

department. Outside the U.S., the Company sells its products directly from its Camden, New Jersey offices and through its French subsidiary, exclusive agents and independent distributors.

The Company has established strong relationships with its customers in the tobacco and other industries because of its expertise in producing and supplying consistent quality licorice products with a high level of service and security of supply. The Company ships products worldwide and provides technical assistance for product development for both tobacco and non-tobacco applications.

The Company sells licorice root residue, a by-product of the licorice extract manufacturing process, as a garden mulch under the name Right Dress. Distribution of Right Dress is limited to the area within a 200-mile radius of Camden, New Jersey due to shipping costs and supply limitations.

In 1996, the Company's ten largest customers, seven of which are manufacturers of tobacco products, accounted for approximately 58% of the Company's sales and one customer, Philip Morris Companies Inc. ("Philip Morris"), accounted for 26% of the Company's sales. If Philip Morris were to stop purchasing licorice extract from the Company, it would have a significant adverse effect on the financial results of the Company.

COMPETITION

The Company believes that its position as the largest manufacturer of licorice extract in the world arises from its long-standing ability to provide its customers with a steady supply of high quality and consistent products, together with superior technical support. Producing licorice extract of consistently high quality at low cost requires an experienced work force, careful manufacturing and rigorous quality control. The Company's long-term relationships and knowledge of the licorice root market are of great value in enabling it to consistently acquire quality raw materials at reasonable cost. Although the Company could face increased competition in the future, the Company currently encounters limited competition in sales of licorice extract to tobacco companies in many of its markets as a result of the factors described above and the large investments in inventories of raw materials and production facilities that are required to adequately fulfill its customers' needs. Other markets in which the Company operates, particularly the confectionery licorice market in Europe, are more competitive. Significant competing producers of licorice extract are government owned and private corporations in China, a government owned corporation in Iran and a government affiliated corporation based in Israel.

THE TOBACCO INDUSTRY

Developments and trends within the tobacco industry may have a material effect on the operations of the Company.

Producers of tobacco products are subject to regulation in the U.S. at the federal, state and local levels. Together with changing public attitudes toward smoking, a constant expansion of smoking regulations since the early 1970s has been a major cause for the decline in consumption. Moreover, the trend is toward increasing regulation of the tobacco industry.

For more than 30 years, the sale and use of cigarettes has been subject to opposition from government and health officials in the U.S. and other countries due to claims that cigarette smoking is harmful to an individual's health. These claims have resulted in a number of substantial restrictions on the marketing, advertising and use of cigarettes, in diminished social acceptability of smoking and in