Year ended December 31, 1995 compared with the year ended December 31, 1994

Net sales in 1995 and 1994 were $103 2 million and $95 6 million, respectively, an increase of $7 6 million or 7 9% Both U S sales and foreign sales (including export shipments) increased over 1994 U S. sales increased $3 0 million in 1995 to $62 7 million Shipment volume increased by $5 2 million over 1994 due to increased demand from the Company's tobacco industry customers This increase in volume was offset by lower average selling prices in 1995 as compared to 1994 of $2 3 million The lower selling prices were a result of incentives to customers and shifts by customers to alternative licorice products Foreign sales in 1995 increased by $4 6 million or 12 9% to $40 5 million from $35 9 million in 1994 The increase was due to higher shipment volume of $3 1 million and higher average selling prices of $1 5 million

Cost of sales was $60 0 million and $57 4 million, respectively The increase of $2 6 million was due to the increase in sales in 1995 As a percentage of net sales, cost of sales decreased slightly to 58 1% in 1995 from 60 0% in 1994 as a result of lower material costs and lower labor and overhead costs due to higher production volumes

SG&A expenses were $9.2 million in 1995 and $8 5 million in 1994. The increase of $0 7 million resulted from higher compensation and pension benefit expenses in 1995. As a percentage of net sales, SG&A expenses were 8 9% in both 1995 and 1994.

As a result of the increased sales and lower costs in 1995, operating income increased to $34 0 million from $29 7 million in 1994, an increase of $4 3 million or 14.5%.

Interest expense was $13 5 million in 1995 and $14.7 million in 1994, a decrease of $1.2 million due to lower debt outstanding at lower average interest rates in 1995

The Company's 1995 provision for income taxes as a percentage of income before income taxes increased slightly to 39.0% from 38 8% in 1994.

In 1994, the Company recorded an extraordinary loss of $2 7 million, net of a $1 7 million tax benefit, as a result of the June 1994 refinancing of indebtedness Prepayment premiums, original issue discounts and certain other capitalized costs of the refinanced indebtedness were expensed as the extraordinary loss

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LIQUIDITY AND CAPITAL RESOURCES

The Company's net cash flows from operating activities were $19 6 million, $17 1 million and $18.6 million for the years ended December 31, 1996, 1995 and 1994, respectively The increase of $2 5 million in 1996 was a result of higher 1996 profits partially offset by an increase in inventory. The decrease of $1 5 million in 1995 was a result of a lower inventory decrease, an increase in accounts receivable and a decrease in accounts payable in 1995 offset by higher 1995 profits, distributions from affiliates, and lower income taxes paid to Holdings and Mafco in 1995 The Company's working capital requirements, especially for inventory, are affected by customer demand, current and prospective supplies of raw materials and raw material prices. Inventory levels have remained relatively constant over the past three years and at December 31, 1996 the Company's inventories were $46 3 million Management believes that 1997 inventories should remain the same as compared to the 1996 levels based upon estimated shipments to customers and existing and planned purchases of raw materials Management expects that inventory levels may continue to fluctuate in the future as the Company takes advantage