of the Merger. The Merger shall become effective when a properly executed Certificate of Merger is filed with the Secretary of State of the State of Delaware as provided in Section 251 of the General Corporation Law. When used in this Agreement, the term "Effective Time" shall mean the date and time at which such Certificate of Merger is so filed.

2.3. Effects of the Merger. The Merger shall have the effects set forth in the General Corporation Law.

2.4. Certificate of Incorporation; By-Laws. The Certificate of Incorporation of the Surviving Corporation shall be restated in its entirety as attached to the Certificate of Merger and the By-Laws of the Surviving Corporation shall be the By-Laws of the Buyer, as in effect immediately prior to the Effective Time, and thereafter such Certificate of Incorporation and By-Laws shall continue to be the Surviving Corporation's Certificate of Incorporation and By-Laws until amended as provided therein and under the General Corporation Law.

2.5.....Directors and Officers. The directors of Buyer immediately prior to the Effective Time shall be the initial directors of the Surviving Corporation, each to hold office in accordance with the Certificate of Incorporation and By-Laws of the Surviving Corporation, and the officers of Buyer immediately prior to the Effective Time shall be the initial officers of the Surviving Corporation, in each case until their respective successors are duly elected or appointed and qualified.

2.6. Conversion of Securities. Subject to the terms and conditions of this Agreement, at the Effective Time, by virtue of the Merger and without any action on the part of the Company, Buyer or their respective stockholders:

(a) (i) Each share of Common Stock issued and outstanding immediately prior to the Effective Time shall be canceled and extinguished and be converted into the right to receive the Adjusted Value Per Common Equivalent, to be paid by delivery to the holder of such share of (i) cash in an amount equal to the Cash Amount Per Adjusted Common Equivalent and (ii) a Hain Note payable to the order of the holder of such share in a principal amount equal to the Note Amount Per Adjusted Common Equivalent.

(ii) Each share of Preferred Stock issued and outstanding immediately prior to the Effective Time shall be canceled and extinguished and be converted into the right to receive an amount of cash equal to the Preferred Stock Redemption Value of such share.

(iii) Each Part I In-The-Money Option outstanding immediately prior to the Effective Time shall be converted into the right to receive an amount equal to the Option Value, to be paid by delivery to the holder of such Option of (x) cash, if any, equal to the Cash Option Value, and (y) a Hain Note payable to the order of the holder of such Option in a principal amount equal to the amount by which the Option Value of such Option exceeds the Cash Option Value of such Option.

(iv) Each Part II In-The-Money Option outstanding immediately prior to the Effective Time shall be converted into the right to receive an amount of cash equal to the product of (A) the number of shares of Common Stock issuable upon exercise of such Option and (B) the Adjusted Value Per Common Equivalent, minus an amount equal to the Option Exercise Price for such Option (the aggregate amount payable under (i), (ii), (iii) and (iv) above is referred to herein as the "Merger Consideration").

(b) All Common Stock and all Preferred Stock shall no longer be outstanding and shall automatically be canceled and retired and shall cease to exist, and each holder of a certificate representing shares of Common Stock or Preferred Stock shall cease to have any rights with respect thereto, except the right to receive such holder's appropriate portion of the Merger Consideration.

(c) Each share of Common Stock or Preferred Stock held in the treasury of the Company, if any, shall be canceled and extinguished at the Effective Time without any conversion thereof and no payment shall be made with respect thereto.

(d) Each Option which is not an In-The-Money Option as of the Closing shall be canceled at the Effective time without any conversion thereof and no payment shall be made with respect thereto.

(e) Each share of Common Stock, par value $.01 per share, of Buyer issued and outstanding immediately prior to the Effective Time shall automatically without any action on the part of the holder thereof be converted into one validly issued, fully paid and nonassessable share of Common Stock of the Surviving Corporation.

2.7. Closing of Transfer Records. After the close of business on the Closing Date, transfers of Common Stock and Preferred Stock outstanding prior to the Effective Time shall not be made on the stock transfer books of the Surviving Corporation.

SECTION 3. CLOSING

3.1. The Closing Date. Unless the parties hereto shall agree in writing upon a different location, time or date, the closing of the Merger (the "Closing") shall take place at the offices of Cahill Gordon & Reindel, 80 Pine Street, New York, New York 10005, at 10:00 a.m. on the earlier of (i) June 15, 1999 and (ii) if the conditions required to be satisfied or waived pursuant to Sections 8.1 and 8.2 (other than those requiring the delivery of a certificate or other document, or the taking of other action, at the Closing) have been satisfied or waived prior to June 15, 1999, then on such earlier date which is the later of (x) April 30, 1999 and (y) the date designated by the Company which is not less than five (5) business days after the satisfaction or waiver of the last of the conditions required to be satisfied or waived pursuant to Sections 8.1 and 8.2 (other than those requiring the delivery of a certificate or other document, or the taking of other action, at the Closing). If on any date set forth for the Closing pursuant to the prior sentence or pursuant to this sentence the Closing is not consummated because all of such conditions to the obligations of the parties hereto have not been satisfied or waived, the Company may specify a new date for Closing. The date of the Closing is referred to herein as the "Closing Date."

3.2. Deliveries by the Company at the Closing. At the Closing, the Company shall deliver to Parent and Buyer each of the documents, instruments or evidences of satisfaction of conditions required to be delivered by the Company as a condition to the Closing pursuant to Section 8.1 of this Agreement, in form and substance reasonably satisfactory to Parent and Buyer.

3.3. Deliveries by Parent and Buyer at Closing. At the Closing, Parent and Buyer shall deliver (i) to each Stockholder that delivers at the Closing Certificates representing shares of Common Stock or Preferred Stock and each Optionholder holding In-The-Money Options the cash portion of the Merger Consideration payable to such Stockholder with respect to the shares represented by such Certificates and to such Optionholder by wire transfer of immediately available funds to the account specified by such Stockholder or Optionholder, as the case may be, and (ii) to each Noteholder a Hain Note duly executed by Parent in a prin-

cipal amount equal to the principal amount of the Hain Note payable to such Noteholder pursuant to Section 2.6(a)(i) or 2.6(a)(iii), as the case may be, and (iii) to the Stockholder Representative each of the documents, instruments or evidences of satisfaction of conditions required to be delivered by Parent and Buyer as a condition to Closing pursuant to Section 8.2 of this Agreement, in form and substance reasonably satisfactory to the Stockholder Representative.

3.4. Payment of Merger Consideration after the Closing. Not later than one day after the Effective Time, Parent shall mail to each Stockholder that did not deliver Certificates representing all of the shares of Common Stock and Preferred Stock held by such Stockholder instructions for use in effecting the surrender of such Certificates in exchange for the Merger Consideration with respect to the Common Stock or Preferred Stock represented thereby. Upon surrender to Parent of such a Certificate, Parent shall promptly pay to such Stockholder the Merger Consideration payable with respect to the shares represented by such Certificate and the Certificate so surrendered shall be canceled. No interest will be paid or accrued on the amount payable upon surrender of Certificates.

SECTION 4. REPRESENTATIONS AND WARRANTIES OF PARENT AND BUYER

Parent and Buyer, jointly and severally, represent and warrant to the Company that:

4.1. Organization and Corporate Power. Each of Parent and Buyer is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, and each of Parent and Buyer has all requisite corporate power and authority and all authorizations, licenses and permits necessary to own and operate its properties and to carry on its businesses as now conducted, if any, except where the failure to hold such authorizations, licenses and permits would not reasonably be expected to have a Parent Material Adverse Effect.

4.2. Authorization; No Breach. Each of Parent and Buyer has all requisite corporate power and authority to execute and deliver this Agreement and the Hain Notes and to consummate the transactions contemplated hereby and thereby. Except for the Financing Amendment, the execution, delivery and performance of this Agreement and the Hain Notes by Parent and Buyer and the consummation of the transactions contemplated hereby and thereby have been duly authorized and approved by all necessary corporate action on the part of Parent's and Buyer's respective boards of directors and stockholders and no further corporate authorization on the part of Parent and Buyer is necessary to authorize the execution, delivery and performance of Parent's or Buyer's obligation under this Agreement and the Hain

Notes. The execution, delivery and performance of this Agreement by Parent and Buyer and the Hain Notes by Parent and the consummation of the transactions contemplated hereby and thereby do not conflict with or result in any material breach of, or constitute a material default under, result in a material violation of, or require any material authorization, consent, approval, exemption or other action by or notice to any court or other governmental body under the provisions of Parent's or Buyer's respective Certificates of Incorporation or By-Laws or any material indenture, mortgage, lease, loan agreement or other material agreement or instrument to which Parent or Buyer is bound, or any material law, statute, rule, regulation, order, judgment or decree to which either Parent or Buyer is subject. None of the foregoing items shall be deemed to be "material" unless the failure to meet the requirements thereof would reasonably be expected to have, individually or in the aggregate, a Parent Material Adverse Effect. This Agreement constitutes a valid and binding obligation of each of Parent and Buyer, enforceable in accordance with its terms, except as enforceability may be limited by bankruptcy laws, similar laws of debtor relief and general principles of equity.

4.3. Brokerage. There are no claims for brokerage commissions, finders' fees or similar compensation in connection with the transactions contemplated by this Agreement based on any agreement made by or on behalf of Parent or Buyer, except in connection with the retention by Parent of Bear, Stearns & Co. Inc. as its financial advisor.

4.4. Governmental Consents etc. Except for the applicable requirements of the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"), to Parent's and Buyer's knowledge, no material permit, consent, approval or authorization of, or declaration to or filing with, any governmental or regulatory authority is required in connection with any of the execution, delivery or performance of this Agreement by Parent and Buyer and the Hain Notes by Parent or the consummation by Parent and/or Buyer of any other transaction contemplated hereby or thereby.

4.5. Solvency. Immediately after giving effect to the transactions contemplated by this Agreement, each of Parent and the Surviving Corporation shall be able to pay its respective debts as they become due and shall own property which has a fair saleable value greater than the amounts required to pay their respective debts (including a reasonable estimate of the amount of all contingent liabilities). Immediately after giving effect to the transactions contemplated by this Agreement, each of Parent and the Surviving Corporation shall have adequate capital to carry on its business. No transfer of property is being made and no obligation is being incurred in connection with the transactions contemplated by this Agreement with the intent to hinder, delay or defraud either present or future creditors of Parent, Buyer or the Surviving Corporation.

4.6. Regulatory Filings. Parent and its Subsidiaries have filed and will continue to file in a timely manner all required filings with the SEC, including all reports on Form

10-K, Form 10-Q, Form 8-K and proxy and information statements and all such filings were, and will be, true, complete and accurate in all material respects as of the dates of the filings, and no such SEC filing contained, or will contain, any untrue statement of a material fact or omitted, or will omit, to state a material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading. Since the date of filing of the last Form 10-Q of Parent, there has been (i) no event, condition or occurrence which could reasonably be expected to have, individually or in the aggregate, a Parent Material Adverse Effect and (ii) no Parent Material Adverse Change. No federal, state or local governmental agency, commission or other entity has initiated within the past three years, and there is not currently pending, any material proceeding, action, examination or, to the knowledge of Parent, investigation into the business or operations of Parent or its Subsidiaries.

4.7. Note Shares. The Note Shares have been duly authorized and, when issued in accordance with the conversion of the Hain Notes in accordance with their terms, will be validly issued, fully paid, nonassessable, free of pre-emptive rights, and not subject to any restrictions on transfer other than those set forth in Section 10 hereof.

SECTION 5. REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company makes the representations and warranties to Parent set forth in this Section 5. All such representations and warranties are made, except as expressly set forth therein, as of the date hereof and are made subject to the exceptions noted in the applicable section of the disclosure schedule delivered by the Company to the Parent and the Buyer concurrently herewith and identified as the "Disclosure Schedule" (the "Disclosure Schedule").

5.1. Organization and Corporate Power.

(a) The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, and the Company has all requisite corporate power and authority necessary to own and operate its properties and to carry on its businesses as now conducted. Section 5.1(a) of the Disclosure Schedule sets forth all the jurisdictions in which the Company is qualified to do business as a foreign corporation. The Company is not required to be qualified to do business in any jurisdiction other than the jurisdictions in which it is currently so qualified, except where the failure to be so qualified would not reasonably be expected to, individually or in the aggregate, have a Company Material Adverse Effect.

(b) HVC is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, and HVC has all requisite corporate power and authority necessary to own and operate its properties and to carry on its businesses as now

conducted. Section 5.1(b) of the Disclosure Schedule sets forth all the jurisdictions in which HVC is qualified to do business as a foreign corporation. HVC is not required to be qualified to do business in any jurisdiction other than the jurisdictions in which it is currently so qualified, except where the failure to be so qualified would not reasonably be expected to, individually or in the aggregate, have a Company Material Adverse Effect.

(c) Sahara is a corporation duly organized, validly existing and in good standing under the laws of the State of California, and Sahara has all requisite corporate power and authority necessary to own and operate its properties and to carry on its businesses as now conducted. Section 5.1(c) of the Disclosure Schedule sets forth all the jurisdictions in which Sahara is qualified to do business as a foreign corporation. Sahara is not required to be qualified to do business in any jurisdiction other than the jurisdictions in which it is currently so qualified, except where the failure to be so qualified would not reasonably be expected to, individually or in the aggregate, have a Company Material Adverse Effect.

5.2. Subsidiaries. HVC and Sahara are the Company's only Subsidiaries. Except for the Company's ownership of the capital stock of HVC and HVC's ownership of the capital stock of Sahara, none of the Company, HVC or Sahara owns or holds the right to acquire any stock, partnership interest or joint venture interest or other equity ownership interest in any other Person.

5.3. Authorization; No Breach. The Company has all requisite corporate power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby. The execution, delivery and performance of this Agreement by the Company and the consummation of the transactions contemplated hereby have been duly authorized and approved by all necessary corporate action on the part of the Company's board of directors and stockholders and no further corporate authorization on the part of the Company is necessary to authorize the execution, delivery and performance of the Company's obligations under this Agreement. Except for any net worth requirement in the Company's real property leases with respect to the parent corporation or the tenant after a merger, and except for the lease with respect to the property at 16007 and 16009 Camino De La Cantera (Irwindale, California) which HVC is currently leasing on a month-to-month basis, the execution, delivery and performance of this Agreement by the Company and the consummation of the transactions contemplated hereby do not conflict with or result in any material breach of, or constitute a material default under, result in a material violation of, result in the creation of any material Security Interest upon any material assets of the Company or any of its Subsidiaries, or require any material authorization, consent, approval, exemption or other action by or notice to any court or other governmental body, under the provisions of the Certificate of Incorporation or By-Laws or any material indenture, mortgage, lease, loan agreement or other material agreement or instrument to which the Company or any of its Subsidiaries is bound, or any material law, statute, rule, regulation, order, judgment or decree to which the Company or

any of its Subsidiaries is subject. Except as set forth on Section 5.3 of the Disclosure Schedule, there is no Security Interest upon any material assets of the Company or its Subsidiaries. As of the date hereof, none of the Company or its Subsidiaries is in violation of or default under its respective Certificate of Incorporation or By-Laws. None of the items set forth in this Section 5.3 shall be deemed to be "material" unless the failure to meet the requirements thereof would reasonably be expected to, individually or in the aggregate, have a Company Material Adverse Effect. This Agreement constitutes a valid and binding obligation of the Company, enforceable in accordance with its terms, except as enforceability may be limited by bankruptcy laws, similar laws of debtor relief and general principles of equity.

5.4. Capital Stock.

(a) The authorized number of shares of capital stock of the Company consists of 65,000 shares of Common Stock and 35,000 shares of Preferred Stock. As of the date hereof, all of the issued and outstanding shares of capital stock of the Company are owned of record by the Stockholders in the amounts as set forth on Section 5.4 of the Disclosure Schedule. All of the outstanding capital stock of the Company have been duly authorized and are validly issued, fully paid and nonassessable and are owned by the Stockholders, free and clear of all liens, encumbrances, security interests and claims. Except as set forth in Section 5.4 of the Disclosure Schedule, the Company does not have any other capital stock, equity securities or securities containing any equity features authorized, issued or outstanding, and there are no agreements or other rights or arrangements existing or outstanding which provide for the sale or issuance of any of the foregoing by the Company. Except as set forth in Section 5.4 of the Disclosure Schedule, there are no rights, subscriptions, warrants, options, conversion rights or agreements of any kind outstanding to purchase or otherwise acquire any shares of capital stock or other equity securities of the Company of any kind. There are no agreements or other obligations (contingent or otherwise) which require the Company to repurchase or otherwise acquire any shares of the Company's capital stock or other equity securities.

(b) The authorized number of shares of capital stock of HVC consists of 1,000 shares of Common Stock, par value $.001 per share. As of the date hereof, all of the issued and outstanding shares of capital stock of HVC are owned of record by the Company. All of the outstanding capital stock of HVC have been duly authorized and are validly issued, fully paid and nonassessable and are owned by the Company, free and clear of all liens, encumbrances, security interests and claims. HVC does not have any other capital stock, equity securities or securities containing any equity features authorized, issued or outstanding, and there are no agreements or other rights or arrangements existing or outstanding which provide for the sale or issuance of any of the foregoing by HVC. There are no rights, subscriptions, warrants, options, conversion rights or agreements of any kind outstanding to purchase or otherwise acquire any shares of capital stock or other equity securities of HVC of any kind.

There are no agreements or other obligations (contingent or otherwise) which require HVC to repurchase or otherwise acquire any shares of HVC's capital stock or other equity securities.

(c) The authorized number of shares of capital stock of Sahara consists of 300 shares of Common Stock, no par value. As of the date hereof, all of the issued and outstanding shares of capital stock of Sahara are owned of record by HVC. All of the outstanding capital stock of Sahara have been duly authorized and are validly issued, fully paid and nonassessable and are owned by HVC, free and clear of all liens, encumbrances, security interests and claims. Sahara does not have any other capital stock, equity securities or securities containing any equity features authorized, issued or outstanding, and there are no agreements or other rights or arrangements existing or outstanding which provide for the sale or issuance of any of the foregoing by Sahara. There are no rights, subscriptions, warrants, options, conversion rights or agreements of any kind outstanding to purchase or otherwise acquire any shares of capital stock or other equity securities of Sahara of any kind. There are no agreements or other obligations (contingent or otherwise) which require Sahara to repurchase or otherwise acquire any shares of Sahara's capital stock or other equity securities.

5.5. Financial Statements. The Company has furnished Buyer with copies of (i) its audited consolidated balance sheet and audited consolidated statements of income, stockholders equity and cash flows as of, and for the fiscal year ended, December 31, 1998 (such financial statements are referred to herein as the "1998 Audited Financials"), together with the audit report thereon of Deloitte & Touche, the Company's independent auditors, and (ii) its audited consolidated balance sheets and statements of income, stockholders equity and cash flows as of, and for the fiscal years ended, December 31, 1997 and December 31, 1996. Such financial statements have been prepared in accordance with generally accepted accounting principles, consistently applied ("GAAP"), and present fairly in all material respects the financial condition and results of operations of the Company and its Subsidiaries as of the times and for the periods referred to therein. The Company also has furnished Buyer with a copy of the unaudited consolidated balance sheet of the Company as of January 31, 1999 (the "Interim Balance Sheet"), together with the unaudited statement of income of the Company and HVC for the one month period then ended (the "Interim Income Statement"). The Interim Balance Sheet reflects the purchase of Sahara as a long-term investment asset and accompanying adjustments for the debt and equity arising from the acquisition. The Interim Income Statement does not include any results of operations of Sahara. The net sales for Sahara for the one month period ending January 31, 1999 were approximately $390,000; the combined net sales for the Company and HVC for the one month period ending February 28, 1999 were approximately $5,755,000; and the net sales for Sahara for the one month period ending February 28, 1999 were approximately $450,000. Section 5.5 of the Disclosure Schedule sets forth the 1998 Audited Financials, the Interim Balance Sheet and the Interim Income Statement.

5.6. Absence of Certain Developments. Except as otherwise contemplated by this Agreement, since December 31, 1998, the businesses of the Company and each of its Subsidiaries have been conducted, in all material respects, in the ordinary course and there has been (i) no event which would reasonably be likely to, individually or in the aggregate, have a Company Material Adverse Effect and (ii) no Company Material Adverse Change. For purposes of this Section 5.6, no event or change shall be considered to have a Company Material Adverse Effect or be a Company Material Adverse Change if such change or event is substantially the result of (A) changes in general economic, regulatory or political conditions, or (B) this Agreement or the transactions contemplated hereby or the announcement thereof. Except as set forth on Section 5.6 of the Disclosure Schedule or as otherwise specifically contemplated by this Agreement, since December 31, 1998, neither the Company nor any of its Subsidiaries has:

(a) except in the ordinary course of business, borrowed any amount or incurred or become subject to any material liabilities;

(b) except in the ordinary course of business, mortgaged, pledged or subjected to any Security Interest, any of its assets;

(c) except in the ordinary course of business, sold, assigned or transferred any of its material tangible assets;

(d) sold, assigned or transferred any patents, trademarks, trade names, copyrights, trade secrets or other intangible assets;

(e) suffered any material losses not covered by insurance or waived any rights of material value;

(f) issued, sold or transferred any of its capital stock or other equity securities, securities convertible into its capital stock or other equity securities or warrants, options or other rights to acquire its capital stock or other equity securities, or any bonds or debt securities;

(g) declared or paid any dividends or made any distributions on the Company's capital stock or other equity securities or redeemed or purchased any shares of the Company's capital stock or other equity securities;

(h) except for purchases of supplies and raw materials and sales of inventory in the ordinary course of business, entered into any other material transaction;

(i) settled or compromised any material federal, state, local or foreign Tax liability, made any new material Tax election, revoked or modified any existing Tax election, or requested or consented to a change in any method of Tax accounting; or

(j) agreed to do any of the foregoing.

5.7. Title to Properties.

(a) Neither the Company nor any of its Subsidiaries owns any real property. The real property demised by the leases described on Section 5.7 of the Disclosure Schedule (the "Leases") constitutes all of the real property leased by the Company and its Subsidiaries. Each Lease (i) is in full force and effect, (ii) constitutes the legal, valid and binding obligation of the Company or the applicable Subsidiary and, to the knowledge of the Company or applicable Subsidiary, each other party thereto and (iii) is enforceable against the Company or applicable Subsidiary and, to the knowledge of the Company, each other party thereto in accordance with its terms. The Company or one of its Subsidiaries holds a valid and existing leasehold interest under each of the Leases, free and clear of all Security Interests (except as set forth in Section 5.3 of the Disclosure Schedule). The Company has delivered to Buyer complete and accurate copies of each of the Leases, and none of the Leases have been modified, except to the extent that such modifications are disclosed by the copies delivered to Buyer. Except for any net worth requirement in the Company's real property leases with respect to the parent corporation or the tenant after a merger, and except for the lease with respect to the property at 16007 and 16009 Camino De La Cantera (Irwindale, California) which HVC is currently leasing on a month-to-month basis, none of the leases listed on Section 5.7 of the Disclosure Schedule requires, pursuant to the terms thereof, the consent of, or notice to, any third Person to remain in full force and effect after the consummation of the Merger. Neither the Company nor any of its Subsidiaries is in default under any of such Leases nor does any event exist which, with notice or lapse of time, or both, would constitute a default on the part of the Company or applicable Subsidiary (nor, to the knowledge of the Company, on the part of any other party thereto), except where such default would not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect.

(b) The Company or one of its Subsidiaries owns good title (or leasehold interest with respect to capital leases) to all material items of the personal property shown on the Latest Balance Sheet, free and clear of all Security Interests, except such personal property which has been disposed of in the ordinary course of business consistent with past business practices since December 31, 1998.

5.8. Tax Matters.

(a) The Company and each of its Subsidiaries has timely filed all federal and all material foreign, state, county and local income, excise, property and other Tax Returns

which are required to be filed by them. All such Tax Returns are true and correct in all material respects. The Company and each Subsidiary have timely paid all Taxes shown as owing by the Company or such Subsidiary on all such Tax Returns and, to the knowledge of the Company, have made adequate provision (in accordance with GAAP) for any Taxes attributable to any taxable period (or portion thereof) of the Company and/or such Subsidiary ending on or prior to the date hereof that are not yet due and payable. To the knowledge of the Company, the Company and each Subsidiary have withheld and paid in a timely manner all Taxes required to have been withheld and paid by them.

(b) No claim or deficiency for any Taxes has been asserted or assessed against the Company or any of its Subsidiaries which has not been resolved and paid in full except for a claim or deficiency that if paid would not reasonably be likely to have, individually or in the aggregate, a Company Material Adverse Effect. As of the date hereof, there is no outstanding waiver of any statute of limitations with respect to the period for the assessment or collection of any federal or other material Tax. No Tax audit or similar governmental proceeding is currently in progress, pending or, to the Company's knowledge, threatened in writing, except for such audits that would not reasonably be likely to have, individually or in the aggregate, a Company Material Adverse Effect.

(c) Neither the Company nor any of its Subsidiaries has filed a consent under Section 341(f) of the Code or any similar provision of state, local or foreign laws concerning collapsible corporations. Neither the Company nor any of its Subsidiaries is obligated to make any payments or provide any other benefits, or is a party to any agreement that under certain circumstances could obligate it to make any payments or provide any other benefits, that will not be deductible under Section 280G of the Code or any similar provision of state, local or foreign laws. Neither the Company nor any of its Subsidiaries has been a United States real property holding corporation within the meaning of Section 897(c)(2) of the Code during the applicable period specified in Section 897(c)(1)(A)(ii) of the Code.

(d) Except as set forth on Section 5.8 of the Disclosure Schedule, neither the Company nor any Subsidiary has made or agreed to make or was or is required to make any adjustment under Section 481 of the Code (or any similar provision of state, local or foreign law). There are no Tax sharing agreements or arrangements to which the Company or any Subsidiary is a party other than Tax sharing agreements or arrangements between only the Company and its Subsidiaries. There are no "excess loss accounts" (as defined in Treas. Reg. ss. 1.1502-19) with respect to any stock of any Subsidiary. Except as set forth on Section 5.8 of the Disclosure Schedule, neither the Company nor any Subsidiary has any (a) deferred gain or loss (1) arising from any deferred intercompany transactions (as described in Treas. Reg. ss.ss. 1.1502-13 and 1.1502-13T prior to amendment by Treasury Decision 8597 (issued July 12, 1995)) or (2) with respect to the stock or obligations of any other member of any affiliated group (as described in Treas. Reg. ss.ss. 1.1502-14 and 1.1502-14T prior to amendment by

Treasury Decision 8597) or (b) any gain subject to Treas. Reg. ss. 1.1502-13, as amended by Treasury Decision 8597. To the knowledge of the Company, except for any group of which it is currently a member, neither the Company nor any Subsidiary has ever been a member of any affiliated, consolidated, combined, unitary or similar group for any Tax purpose. Except as set forth on Section 5.8 of the Disclosure Schedule, neither the Company nor any Subsidiary has requested a ruling from, or entered into a closing agreement, with the IRS or any other taxing authority within the last three years. The Company has made available to Buyer true and complete copies of (a) all material Federal, state, local and foreign income or franchise Tax Returns filed by the Company and/or any Subsidiary for the last three taxable years ending prior to the date hereof (except for those Tax Returns that have not yet been filed) and (b) any audit reports issued within the last three years by the IRS or any other taxing authority.

5.9. Contracts and Commitments.

(a) Except as set forth on Schedule 5.9(a) of the Disclosure Schedule, neither the Company nor any of its Subsidiaries is a party to any Material Contract. For purposes hereof, "Material Contract" shall mean any: (i) collective bargaining agreement or contract with any labor union, (ii) bonus, pension, profit sharing, retirement or other form of deferred compensation plan, other than as described pursuant to Section 5.14, (iii) stock purchase, stock option or similar plan, (iv) contract for the employment of any officer, employee or other person on a full-time or consulting basis, (v) agreement or indenture relating to the borrowing of money or to mortgaging, pledging or otherwise placing a Security Interest on any of the Company's or any of its Subsidiaries' material assets, (vi) guaranty of any obligation for borrowed money, (vii) lease or agreement under which it is lessee of, or holds or operates any personal property owned by any other Person, for which the annual rental exceeds $50,000, (viii) lease or agreement under which it is lessor of or permits any third Person to hold or operate any property, real or personal, for which the annual rental exceeds $50,000, (ix) written contract or group of related written contracts with the same Person for the purchase of products or services, under which the undelivered balance of such products and services has a selling price in excess of $50,000, other than purchase orders relating to supplies and raw materials entered into in the ordinary course of business, (x) written contract or group of related written contracts with the same Person for the sale of products or services under which the undelivered balance of such products or services has a sales price in excess of $50,000, other than sale orders relating to inventory entered into in the ordinary course of business, (xi) contract which prohibits, in any material respect, the Company or any of its Subsidiaries from freely engaging in business anywhere in the world, or (xii) contract with any officer, director or stockholder of the Company or any of its Subsidiaries.

(b) Buyer either has been supplied with, or has been given access to, a true and correct copy of all written contracts which are referred to on Section 5.9(a) of the Disclosure Schedule.

(c) Neither the Company nor any of its Subsidiaries is in default under any contract listed on Section 5.9(a) of the Disclosure Schedule, except where such default would not, individually or in the aggregate, have a Company Material Adverse Effect.

5.10.....Proprietary Rights. Section 5.10 of the Disclosure Schedule sets forth a list of all material patents, patent applications, trademarks, service marks, trade names, corporate names, copyright registrations or copyright applications (collectively, the "Proprietary Rights") necessary to the conduct of the Company's or any of its Subsidiaries' businesses as now conducted. Except as set forth on Section 5.10 of the Disclosure Schedule, (i) each of the Company and its Subsidiaries has or owns, directly or indirectly, all right, title and interest to such Proprietary Rights or has the perpetual right to use such Proprietary Rights without consideration; none of the rights of the Company and its Subsidiaries in or use of such Proprietary Rights is currently being, or, to the knowledge of the Company, is threatened to be, infringed or challenged, except where such infringement or challenge would not have, individually or in the aggregate, a Company Material Adverse Effect; (ii) all of the material patents, trademark registrations, service mark registrations, trade name registrations and copyright registrations included in such Proprietary Rights have been duly issued and have not been canceled, abandoned or otherwise terminated, except where such cancellation, abandonment or termination would not have a Company Material Adverse Effect; and (iii) all of the material patent applications, trademark applications, service mark applications, trade name applications and copyright applications included in such Proprietary Rights have been duly filed. No representations or warranties elsewhere in this Agreement, including but not limited to those regarding the Company and its Subsidiaries' compliance with applicable laws or any other aspects of the Company and its Subsidiaries' operations, shall be deemed to relate to proprietary rights matters.

5.11.....Litigation. Section 5.11 of the Disclosure Schedule lists all actions, suits or proceedings pending or, to the Company's knowledge, threatened in writing against the Company or any of its Subsidiaries, at law or in equity, or before or by any federal, state, municipal or other governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, which would, individually or in the aggregate, have a Company Material Adverse Effect. Neither the Company nor any of its Subsidiaries is subject to any outstanding orders, judgments or decrees that limit, in any material respect, its ability to conduct its business as presently being conducted.

5.12.....Brokerage. There are no claims for brokerage commissions, finders' fees or similar compensation in connection with the transactions contemplated by this Agreement based on any agreement made by or on behalf of the Company.

5.13.....Governmental Consents etc. Except for the applicable requirements of the HSR Act, no material consent, approval or authorization of, or declaration to or filing

with, any governmental or regulatory authority is required in connection with any of the execution, delivery or performance of this Agreement by the Company or the consummation by the Company of any other transaction contemplated hereby except where the failure to obtain such consent, approval or authorization or make such declaration or filing would not reasonably be expected to have a Company Material Adverse Effect.

5.14.....Employee Benefit Plans.

(a) The Disclosure Schedule sets forth a list of all (i) nonqualified deferred compensation or retirement plans, stock option, stock purchase, bonus, incentive, severance, or vacation plans or employment or consulting agreements, (ii) qualified defined contribution retirement plans, (iii) qualified defined benefit pension plans (the plans described in (ii) and (iii) are collectively referred to as the "Pension Plans"), and (iv) material welfare benefit plans (the "Welfare Plans") maintained or contributed to by the Company or any of its Subsidiaries or any of their ERISA Affiliates (as hereinafter defined), or to which the Company or any of its Subsidiaries or any of their ERISA Affiliates contributes or is obligated to make payments thereunder or otherwise may have any material liability. The Pension Plans and the Welfare Plans are collectively referred to as the "Plans." For purposes of this Agreement, "ERISA Affiliate" shall mean any person (as defined in Section 3(9) of ERISA) that is a member of any group of persons described in Section 414(b), (c), (m) or (o) of the Code including the Company or a Subsidiary. Each of the Pension Plans has received or applied for a favorable determination letter from the Internal Revenue Service that such Plan is a "qualified plan" under Section 401(a) of the Code on which it can rely; the related trusts are exempt from tax under Section 501(a) of the Code, and the Company is not aware of any facts or circumstances that would jeopardize the qualification of such Pension Plan. The Plans comply in form and in operation with the requirements of the Code and the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), except where the failure to so comply would not, individually or in the aggregate, reasonably be likely to have a Company Material Adverse Effect.

(b) With respect to the Plans, (i) all required contributions have been made or properly accrued and (ii) there are no actions, suits or claims, or government or PBGC investigations known to the Company pending or, to the knowledge of the Company, threatened (other than routine claims for benefits) which would, individually or in the aggregate, reasonably be likely to have a Company Material Adverse Effect. No Plan has incurred an "accumulated funding deficiency" (as defined in Section 412 of the Code), whether or not waived. With respect to any Plan subject to Section 412 of the Code, there has been no application for or waiver of the minimum funding standards imposed by such section.

(c) The Company has made available to Buyer true and complete copies of each written plan document and summary plan description, related trust agreement and

amendments, most recent Forms 5500, if applicable, most recent IRS determination letter, if applicable, and most recent actuarial report, if applicable, for the Plans.

(d) Neither the Company, its Subsidiaries nor, to the Company's knowledge, any of their respective directors, officers, employees or any other "fiduciary," as such term is defined in Section 3 of ERISA, has committed any material breach of fiduciary responsibility imposed by ERISA or any other applicable law with respect to the Plans which would reasonably be likely to subject Buyer or any of its directors, officers or employees to any material liability under ERISA or any applicable law.

(e) Neither the Company nor any of its Subsidiaries has incurred or is reasonably likely to incur any material liability for any tax or civil penalty imposed by Section 4975 of the Code or Section 502 of ERISA.

(f) None of the Company, any of its Subsidiaries or any ERISA Affiliate has any material liability, or is reasonably likely to incur any material liability, with respect to any Plan which is subject to Title IV of ERISA or a "multiple employer welfare arrangement" within the meaning of Section 3(40) of ERISA.

(g) Except as disclosed on the Disclosure Schedule, with respect to any Pension Plan subject to Title IV of ERISA, there is not any amount of "unfunded benefit liabilities" (as defined in Section 4001(a)(18) of ERISA) under such plan, and the Company is not aware of any facts or circumstances that would materially change the funded status of any such plan.

(h) Except as set forth in Section 5.14 of the Disclosure Schedule, neither the Company nor any of its Subsidiaries has at any time maintained, contributed to or obligated itself or otherwise had any liability with respect to any funded or unfunded employee welfare plan, whether or not terminated, which provides medical, health, life insurance or other welfare-type benefits for current retirees or future retirees or current former employees or future former employees, their spouses or dependents or any other persons (except for limited continued medical benefit coverage for former employees, their spouses and other dependents as required to be provided under Section 4980B of the Code and Part 6 of Subtitle B of Title I of ERISA and the accompanying proposed regulations or state continuation coverage laws).

(i) Except as set forth on Section 5.14(i) of the Disclosure Schedule, the consummation of the transactions contemplated by this Agreement will not result in an increase in the amount of compensation or benefits or accelerate the vesting or timing of payment of any benefits or compensation payable to or in respect of any employee of the Company or any of its Subsidiaries.

(j) As of the Closing, the Company, its Subsidiaries and any entity with which the Company or its Subsidiaries could be considered a single employer under 29 U.S.C. section 2101(a)(1) or under any relevant case law, has not incurred any liability or obligation under the Worker Adjustment and Retraining Notification Act, as it may be amended from time to time, and within the 90-day period immediately following the Closing, will not incur any such liability or obligation if, during such 90-day period, only terminations of employment in the normal course of operations occur.

(k) No representations or warranties elsewhere in this Agreement, including but not limited to those regarding the Company and its Subsidiaries' compliance with applicable laws and any other aspect to the Company and its Subsidiaries' operations, shall be deemed to relate to employee benefit matters.

5.15.....Insurance. Section 5.15 of the Disclosure Schedule lists each material insurance policy maintained by the Company or any of its Subsidiaries. All of such insurance policies are in full force and effect, and neither the Company nor any of its Subsidiaries is in material default with respect to its obligations under any of such insurance policies.

5.16.....Compliance with Laws. The Company and its Subsidiaries have complied with all statutes, laws, ordinances, regulations, rules or orders of any foreign, federal, state or local government or any other governmental department or agency (including, without limitation, any required by the Food and Drug Administration or the Nutrition Labeling and Education Act of 1990), and all judgments, decrees or orders of any court, applicable to its business or operations, except where the failure to so comply would not reasonably be expected to have a Company Material Adverse Effect. The Company and each of its Subsidiaries have all permits, licenses, franchises and other authorizations necessary for the conduct of its business as presently conducted, except where the failure to hold such permits, licenses, franchises and authorizations would not reasonably be expected to have a Company Material Adverse Effect. The Company and its Subsidiaries are in compliance with all terms and conditions of such permits, licenses and authorizations except where the failure to so comply would not reasonably be likely to have a Company Material Adverse Effect.

5.17.....Environmental Compliance and Conditions. Except as set forth on Section 5.17 of the Disclosure Schedule:

(a) The Company and its Subsidiaries have all permits, licenses and other authorizations required under all Environmental Requirements, except where the failure to hold such licenses, permits and authorizations would not reasonably be expected to, individually or in the aggregate, have a Company Material Adverse Effect. The Company and its Subsidiaries are in compliance with all terms and conditions of such permits, licenses, and authorizations and are also in compliance with all other limitations, restrictions, conditions, standards, prohibitions, requirements, obligations, schedules and timetables contained in any

Environmental Requirements or any written notice, demand letter, order, decree or judgment issued, entered, promulgated or approved thereunder, except where the failure to so comply would not reasonably be expected to, individually or in the aggregate, have a Company Material Adverse Effect. To the Company's knowledge, no such permits, licenses or other authorizations scheduled to expire within three years of the date of this Agreement (a) will not be renewed or (b) will require material expenditures in connection with such renewal.

(b) Neither the Company nor any of its Subsidiaries has ever used, handled, generated, transported, treated, stored, or disposed of any Hazardous Substance at any site, location or facility in violation of any Environmental Requirements, except where such violation would not reasonably be likely to, individually or in the aggregate, have a Company Material Adverse Effect. No Hazardous Substance is present at, on, in or under or is emanating from any real property or facility currently, or to the knowledge of the Company, formerly, owned, operated or leased by the Company or any of its Subsidiaries, except where the presence or emanation of such Hazardous Substances would not reasonably be likely to have, individually or in the aggregate, a Company Material Adverse Effect.

(c) Neither the Company nor any of its Subsidiaries is or, to the Company's knowledge, has been subject to, and neither the Company nor any of its Subsidiaries has received any notice of, any Environmental Claim which would reasonably be likely to, individually or in the aggregate, have a Company Material Adverse Effect and, to the Company's knowledge, no such Environmental Claim is (1) pending or threatened against the Company or any of its Subsidiaries or (2) pending or threatened against any Person whose liability for such Environmental Claim has been retained or assumed by the Company or any of its Subsidiaries by contract or otherwise or can be imputed or attributed to the Company or any of its Subsidiaries by law (collectively, such Person shall hereinafter be referred to as a "Predecessor in Interest").

(d) No real property owned, operated or leased by the Company or any of its Subsidiaries and, to the Company's knowledge, no real property used by the Company or any of its Subsidiaries or any Predecessor in Interest is (A) listed or proposed for listing on the National Priorities List promulgated under CERCLA or (B) listed on the Comprehensive Environmental Response, Compensation, Liability Information System List promulgated under CERCLA or listed on any comparable list published by any governmental authority (including, without limitation, any such list relating to petroleum or oil).

(e) No Hazardous Substance underground or above ground storage tank, or related underground piping, is located at, under or on any real property owned, operated or leased by the Company or any of its Subsidiaries nor, to the Company's knowledge, has any such underground storage tank or underground piping been removed or decommissioned from or at such property.

(f) All material environmental investigations, studies, audits and assessments conducted in relation to any business, real property, facility or asset currently or formerly owned, operated, leased or used by the Company or any of its Subsidiaries or any Predecessor in Interest and of which the Company has knowledge and custody or control have been made available to Buyer.

(g) To the knowledge of the Company, no Lien has been recorded under any Environmental Requirement with respect to any real property, facility or asset currently or formerly owned, operated or leased by the Company or any of its Subsidiaries or any Predecessor in Interest and, in each case, for which the Company or any of its Subsidiaries may be responsible under any Environmental Requirement.

(h) To the Company's knowledge, no facts, events or conditions exist which would be expected to give rise to or otherwise form the basis of any Environmental Claim which would reasonably be likely to, individually or in the aggregate, have a Company Material Adverse Effect.

(i) The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby and the exercise by Buyer of rights to own and operate the business and assets of the Company and any of its Subsidiaries substantially as presently conducted will not require any notification, disclosure, registration, reporting, filing or any material investigatory, remedial, removal, response or other action under any Environmental Requirement, except where the failure to make such notification, disclosure, registration, reporting or filing or take such action would not reasonably be expected to, individually or in the aggregate, have a Company Material Adverse Effect.

(j) No representations or warranties elsewhere in this Agreement, including but not limited to those regarding the Company and its Subsidiaries' compliance with applicable laws or any other aspects of the Company and its Subsidiaries' operations, shall be deemed to relate to Environmental Requirements or other environmental matters.

5.18.....Labor Relations. Except as set forth on Section 5.18 of the Disclosure Schedule, neither the Company nor any of its Subsidiaries has (i) any unfair labor practice charge or complaint pending or, to the Company's knowledge, threatened in writing against it, (ii) any labor strike pending or, to the Company's knowledge, threatened against it or (iii) any petitions for recognition of a labor union as the exclusive bargaining agent for any material group of employees of the Company or its Subsidiaries or any general solicitation of representation cards by any union seeking to represent a material group of employees of the Company as their exclusive bargaining agent, in each case which would reasonably be likely to have a Company Material Adverse Effect. The Company has not agreed to any retroactive pay adjustments for employees of the Company to be represented by the Bakery, Confectionary

and Tobacco Worker's Union (the "Union") in the event that a collective bargaining agreement is entered into between the Company and the Union.

5.19.....Absence of Undisclosed Liabilities. Except as set forth in Section 5.5 or 5.19 of the Disclosure Schedule or in the 1998 Audited Financials, neither the Company nor any of its Subsidiaries has any liabilities or obligations of any nature, whether absolute, accrued, unmatured, contingent or otherwise, or any unsatisfied judgments, except (i) the liabilities recorded on the 1998 Unaudited Financials and the notes thereto, (ii) liabilities or obligations incurred in the ordinary course of business and consistent with past practice since December 31, 1998 and (iii) liabilities or obligations that would not, individually or in the aggregate, have a Company Material Adverse Effect. The representations and warranties made by the Company in this Section 5.19 will not be deemed to have been breached with respect to a particular liability or obligation if the subject matter of such liability or obligation is addressed under a separately articulated representation or warranty in this Section 5 where the scope or limitations applicable to such representation or warranty with respect to the matters giving rise to such liability or obligation (including, but not limited to, through the use of qualifiers regarding knowledge, materiality or dollar thresholds and survival periods) are more restrictive than those with respect to the liability or obligation as set forth in this Section 5.19.

5.20.....Agreements in Full Force and Effect. Except as specifically noted on the Disclosure Schedules, all material contracts, leases, certificates, permits and licenses listed on Section 5.9(a) or 5.7 of the Disclosure Schedule or contemplated by Section 5.16 are valid and in full force and effect, except where the failure to be valid and in full force and effect, individually or in the aggregate, would not have a Company Material Adverse Effect.

5.21.....Inventory. All inventory of the Company is valued on the Company's books and records at the lower of cost or market. To the knowledge of the Company, subject to reserves reflected on the 1998 Audited Financials, all such inventory consisting of raw materials or packaging is usable in the ordinary course of business, and all such inventory consisting of finished goods is, and all such inventory consisting of work in process will upon completion be, of merchantable quality, meeting all contractual, United States Department of Agriculture, Food and Drug Administration and Nutrition Labeling and Education Act of 1990 requirements, in each case, as would not cause, individually or in the aggregate, a Company Material Adverse Effect.

5.22.....Balance Sheet Reserves. The reserves for accounts receivable, as reflected on the 1998 Audited Financials have been established in accordance with generally accepted accounting principles.

5.23.....Board Recommendation. The Board of Directors of the Company has, by a majority vote at a meeting of such Board or by written consent of all of the members of such Board, approved and adopted this Agreement, the Merger and the other transactions

contemplated hereby, determined that the Merger is fair to the stockholders of the Company and recommended that the stockholders of the Company approve and adopt this Agreement, the Merger and the other transactions contemplated hereby.

5.24.....Year 2000 Compliance. The Company has provided to the Parent a true and correct copy of a summary of its Year 2000 compliance project, a copy of which is attached hereto in Section 5.24 of the Disclosure Schedule (the "Y2K Project Plan"). The out-of-pocket costs and expenses for goods and services, together with any incremental hiring costs, spent after the date hereof in order to become Year 2000 Compliant shall not exceed $150,000 in the aggregate. "Year 2000 Compliant" means that, prior to January 1, 2000, the software, hardware, systems and devices used by the Company and its Subsidiaries will correctly Process all dates, including those before, on or after January 1, 2000 (taking into account leap year consideration), without any loss of functionality, interoperability or performance, and whether used on a stand-alone basis or in combination with any other software, hardware, system, or device used by the Company and its Subsidiaries, as of the date hereof. For purposes of the foregoing, "Process" means all functions, including accepting as input, calculating, sorting, displaying and generating as output.

5.25.....Product Warranty. Except as would not reasonably be expected to, individually or in the aggregate, have a Company Material Adverse Effect: (a) the Company has not agreed to become responsible for consequential damages (exclusive of responsibilities imposed by law) and has not made any express warranties to third parties with respect to any products created, manufactured, sold, distributed or licensed, or any services rendered, by the Company; (b) there are no warranties (express or implied) outstanding with respect to any such product or products or services other than any such implied by law or the Company's customer purchase order or contracts or contract forms or the Company's order information forms; (c) there are no material defects, latent or otherwise, with respect to any such products; and (d) such products are nontoxic.

SECTION 6. PRECLOSING COVENANTS OF THE COMPANY

6.1. Conduct of the Business.

(a) From the date hereof until the Closing Date, except as contemplated by this Agreement, the Company shall carry on its businesses, and cause its Subsidiaries to carry on their businesses, in the ordinary course, and substantially in the same manner as heretofore conducted.

(b) Without limiting the generality of the foregoing, from the date hereof until the Closing Date, except as contemplated by this Agreement or consented to by Parent or Buyer, the Company shall not, and shall cause its Subsidiaries not to:

(i) amend its certificate or articles of incorporation or organization or by-laws;

(ii) except for the issuance of capital stock upon the exercise of outstanding options or conversion of the Sahara Convertible Note, authorize for issuance, issue, sell, deliver, grant any options for, or otherwise agree or commit to issue, sell or deliver any shares of any class of its capital stock or any securities convertible into shares of any class of its capital stock;

(iii) split, combine or reclassify any shares of its capital stock, declare, set aside or pay any dividend or other distribution (whether in cash, stock or property or any combination thereof) in respect of its capital stock or purchase, redeem or otherwise acquire any shares of its own capital stock or of any of its Subsidiaries, except as otherwise expressly provided in this Agreement;

(iv) (1) create, incur, assume, maintain or permit to exist any indebtedness for borrowed money other than under existing lines of credit in the ordinary course of business and consistent with prior practice; (2) assume, guarantee, endorse or otherwise become liable or responsible (whether directly, contingently or otherwise) for the obligations of any other Person except for endorsement of checks and for the Company's wholly-owned Subsidiaries in the ordinary course of business and consistent with past practices; or (c) make any loans or advances (except in the ordinary course of business consistent with past practice) or capital contributions to, or investments in, any other person;

(v) except pursuant to existing agreements and commitments, make any capital expenditure in excess of $200,000 in the aggregate;

(vi) (1) increase in any manner the compensation of (x) any employee except in the ordinary course of business consistent with past practice or (y) any of its directors or officers; (2) pay or agree to pay any pension, retirement allowance or other employee benefit not required, or enter into or agree to enter into any agreement or arrangement with such director or officer or employee, whether past or present, relating to any such pension, retirement allowance or other employee benefit, except as required under currently existing agreements, plans or arrangements; (3) except in accordance with this Agreement, grant any severance or termination pay to, or enter into any employment or severance agreement with, (x) any employee except in the ordinary course of business consistent with past practice or (y) any of its directors or officers; or

(4) except as may be required to comply with applicable law, become obligated (other than pursuant to any new or renewed collective bargaining agreement) under any new pension plan, welfare plan, multi-employer plan, employee benefit plan, benefit arrangement, or similar plan or arrangement, which was not in existence on the date hereof, including any bonus, incentive, deferred compensation, stock purchase, stock option, stock appreciation right, group insurance, severance pay, retirement or other benefit plan, agreement or arrangement, or employment or consulting agreement with or for the benefit of any person, or amend any of such plans or any of such agreements in existence on the date hereof;

(vii) except as otherwise expressly contemplated by this Agreement, enter into any other Material Contract except in the ordinary course of business consistent with past practice;

(viii) authorize, recommend, propose or announce an intention to authorize, recommend or propose, or enter into any agreement in principle or an agreement with respect to, any plan of liquidation or dissolution, any acquisition of a material amount of assets (other than in the ordinary course of business consistent with past practice) or securities, any sale, transfer, lease, license, pledge, mortgage, or other disposition or encumbrance of a material amount of assets (other than those listed on Section 6.1 of the Disclosure Schedule or in the ordinary course of business consistent with past practice) or securities or any material change in its capitalization;

(ix) make any change in the accounting methods or accounting practices followed by the Company;

(x) except as set forth on Section 6.1 of the Disclosure Schedule, settle or compromise any material federal, state, local or foreign Tax liability, make any new material Tax election, revoke or modify any existing Tax election, or request or consent to a change in any method of Tax accounting; or

(xi) agree to do any of the foregoing.

6.2. Access to Information. From the date hereof until the Closing Date, subject to Section 9.6, the Company shall afford to Parent, Buyer and their authorized representatives (the "Buyer's Representatives") access at all reasonable times and upon reasonable notice to the offices, properties, books and records of the Company and its Subsidiaries in order for Parent and Buyer to have the opportunity to make such investigation as it shall reasonably desire to make of the affairs of the Company and its Subsidiaries. Notwithstanding the foregoing, prior to the Effective Time, neither Parent, Buyer nor any Buyer's Representatives shall be permitted to conduct a Phase II environmental assessment of any real property

owned or leased by the Company or any of its Subsidiaries or any other water or soil testing with respect to any such real property without the prior written consent of the Company.

6.3. Notification. From the date hereof until the Closing Date, the Company shall disclose to Parent or Buyer in writing any material variances from the representations and warranties contained in Section 5 promptly upon discovery thereof, and such disclosures shall be deemed to amend and/or supplement the Disclosure Schedule attached hereto in the form of a "Revised Disclosure Schedule" delivered to Parent. Parent shall advise the Company within five (5) days of receipt of such Revised Disclosure Schedule as to whether (i) the Parent accepts the information provided in the Revised Disclosure Schedule, in which case such Revised Disclosure Schedule shall cure and correct for all purposes any breach of any representation or warranty which would have existed by reason of the Company not having added such Revised Disclosure Schedule or (ii) the Parent elects to terminate this Agreement in accordance with Section 10.1(b) based on such Revised Disclosure Schedule. Notwithstanding the foregoing, Parent shall not have the right to elect to terminate this Agreement based on such Revised Disclosure Schedule (and will be deemed to have accepted the Revised Disclosure Schedule) unless the information in such Revised Disclosure Schedule would result in a Company Material Adverse Effect or a Company Material Adverse Change.

6.4. Conditions. The Company shall use reasonable efforts to cause the conditions set forth in Section 8.1 to be satisfied and to consummate the transactions contemplated herein as soon as reasonably possible.

6.5. Exclusive Dealing. During the period from the date of this Agreement through the Closing or the earlier termination of this Agreement pursuant to Section 10.1, the Company shall not engage in discussions or negotiations with any Person (other than Parent, Buyer and Buyer's Representatives) concerning, or enter into any agreement with respect to, any purchase or sale of the Common Stock or any merger, sale of substantial assets or similar transaction involving the Company (other than the sale of assets in the ordinary course of business).

SECTION 7. PRECLOSING COVENANTS OF PARENT AND BUYER

Each of Parent and Buyer agrees that, from the date hereof, through and including the Effective Time, Parent and Buyer shall:

7.1. Action. Subject to the terms and conditions of this Agreement, take, or cause to be taken, all actions, and do or cause to be done all things necessary, proper or advisable (to the extent commercially reasonable) under applicable laws and regulations to consummate and make effective the transactions contemplated hereby.

7.2. Confidentiality. Continue to comply in all respects with the terms of the Confidentiality Agreement.

7.3. Conditions. Use reasonable efforts to cause the conditions set forth in Section 8.2 to be satisfied and to consummate the transactions contemplated herein as soon as reasonably possible.

SECTION 8. CONDITIONS OF CLOSING

8.1. Conditions to Obligations of Parent and Buyer. The obligations of Parent and Buyer to effect the transactions contemplated by this Agreement shall be subject to the satisfaction or waiver prior to the Effective Time of the following conditions:

(a) Representations and Warranties of the Company. The representations and warranties made by the Company in Section 5 of this Agreement, to the extent qualified by materiality, shall be true and correct in all respects and otherwise shall be true and correct in all material respects at and as of the Closing Date as though then made and as though the Closing Date was substituted for the date of this Agreement throughout such representations and warranties, after taking into account all disclosures by the Company set forth in the Revised Disclosure Schedule accepted by the Parent in accordance with Section 6.3.

(b) Compliance With Agreement. The Company shall have complied in all material respects with all of its obligations under this Agreement to be performed by it prior to or on the Closing Date.

(c) HSR Act. Any applicable waiting period under the HSR Act shall have expired or been terminated.

(d) No Proceedings. No party to this Agreement shall be subject to any final order, stay, injunction or decree of any court of competent jurisdiction or governmental authority restraining or prohibiting the consummation of the transactions contemplated by this Agreement.

(e) Merger Effective. The Certificate of Merger shall have been executed on or before the Closing Date and, prior to the Effective Time, shall be filed with the Secretary of State of the State of Delaware and the Merger shall have become effective in accordance with the provisions of the General Corporation Law.

(f) Certificate of Fulfillment of Conditions. The Company shall have delivered to Parent or Buyer a certificate, executed by its President, certifying, to such ind-

ividual's knowledge, on behalf of the Company, as to (i) fulfillment, as to the Company, of the condition set forth in Section 8.1(b) of this Agreement, and (ii) that the representations and warranties of the Company set forth in Section 5 of this Agreement are, to the extent qualified by materiality, true and correct and otherwise shall be true and correct in all material respects as of the Closing Date and the Effective Time (taking into account all disclosures set forth on the Revised Disclosure Schedule accepted by Parent in accordance with Section 6.3).

(g) Organizational Documents. The Company shall have delivered to Parent or Buyer each of the following: (i) certified copies of the certificate of incorporation of and by-laws of each of the Company and its Subsidiaries and all board and stockholder resolutions of the Company necessary to consummate the transactions contemplated by this Agreement; (ii) good standing certificates for the jurisdiction of incorporation of each of the Company and its Subsidiaries; and (iii) a certificate, signed by the secretary or assistant secretary of the Company, certifying as to the names of the officers of the Company authorized to sign this Agreement and the other documents contemplated hereby and as to specimens of the true signature of such officers.

(h) Opinion of Company Counsel. Parent and Buyer shall have received an opinion from Katten Muchin & Zavis, counsel to the Company, substantially to the effect set forth in Exhibit B hereto.

(i) Monthly Financials. The Company shall provide to the Parent and Buyer as soon as they become available but in no event later than five days prior to Closing true and complete copies of the unaudited balance sheet of the Company and HVC at the Latest Month End (as defined below) (the "Latest Monthly Balance Sheet") and the unaudited statements of income of the Company and HVC for the period then ended (together with the Latest Monthly Balance Sheet, the "Latest Monthly Financials"). The Latest Monthly Financials will fairly present, in all material respects, the financial position of the Company and HVC at the date specified therein, and the results of operations of the Company and HVC for the period then ended, in accordance with generally accepted accounting principles consistently applied, except that such Latest Monthly Financials will not include any footnote disclosures that might otherwise be required to be included by generally accepted accounting principles, and shall also be subject to normal non-recurring year-end audit adjustments. The "Latest Month End" shall mean, as of any given date, the last day of the immediately preceding month; provided, if such given date is prior to the twentieth day of the current month, "Latest Month End" shall mean the last day of the month ending immediately before the immediately preceding month.

(j) Consents. The consent and irrevocable proxy, substantially to the effect set forth in Exhibit C hereto, pursuant to which each of the Company's Stockholders and Optionholders shall have consented to the Merger and the transactions related thereto and appointed the Stockholder Representative as attorney-in-fact in connection therewith shall be in full force and effect as of the Closing Date.

(k) Cancellation of Options. At the Effective Time, the Company shall have taken all such action necessary to cause all outstanding Options to be canceled or converted pursuant to Section 2.6(a)(iii) or Section 2.6(a)(iv) as of the Effective Time (irrespective of whether such options are then exercisable pursuant to the provisions thereof).

(l) Pay-Off Letters. The Parent and Buyer shall have received letters, reasonably satisfactory to the Parent, dated on or prior to the Closing Date, indicating (i) the amount to be paid by Parent or Buyer as of the Closing Date to pay in full the Bank Debt and (ii) that payment in full of such amount is the only material condition precedent to the full satisfaction of the Company's obligations regarding such Bank Debt.

(m) FIRPTA Affidavit. Each Stockholder and Optionholder shall have provided an affidavit reasonably satisfactory to Buyer, stating, under penalties of perjury, such person's U.S. taxpayer identification number and that such person is not a foreign person (within the meaning of Section 1445(b)(3) of the Code).

(n) Section 280G Stockholder Approval. The Stockholders (and Optionholders, if necessary) shall have obtained any stockholder approvals reasonably requested by Buyer prior to the date of the execution of this Agreement pursuant to Section 280G(b)(5)(B) of the Code and have provided Buyer with documentation thereof (in a manner reasonably satisfactory to Buyer).

Parent and Buyer may waive any condition specified in this Section 8.1 if Parent or Buyer executes a writing so stating at or prior to the Closing; provided that if the Closing is consummated, all such conditions shall be deemed to have been satisfied or waived by Parent and Buyer.

8.2. Conditions to Obligations of the Company. The obligations of the Company to effect the transactions contemplated by this Agreement shall be subject to the satisfaction or waiver immediately prior to the Effective Time of the following conditions:

(a) Representations and Warranties of Parent and Buyer. The representations and warranties made by Parent and Buyer in or pursuant to this Agreement shall be true and correct in all material respects at and as of the Closing Date as though then

made and as though the Closing Date was substituted for the date of this Agreement at or prior to the Closing.

(b) Compliance With Agreement. Parent and Buyer shall have complied in all material respects with all of their obligations under this Agreement to be performed by them prior to or on the Closing Date.

(c) HSR Act. Any applicable waiting period under the HSR Act shall have expired or been terminated.

(d) No Proceedings. No party to this Agreement shall be subject to any final order, stay, injunction or decree of any court of competent jurisdiction or governmental authority restraining or prohibiting the consummation of the transactions contemplated by this Agreement.

(e) Delivery of Merger Consideration. Buyer or Parent shall have delivered the Merger Consideration payable at the Closing in accordance with Section 3.3 hereof.

(f) Certificate of Fulfillment of Conditions. Parent and Buyer shall have delivered to the Company a certificate of the President and the Secretary of each of Parent and Buyer certifying, on behalf of Parent or Buyer, as appropriate, and to such individual's knowledge, as to (i) the fulfillment of the condition set forth in Section 8.2(b) of this Agreement and (ii) that the representations and warranties of Parent and Buyer set forth in Section 4 of this Agreement are true and correct in all material respects as of the Closing Date and the Effective Time.

(g) Organizational Documents. Parent and Buyer shall have delivered to the Company each of the following: (i) certified copies of all of Parent and Buyer's board and stockholder resolutions necessary to consummate the transactions contemplated by this Agreement; (ii) good standing certificates for the jurisdiction of incorporation of Parent and Buyer; and (iii) a certificate, signed by the secretary or assistant secretary of each of Parent and Buyer, respectively, certifying as to the names of the officers of Parent and Buyer authorized to sign this Agreement and the other documents contemplated hereby and as to specimens of the true signature of such officers.

(h) Opinion of Parent and Buyer Counsel. Cahill Gordon & Reindel, counsel to Parent and Buyer, shall have delivered an opinion substantially in the form of Exhibit D hereto addressed to the Stockholders and Optionholders.

The Company may waive any condition specified in this Section 8.2 if the Company executes a writing so stating at or prior to the Closing; provided that if the Closing is consummated, all such conditions shall be deemed to have been satisfied or waived by the Company.

SECTION 9. ADDITIONAL COVENANTS OF THE PARTIES

9.1. Confidentiality of Information. Each of Parent and Buyer acknowledges that the terms and provisions of the Confidentiality Agreement are in full force and effect. In the event that this Agreement is terminated and the transactions contemplated hereby are not consummated, the Confidentiality Agreement shall continue to be in full force and effect in accordance with its terms and shall be binding upon both Parent and Buyer and their Affiliates.

9.2. Access to Books and Records. From and after the Closing, Parent and Buyer shall, and shall cause the Surviving Corporation to, provide the Stockholder Representative, the Stockholders and their agents with reasonable access (for the purpose of examining and copying), during normal business hours, to the books and records of the Surviving Corporation pertaining to periods or occurrences prior to the Closing Date in connection with any matter, whether or not relating to or arising out of this Agreement or the transactions contemplated hereby. Unless otherwise consented to in writing by the Stockholder Representative, the Surviving Corporation shall not, for a period of seven years following the Closing Date, destroy, alter or otherwise dispose of any of the books and records of the Surviving Corporation pertaining to the period prior to the Closing Date without first offering to surrender to the Stockholder Representative such books and records or any portion thereof which Parent, Buyer or the Surviving Corporation intends to destroy, alter or dispose of.

9.3. Notification. Prior to the Closing, Parent and Buyer shall promptly notify the Company if Parent or Buyer obtains actual knowledge that (i) any of the representations and warranties of the Company in this Agreement and the Disclosure Schedule or the Revised Disclosure Schedule are not true and correct in all material respects, or if Parent or Buyer obtains knowledge of any material errors in, or omissions from, the Disclosure Schedule or the Revised Disclosure Schedule, or (ii) the representations and warranties of Parent or Buyer in this Agreement and the Schedules hereto are not true and correct in all material respects.

9.4. Director and Officer Liability and Indemnification. From and after the Closing, Parent and Buyer shall not, and shall not permit the Surviving Corporation to, amend, repeal or modify any provision in the Certificate of Incorporation or By-Laws of the Company or any of its Subsidiaries relating to the exculpation or indemnification of former officers and directors of the Company or any of its Subsidiaries (unless required by law), it being the intent

of the parties that the officers and directors of the Surviving Corporation prior to the Closing shall continue to be entitled to such exculpation and indemnification to the fullest extent permitted under applicable law. From and after the Closing, for seven (7) years from the Effective Time, Parent shall, and shall cause the Surviving Corporation to, indemnify, defend and hold harmless (and advance expenses to) all past and present officers, directors and employees of the Company and its Subsidiaries to the same extent that individuals acting in similar capacities are indemnified by the Parent and Buyer prior to the Effective Time. In the event of any dispute regarding whether a director, officer or employee has met the standards of conduct set forth therein, such question shall be conclusively determined by the written opinion of reputable disinterested legal counsel selected by the Company's Board of Directors and acceptable to the director, officer or employee involved in the dispute. Any heirs or legal representative entitled to the benefits of such indemnification shall be deemed express third party beneficiaries of this Section 9.4.

9.5. Regulatory Filings. Within five (5) business days after the date hereof, Parent, Buyer and the Company shall make or cause to be made all filings and submissions under the HSR Act (and request early termination of the waiting period under the HSR Act) and any other laws or regulations applicable to Parent, Buyer or the Company and as may be required of any of them for the consummation of the transactions contemplated herein, and Parent and Buyer shall be responsible for all filing fees under the HSR Act. Parent, Buyer and the Company shall coordinate and cooperate with each other in exchanging such information and assistance as any of them may reasonably request in connection with all of the foregoing.

9.6. Contact with Customers and Suppliers. Parent, Buyer and Buyer's Representatives shall contact and communicate with the employees, customers and suppliers of the Company or its Subsidiaries in connection with the transactions contemplated hereby only with the prior written consent of the Company, which consent may be conditioned upon an officer of the Company being present at any such meeting or conference.

9.7. Disclosure Generally. If and to the extent any information required to be furnished in the Disclosure Schedule or the Revised Disclosure Schedule in order to avoid a breach of, or inaccuracy with respect to, a representation or warranty or satisfy a condition contained in this Agreement is contained in this Agreement or in the Disclosure Schedule or the Revised Disclosure Schedule, such information shall be deemed to be included in all parts of the Disclosure Schedule or the Revised Disclosure Schedule in which the information is required to be included in order to avoid a breach of, or inaccuracy with respect to, a representation or warranty or satisfy a condition contained in this Agreement. The inclusion of any information in the Disclosure Schedule or the Revised Disclosure Schedule shall not be deemed to be an admission or acknowledgment by the Company, in and of itself, that such information is material to or outside the ordinary course of the business of the Company or required to be disclosed on the Disclosure Schedule or the Revised Disclosure Schedule.

9.8. ACKNOWLEDGMENT BY PARENT AND BUYER. EACH OF PARENT AND BUYER HAS CONDUCTED TO ITS SATISFACTION, AN INDEPENDENT INVESTIGATION AND VERIFICATION OF THE FINANCIAL CONDITION, RESULTS OF OPERATIONS, ASSETS, LIABILITIES, PROPERTIES AND PROJECTED OPERATIONS OF THE COMPANY AND ITS SUBSIDIARIES. IN MAKING ITS DETERMINATION TO PROCEED WITH THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT, EACH OF PARENT AND BUYER HAS RELIED ON THE RESULTS OF ITS OWN INDEPENDENT INVESTIGATION AND VERIFICATION AND THE REPRESENTATIONS AND WARRANTIES OF THE COMPANY EXPRESSLY AND SPECIFICALLY SET FORTH IN THIS AGREEMENT, INCLUDING THE DISCLOSURE SCHEDULES AND THE REVISED DISCLOSURE SCHEDULES. SUCH REPRESENTATIONS AND WARRANTIES BY THE COMPANY CONSTITUTE THE SOLE AND EXCLUSIVE REPRESENTATIONS AND WARRANTIES OF THE COMPANY TO EACH OF PARENT AND BUYER IN CONNECTION WITH THE TRANSACTIONS CONTEMPLATED HEREBY, AND EACH OF PARENT AND BUYER UNDERSTANDS, ACKNOWLEDGES AND AGREES THAT ALL OTHER REPRESENTATIONS AND WARRANTIES OF ANY KIND OR NATURE EXPRESSED OR IMPLIED (INCLUDING, BUT NOT LIMITED TO, ANY RELATING TO THE FUTURE OR HISTORICAL FINANCIAL CONDITION, RESULTS OF OPERATIONS, ASSETS OR LIABILITIES OF THE COMPANY AND ITS SUBSIDIARIES) ARE SPECIFICALLY DISCLAIMED BY THE COMPANY.

9.9. Nonsurvival of Representations and Warranties. None of the representations and warranties in this Agreement or in any instrument delivered pursuant to this Agreement (other than representations and warranties made in the Hain Note) or the covenants contained in Section 6 shall survive the Effective Time. No action may be brought with respect to the breach of or inaccuracy with respect to any such representation or warranty or breach of any such covenant after the Effective Time.

9.10. Joint and Several Obligations. The obligations of each of the Parent and Buyer under this Agreement are joint and several obligations of the Buyer and Parent.

SECTION 10. REGISTRATION OF PARENT COMMON STOCK

10.1.Registration. (a) Parent covenants with respect to the Registrable Shares (as hereinafter defined) for the benefit of the Noteholders:

(i) Parent will prepare and file with the SEC promptly after the execution of this Agreement, but in any event not later than ten (10) business days thereafter, a registration statement on Form S-3 (or any successor or equivalent form of registration

statement adopted by the SEC) (the "Registration Statement") relating to all of the Registrable Shares and will use reasonable best efforts to cause the Registration Statement to become effective as soon as possible thereafter so as to permit the secondary resale of the Registrable Shares by the Noteholders at any time without restriction.

(ii) Parent will use reasonable best efforts to cause the Registration Statement to remain effective and available for resale of the Registrable Shares and to file with the SEC such amendments and supplements as may be necessary to keep the prospectus included in the Registration Statement (the "Prospectus") current and in compliance in all material respects with the Securities Act and the rules and regulations of the SEC promulgated thereunder until the sooner to occur of the following events: the expiration of the 24 month period following the Closing Date or the sale of all the Registrable Shares covered by the Registration Statement. If necessary to permit the resale of all Registrable Shares, Parent will file one or more additional registration statements and use reasonable best efforts to cause such registration statements to become and remain effective so as to permit the secondary resale of all Registrable Shares by the Noteholders at any time without restriction. Such additional registration statements shall be included within the meaning of "Registration Statement" as defined herein.

(iii) Parent will furnish to each Noteholder a conformed copy of the Registration Statement as declared effective by the SEC and each post-effective amendment thereto, including financial statements and all exhibits and reports incorporated therein by reference, and such number of copies of the final Prospectus and each post-effective amendment or supplement thereto as such Noteholder may reasonably request.

(iv) Parent will cooperate with the Noteholders in connection with the registration or qualification of the Registrable Shares for offering and sale by the Noteholders under the securities or "Blue Sky" laws and regulations of such states as any of the Noteholders may request, including, but not limited to, the filing of any necessary registration statements or applications in any such state; provided, however, that Parent shall not be required to do so in states which (i) would require of Parent a general consent to the jurisdiction of the state or (ii) would require that Parent qualify as a foreign corporation (except that the provisions contained in clauses (i) and (ii) above shall not apply in states in which Parent has already so consented or qualified and Parent shall inform the Noteholders of the identity of such states).

(v) Parent will cause all Registrable Shares to be qualified for quotation on the National Market System of The Nasdaq Stock Market and qualified for listing on each securities exchange on which similar securities of Parent are then listed.

(b) Parent represents and warrants to the Noteholders that it is eligible to use Form S-3 for the registration of the sale of the Registrable Shares and agrees that it will use reasonable best efforts to take all actions that may be necessary to maintain such eligibility for so long as Parent is obligated to keep the Registration Statement effective.

(c) For purposes of this Agreement, "Registrable Shares" shall mean the Note Shares and any other shares of Parent Common Stock issued or issuable with respect to such shares as a result of stock dividends or reclassifications, recapitalizations, mergers or similar events.

10.2.....Expenses. Parent shall pay all expenses incurred by Parent in connection with any registration or qualification of the Registrable Shares pursuant to this Section 10, including, but not limited to, all registration or filing fees, all fees and expenses for qualifying the Registrable Shares for quotation on the National Market System of The Nasdaq Stock Market or listing on any securities exchange on which similar securities of Parent are admitted for trading, fees and expenses of compliance with state securities laws, printing expenses, fees and disbursements of counsel for Parent and fees and expenses in connection with any special audits incident to or required by any such registration, and shall pay or reimburse the Noteholders for the reasonable fees (not to exceed $10,000) and disbursements of one counsel selected by Noteholders who own a majority of the aggregate principal amount of the outstanding Hain Notes, for services rendered in connection with the registration of the Registrable Shares; provided, however, each Noteholder shall pay any brokerage discounts, commissions or similar fees and Taxes attributable to the sale of the Registrable Shares for such Noteholder's account.

10.3. Noteholders' Covenants Regarding Registrable Shares. Each Noteholder covenants and agrees with Parent that such Noteholder will cooperate with Parent in connection with the preparation of the Registration Statement prior to and after the Closing Date for so long as Parent is obligated to keep the Registration Statement effective, and will provide to Parent, in writing, for use in the Registration Statement, all information reasonably requested by Parent regarding such Noteholder and its plan of distribution and such other information as may be reasonably necessary to enable Parent to prepare the Registration Statement and Prospectus covering the Registrable Shares and to maintain the currency and effectiveness thereof. If any Noteholder breaches his covenants under this Section 10.3, Parent may exclude the Registrable Shares held by such Noteholder from the Registration Statement until such time as such breach is cured and such remedy shall be the sole remedy of Parent for

such breach and shall not otherwise affect Parent's obligations hereunder, including, but not limited to, Parent's obligation to file and keep effective the Registration Statement.

10.4. Indemnification. (a) In the event of any registration of any of the Registrable Shares under the Securities Act pursuant to this Section 10, Parent will indemnify and hold harmless each Noteholder, its officers and directors and each person, if any, who controls such Noteholder within the meaning of the Securities Act or the Exchange Act (the "Noteholder Indemnified Parties"), against any losses, claims, damages or liabilities, joint or several, to which such Noteholder Indemnified Parties may become subject, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon (i) any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement or (ii) any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading or (iii) any violation of any federal or state securities law, rule or regulation thereunder committed by any of the Parent Indemnified Parties (as hereinafter defined); and Parent will reimburse such Noteholder Indemnified Parties for any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage or liability; provided, however, that Parent will not be liable in any such case to the extent that any such loss, claim, damage, liability or expense arises out of or is based upon any actual or alleged statement in, or actual or alleged omission from, the Registration Statement made by Parent in reliance upon and in conformity with written information furnished to Parent by or on behalf of such Noteholder expressly for use in connection with the preparation of the Registration Statement. To the extent that the foregoing undertaking may be unenforceable for any reason, Parent shall make the maximum contribution to the payment and satisfaction of each of the losses, claims, damages or liability, or expenses which is permissible under applicable law.

(b) In the event of any registration of any Registrable Shares under the Securities Act pursuant to this Section 10, each Noteholder will severally indemnify and hold harmless Parent, its directors or officers and each person, if any, who controls Parent within the meaning of the Securities Act or the Exchange Act (the "Parent Indemnified Parties"), against any losses, claims, damages, or liabilities, joint or several to which the Parent Indemnified Parties may become subject, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or based upon any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement or the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, if the statement or omission was made in reliance upon and in conformity with written information furnished to Parent by or on behalf of such Noteholder expressly for use in connection with the preparation of the Registration Statement; or such Noteholder will reimburse such Parent Indemnified Parties for any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage or liability; provided, however, that the liability of any Noteholder under this Section

10.4(b) shall be limited in all events and circumstances to the net amount received by such Noteholder from the sale of Registrable Shares pursuant to the Registration Statement.

(c) Any person who proposes to assert the right to be indemnified under this Section 10.4 will, promptly after receipt of notice of commencement of any action against any person in respect of which a claim is to be made against an indemnifying party under this Section 10.4, notify each such indemnifying party of the commencement of such action, enclosing a copy of all papers served, but the omission to so notify such indemnifying party of any such action shall not release such indemnifying party from any liability that it may have to any indemnified party under this Section 10.4, except to the extent such indemnifying party is actually prejudiced by such omission. In case any such action shall be brought and notice given to the indemnifying party of the commencement thereof, the indemnifying party shall be entitled to participate in and, to the extent that it shall wish and provided that such indemnifying party admits in writing its indemnification obligations under this Section 10.4 with respect to losses, claims, damages, liabilities or expenses arising out of or in connection with such action, jointly with any other indemnifying party similarly notified and admitting, to assume the defense thereof, with counsel reasonably satisfactory to the indemnified party, and after notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof, the indemnifying party shall not be liable to such indemnified party for any legal or other expenses, except as provided below and except for the reasonable cost of investigation subsequently incurred by such indemnified party in connection with the defense thereof. The indemnified party shall have the right to employ separate counsel and to participate in (but not to control) any such action, but the fees and expenses of such counsel shall be the expense of such indemnified party unless (i) the employment of counsel by such indemnified party has been authorized by the indemnifying parties, (ii) the indemnified party shall have been advised by its counsel that there may be a conflict of interest between the indemnifying parties and the indemnified party in the conduct of the defense of such action (in which case the indemnifying party shall not have the right to direct the defense of such action on behalf of the indemnified party) or (iii) the indemnifying parties shall not in fact have employed counsel reasonably satisfactory to the indemnified party to assume the defense of such action, in each of which cases, the fees and expenses of counsel shall be at the expense of the indemnifying parties. An indemnifying party shall not be liable for any settlement of any action or claims effected without its written consent.

SECTION 11. TERMINATION

11.1. Termination. This Agreement may be terminated at any time prior to the Closing:

(a) by the mutual written consent of Parent, Buyer and the Company;

(b) by Parent and Buyer, if there has been a material violation or breach by the Company of any covenant, representation or warranty contained in this Agreement which has prevented the satisfaction of any condition to the obligations of Parent and Buyer at the Closing and such violation or breach has not been waived by Parent and Buyer or, in the case of a covenant breach, cured by the Company within ten days after written notice thereof from Parent and Buyer;

(c) by Parent, if the Board of Directors of the Company shall withdraw, modify or change its recommendation of this Agreement or the Merger in a manner adverse to Parent;

(d) by the Company, if there has been a material violation or breach by Parent or Buyer of any covenant, representation or warranty contained in this Agreement which has prevented the satisfaction of any condition to the obligations of the Company at the Closing and such violation or breach has not been waived by the Company or, with respect to a covenant breach, cured by Parent or Buyer within ten days after written notice thereof by the Company; or

(e) by either Parent and Buyer or the Company if the transactions contemplated hereby have not been consummated by June 15, 1999; provided that neither Parent and Buyer nor the Company shall be entitled to terminate this Agreement pursuant to this Section 11.1(e) if (i) such Person's knowing and willful breach of this Agreement has prevented the consummation of the transactions contemplated hereby or (ii) the failure of such Person to perform its obligations under this Agreement results in the failure of the Merger to be consummated at such time.

11.2. Effect of Termination. In the event of termination of this Agreement by either Parent or Buyer or the Company as provided above, the provisions of this Agreement shall immediately become void and of no further force and effect (other than Section 9.1, this Section 11.2 and Section 12 hereof, which shall survive the termination of this Agreement), and there shall be no liability on the part of either Parent and Buyer or the Company to one another, except for any breaches of this Agreement (including failure to close after the terms and conditions precedent to Closing have been satisfied) prior to the time of such termination. The Confidentiality Agreement shall survive the termination of this Agreement.

SECTION 12. MISCELLANEOUS

12.1. Notices. All notices, requests, demands and other communications (collectively, "Notices") given or made pursuant to this Agreement shall be in writing and shall be deemed to have been duly given or made as follows: (a) if sent by registered or certi-

fied mail in the United States return receipt requested, postage and fees prepaid, upon receipt; (b) if sent by reputable overnight air courier (such as Federal Express), one business day after mailing or (c) if otherwise actually personally delivered, when delivered. All Notices shall be delivered to the following addresses: If to the Company:

Natural Nutrition Group, Inc.
120 South La Salle Street
Suite 1335
Chicago, Illinois 60603
Attention: Chief Executive Officer

with required copies to:

Frontenac Company
135 South La Salle Street
Suite 3800
Chicago, Illinois 60603
Attention: David S. Katz

and

Katten Muchin & Zavis
525 West Monroe Street
Suite 1600
Chicago, Illinois 60661
Attention: Kenneth W. Miller

If to the Stockholder Representative:

Roger S. McEniry
Frontenac Company
135 South La Salle Street
Suite 3800
Chicago, Illinois 60603

with a required copy to Katten Muchin & Zavis
as set forth above

If to Parent or Buyer:

The Hain Food Group, Inc.
50 Charles Lindbergh Boulevard
Uniondale, New York 11553
Attention: Chief Executive Officer

with a required copy to:

Cahill Gordon & Reindel
80 Pine Street
New York, New York 10005
Attention: Roger Meltzer

Any of the parties to this Agreement may from time to time change its address for receiving notices by giving written notice thereof in the manner set forth above.

12.2. Entire Agreement. This Agreement and the Schedules and Exhibits and the other writings and agreements specifically identified herein and the Confidentiality Agreement contain the entire agreement between the parties with respect to the transactions contemplated hereby and supersede all previous oral negotiations, commitments, understandings and agreements.

12.3. Assignability and Amendments. This Agreement and all of the provisions hereof shall be binding upon and inure to the benefit of Parent, Buyer, and the Company and each of their respective successors and assigns, except that neither this Agreement nor any of the rights, interests or obligations hereunder may be assigned by any party without the prior written consent of the other parties. Except as otherwise provided herein, this Agreement cannot be altered or otherwise amended except pursuant to an instrument in writing signed by Parent, Buyer and the Company (and, following the Effective Time, the Stockholder Representative).

12.4. Waiver. No provision of this Agreement may be waived unless in writing signed by Parent, Buyer and the Company (and, following the Effective Time, the Stockholder Representative) and waiver of any one provision of this Agreement shall not be deemed to be a waiver of any other provision.

12.5. Governing Law. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE DOMESTIC LAWS OF THE STATE OF NEW YORK WITHOUT GIVING EFFECT TO ANY CHOICE OF LAW OR CONFLICT OF LAW PROVISION OR RULE (WHETHER OF THE STATE OF NEW YORK OR ANY OTHER JURISDICTION) THAT WOULD CAUSE THE APPLICATION OF THE LAWS OF ANY JURISDICTION OTHER THAN THE STATE OF NEW YORK.

12.6. Captions. The various captions and headings contained in this Agreement are for convenience of reference only and shall not be considered or referred to in resolving questions of interpretation of this Agreement.

12.7. Press Releases and Communications. No press release or public announcement related to this Agreement or the transactions contemplated herein, or prior to the Closing any other announcement or communication to the employees, customers or suppliers of the Company, shall be issued or made without the joint approval of Parent, Buyer and the Company, which approval shall not be unreasonably withheld, unless required by law in which case Parent, Buyer and the Company shall have the right to review such press release or announcement prior to publication.

12.8. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same instrument.

12.9. Expenses. Except as otherwise expressly provided herein, the Company shall pay all of the Company's, the Stockholders' and the Optionholders' expenses (including attorneys' fees and expenses) incurred in connection with the negotiation of this Agreement, the performance of their respective obligations hereunder and the consummation of the transactions contemplated by this Agreement (whether consummated or not). Parent and Buyer shall pay all of their own respective expenses.

* * * * *

IN WITNESS WHEREOF, each of the parties hereto have executed or caused this Agreement and Plan of Merger to be executed on its behalf all as of the day and year first above written.

THE HAIN FOOD GROUP, INC.

By: _____

Its: _____

HAIN ACQUISITION CORP.

By: _____

Its: _____

NATURAL NUTRITION GROUP, INC.

By: _____

Its: _____

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED. NO TRANSFER, SALE OR OTHER DISPOSITION OF THIS NOTE MAY BE MADE UNLESS A REGISTRATION STATEMENT WITH RESPECT TO THIS NOTE HAS BECOME EFFECTIVE UNDER SAID ACT, OR UNLESS SUCH REGISTRATION IS NOT REQUIRED.

THE HAIN FOOD GROUP, INC.
CONVERTIBLE NOTE

Principal Amount: $_____, 1999
Uniondale, New York

SECTION 1. THE HAIN FOOD GROUP, INC., a Delaware corporation (the "Corporation"), for value received, hereby promises to pay to _____, or its assigns ("Payee"), the principal amount of _____ Dollars and ____/100 ($_____), and to pay interest (computed on the basis of a 360-day year) on the unpaid principal amount hereof outstanding from time to time from and including the date hereof until and including the date the principal amount hereof is paid in full at the rate of seven percent (7%) per annum (or at such other rate provided for herein). Interest shall be payable quarterly on September 30, December 31, March 31 and June 30 of each year (commencing September 30, 1999) and on the date this Note is payable in full, until the principal amount hereof and all interest accruing from the date hereof is paid in full.

SECTION 2. The principal amount hereof and all accrued interest shall be payable in full in immediately available funds on _____, 2004 [the fifth anniversary of the Closing Date].

SECTION 3. This Note is issued pursuant to that certain Agreement and Plan of Merger dated as of April 6, 1999 (the "Merger Agreement"), entered into by the Corporation, Hain Acquisition Corp. and Natural Nutrition Group, Inc. This Note is one of the Hain Notes described in the Merger Agreement.

SECTION 4. All payments on or in respect of this Note, including principal and interest thereon shall be made in such coin and currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts in immediately available funds to such account as the holder hereof specifies, or, at the option of the holder hereof, in such manner and at such other place in the United States of America as the holder hereof shall have indicated to the Corporation. Whenever a payment to be made hereunder shall be due and payable on a day which is not a business day in New York, New York, such payment shall be made on the next succeeding business day and such extension of time

shall be included in the computation of the payment of interest hereunder. All payments hereunder shall be made (without counterclaim, setoff or withholding of any kind) to the holder's account as designated in writing from time to time by the holder hereof.

SECTION 5. (a) If any one or more of the following events ("Events of Default") shall have occurred:

(i) the Corporation shall (x) default in the payment when due of any principal of this Note, (y) default, and such default shall continue for five or more days, in the payment when due of any interest on this Note, or (z) fail to pay any other amounts owing under this Note for ten days after receiving notice thereof; or

(ii) default shall occur in the observance or performance of any of the other covenants or agreements of the Corporation contained in this Note which is not remedied within 30 days after notice thereof to the Corporation; or

(iii) any default shall occur in the terms governing any Indebtedness (as hereinafter defined) of the Corporation in an aggregate principal amount of $10,000,000 or more and the holder or holders of such Indebtedness has declared the unpaid balance thereof to be due and payable; or

(iv) the Corporation or any of its Subsidiaries shall commence a voluntary case concerning itself under Title 11 of the United States Code entitled "Bankruptcy," as now or hereafter in effect, or any successor thereto (the "Bankruptcy Code"); or an involuntary case is commenced against the Corporation or any of its Subsidiaries and the petition is not controverted within 30 days, or is not dismissed within 60 days, after commencement of the case; or a custodian (as defined in the Bankruptcy Code) or the like is appointed for, or takes charge of, all or substantially all of the property of the Corporation or any of its Subsidiaries; or the Corporation or any of its Subsidiaries commences any other proceeding under any reorganization, arrangement, adjustment of debt, relief of debtors, dissolution, insolvency or liquidation or similar law of any jurisdiction whether now or hereafter in effect relating to the Corporation or any of its Subsidiaries, or there is commenced against the Corporation or any of its Subsidiaries any such proceeding which remains

undismissed for a period of 60 days; or the Corporation or any of its Subsidiaries is adjudicated insolvent or bankrupt; or any order of relief or other order approving any such case or proceeding is entered; or the Corporation or any of its Subsidiaries suffers any appointment of any custodian or the like for it or any substantial part of its property to continue undischarged or unstayed for a period of 60 days; or the Corporation or any of its Subsidiaries makes a general assignment for the benefit of creditors; or any corporate action is taken by the Corporation or any of its Subsidiaries for the purpose of effecting any of the foregoing; or

(v) any representation or warranty made by the Corporation in this Note shall prove to have been false or incorrect in any material respect on the date made;

then, when any Event of Default described in clauses (i), (ii), (iii), or (v) above has occurred and shall be continuing, the principal of this Note and the interest accrued thereon and all other amounts due hereunder (the "other payments") shall, upon written notice from the holder of this Note forthwith become and be due and payable, if not already due and payable, without presentment, further demand or notice of any kind. When any Event of Default described in clause (iv) above has occurred, then the principal of this Note, the interest accrued thereon and the other payments shall immediately become due and payable, upon the occurrence thereof, without presentment, demand, or notice of any kind. If any principal, installment of interest or other payment is not paid in full on the due date thereof (whether by maturity, prepayment, or acceleration) or any Event of Default has occurred and is continuing, then the outstanding principal of this Note, any overdue installment of interest (to the extent permitted by applicable law), including interest accruing after the commencement of any proceeding under any bankruptcy or insolvency law, and all other payments will bear interest from the due date of such payment, or from and after an Event of Default, at a rate equal to nine percent (9%) per annum ("Default Rate"). If payment of this Note is accelerated, then the outstanding principal of this Note shall bear interest at the Default Rate from and after the Event of Default. The Corporation shall pay to the holder of this Note all reasonable out-of-pocket costs and expenses incurred by such holder in any effort to collect the principal of this Note, the interest accrued thereon and the other payments, including the reasonable attorneys fees and expenses for services rendered in connection therewith, and pay interest on such costs and expenses to the extent not paid when demanded at the Default Rate.

(b) If any Event of Default specified in Section 5(a) above has occurred and is continuing, the holder of this Note may, subject to Section 11 hereof, proceed to protect and enforce such holder's rights either by suit in equity or by action at law, or both, whether for the specific performance of any covenant or agreement contained in this Note, or in aid of the exercise of any power granted in this Note, or to enforce any other legal or equitable right or remedy of such holder.

(c) No failure to exercise or delay in the exercise of any right, power or remedy accruing to any holder of this Note upon any breach or default of the Corporation under this Note shall impair any such right, power or remedy of such holder nor shall it be construed to be a waiver of any such breach or default, or an acquiescence therein, or of or in any similar breach or default thereafter occurring; nor shall any waiver of any single breach or default be deemed a waiver of any other breach or default theretofore or thereafter occurring.

(d) All remedies under this Note, by law or otherwise afforded to any holder of this Note, shall be cumulative and not alternative.

SECTION 6. (a) Subject to the requirements of this Section 6, at any time or from time to time after the date hereof, Payee shall be entitled to convert, by delivering the Note to the Corporation, duly endorsed or assigned in blank, accompanied by written notice of such conversion to the Corporation (the "Conversion Notice"), any or all of the principal amount then outstanding under this Note into a number of shares of Common Stock of the Corporation, par value $0.01 per share ("Parent Common Stock"), determined by dividing the

principal amount of this Note being converted into shares of Parent Common Stock by the Conversion Price determined as of the date on which the Conversion Notice is given. The "Conversion Price" means, as of any date of determination, the average of the closing (last) prices for a share of Parent Common Stock, as reported on the National Market System of The Nasdaq Stock Market or the principal stock exchange on which the Parent Common Stock is then listed (as reported in The Wall Street Journal) for the most recent ten (10) days that the shares of Parent Common Stock have traded ending on the trading day immediately prior to such date of determination; provided, however, that prior to _____, 1999 [the six-month anniversary of the Closing Date] if such average as of the date of determination is less than $22.00 (such amount to be appropriately and proportionately adjusted to reflect any Subdivision (as hereinafter defined) or any Combination (as hereinafter defined) after the date hereof), then as of such date the Conversion Price shall be deemed to be $22.00 (such amount to be appropriately and proportionately adjusted to reflect any Subdivision or any Combination after the date hereof). The closing (last) prices referred to above shall be appropriately and proportionately adjusted to reflect any subdivision of the Parent Common Stock, whether by stock split, stock dividend or otherwise (a "Subdivision"), or any combination of the Parent Common Stock, whether by reverse stock split or otherwise (a "Combination"), with a record date occurring after the commencement of such ten-day period and prior to such conversion.

(b) The Conversion Notice shall state the amount of principal to be converted pursuant to this Section 6, which amount, if less than the total principal amount then outstanding under this Note, shall be at least $25,000. The conversion pursuant to such Conversion Notice shall occur on the date on which such Conversion Notice is given to the Corporation (the "Conversion Date").

(c) If a Conversion Notice is given with respect to less than the total principal amount outstanding under this Note, the Corporation shall issue to Payee a new Note in the principal amount outstanding after such conversion and otherwise in a form identical to such Note; provided, however, in the event the principal amount of such new Note is less than $25,000, the Corporation may, at its option, add such amount to the amount of principal specified for conversion in the Conversion Notice in lieu of issuing such new Note.

(d) In the event of any conversion of this Note pursuant to this Section 6, such conversion shall be deemed to have been made on the Conversion Date (whether or not this Note has been surrendered to the Corporation as provided herein); and after such Conversion Date, Payee shall be entitled to receive the shares of Parent Common Stock issuable upon such conversion and shall be treated for all purposes as the record holder of such shares. Interest shall cease to accrue on the Conversion Date for any principal amount with respect to which a Conversion Notice has been given and such interest shall be paid on the next scheduled interest payment date provided for in Section 1 of this Note, regardless of whether this Note has been paid in full.

(e) As promptly as practicable after a Conversion Date (but in any event no later than two trading days after delivery of the applicable Conversion Notice), the Corporation will issue and deliver to Payee a certificate or certificates for the number of shares of

Parent Common Stock issuable upon conversion pursuant to this Section 6. The Corporation will pay all issuance taxes, if any, applicable upon conversion pursuant to this Section 6. The Corporation may pay cash in lieu of the issuance of a fractional share, based on the applicable Conversion Price.

(f) The Corporation shall at all times reserve and keep available out of its authorized but unissued shares of Parent Common Stock, solely for the purpose of effecting the conversion of this Note, such number of shares of Parent Common Stock as shall from time to time be sufficient to effect the conversion of this Note; and if at any time the number of authorized but unissued shares of Parent Common Stock shall not be sufficient to effect the conversion of the entire outstanding principal amount of this Note, in addition to such other remedies as shall be available to Payee, the Corporation will take such corporate action as may be necessary to increase its authorized but unissued shares of Parent Common Stock to the number of shares which is sufficient for such purpose.

(g) In the case of any consolidation or merger of the Corporation with another entity, or the sale of all or substantially all of its assets to another entity, or any reorganization or reclassification of the Parent Common Stock or other equity securities of the Corporation (except a subdivision or combination), lawful and adequate provision shall be made whereby the holder of this Note shall thereafter have the right to receive upon conversion of this Note in lieu of or in addition to the shares of Parent Common Stock, such shares of stock, securities or assets as may (by virtue of such consolidation, merger, sale, reorganization or reclassification) be issued or payable with respect to or in exchange for a number of outstanding shares of Parent Common Stock equal to the number of shares of Parent Common Stock immediately theretofore so issuable upon such conversion hereunder had such consolidation, merger, sale, reorganization or reclassification not taken place, and in any such case appropriate provisions shall be made with respect to the rights and interests of the holder of this Note to the end that the provisions hereof shall thereafter be applicable as nearly as may be, in relation to any shares of stock, securities or assets thereafter deliverable upon conversion of this Note.

(h) In the event of any proposed distribution, dissolution or liquidation of the assets of the Corporation, the Corporation shall mail notice thereof to the holder of this Note and shall not make any such distribution to stockholders or effectuate any such dissolution or liquidation until the expiration of ninety (90) days from the date of mailing of such notice and, in any such case, the holder of this Note may exercise the conversion rights with respect to this Note at any time prior to such distribution.

(i) The Conversion Shares, and the holders thereof, are entitled to the benefits of the registration rights and other provisions contained in Section 10 of the Merger Agreement (the "Registration Provisions"), which Registration Provisions are incorporated in this Note by this reference as if fully set forth herein.

SECTION 7. (a) The Corporation acknowledges and agrees that the holder of this Note will suffer damages if the Registration Statement (as defined in the Registration

Provisions) has not become effective under the Securities Act and available for re-sales of the Registrable Shares on or prior to the date 75 days after the date of the Merger Agreement (the "Target Effective Date") and that it would be impossible to ascertain such damages. Accordingly, in the event that the Registration Statement has not become effective under the Securities Act and available for re-sales of the Registrable Shares on or prior to the Target Effective Date (an "Initial Registration Default"), then, until the Registration Statement has become effective under the Securities Act and available for re-sales of the Registrable Shares, the principal amount of this Note then outstanding shall bear interest at the rate of (i) twelve percent (12%) with respect to the first 30-day period following the Target Effective Date; (ii) sixteen percent (16%) with respect to the next 30-day period after the Target Effective Date; and (iii) twenty percent (20%) with respect to any period thereafter.

(b) In the event that the Registration Statement becomes effective under the Securities Act but thereafter ceases to be effective or available for re-sales of the Registrable Shares for any reason while any portion of this Note is outstanding (each, a "Subsequent Registration Default"), the principal amount of this Note outstanding shall bear interest at the rate of thirteen percent (13%) per annum during the period of any Subsequent Registration Default.

(c) Nothing contained in this Note (including this Section 7) shall limit, alter, waive or otherwise adversely affect, or be deemed to limit, alter, waive or otherwise adversely affect, in any way any other rights, claims, actions or remedies otherwise available to a holder of this Note under this Note or the Merger Agreement (including the Registration Provisions) with respect to an Initial Registration Default or a Subsequent Registration Default.

SECTION 8. (a) Payee understands and acknowledges that:

(i) the issuance of this Note is intended to be exempt from registration under the Securities Act of 1933, as amended (the "Securities Act"), by virtue of the provisions of Section 4(2) of the Securities Act; and

(ii) there is no existing public or other market for this Note or the other Hain Notes and there can be no assurance that Payee will be able to sell or dispose of this Note.

(b) Payee represents and warrants to the Corporation that:

(i) he, she or it is acquiring this Note, and any shares of Parent Common Stock acquired by him, her or it upon conversion of this Note pursuant to Section 6 (the "Conversion Shares"), for investment and not with a view to distributing all or any part thereof in any action which would constitute a "distribution" within the meaning of the Securities Act of 1933, as amended (the "Securities Act");

(ii) he, she or it is (A) a "qualified institutional buyer" as such term is defined in Rule 144A under the Securities Act or (B) an "accredited investor" as such

term is defined in Regulation D under the Securities Act and he, she or it has such knowledge and experience in financial and business matters that he, she or it is capable of evaluating the merits and risks of his, her or its investment in this Note and the Conversion Shares;

(iii) he, she or it is able to bear the complete loss of his, her or its investment in this Note and the Conversion Shares; and

(iv) he, she or it has had the opportunity to ask questions of, and receive answers from, the Corporation and its managements concerning his, her or its investment in this Note and the Conversion Shares.

(v) the execution, delivery and performance of this Note is within Payee's powers (corporate or otherwise) and has been duly authorized by all requisite action (corporate or otherwise) and (ii) Payee's receipt of the Note does not, if applicable, violate its charter, bylaws or any law or regulation to which it is subject.

(vi) Payee acknowledges that the Note has not been registered under the Securities Act.

(c) (i) Payee covenants to the Corporation that if he, she or it offers, sells or otherwise transfers, pledges or hypothecates all or any part of this Note, that he, she or it shall do so only (x) to a transferee who complies with clauses (a) and (b) of this Section 8 and (y) in compliance with applicable law.

(ii) Notwithstanding the foregoing, Payee covenants to the Corporation that he, she or it will not sell or otherwise transfer, pledge or hypothecate, in a privately negotiated transaction, all or any part of this Note or any Conversion Shares to any Person or an Affiliate of any Person who, as of the date hereof, to the actual knowledge of Payee, beneficially owns (determined in accordance with Rule 13d-3(d) of the Securities Exchange Act of 1934, as amended) 15% or greater of the Parent Common Stock.

SECTION 9. The Corporation represents and warrants to Payee, as of the date of delivery of this Note, that:

(a) The Corporation is a corporation, duly organized, validly existing and in good standing under the laws of the State of Delaware, and has all requisite corporate power and authority and all authorizations, licenses and permits necessary to own and operate its properties and to carry on its businesses as now conducted, if any, except where the failure to hold such authorizations, licenses and permits would not reasonably be expected to have, individually or in the aggregate, a Parent Material Adverse Effect (as defined in the Merger Agreement).

(b) The Corporation has all requisite corporate power and authority to execute and deliver this Note and to perform its obligations under this Note and the Registration Provisions. The execution, delivery and performance of this Note by the

Corporation and the performance of the Corporation's obligations under the Registration Provisions have been duly authorized and approved by all necessary corporate action on the part of the Corporation's board of directors and stockholders and no further corporate authorization on the part of the Corporation is necessary to authorize the execution, delivery and performance of the Corporation's obligation under this Note and the performance of the Corporation's obligations under the Registration Provisions. The execution, delivery and performance of this Note and the performance of the Corporation's obligations under the Registration Provisions do not conflict with or result in any material breach of, or constitute a material default under, result in a material violation of, or require any material authorization, consent, approval, exemption or other action by or notice to any court or other governmental body, under the provisions of the Corporation's Certificate of Incorporation or By-Laws or any material indenture, mortgage, lease, loan agreement or other material agreement or instrument to which the Corporation is bound, or any material law, statute, rule, regulation, order, judgment or decree to which the Corporation is subject. None of the foregoing items shall be deemed to be "material" unless the failure to meet the requirements thereof would reasonably be expected to have, individually or in the aggregate, a Parent Material Adverse Effect. This Note constitutes a valid and binding obligation of the Corporation, enforceable in accordance with its terms, except as enforceability may be limited by bankruptcy laws, similar laws of debtor relief and general principles of equity.

(c) No material permit, consent, approval or authorization of, or declaration to or filing with, any governmental or regulatory authority is required in connection with any of the execution, delivery or performance of this Note by the Corporation.

(d) The Conversion Shares have been duly authorized and, when issued upon conversion of this Note in accordance with its terms, will be validly issued, fully paid, nonassessable, free of pre-emptive rights.

(e) The Corporation is not in violation of its Certificate of Incorporation or By-Laws. Neither the Corporation nor any of its Subsidiaries is in default under the Credit Agreement nor does any event exist, which with the giving of notice or lapse of time or both would constitute a default.

SECTION 10. (a) This Note may be prepaid (upon written notice by the Corporation to Payee at least thirty (30) days prior to such prepayment), in whole or in part, without penalty, at any time after _____, 2002 [the third anniversary of the Closing Date] at 100% of the aggregate principal amount thereof being prepaid, plus accrued and unpaid interest (if any) thereon to such prepayment date.

(b) (i) In the event of a Public Offering (as defined below), the Corporation shall have the right, at its option, to apply the Net Proceeds (as defined below) of such Public Offering to the redemption, in whole but not in part, of this Note on the date (the "Public Offering Payment Date") which is thirty business days after the date the Public Of-

fering Notice (as defined below) is required to be mailed to the holder of this Note (or such later date as is required by applicable law) at 100% of the aggregate principal amount thereof, plus accrued and unpaid interest (if any) to the Public Offering Payment Date.

(ii) The Corporation shall give the holder of this Note irrevocable written notice (the "Public Offering Notice") of any redemption pursuant to this Section 10(b) specifying the redemption date and the principal amount of the Note held by such holder to be redeemed on such date and stating that such redemption is to be made pursuant to the Public Offering. Notice of redemption having been given as aforesaid, the principal amount of the Note specified in such notice, together with accrued and unpaid interest (if any) thereon to the redemption date with respect thereto, shall become due and payable on such redemption date.

(iii) For purposes of this Section 10(b), "Net Proceeds" shall mean all the net proceeds of a Public Offering available for such redemption and "Public Offering" means a public offering or an offering under Rule 144A promulgated under the Securities Act (a "Rule 144A Offering") by the Corporation of shares of Parent Common Stock or subordinated indebtedness.

(c) This Note shall be prepaid (upon written notice by Payee to the Corporation (the "Payee Optional Redemption Notice"), within sixty (60) days of the giving of such notice), in whole or in part, without penalty, at any time after the earlier of _____, 2002 [the third anniversary of the Closing Date] a ("Payee Optional Redemption"), and a Change in Control, in each case at 100% of the aggregate principal amount thereof being prepaid under the Payee Optional Redemption Notice, plus accrued and unpaid interest (if any) thereon to such prepayment date. Notwithstanding the foregoing, the Corporation shall not be required to effect a Payee Optional Redemption if a redemption by the Corporation would result in a default or an event of default under the Credit Agreement (as defined) (a "Redemption Block"). In the event that Payee has delivered a Payee Optional Redemption Notice to the Corporation in accordance with this Section, (i) the Corporation shall promptly notify Payee if a Redemption Block is in effect and when the Redemption Block is no longer in effect and (ii) from and including the date the Redemption Block is commenced through the date such Redemption Block is removed, the principal amount of this Note outstanding shall bear interest at the rate of thirteen percent (13%) per annum. For purposes of this Note, a "Change in Control" shall mean the occurrence of any of the following events:

(i) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of fifty percent (50%) or more of either (i) the then-outstanding shares of Common Stock of the Corporation (the "Outstanding Corporation Common Stock") or (ii) the combined voting power of the then-outstanding voting securities of the Corporation entitled to vote generally in the election of directors (the "Outstanding Corporation Voting Securities"); provided, however, that for purposes of this subsection (i), the following acquisitions shall not constitute a Change in Control; (1) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Corporation or

any corporation controlled by the Corporation, or (2) any acquisition by any corporation pursuant to a transaction which complies with clauses (1) or (2) of subsection (iii) of this Section.

(ii) Individuals who, as of the date hereof, constitute the Board of Directors of the Corporation (the "Incumbent Board") cease for any reason to constitute at least a majority of such Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Corporation's stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than such Board.

(iii) Consummation of a reorganization, merger or consolidation of the Corporation or sale or other disposition of all or substantially all of the assets of the Corporation (a "Business Combination"), in each case, unless, following such Business Combination, (1) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Corporation Common Stock and Outstanding Corporation Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than fifty percent (50%) of, respectively, the then-outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Corporation or all of substantially all of the Corporation's assets either directly or through one or more Subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination of the Outstanding Corporation Common Stock and Outstanding Corporation Voting Securities, as the case may be, (2) no Person (excluding any corporation resulting from such Business Combination or any employee benefit plan (or related trust) of the Corporation or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, fifty percent (50%) or more of, respectively, the then outstanding shares of common stock of the corporation resulting from such Business Combination, or the combined voting power of the then outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination and (3) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

(iv) Approval by the stockholders of the Corporation of a complete liquidation or dissolution of the Corporation other than to a corporation which would satisfy

the requirements of clauses (1) or (2) of subsection (iii) of this Section, assuming for this purpose that such liquidation or dissolution was a Business Combination.

(d) Notwithstanding the foregoing, Payee may exercise the conversion rights pursuant to Section 6 of this Note at any time prior to the applicable prepayment.

SECTION 11. (a) All principal of and interest on this Note and all other amounts payable by the Corporation hereunder or in respect of any claim or cause of action asserted in respect hereof or otherwise relating in any way hereto ("Subordinated Debt") is subordinate and junior in right of payment to the prior payment in full in cash or cash equivalents of all Superior Indebtedness (as defined in Section 11(b)) to the extent provided below.

(b) For purposes of this Note, the term "Superior Indebtedness" shall mean (i) all Indebtedness of the Corporation incurred under the Credit Agreement, including all principal of and premium, if any, and interest thereon and all commitment fees and other amounts payable thereunder and (ii) any Indebtedness of the Corporation pursuant to a public offering or Rule 144A Offering by the Corporation of subordinated indebtedness. The Superior Indebtedness shall continue to be Superior Indebtedness and entitled to the benefits of these subordination provisions irrespective of any amendment, modification or waiver of any term of the Superior Indebtedness or any extension or renewal of the Superior Indebtedness and regardless of whether any holders of Superior Indebtedness shall have done any of the following: (i) sold, exchanged, released, or otherwise dealt with any property pledged, mortgaged or otherwise securing Superior Indebtedness, (ii) released any Person liable in any manner for the collection of the Superior Indebtedness or (iii) exercised or refrained from exercising any rights against the Corporation or any other Person.

(c) (i) In the event the Corporation shall default in the payment of any principal of or premium, if any, or interest on any Superior Indebtedness when the same becomes due and payable, whether at maturity or at a date fixed for prepayment or by declaration or otherwise, then, unless and until such default shall have been cured or waived or shall have ceased to exist, no direct or indirect payment (in cash, property or securities or by setoff) shall be made on account of the principal of, premium, if any, or interest on any Subordinated Debt, or as a sinking fund for any Subordinated Debt, or in respect of any redemption, retirement, purchase or other acquisition of any Subordinated Debt, during any period ("Payment Blockage Period");

(1) of 179 days after such default, provided that only one such period may be commenced pursuant to the terms of this subdivision (c)(i)(1) in any 360-day period; or

(2) in which an effective notice of acceleration of the maturity of such Superior Indebtedness shall have been transmitted to the Corporation in respect of such default and such notice remains in effect.

(ii) Upon the happening of any Specified Superior Nonpayment Default, then, unless and until such default shall have been cured or waived or shall have ceased to exist, no direct or indirect payment or distribution of any assets of the Corporation of any kind or character (in cash, property, securities or by setoff) shall be made on account of the principal of or premium, if any, or interest on any Subordinated Debt, or as a sinking fund for any Subordinated Debt, or in respect of any redemption, retirement, purchase or other acquisition of any Subordinated Debt, during any period:

(1) of 179 days after written notice of such default shall have been given to the Corporation by any holder of Superior Indebtedness, provided that only one such notice shall be given pursuant to the terms of this subdivision (c)(ii)(1) in any 360-day period; or

(2) in which an effective notice of acceleration of the maturity of such Superior Indebtedness shall have been transmitted to the Corporation in respect of such default and such notice remains in effect.

For purposes of this Section 11(c)(ii), the term "Specified Superior Nonpayment Default" shall mean an Event of Default (as defined in the Credit Agreement) under the Credit Agreement.

(d) In the event of:

(i) any insolvency, bankruptcy case or proceeding, receivership, liquidation (total or partial), reorganization, readjustment, composition or other similar proceeding relating to the Corporation, its creditors or its property;

(ii) any proceeding for the total or partial liquidation, dissolution or other winding-up of the Corporation, voluntary or involuntary, whether or not involving insolvency or bankruptcy proceedings;

(iii) any assignment by the Corporation for the benefit of creditors; or

(iv) any other marshaling of the assets of the Corporation;

all Superior Indebtedness (including principal, premium, if any, and interest thereon, including interest accruing after such proceeding at the contract rate (which in the case of the Credit Agreement shall include interest at the Default Rate (as defined in the Credit Agreement), so long as such interest is an allowable claim in any such proceeding) shall first be paid in full in cash or cash equivalents before any payment or distribution, except as provided in the next sentence, shall be made to any holder of any Subordinated Debt on account of any Subordinated Debt. Any payment or distribution, whether in cash, securities or other property (other than debt securities of the Corporation or any other corporation provided for by a plan of reorganization or readjustment the payment of which is subordinated, at least to the extent provided in this Section 11 with respect to Subordinated Debt, to the payment of all Superior Indebtedness at the time outstanding and to any securities issued in respect thereof under any

such plan or reorganization or readjustment but only if the claims of holders of Superior Indebtedness in such proceeding shall not have been impaired (in accordance with the provisions of ss.1124 of the Bankruptcy Code)), which would otherwise (but not for this Section 11) be payable or deliverable in respect of Subordinated Debt shall be paid or delivered directly to the holders of Superior Indebtedness in accordance with the priorities then existing among such holders until all Superior Indebtedness (including principal, premium, if any, and interest thereon, including interest accruing after such proceeding at the contract rate (which in the case of the Credit Agreement shall include interest at the Default Rate (as defined in the Credit Agreement) so long as such interest is allowable as a claim in such proceedings) shall have been paid in full in cash or cash equivalents.

(e) In the event that any Subordinated Debt shall be declared due and payable as a result of the occurrence of any one or more defaults in respect thereof, under circumstances when the terms of Section 11(c) do not prohibit payment on Subordinated Debt, then, without limiting the effect of any other provision hereof, no payment shall be made in respect of any Subordinated Debt in the event the Superior Indebtedness shall have been accelerated, until all Superior Indebtedness shall have been paid in full in cash or cash equivalents or such acceleration of Superior Indebtedness shall have been rescinded.

(f) If any payment or distribution shall be collected or received by any holders of Subordinated Debt in contravention of any of the terms of this Section 11 and prior to the payment in full in cash or cash equivalent of the Superior Indebtedness at the time outstanding, such holders of Subordinated Debt will deliver such payment or distribution, to the extent necessary to pay all such Superior Indebtedness in full, to such holders of such Superior Indebtedness and, until so delivered, the same shall be held in trust by such holders of Subordinated Debt as the property of the holders of such Superior Indebtedness. If after any amount is delivered to the holders of Superior Indebtedness pursuant to this Section 11(f), whether or not such amounts have been applied to the payment of Superior Indebtedness, and the outstanding Superior Indebtedness shall thereafter be paid in full by the Corporation or otherwise other than pursuant to this Section 11(f), the holders of Superior Indebtedness shall return to such holders of Subordinated Debt an amount equal to the amount delivered to such holders of Superior Indebtedness pursuant to this Section 11(f).

(g) No present or future holder of any Superior Indebtedness shall be prejudiced in the right to enforce subordination of Subordinated Debt by any act or failure to act on the part of the Corporation, or by any noncompliance by the Corporation with any of the terms, provisions and covenants of the Subordinated Debt regardless of any knowledge thereof that any such holder of Superior Indebtedness may have or be otherwise charged with. Nothing contained in this Section 11 shall impair, as between the Corporation and any holder of Subordinated Debt, the obligation of the Corporation to pay to such holder the principal thereof and premium, if any, and interest thereon as and when the same shall become due and payable in accordance with the terms hereof, or prevent any holder of any Subordinated Debt from exercising all rights, powers and remedies otherwise permitted by applicable law or under this Note all subject to the rights of the holders of the Superior Indebtedness set forth in this Section 11.

(h) Upon the payment in full in cash or cash equivalents of all Superior Indebtedness, the holders of Subordinated Debt shall be subrogated to all rights of any holder of Superior Indebtedness to receive any further payments or distributions applicable to the Superior Indebtedness until the Subordinated Debt shall have been paid in full, and such payments or distributions received by the holders of Subordinated Debt by reason of such subrogation, of cash, securities or other property which otherwise would be paid or distributed to the holders of Superior Indebtedness, shall, as between the Corporation and its creditors other than the holders of Superior Indebtedness, on the one hand, and the holders of Subordinated Debt, on the other hand, be deemed to be a payment by the Corporation on account of Superior Indebtedness and not on account of Subordinated Debt. In the event that, after prior payment in full in cash or cash equivalents of all Superior Indebtedness, the holders of any Superior Indebtedness are required to disgorge, turnover, or otherwise repay to the Corporation any amounts paid in respect of such Superior Indebtedness, the provisions of this Section 11 shall be reinstated to the extent of such disgorgement, turnover or repayment.

(i) Each holder of Subordinated Debt undertakes and agrees for the benefit of each holder of Superior Indebtedness to execute, verify, deliver and file any proofs of claim, consents, assignments or other instruments which any holder of Superior Indebtedness may at any time require in order to effectuate the full benefit of the subordination contained herein; and upon failure of the holder of any Subordinated Debt to do so reasonably promptly after the first day on which such filing may be made, any such holder of Superior Indebtedness shall be deemed to be irrevocably appointed the agent and attorney-in-fact of the holder of such Subordinated Debt to execute, verify, deliver and file any such proofs of claim, consents, assignments or other instrument.

(j) The Corporation agrees, that in the event that any Subordinated Debt is declared due and payable before its expressed maturity, (i) the Corporation will give prompt notice in writing of such happening to the holders of Superior Indebtedness and (ii) all Superior Indebtedness shall forthwith become immediately due and payable upon demand, regardless of the expressed maturity thereof.

(k) Each holder of Subordinated Debt by its acceptance thereof shall be deemed to acknowledge and agree that the foregoing subordination provisions are, and are intended to be, an inducement to and a consideration of each holder of any Superior Indebtedness, whether such Superior Indebtedness was created or acquired before or after the creation of Subordinated Debt, to acquire and hold, or to continue to hold, such Superior Indebtedness, and such holder of Superior Indebtedness shall be deemed conclusively to have relied on such subordination provisions in acquiring and holding, or in continuing to hold, such Superior Indebtedness.

(l) Nothing contained in this Section 11 shall prohibit the holder of this Note from exercising his, her or its right to convert all or any portion of the principal amount of this Note at any time and from time to time into shares of Parent Common Stock pursuant to Section 6.

SECTION 12. This Note is a registered Note and is transferable only by surrender thereof at the principal office of the Corporation, duly endorsed or accompanied by a written instrument of transfer duly executed by the holder of this Note or its attorney duly authorized in writing.

SECTION 13. The Corporation hereby waives diligence, presentment, demand, protest and notice of every kind whatsoever. The failure of the holder hereof to exercise any of its rights hereunder in any particular instance shall not constitute a waiver of the same or of any other right in that or any subsequent instance.

SECTION 14. This Note shall be binding upon the Corporation, its successors and assigns, and shall inure to the benefit of the holder hereof, its successors and assigns.

SECTION 15. THIS NOTE IS MADE UNDER, AND SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK (EXCLUSIVE OF THE CONFLICT OF LAW PRINCIPLES AND PROVISIONS THEREOF).

SECTION 16. This Note may be amended, and the Corporation may take any action herein prohibited, or omit to perform any act herein required to be performed by them, if the Corporation shall obtain the written consent to such amendment, action or omission to act, of the Required Holders except that, without the written consent of the holders of all the Hain Notes at the time outstanding, no amendment to this Note shall change the maturity hereof, or change the principal of, or the rate or time of payment of interest on this Note, or affect the time, amount of allocation of any conversion, redemptions or change the proportion of the principal amount of this Note required with respect to any consent, amendment, waiver or declaration. The holder of this Note at the time or thereafter outstanding shall be bound by any consent authorized by this Section 16, whether or not this Note shall have been amended to indicate such consent, but any new Note issued thereafter in accordance with Section 6 hereof, may bear a notation referring to any such consent. No course of dealing between the Corporation and the holder of this Note nor any delay in exercising any rights hereunder or under any Note shall operate as a waiver of any rights of any holder of this Note.

SECTION 17. For purposes of this Note, in addition to capitalized terms elsewhere defined in this Note, the following capitalized terms have the following meanings:

"Affiliate" shall mean any Person that, directly or indirectly through one or more intermediaries, controls or is controlled by, or under common control with, the Person specified. A Person shall be deemed to control a corporation (or other entity) if such person possesses, directly or indirectly, the power to direct or cause the direction of the management and policies of such corporation (or other entity), whether through the ownership of voting securities, by contract or otherwise.

"Credit Agreement" means the Corporation's Amended and Restated Revolving Credit and Term Loan Agreement among the Corporation, the Lenders named therein and

IBJ Whitehall Bank & Trust Company, as agent, as such agreement may be amended (including any amendment and restatement thereof), supplemented or otherwise modified from time to time, including any agreement extending the maturity of, refinancing, replacing or otherwise restructuring all or any portion of the Superior Indebtedness under such agreement or any successor or replacement agreement and whether by the same or any other agent, lender or group of lenders.

"Indebtedness" of any Person means the principal of, premium, if any, and unpaid interest on (a) indebtedness for borrowed money, (b) indebtedness guaranteed, directly or indirectly, in any manner by such Person, or in effect guaranteed, directly or indirectly, in any manner by such Person through an agreement, contingent or otherwise, to supply funds to, or in any other manner invest in, the debtor, or to purchase indebtedness, or to purchase and pay for property if not delivered or pay for services if not performed, primarily for the purpose of enabling the debtor to make payment of the indebtedness or to assure the owners of the indebtedness against loss, (c) all indebtedness secured by any mortgage, lien, pledge, charge or other encumbrance upon property owned by such Person, even though such Person has not in any manner become liable for the payment of such indebtedness, (d) all indebtedness of such Person created or arising under any conditional sale, lease (intended primarily as a financing device) or other title retention or security agreement with respect to property acquired by such Person even though the rights and remedies of the seller, lessor or lender under such agreement or lease in the event of default may be limited or repossession or sale of such property, and (e) renewals, extensions and refunding of any such indebtedness.

"Note" means this Convertible Note of the Corporation.

"Notes" means this Note and the other Hain Notes issued pursuant to the Merger Agreement.

"Required Holders" shall mean the holders of at least a majority of the aggregate principal amount of the Hain Notes from time to time outstanding.

"Person" means an individual, a partnership, a limited liability company, a corporation, an association, a joint stock company, a trust, a joint venture, an unincorporated organization and a governmental entity or any department, agency or political subdivision thereof.

"Subsidiary" means any corporation of which the shares of stock having a majority of the general voting power in electing the board of directors are, at the time as of which any determination is being made, owned by the Corporation either directly or indirectly through one or more Subsidiaries.

[Remainder of page intentionally left blank.

Signature page follows.]

IN WITNESS WHEREOF, the undersigned has executed this Convertible Note as of the date first above written.

THE HAIN FOOD GROUP, INC.

By: _____

Its: _____

Address: 50 Charles Lindbergh Boulevard
Uniondale, New York 11553