

flavors that meet the individual customer's requirements. Licorice extract can be further purified to produce licorice derivatives. The Company maintains finished goods inventories of sufficient quantity to provide immediate delivery to its domestic tobacco and non-tobacco customers. Foreign orders for licorice extract are produced upon receipt of orders and are available to ship in approximately 30 days.

Other products. The Company also sells non-licorice flavoring agents to the tobacco, spice, pharmaceutical and health food industries. The Company cleans, grinds or cuts unprocessed spices and botanicals, principally chilies, sage, cassia (cinnamon) and cocoa bean shells to customer specifications.

#### RAW MATERIALS

Licorice extract is derived from the roots of the licorice plant, a shrub-like leguminous plant that is indigenous to the Middle East and Central Asia. The plant's roots, which can be up to several inches thick and up to 25 feet long are harvested when the plant is about four years old. They are then cleaned, dried and bagged or pressed into bales. Through its foreign suppliers, the Company acquires the root in local markets for shipment to the Company's processing facilities in Camden, New Jersey or Gardanne, France. Most of the licorice root processed by the Company originates in Afghanistan, China, Pakistan, Azerbaijan, Uzbekistan, Turkmenistan, Syria and Turkey. Through many years of experience, the Company has developed extensive knowledge and relationships with their suppliers in these areas. Although the amount of licorice root the Company purchases from any individual source or country varies from year to year depending on cost and quality, the Company endeavors to purchase some licorice root from all available sources. This enables the Company to maintain multiple sources of supply and relationships with many suppliers so that if the licorice root from any one source becomes temporarily unavailable or uneconomic, the Company will be able to replace that source with licorice root from another area or supplier. During 1996, the Company had many suppliers of root and two suppliers, one in Pakistan and one in China, each supplied 15% and 20%, respectively of the Company's total root purchases. The Company tries to maintain a sufficient licorice root inventory and open purchase contracts to meet production needs for up to two years. Licorice root has an indefinite retention period as long as it is kept dry, and therefore the Company experiences no raw material spoilage. The Company has been able to obtain licorice root without interruption since World War II even though there has been periodic instability in the areas of the world where licorice root grows.

In addition to licorice root, the Company also purchases significant quantities of licorice extract produced by others for use as a raw material. These licorice extracts are available from producers primarily in China in quantities sufficient to meet the Company's current requirements and anticipated requirements for the foreseeable future. During 1996, the Company had three licorice suppliers of licorice extracts who supplied more than 10% each of total licorice extract purchases.

Other non-licorice raw materials for the Company's other blended licorice and non-licorice products are commercially available through many domestic and foreign sources.

#### SALES AND MARKETING

All licorice sales in the U.S. (including sales of licorice extract to U.S. cigarette manufacturers for use in American blend cigarettes to be exported) are made through the Company's executive offices located in Camden, New Jersey, with technical support from the Company's research and development