places, and otherwise to discourage cigarette smoking.

As a producer of food-grade products, the Company's licorice business is subject to certain FDA and New Jersey Department of Health Regulations. Compliance with these regulations has not had a material effect on the licorice business.

Tobacco Industry Litigation. The cigarette and smokeless tobacco industries have experienced and are experiencing significant health-related litigation involving tobacco and health issues. Current tobacco litigation generally falls within one of three categories: class actions, individual actions and actions brought about by individual states or localities to recover Medicaid costs allegedly attributable to tobacco-related illnesses. The pending actions allege a broad range of injuries resulting from the use of tobacco products or exposure to tobacco smoke and seek various remedies, including compensatory and, in some cases, punitive damages together with certain types of equitable relief such as the establishment of medical monitoring funds and restitution. There can be no assurance that there will not be an increase in health-related litigation involving tobacco and health issues against the cigarette industry or that the Company, as a supplier to the tobacco industry, will not be party to such litigation. This litigation, if successful, could have a material adverse effect on the Company.

Excise Taxes. The tobacco industry, including cigarettes and smokeless tobacco, has been subject to federal, state and local excise taxes for many years. In recent years, federal, state and local governments have proposed increases to such taxes as a means of both raising revenue and discouraging the consumption of tobacco products. The Company is unable to predict the likelihood of enactment of such proposals or the extent to which enactment of such proposals would effect tobacco sales. A significant reduction in consumption of cigarettes and other tobacco products could have a material adverse effect on the Company.

SEASONALITY

The licorice business is generally non-seasonal. However, sales of Right Dress garden mulch occur primarily in the first seven months of the year.

BACKLOG

The backlog of the Company at any time is generally not significant. Domestic and foreign tobacco orders are received quarterly, monthly or weekly depending upon the customers. Certain confectionery customers negotiate annual contracts which were not significant at December 31, 1996.

EMPLOYEES

At December 31, 1996, the Company has approximately 291 employees. The Company has 154 employees covered under collective bargaining agreements. The agreement covering employees at the Camden, New Jersey facility expires at the end of May 1997. Management believes that its employee relations are good.

CORPORATE INDEMNIFICATION MATTERS

The Company is indemnified by third parties with respect to certain of its contingent liabilities, such as certain environmental and asbestos matters, as well as certain tax and other matters. In order to implement the Transfer, a subsidiary of Abex and PCT, the Company and certain other subsidiaries of PCT entered into a transfer agreement (the "Transfer Agreement"). Under the Transfer Agreement,