FORM 10-Q

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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

For the quarterly period ended: 12/31/99   Commission file number: 0-22818

THE HAIN FOOD GROUP, INC.

(Exact name of registrant as specified in its charter)

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports, and (2) has been subject to such filing requirement for the past 90 days.

Yes   X   No

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

18,159,148 shares of Common Stock $.01 par value, as of February 3, 2000.

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

CONSOLIDATED BALANCE SHEETS

	December 31, 1999 (Unaudited)	June 30, 1999 (Note)
ASSETS		
Current assets:		
Cash	$ 1,055,000	$ 510,000
Trade accounts receivable, less allowance for doubtful accounts of $503,000 and $560,000	24,185,000	24,278,000
Inventories	35,726,000	29,208,000
Recoverable income taxes	-	387,000
Other current assets	2,846,000	4,965,000
Total Current Assets	63,812,000	59,348,000
Property and equipment, net of accumulated depreciation of $3,018,000 and $1,601,000	17,376,000	17,947,000
Goodwill and other intangible assets, net of accumulated amortization of $9,581,000 and $6,884,000	214,243,000	193,398,000
Deferred financing costs, net of accumulated amortization of $417,000 and $107,000	3,321,000	3,605,000
Deferred income taxes	3,431,000	884,000
Other assets	2,063,000	6,640,000
Total Assets	$304,246,000	$281,822,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 28,991,000	$ 30,029,000
Current portion of long-term debt	12,261,000	10,442,000
Income taxes payable	3,059,000	-
Total current liabilities	44,311,000	40,471,000
Long-term debt, less current portion	37,578,000	130,683,000
Other liabilities	-	667,000
Total liabilities	81,889,000	171,821,000
Commitments and contingencies Stockholders' equity:		
Preferred stock - $.01 par value; authorized 5,000,000 shares, no shares issued		
Common stock - $.01 par value, authorized 40,000,000 shares, issued 18,159,148 and 14,119,640 shares	182,000	141,000
Additional paid-in capital	199,203,000	90,822,000
Retained earnings	23,247,000	19,313,000
	222,632,000	110,276,000
Less: 100,000 shares of treasury stock, at cost	275,000	275,000
Total stockholders' equity	222,357,000	110,001,000
Total liabilities and stockholders' equity	$304,246,000	$281,822,000

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

See notes to consolidated financial statements.

THE HAIN FOOD GROUP, INC.

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three Months Ended December 31,		Six Months Ended December 31,	
	1999	1998	1999	1998
Net sales	$81,022,000	$50,602,000	$149,086,000	$94,098,000
Cost of sales	47,850,000	30,359,000	87,904,000	57,080,000
Gross profit	33,172,000	20,243,000	61,182,000	37,018,000
Selling, general & administrative expenses	22,235,000	13,600,000	41,262,000	25,097,000
Amortization of goodwill and other intangible assets	1,433,000	855,000	2,710,000	1,702,000
Operating income	9,504,000	5,788,000	17,210,000	10,219,000
Other income	753,000	-	753,000	-
Interest expense, net	(1,072,000)	(1,169,000)	(3,675,000)	(2,412,000)
Amortization of deferred financing costs	(155,000)	(82,000)	(310,000)	(163,000)
Income before income taxes and cumulative change in accounting principle	9,030,000	4,537,000	13,978,000	7,644,000
Provision for income taxes	4,063,000	1,973,000	6,290,000	3,325,000
Income before cumulative change in accounting principle	4,967,000	2,564,000	7,688,000	4,319,000
Cumulative change in accounting principle	-	-	(3,754,000)	-
Net income	$ 4,967,000	$ 2,564,000	$3,934,000	$ 4,319,000
Basic earnings per common share:				
Income before cumulative change in accounting principle	$ 0.28	$ 0.19	$ 0.47	$ 0.32
Cumulative change in accounting principle	-	-	(0.23)	-
Net income	$ 0.28	$ 0.19	$ 0.24	$ 0.32
Diluted earnings per common share:				
Income before cumulative change in accounting principle	$ 0.26	$ 0.17	$ 0.43	$ 0.28
Cumulative change in accounting principle	-	-	(0.21)	-
Net income	$ 0.26	$ 0.17	$ 0.22	$ 0.28
Weighted average common shares outstanding				
Basic	18,040,000	13,475,000	16,184,000	13,429,000
Diluted	19,327,000	15,437,000	17,835,000	15,402,000

See notes to consolidated financial statements.

THE HAIN FOOD GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Six Months Ended December 31	
	1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 3,934,000	$ 4,319,000
Adjustments to reconcile net income to net cash provided by operating activities		
Cumulative change in accounting principle	3,754,000	-
Depreciation of property and equipment	1,417,000	314,000
Amortization of goodwill and other intangible assets	2,697,000	1,702,000
Amortization of deferred financing costs	310,000	163,000
Provision for doubtful accounts	150,000	(3,000)
Other	23,000	19,000
Increase (decrease) in cash attributable to changes in assets and liabilities, net of amounts applicable to acquired businesses:		
Accounts receivable	(57,000)	(48,000)
Inventories	(6,518,000)	885,000
Other current assets	344,000	(1,151,000)
Other assets	(992,000)	(1,457,000)
Accounts payable and accrued expenses	(2,191,000)	(3,395,000)
Income taxes payable	3,446,000	712,000
Net cash provided by operating activities	6,317,000	2,060,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of businesses, net of cash acquired	(4,625,000)	(24,913,000)
Acquisition of property and equipment	(1,163,000)	(297,000)
Proceeds from sale of assets	301,000	-
Net cash used in investing activities	(5,487,000)	(25,210,000)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from bank revolving credit facility, net	500,000	3,000,000
Proceeds from term loan	-	60,000,000
Payments on term loan	(81,759,000)	(19,475,000)
Costs in connection with bank financing	(26,000)	(451,000)
Proceeds from private equity offering, net of related expenses	80,589,000	-
Proceeds from exercise of warrants and options, net of related expenses	575,000	917,000
Payment of debt from acquired company	-	(20,678,000)
Payment of other long-term debt	(164,000)	-
Other - net	-	(187,000)
Net cash (used in)/provided by financing activities	(285,000)	23,126,000
Net increase (decrease) in cash	545,000	(24,000)
Cash at beginning of period	510,000	495,000
Cash at end of period	$ 1,055,000	$ 471,000

See notes to consolidated financial statements.

THE HAIN FOOD GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)
FOR THE SIX MONTHS ENDED DECEMBER 31, 1999

	Common Stock				Treasury Stock		
	Shares	Amount at $.01	Additional Paid-in Capital	Retained Earnings	Shares	Amount	Total
Balance at June 30, 1999	14,119,640	$ 141,000	$ 90,822,000	$ 19,313,000	100,000	$ (275,000)	$110,001,000
Issuance of shares to Heinz, net of related expenses	3,507,577	35,000	97,925,000	97,960,000			
Conversion of promissory notes	437,881	4,000	9,859,000	9,863,000			
Exercise of Common Stock warrants, net of related expenses	50,000	1,000	299,000	300,000			
Exercise of stock options	44,050	1,000	275,000	276,000			
Non-cash compensation charge	23,000	23,000					
Net income for the period	3,934,000	3,934,000					
Balance at December 31, 1999	18,159,148	$ 182,000	$199,203,000	$ 23,247,000	100,000	$ (275,000)	$222,357,000

See notes to consolidated financial statements.

THE HAIN FOOD GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. GENERAL:

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

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

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

2. BASIS OF PRESENTATION:

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

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

3. CUMULATIVE CHANGE IN ACCOUNTING PRINCIPLE:

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

4. STOCKHOLDERS' EQUITY:

In September 1999, the Company entered into a global strategic alliance with H.J. Heinz Company ("Heinz") related to the production and distribution of natural products domestically and internationally, and purchased from Heinz the trademarks of its Earth's Best baby food line of products. In connection with the alliance, the Company issued 2,837,343 shares (the "Investment Shares") of its common stock, par value $.01 per share (the "Common Stock") to Earth's Best, Inc. ("Earth's Best"), a wholly owned subsidiary of Heinz, for an aggregate purchase price of $82,383,843 under a Securities Purchase Agreement dated September 24, 1999 between the Company and Earth's Best. The Company used $75 million of the proceeds from this private equity offering to reduce its borrowings under its debt facility. The remainder of the proceeds were used to pay transaction costs and for general working capital purposes. In consideration for the trademarks, the Company paid a combination of $4,620,000 in cash and 670,234 shares of Common Stock, valued at $17,380,000 (the "Acquisition Shares" and together with the Investment Shares, the "Shares"). This purchase agreement terminates a license agreement dated April 1, 1999 between the Company and Heinz whereby the Company was granted exclusive sale and distribution rights of the Earth's Best baby food products into the United States retail grocery and natural food channel. With the acquisition of these trademarks, the Company will be able to sell, market and distribute the Earth's Best products both domestically and internationally and have a more efficient means to develop new products. In connection with the issuance of the Shares, the Company and Earth's Best have entered into an Investor's Agreement dated September 24, 1999 that sets forth certain restrictions and obligations of the Company and Earth's Best and its affiliates relating to the Shares, including restrictions and obligations relating to (1) the appointment by the Company of one member to its board of directors nominated by Earth's Best and one member jointly nominated by Earth's Best and the Company, (2) an 18-month standstill period during which Earth's Best and its affiliates may not purchase or sell shares of Common Stock, subject to certain exceptions, (3) a right of first offer granted to the Company by Heinz and its affiliates to the Company upon the sale of Shares by Earth's Best and its affiliates following the standstill period, (4) preemptive rights granted to Earth's Best and its affiliates relating to the future issuance by the Company of shares of capital stock and (5) confidentiality.

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

5. ACQUISITIONS:

On May 18, 1999, the Company acquired Natural Nutrition Group, Inc. and its wholly-owned subsidiaries ("NNG"). NNG is a manufacturer and marketer of premium natural and organic food products primarily under its Health Valley, Breadshop's and Sahara brands. The aggregate purchase price, including acquisition costs, amounted to approximately $82 million. The purchase price was paid by approximately $72 million in cash and the issuance of $10 million in convertible promissory notes. To finance the cash portion of the acquisition, among other things, the Company entered into a $160 million

senior secured loan which provided for a $30 million revolving credit facility and $130 million in term loans. The aggregate purchase price paid in excess of net assets acquired amounted to $61.5 million. The purchase price allocations have been made on a preliminary basis, subject to adjustment.

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

Unaudited pro forma results of operations (in thousands, except per share amounts) for the six months ended December 31, 1998, assuming the NNG acquisition (the acquisition of Nile Spice was not material), excluding Nile Spice which is not material, had occurred as of July 1, 1998 are as follows:

	Six Months Ended December 31, 1998
Net sales	$ 131,800
Net income	$ 1,083
Net income per share:	
Basic	$ 0.08
Diluted	$ 0.07

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

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

6. INVENTORIES:

Inventories consist of the following:

	December 31, 1999	June 30, 1999
Finished goods	$ 23,267,000	$18,750,000
Raw materials and packaging	12,459,000	10,458,000
	$ 35,726,000	$29,208,000

7. PROPERTY AND EQUIPMENT:

Property and equipment consist of the following:

	December 31, 1999	June 30, 1999
Machinery & equipment	$ 9,891,000	$ 8,429,000
Assets held for sale	4,112,000	5,248,000
Furniture and fixtures	1,390,000	1,314,000
Leasehold improvements	5,001,000	4,557,000
	20,394,000	19,548,000
Less:		
Accumulated depreciation and amortization	3,018,000	1,601,000
	$17,376,000	$17,947,000

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

8. LONG-TERM DEBT:

Long-term debt consists of the following:

	December 31, 1999	June 30, 1999
Senior Term Loans (A)	$ 48,241,000	$130,000,000
Revolving Credit (A)	500,000	-
Convertible Promissory Notes (B)	137,000	10,000,000
Notes payable to sellers in connection with acquisitions of businesses, and other long-term debt(C)	961,000	1,125,000
	49,839,000	141,125,000
Current portion	12,261,000	10,442,000
	$ 37,578,000	$130,683,000

(A) Senior Term Loans

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

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

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

Pursuant to the revolving credit line, the Company may borrow up to 85% of eligible trade receivables and 60% of eligible inventories. Amounts outstanding under the Amended Facility are collateralized by principally all of the Company's assets. The Amended Facility contains certain financial and other restrictive covenants, as amended, which, among other matters, restrict the payment of dividends and the incurrence of additional indebtedness. The Company is also required to maintain various financial ratios, including minimum working capital and interest and fixed charge coverage ratios and is required to achieve certain earnings levels. As of December 31, 1999, $29.5 million was available under the Company's revolving credit facility.

(B) Convertible Promissory Notes

In connection with the acquisition of NNG, the Company issued $10 million of convertible promissory notes (the "Notes") bearing interest at 7%, payable quarterly commencing September 30, 1999. The Notes are convertible into shares of the Company's Common Stock. The number of shares of Common Stock to be issued upon conversion of each Note is based upon the conversion price equal to the average of the closing prices of the Company's Common Stock for the ten trading days prior to the date of conversion of the Note. During the six months ended December 31, 1999, holders of approximately $9.9 million in Notes have converted such Notes into 437,881 shares of the Company's Common Stock.

(C) Other Long Term Debt

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

8. EARNINGS PER SHARE:

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

THE HAIN FOOD GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The following table sets forth the computation of basic and diluted earnings per share pursuant to FAS 128

	Three Months Ended December 31		Six Months Ended December 31	
	1999	1998	1999	1998
Numerator:				
Numerator for basic and diluted earnings per share -				
Income before cumulative change in accounting principle	$4,967,000	$ 2,564,000	$7,688,000	$4,319,000
Cumulative change in accounting principle	-	-	(3,754,000)	-
Net income	$4,967,000	$ 2,564,000	$3,934,000	$4,319,000
Denominator:				
Denominator for basic earnings per share - weighted average shares outstanding during the period	18,040,000	13,475,000	16,184,000	13,429,000
Effect of dilutive securities:				
Stock options	916,000	1,202,000	1,155,000	1,211,000
Warrants	371,000	760,000	496,000	762,000
	1,287,000	1,962,000	1,651,000	1,973,000
Denominator for diluted earnings per share - adjusted weighted average shares and assumed conversions	19,327,000	15,437,000	17,835,000	15,402,000
Basic earnings per share:				
Income before cumulative change in accounting principle	$ 0.28	$ 0.19	$ 0.47	$ 0.32
Cumulative change in accounting principle	-	-	(0.23)	-
Net income	$ 0.28	$ 0.19	$ 0.24	$ 0.32
Diluted earnings per share:				
Income before cumulative change in accounting principle	$ 0.26	$ 0.17	$ 0.43	$ 0.28
Cumulative change in accounting principle	-	-	(0.21)	-
Net income	$ 0.26	$ 0.17	$ 0.22	$ 0.28

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

General

The Company made the following acquisitions or entered into licensing agreements since December 8, 1998:

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

On April 1, 1999, the Company expanded its licensing agreement with Heinz for Earth's Best baby food products whereby the Company was given the exclusive sale and distribution rights of the Earth's Best baby food products into the United States retail grocery and natural food channels. On September 27, 1999, the Company announced it had purchased the trademarks of Earth's Best from Heinz, which terminated the April 1, 1999 license agreement, which allows the Company the opportunity to sell Earth's Best both in domestic and international markets and provides the Company with the ability to develop new products.

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

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

Results of Operations

Three months ended December 31, 1999

Net sales for the three months ended December 31, 1999 were $81.0 million, an increase of 60.1% over net sales of $50.6 million in the quarter ended December 31, 1998. 80.8% of the increase was derived from revenues of businesses since December 1998.

Gross profit for the three months ended December 31, 1999 increased by approximately $12.9 million to $33.2 million (40.9% of net sales) as compared to $20.2 million (40.0% of net sales) in the corresponding 1998 period. The increase in gross profit dollars was a direct result of the increased sales level in 1999. The improvement in gross profit percentage of 0.9% percentage points is due to a combination of: sales mix, integration of certain manufactured product lines resulting in improved gross profit percentage yields and certain acquired businesses producing higher gross profit percentages than existing businesses.

Selling, general and administrative expenses increased by $8.6 million to $22.2 million for the three months ended December 31, 1999 as compared to $13.6 million in the December 31, 1998 quarter. Such expenses, as a percentage of net sales, amounted to 27.4% for the three months ended December 31, 1999 compared with 26.9% in the December 31, 1998 quarter. This increase is primarily attributable to a 1.7% increase in trade and consumer spending offset by a favorable 1.2% decrease in other selling, general and

administrative expense components. The improvement of 1.2% results from certain of the acquired businesses having lower selling expenses than the Company's other product lines, and the realization of reduced administrative expenses from integration of certain operations of the acquired businesses. Not all of the administrative functions of the businesses acquired during fiscal 1999 have as yet been integrated. It is expected that the integration process may not be completed until the end of fiscal 2000. The higher trade and consumer spending is due to the Company aggressively promoting awareness of its newly acquired brands and products in an effort to expand product distribution into existing and new market channels and territories.

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

Amortization of goodwill and other intangible assets increased by $.58 million from the December 1998 period to the December 1999 period. All of this increase was attributable to amortization of goodwill and other intangible assets acquired in connection with the acquisitions since December 1998. Amortization expense in total amounted to 1.8% of net sales for the three months ended December 31, 1999 and 1.7% of net sales for the three months ended December 31, 1998.

Operating income increased by $3.7 million compared to the 1998 period. Operating income as a percentage of net sales amounted to 11.7%, an increase of 0.3% over the 1998 period. This resulted principally from higher gross profit margins as a percentage of net sales offset by higher selling, general, administrative and amortization expenses as a percentage of net sales.

Other income for the three months ended December 31, 1999 amounted to $.75 million. There was no other income in the corresponding 1998 period. The other income is comprised of investment gains in marketable securities purchased and sold within the period.

Interest and financing costs for the three months ended December 31, 1999 amounted to approximately $1.2 million, which is comparable to the corresponding 1998 period. Although amortization of financing costs increased over the prior year, a result of higher deferred financing costs, interest cost is lower due to lower average debt levels versus the corresponding 1998 period.

Income before income taxes for the three months ended December 31, 1999 increased to $9.0 million (11.1% of net sales) from $4.5 million (9.0% of net sales) in the corresponding 1998 period. This improvement in profitability was attributable to the aforementioned increase in operating income as a percentage of sales, as well as the other income.

Income taxes increased to $4.1 million for the three months ended December 31, 1999 compared to $2.0 million in the corresponding 1998 period. The effective tax rate was 45% in the 1999 period compared with 43.5% in the corresponding 1998 period. The increase in the effective tax rate is largely a result of the increased amortization of nondeductible goodwill arising from fiscal year 1999 acquisitions.

Net income for the three months ended December 31, 1999 increased to approximately $5.0 million (6.1% of net sales) from $2.6 million (5.1% of net sales) in the corresponding 1998 period. This improvement was attributable to the aforementioned increase in income before income taxes, partially offset by higher income taxes.

Six months ended December 31, 1999

Net sales for the six months ended December 31, 1999 were $149.1 million, an increase of 58.4% over net sales of $94.1 million in the six months ended December 31, 1998. 83.6% of the increase was derived from revenues of acquired businesses or revenues resulting from licensing agreements entered into since December 1998.

Gross profit for the six months ended December 31, 1999 increased by approximately $24.2 million to $61.2 million (41.0% of net sales) as compared to $37.0 million (39.3% of net sales) in the corresponding 1998 period. The increase in gross profit dollars was a direct result of the increased sales level in 1999. The improvement in gross profit percentage of 1.7% percentage points is due to a combination of: sales mix, integration of certain manufactured product lines resulting in improved gross profit percentage yields and certain acquired businesses and/or product lines from licensing agreements producing higher gross profit percentages than existing businesses.

Selling, general and administrative expenses increased by $16.2 million to $41.3 million for the six months ended December 31, 1999 as compared to $25.1 million in the six months ended December 31, 1998. Such expenses, as a percentage of net sales, amounted to 27.7% for the six months ended December 31, 1999 compared with 26.7% in the six months ended December 31, 1998. This increase is primarily attributable to a 1.7% increase in trade and consumer spending offset by a favorable .7% decrease in other selling, general and administrative expense components. The improvement of .7% results from certain of the acquired businesses having lower selling expenses than the Company's other product lines, and the realization of reduced administrative expenses from integration of certain operations of the acquired businesses within the Company's existing infrastructure. Not all of the administrative functions of the businesses acquired during fiscal 1999 have as yet been integrated. It is expected that the integration process may not be completed until the end of fiscal 2000. The higher trade and consumer spending is due to the Company aggressively promoting awareness of its newly acquired brands and products in an effort to expand product distribution into existing and new market channels and territories.

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

Amortization of goodwill and other intangible assets increased by $1.0 million from the six months ended December 1998 period to the corresponding 1999 period. All of this increase was attributable to amortization of goodwill and other intangibles acquired in connection with the acquisitions since December 1998. Amortization expense in total, amounted to 1.8% of net

sales for both the six months ended December 31, 1999 and December 31, 1998 periods.

Operating income for the six months ended December 31, 1999 increased by $7.0 million compared to the corresponding 1998 period. Operating income as a percentage of net sales amounted to 11.6%, an increase of 0.7% over the corresponding 1998 period. This resulted principally from higher gross profit margins as a percentage of net sales offset by higher selling, general and administrative expenses as a percentage of net sales.

Other income for the six months ended December 31, 1999 amounted to $.75 million. There was no other income in the corresponding 1998 period. The other income is comprised of investment gains in marketable securities purchased and sold during the fiscal second quarter of 2000.

Interest and financing costs for the six months ended December 31, 1999 amounted to approximately $4.0 million, an increase of $1.4 million over the corresponding 1998 period. The increase was due to the debt incurred in connection with the fiscal year 1999 acquisitions. The $75 million repayment of loans, as more fully described in Footnote 4 to the consolidated financial statements, on September 27, 1999, has enabled the Company to achieve interest cost savings during the remainder of the fiscal year from both lower interest rates and lower outstanding debt.

Income before income taxes and cumulative change in accounting principle for the six months ended December 31, 1999 increased to approximately $14.0 million (9.4% of net sales) from $7.6 million (8.1% of net sales) in the corresponding 1998 period. This improvement in profitability was attributable to the aforementioned increase in operating income as a percentage of sales offset by higher interest expenses as a percentage of sales as well as the other income.

Income taxes increased to $6.3 million for the six months ended December 31, 1999 compared to $3.3 million in the corresponding 1998 period. The effective tax rate was 45% in the 1999 period compared with 43.5% in the corresponding 1998 period. The increase in the effective tax rate is largely a result of the increased amortization of nondeductible goodwill arising from fiscal year 1999 acquisitions.

Income before cumulative change in accounting principle for the six months ended December 31, 1999 increased to $7.7 million (5.2% of net sales) from $4.3 million (4.6% of net sales) in the corresponding 1998 period. This improvement was attributable to the aforementioned increase in income before income taxes and cumulative change in accounting principal, partially offset by higher income taxes.

Change in Accounting Principle:

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

in accounting principle, in the amount of $3.8 million, net of tax benefit, representing such start-up costs capitalized as of the beginning of fiscal year 2000.

Liquidity and Capital Resources

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

The Company's working capital and current ratio ($19.5 million and 1.44) at December 31, 1999 is comparable to that at June 30, 1999 ($18.9 million and 1.47).

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

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

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

Amounts outstanding under the Amended Facility are collateralized by principally all of the Company's assets. The Amended Facility also contains certain financial and other restrictive covenants. The Company was in compliance with such covenants at December 31, 1999. As of December 31, 1999, $29.5 million was available under the Company's revolving credit line. Utilization of the revolving credit line varies over the course of the year based on inventory requirements and other business transactions.

The aggregate principal payments on the Amended Facility for the twelve months ending December 31, 2000 are $11.45 million. The Company believes that projected cash flows generated from its operations and amounts available under the revolving credit facility should be sufficient to fund its debt service requirements, working capital needs, anticipated capital expenditures and other operating expenses for the foreseeable future. The revolving

credit facility provides the Company with available borrowings up to an aggregate principal amount of $30 million.

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

Year 2000

The "Year 2000" issue is the result of computer systems that were programmed in prior years using a two digit representation for the year. Consequently, in the year 2000, date sensitive computer programs may interpret the date "00" as 1900 rather than 2000. The Company completed an assessment of both its information and non-information systems affected by the Year 2000 issue and found only minor issues that required attention. Since January 1, 2000, the Company has not experienced any material adverse effects on either its information or non-information systems, nor any material adverse effects with its suppliers, customers or other third parties.

Seasonality

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

Inflation

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

Note Regarding Forward Looking Information

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

Part II - OTHER INFORMATION

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

The Annual Meeting of Stockholders was held on December 7, 1999. The Company submitted the following matters to a vote of security holders:

(i) To elect a Board of eight directors to serve until the next Annual Meeting of Stockholders; and

(ii) To approve amendments to the Company's 1994 Long Term Incentive and Stock Award Plan to increase the number of shares issuable over the term of the plan by 1,000,000 shares to 3,400,000 in the aggregate and;

(iii) To approve amendments to the Company's 1996 Directors Stock Option Plan to increase the number of shares issuable over the term of the plan by 250,000 shares to 750,000 shares in the aggregate;

(iv) To ratify the appointment of Ernst & Young LLP as independent auditors for the fiscal year ending June 30, 2000 (Ernst & Young LLP were the independent auditors for the fiscal year ended June 30, 1999).

The stockholders elected the persons named below, the Company's nominees for directors, as directors of the Company, casting approximately 15,031,000 votes in favor of each nominee and withholding approximately 722,690 votes for each nominee:

Andrew R. Heyer
Irwin D. Simon
Beth L. Bronner
Jack Futterman
James Gold
Kenneth J. Daley
Joseph Jimenez
A.G. Malcolm Ritchie

The stockholders approved the amendments to the Company's 1994 Long Term Incentive and Stock Award Plan casting approximately 5,449,423 votes in favor, 2,700,586 against and 21,590 abstaining.

The stockholders approved the amendments to the Company's 1996 Directors Stock Option Plan casting approximately 7,472,010 votes in favor, 732,412 against, and 21,419 abstaining.

The stockholders ratified the appointment of Ernst & Young LLP casting approximately 15,729,665 votes in favor, 9,457 against and 14,755 abstaining.

Item 6. - Exhibits and Reports on Form 8-K

(a) Exhibits

Financial Data Schedule (Exhibit 27)

(b) Reports on Form 8-K

None.

SIGNATURES

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

THE HAIN FOOD GROUP, INC.

Date: February 14, 2000

/s/ Irwin D. Simon

Irwin D. Simon,
President and Chief
Executive Officer

Date: February 14, 2000

/s/Gary M. Jacobs

Gary M. Jacobs,
Senior Vice President-Finance
and Chief Financial Officer

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6-MOS
Jun-30-2000
Jul-01-1999
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