Ivey | Publishing

9B13M094

CHARLES CHOCOLATES

In March, 2012, Steve Parkland started his new job as president of Charles Chocolates (Charles), a privately held premium chocolate producer based in Portland, Maine. The board of directors had asked him to double or triple the size of the company within 10 years. Each member of the board and the management team had a different idea about what Charles needed to do. Parkland needed to devise a strategy that would fit the company's culture, and then gain the support of the board, the management team and the employees.

THE PREMIUM CHOCOLATE MARKET

The U.S. market for chocolates was US$19.3 billion[1] in 2011, and had been growing at about 6 per cent annually. The premium chocolate market ($2.7 billion), which had higher margins, was growing at 10 per cent annually, and imports of ethically produced cocoa grew by 156 per cent[2] as aging baby boomers emphasized quality and ethics in their purchases. Incumbents such as Hershey's and Cadburys had moved into the premium chocolate market through acquisitions or upmarket launches.

About one-quarter of annual chocolate sales typically occur in the eight weeks prior to Christmas. Twenty per cent of "heavy users" account for more than half of these pre-Christmas sales. These heavy users tend to be established families, middle aged childless couples and empty nesters with high incomes. They purchase more high quality boxed chocolate than bars or lower quality chocolate.[3]

In line with social trends, demand was growing for organic chocolate and dark chocolate due to its heart-healthy anti-oxidant properties. At the same time, however, large chocolate manufacturers wanted the United States Food and Drug Administration to redefine the term "chocolate" to allow them to produce cheaper versions (with less chocolate content) and still call it chocolate. Consumers and employees also increasingly demanded corporate social responsibility. Chocolate companies were targeted because

---

[1] *All currency in U.S. dollars unless specified otherwise.*
[2] *http://www.vreelandassociates.com/us-chocolate-sales-up-6-while-premium-jumps-10/, accessed August 14, 2013.*
[3] *Company insider citing a presentation by Neilson at the Confectionary Manufacturer's Association conference, 2007.*

forced labor and child labor was still sometimes used in cocoa bean production in West Africa. Environmental concerns influenced packaging, procurement and operational decisions.

COMPETITORS

Chocolate competitors in the premium chocolate segment in the United States featured strong regional brands and large international players. Godiva, backed by Nestle, had taken the business by storm with glitzy packaging, high price points, and widespread distribution among gift retailers. Godiva's quality was not as high as Charles, but it obtained about 15 per cent higher price points for standard products on the strength of its sleek and modern packaging, variations in chocolate molding and coloring, advertising and distribution. Godiva's high-end products sold for 200 per cent to 300 per cent of Charles prices. Lindt, a large Swiss firm, sold mid-quality chocolate bars and truffles broadly in mass merchandisers, drug and grocery retailers, and their pricing was about 90 per cent of Charles.

Strong regional players included Delice Chocolates and Cardon's. Delice, based in Providence, Rhode Island, had 32 retail stores, mostly in tourist and downtown locations in northeastern states, with four stores in California. The company's quality was high and it excelled at frequent flavour introductions. Delice's copper boxes could be customized at the store. Pricing was similar to Godiva. Cardon's was a 120 year-old Boston firm with 50 locations nationally, nearly all in malls. Cardon's was most successful in New England. It had tried to launch in Chicago, but had not done well there. Cardon's price point was about 35 per cent lower than Charles, and it had moderate product quality level. Cardon's did a strong business in corporate gifts and group purchases, offering 20 per cent to 25 per cent discounts for high volume orders.

Other premium chocolate companies included extremely high end custom chocolatiers, Belgian producers that sold through American retailers or online and niche wholesalers of single varietal bean or organic chocolates. Other companies commanded price premiums over their quality level because of their distribution and/or store concept. For example, Dolce Via, which emphasized mall stores, and The Great American Candy Company, which sold more candy than chocolate and used a franchise model, had higher price points than Cardon's but lesser quality.

CHARLES CHOCOLATES COMPANY HISTORY

Founded in 1885, Charles Chocolates was New England's oldest chocolate company. For the last two decades (during which time sales had grown by more than 900 per cent), the company had been owned by a private group comprised principally of two financial executives, an art dealer, and a former owner of a bus company. These four plus a past president of Charles comprised the board of directors. Charles' head office was located above its flagship store in Portland's Old Port area, a tourist area known for its cobblestone streets, 19th century buildings, and active nightlife.

Charles produced high-quality, hand-wrapped chocolates including its premier line, Portland Creams, along with truffles, nuts and chews, almond bark, chocolate-covered ginger, caramels, brittles, and orange peel in various assortments, bars, nutcorn and premium ice cream novelties. Charles chocolates were of the highest quality, and the company had many loyal customers around the world. In 2009, the company won a prestigious Superior Taste Award from Belgium's Institute for Taste, which described the product as "classy, refined and elegant," and "top-of-the-range," with "rich chocolate aromas."

PRODUCTION

Charles chocolates were made in a 24,000-square-foot factory owned by Charles on the outskirts of Portland. There were 75 retail and 35 production employees, all non-unionized, and 20 employees in management, administration and sales (see Exhibit 1). Production took place from 7 a.m. to 4 p.m. each day. With so many different products, batch processing and hand packing were used, and set-up times were a significant component of costs. Employees learned multiple job functions and enjoyed a variety of work and tasks. There were no measures of productivity or efficiency in the plant, and thus no way of telling on a day to day basis if the plant was doing a good job.

Demand forecasting was difficult due to the seasonality of sales, but product shelf life was long (up to a year), and significant inventories were kept. Nevertheless, there were significant problems with out-of-stocks each week. The Christmas season was particularly chaotic. The wholesale business required early seasonal production, whereas the online and retail business required late production. Production planning was complicated by data distortions arising from out-of-stocks and over stocks. When an item was produced after being out of stock for a month, filling back orders would unnaturally spike sales, yet these spikes would be used for production planning the following year. Similarly, when there was too much stock, the retail stores would push or discount the items, creating distortions in the sales data, which would be used for production planning the following year. Because out-of-stocks in the wholesale channel created problems with customers, short supplies were diverted from the company's own stores and delivered to wholesalers. Furthermore, when a special order arrived in wholesale, it was not uncommon for the plant to put production plans on hold to focus on the special order.

The company's heritage, commitment to quality and strong family values were cherished by employees, some of whom were third-generation Charles employees. New ideas were often resisted by employees over fears that the company was compromising its values and heritage. Turnover was low, and wages were competitive. Permanent employees were on a first-name basis with all of the senior leaders, including the president.

BUSINESS LINES

Charles earned revenues in four major areas: retailing chocolate products through company-owned stores, wholesaling, online/phone sales and sales from Sandwich Heaven, a well-known eatery in Portland, which Charles had purchased in 2009.

<u>Retail.</u> Charles' 11 wholly owned retail stores produced 50 per cent of sales. The stores' theme was heritage, and the flagship store had been designated a heritage site. Sales staff offered chocolate samples to customers, and the aromas and images in the store contributed to an excellent retail experience. In 2005, Charles had won America's Innovative Retailer of the Year award in the small business category. Most stores were in tourist locations, such as Bar Harbor, and Boston's Back Bay and Beacon Hill areas. Most were leased, though the flagship store was owned. Stores were about 500 square feet in size, with the exception of the Bar Harbor and cruise ship terminal locations, which were booths. Although other retailers sold Charles Chocolates, they purchased the products wholesale through direct sales from Charles. Exhibit 2 shows the store locations and their approximate annual sales. The two newest stores, Back Bay and Beacon Hill in Boston, were showing steady sales growth in their first two years of operations, but significantly shy of expectations. The Portland stores benefited from Charles iconic brand image in Maine.

Wholesale. Approximately 30 per cent of sales came from wholesale accounts in five categories: 1) independent gift/souvenir shops, 2) large retail chains, 3) tourist retailers, such as duty-free stores, airport or train station stores and hotel gift shops, 4) corporate accounts that purchased Charles products for gifts for customers or employees and 5) specialty high-end food retailers. Some large accounts, including department stores, gift chains and coffee chains, had been significant Charles customers, but had recently changed their purchasing to focus either on their own products or on less expensive lines. A salaried national sales manager based in Boston oversaw eight sales agents across the United States, and a salaried rep located in Maine. Sales agents had exclusive rights to sell Charles products within their territory but also carried non-competing giftware lines. Many had been with the company as long as the previous president, who had established the wholesale division nearly two decades earlier, but contractually, they could be terminated with 90 days' notice. Marketing Vice-President Mary Bird said:

> Some [reps] perform very well. They cite many challenges with our brand — niche market, high prices, inadequate shelf life, old fashioned ("not glitzy or fashionable enough") packaging, and an unknown brand in many areas. Some reps have stronger lines and just carry Charles as an add-on. The salaried rep in Maine receives constant requests for our products, as it is our "home turf" and we do extensive advertising locally for our own stores. In Portland, some accounts will say they are honored to carry Charles. In other parts of the United States, they have not heard of us and are dismissive of the products and their price points as they do not understand the brand and the value of the product. If the remote reps are not well trained, they just cannot present the brand adequately and sell it.

Retailers typically marked items up by 100 per cent. Charles earned about half the gross margins on wholesale sales as it did on retail and online sales and the company paid its sales agents approximately 10 per cent commission. There were 585 active wholesale customers in 2011. Of these, 221 purchased less than $1,000 per year, and another 125 purchased between $1,000 and $2,000 per year. There had been problems in the past with smaller accounts selling stock past its expiration date. Some wholesale accounts ordered custom products, such as logo bars for special events. In the past, some regular customers had ordered with too little lead time, so the plant typically kept some logo bars in inventory for customers in anticipation of their orders.

Online and Phone. Charles' online business generated four per cent of sales and its phone business generated 6 per cent of sales. Sixty per cent of all orders were from regular customers. Average sales were $138 by phone and $91 from the website. The proportion of people who shopped online in the United States had grown considerably in the last decade, with about 59 per cent of respondents in a 2012 Neilsen poll saying they prefer to shop online because of its convenience.[4] Charles' online business had not gone up with the trends. Orders received by phone, mail or online were processed within three to four days, then shipped via FedEx. Shipping was free for orders over $500. Orders went to the United States (60 per cent), Canada (35 per cent) and 50 countries internationally (5 per cent). They were delivered to the far North, sometimes via dogsled, to lighthouses on both coasts and to Antarctica. Online and phone orders were given priority for inventory allocation, and stock would be transferred back to the factory from the retail stores if necessary.

Sandwich Heaven. Ten per cent of sales came from Sandwich Heaven, which featured made-to-order sandwiches, soups and salads, desserts (including Charles ice cream) and wine and beer. At lunch in the summer, the lineup regularly extended out the door. Since Charles had purchased Sandwich Heaven, most of the long term staff had turned over, and recruiting new employees was difficult in Portland's tight labor

---

[4] *http://www.medialifemagazine.com/nielsen-59-percent-prefer-to-shop-online/, posted June 7, 2012.*

market. Sandwich Heaven had had to curtail its evening hours due to staff recruiting problems. Although Sandwich Heaven had a liquor license, the volume of alcohol sold was very small.

MARKETING

Since Charles' chocolates were fairly expensive, the company targeted affluent customers for themselves or for gifts. Cruise ship visitor and other tourists visited the store then often became phone or online customers. Locals were frequent and loyal purchasers. Local businesses also saw Charles as their corporate gift of choice. According to Bird:

> Our most loyal clients have an emotional connection to Charles. For example, they were in the Portland store on a holiday, or it was a traditional gift in their family. Many then give Charles as a gift and some of those recipients then become loyal customers. Other customers are affluent people who want something unique. They see us as an obscure but classic gift. But how do you reach these people to promote to them? They are scattered across the United States and of course they are courted by every advertiser. We cannot make mistakes or disappoint them in any way. If we do, we apologize and replace the product immediately — good old-fashioned service.

The Charles brand emphasized heritage, with traditional packaging, including pink or brown gingham-wrapped squares, packed in a burgundy box or tins. Some tins featured old-fashioned scenes such as English roses, cornucopias or floral arrangements, while others featured American art. Chocolate bars came in a variety of packaging.

The brand had a very loyal following. Parkland described the brand perception:

> When I first began investigating Charles, I asked everyone I knew what they thought of the brand. Most people had never heard of it. Others said "Oooooh, Charles! That's the best chocolate I've ever had." The retail experience is key in creating memories that lead to repeat sales. Through store décor, sampling, aromas, taste and service, I think Charles delivers "chocolate orgasms" to its customers.

The growth challenge would be to increase awareness without diluting the brand. The premium price scared some consumers and wholesalers. Discounting, or making cheaper products to piggyback on the brand, would risk brand integrity. The brand's heritage image was an issue. As Charles' loyal customers aged, would younger buyers appreciate the traditional image? Bird cited brands such as Chanel and Lancôme, which had developed classic images and refused to compromise, and brands such as Jaguar, Cadillac, BMW and Volvo, which had developed a younger, sexier image while maintaining core design elements to maintain brand integrity.

Charles advertised in tourist publications, seasonal print media and radio spots. Charles also donated product extensively to charitable events. Direct mail and solid search engine rankings promoted the online business. Charles' website was kept basic to make it load easily. It had an ordering facility, a reminder service that emailed customers about their upcoming special occasions and optimized search engine placement. The website also had links to resellers, however, the sales agents had not been good about providing links for their top accounts, as they did not seem to understand the value provided by such links.

FINANCIALS[5]

Charles was in a strong financial position. Although Charles had gone through a period of significant growth just after the current shareholders acquired the company, growth had slowed considerably in the past few years. In part, this decline had resulted from the slowdown in tourism since the financial crisis. In fact, chocolate sales had declined since 2008, though the company's revenues had grown slightly due to the contributions of Sandwich Heaven. Margins remained strong, however, at about 50 per cent of sales on average. Financial statements are shown in Exhibits 3 to 6.

LEADERSHIP

Jim Bell had been president of Charles from 1989 until 2012. When he announced his intention to retire in 2010, the controlling shareholders (and board of directors) considered selling Charles. It was a healthy company with significant assets, great cash flow and good margins. Yet the board felt that Charles had significant potential to grow and sought a new leader (see Exhibit 7). In the two years during the search, managers knew that Bell was retiring, and decisions were put off until a new leader could be found.

Steve Parkland was vice-president of operations for a meat processing company, in charge of six plants and approximately 2,300 employees, when he saw the ad. Previously, Parkland had been president of a seafood company and general manager of a meat processing subsidiary. His career had involved stints in marketing and sales in addition to operations, and he had an MBA from Duke University. Parkland had an empowering style and a strong commitment to values and integrity. Charles appealed to Parkland because he enjoyed the strategy aspect of general management, and wanted to move to New England. He was offered the job with the provision that he purchase a significant number of shares in the company each year for the first three years.

The senior management team included three others. Mary Bird, vice-president of sales and marketing, a Charles employee since 1999, managed the retail stores, developed marketing plans and oversaw the online and wholesale businesses, Sandwich Heaven, and the ice cream business. She supervised the wholesale sales manager, the retail operations manager, a communications manager, and the order desk staff. The product development person and purchasing and sales planner reported indirectly to Bird, though they worked more directly with Ray Wong. Bird worked long hours at the office and often helped at Sandwich Heaven when staff didn't show, or drove product to stores on the weekends when they were short-shipped. Bird was a shareholder.

Ray Wong, vice-president of production, oversaw production at the factory. Wong earned a bachelor of food science in 1983, and later took courses in material requirements planning, candy-making, ice-cream making and management. He had worked in progressively responsible operations positions in a variety of food and beverage companies prior to joining Charles in 1995. Wong did not own shares in the company. Wong was especially interested in computer programming, and he had developed all of Charles internal production planning systems himself.

Sven Amundsen, vice-president of finance and chief financial officer, had retired as chief financial officer of a bus company in 1996, but joined Charles in 2002 at the urging of his former partner, who was on Charles' board. Previously, Amundsen had worked in financial management in manufacturing and retail after articling as a chartered accountant with Price Waterhouse. Amundsen's expertise was in

[5] *All financial figures in the case are disguised.*

reorganizations, acquisitions and dispositions. He maintained Charles books by hand, as he had never learned accounting or spreadsheet software programs. Amundsen owned shares in the company.

Bird and Amundsen were a cohesive team, but conflict between Bird and Wong had escalated to the board level during the past two years, as Bird sought to reduce out of stocks and launch new products, while Wong sought to retain control of scheduling and production. Furthermore, because the wholesale division was favored by the past president, the wholesale manager in Boston had regularly gone over Bird's head to have the president overturn her decisions.

GROWTH OPPORTUNITIES

During the recruitment process, Parkland had been probing the managers and board members to get their perspectives on growth options. There was a dizzying array.

The idea of franchising Charles stores or Sandwich Heaven had been discussed but not truly investigated. The online business also appeared exciting, with its low costs of sales, lack of intermediaries, and high reorder rate. The corporate gift market also seemed promising. Offering discounts of 25 per cent to corporate purchasers enabled Charles to still earn stronger margins than wholesale, without the costs of retail. One board member said Charles approach to cruise ship traffic needed to be reconsidered as many of the passengers were bypassing Charles' location to visit attractions in other parts of town that were promoting themselves aggressively on the ships.

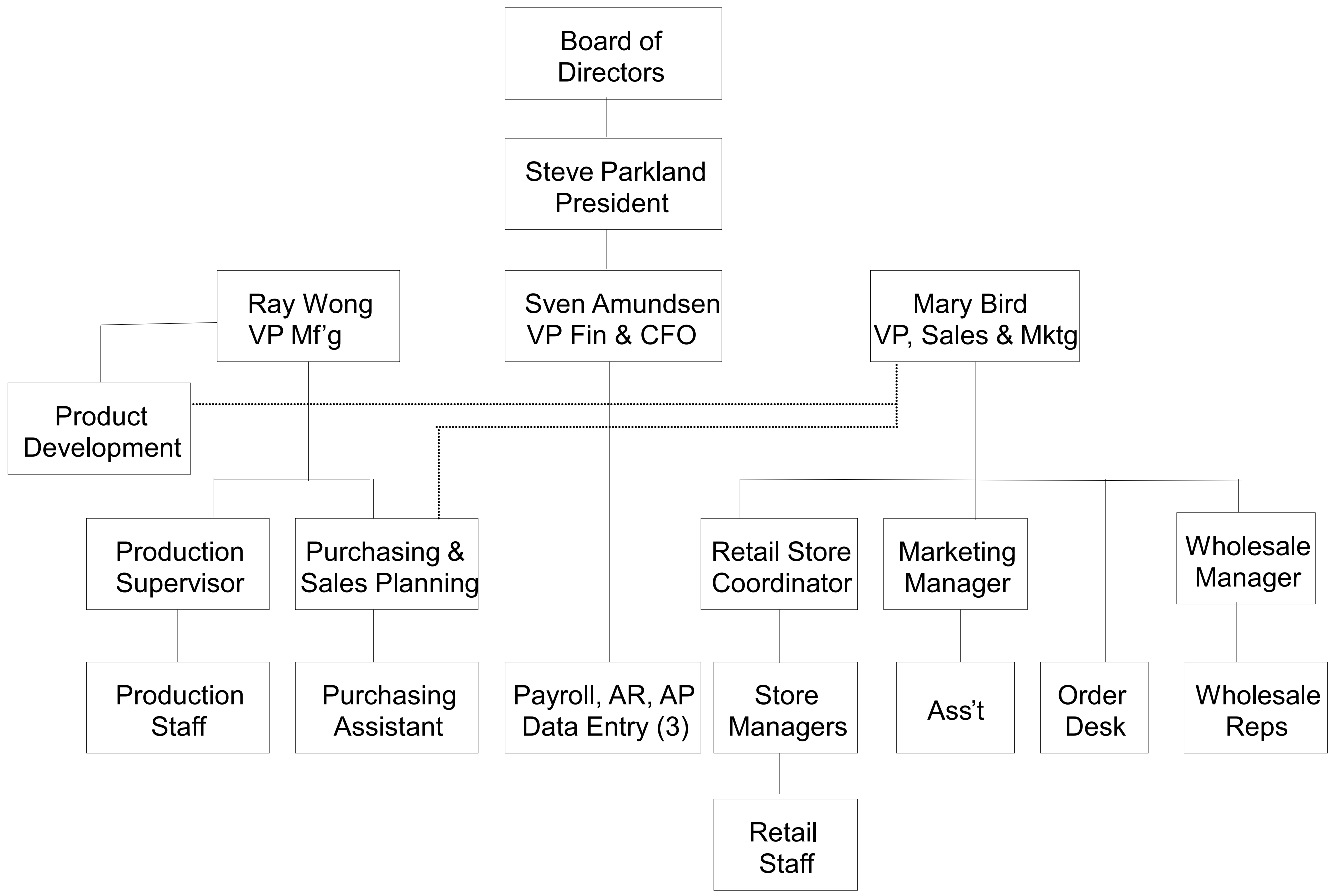
There were many other possibilities. Should Charles open more stores in Boston? Or should Charles extend its product line to take advantage of its strong brand awareness in Maine? Although ice cream had not been the runaway success the company had hoped, its sales were still building. Another option might be for Charles to concentrate its efforts outside of Maine. If tourists had stopped coming to Portland, should Charles go to them? Should Charles increase its wholesale or retail penetration outside of New England? Would the current sales agency structure be appropriate for increased wholesale penetration? Should Charles consider an acquisition of another niche chocolate company or a joint venture with another firm to increase its geographical reach? Were there opportunities to pair Charles chocolates with other high end brands for mutual benefit?

Charles traditional brand image was also a concern: while it was treasured by loyal customers and employees alike, it didn't seem to play well outside of Portland. The packaging had been described as homey or dowdy by some, yet others were adamant that it should not be changed. Parkland had spoken to a brand image consultant that had won numerous awards in the wine industry. The consultant had suggested that the only dangerous thing in today's market was to play it safe – consumers loved edgy brands. Should Charles throw off tradition and try to reinvent itself?

Of course, if sales were to be increased, Charles would need more internal capacity to produce products and fill orders. Should more capacity be added in Portland, with its expensive real estate and significant shipping costs to reach large markets, or should it be placed somewhere with lower costs and easier access to markets?

As Parkland pondered all these options, he also knew that he had to take into consideration the culture of the organization and the desires of the board of directors and owners. Would the current managers and employees be willing and able to grow the organization? Would the board endorse a growth strategy that would increase the risk profile of the company? And with all these options, what should Parkland do first?

EXHIBIT 1: ORGANIZATION CHART



Source: Company files.

EXHIBIT 2: RETAIL STORES SALES IN FISCAL 2007 (ROUNDED TO NEAREST THOUSAND)

Store	Date Acquired	Approximate Annual Sales		Contribution Margin
Portland Old Port	1885	$2,775,000		45.3%
Sandwich Heaven	2009	$1,598,000		8.9%*
Factory Store	1990	$726,000		36.7%
Boston Beacon Hill	Dec. 2010	$686,000		(11.5%)
Portsmouth	2000	$639,000		8.2%
Portland Arts District	1988	$517,000		22.86%
Portland Fore Street	2008	$401,000		29.1%
Boston Back Bay	April 2011	$138,000		(22.3%)
Portland Cruise Ship Terminal	2005	$60,000	(Mostly ice cream)	15.5%
Bar Harbor downtown	2011	$42,000	(All ice cream; summer only)	18.2%
Bar Harbor Cruise Ship Terminal	2010	$35,000	(All ice cream; summer only)	21.1%

**Reflects full costs of expenses to refurbish the store.*

Source: Company files.

EXHIBIT 3: CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

Year Ended March 31	**2011**	2010
Sales	**$11,850,480**	$11,991,558
Cost of sales		
Amortization of property and equipment	**135,385**	108,759
Direct labour	**1,545,794**	1,677,247
Direct materials	**1,770,603**	2,745,995
Overhead	**1,933,306**	846,186
	5,385,088	5,378,187
Gross profit	**6,465,392**	6,613,371
Interest income	**664**	1,610
	6,466,056	6,614,981
Expenses		
Interest on long term debt	**91,465**	86,943
Selling and administrative	**5,221,520**	5,007,145
	5,312,985	5,094,088
Earnings before income taxes	**1,153,071**	1,520,893
Income taxes	**261,989**	451,567
Net earnings	**$891,082**	$1,069,326
Retained earnings, beginning of year	**$4,748,611**	4,381,155
Net earnings	**891,081**	1,069,326
Dividends	**-**	(701,870)
Retained earnings, end of year	**$ 5,639,692**	$4,748,611

Source: Company files.

EXHIBIT 4: SCHEDULE OF SELLING AND ADMINISTRATIVE EXPENSES

Year ended March 31		2011	2010
Selling	Advertising & Promotion	$489,345	$536,886
	Bad debts	23,000	12,796
	Credit card charges	125,198	125,544
	Mail order	118,606	133,081
	Office & Telephone	29,975	27,274
	Postage and freight	483,003	476,724
Stores:	Factory Store	112,885	122,897
	Sandwich Heaven	572,495	323,995
	Portland Fore Street	75,854	84,047
	Cruise Ship Terminals	42,709	38,592
	Dept. Store Boston (closed in 2006)	3,938	4,058
	Dept. Store Portland (closed in 2006)	4,236	2,759
	Bar Harbour downtown	--	24,179
	Portland Arts District	87,103	119,058
	Portsmouth	168,157	182,939
	Royalties	29,862	31,099
	Salaries & benefits	812,269	715,325
	Travel	68,364	46,830
	Total	3,246,999	3,013,658
	Less: postage and freight recoveries	343,116	369,823
		2,903,883	2,638,260
Admin	Amortization	196,970	135,267
	Automotive	28,658	24,404
	Bank charges and interest	22,533	20,882
	Consulting	102,241	107,379
	Foreign exchange	-6,272	
	Insurance	80,704	78,777
	Management fees	191,226	183,627
	Office supplies and postage	134,159	118,582
	Professional fees	42,872	67,952
	Rent, property taxes and utilities	61,211	56,815
	Repairs and maintenance	18,378	21,105
Stores:	Sandwich Heaven	326,901	179,834
	Portland Fore Street	26,559	28,159
	Cruise Ship Terminals	22,038	26,927
	Dept. Store Boston	10,082	18,251
	Dept. Store Portland	32,123	37,939
	Bar Harbor Downtown		14,647
	Portland Arts District	49,849	45,002
	Portsmouth	112,450	105,720
	Salaries and benefits	810,049	1,030,336
	Telecommunications	27,824	32,588
	Travel and promotion	27,082	34,692
Total Admin Expenses		$2,317,637	$2,368,885
TOTAL S, G & A Expenses		$5,221,520	$5,007,145

EXHIBIT 5: CONSOLIDATED BALANCE SHEET

March 31	2011	2010
Assets		
Current		
Cash	**$ 112,185**	$ 750,948
Receivables	**358,969**	461,874
Inventories		
Packaging materials	**620,452**	576,287
Raw materials	**169,235**	179,119
Work in progress	**89,146**	66,467
Manufactured finished goods	**643,105**	692,517
Finished goods for resale	**21,878**	36,241
	1,543,816	1,550,631
Investments	**103,136**	76,822
Income taxes receivable	**127,515**	–
Prepaids	**84,620**	56,566
	2,330,241	2,896,842
Property and equipment (see Note 1)	**4,364,527**	3,922,183
Intangible assets		
Goodwill	**916,999**	916,999
Trademarks	**783,596**	783,596
Total Intangible Assets	**1,700,595**	1,700,595
TOTAL ASSETS	**$ 8,395,363**	$ 8,519,620
Liabilities		
Current		
Bank indebtedness	**$ 186,929**	$ 599,146
Payables and accruals	**1,098,232**	1,226,570
Income taxes payable	**-**	127,845
Current portion of long term debt	**419,971**	373,405
	1,705,132	2,326,966
Long term debt	**1,017,679**	1,411,184
TOTAL LIABILITIES	**2,722,811**	3,738,150
Shareholders' Equity		
Capital stock	**32,860**	32,860
Retained earnings	**5,639,691**	4,748,611
TOTAL EQUITY	**5,672,551**	4,781,471
TOTAL LIABILITIES & EQUITY	**$ 8,395,362**	$ 8,519,62 1

EXHIBIT 5 (CONTINUED)

Note 1

Property and equipment			**2011**	**2010**
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	1219819.20	-	1219819.20	1219819.20
Buildings	2799181.35	1099926.90	1699254.45	1770056.19
Manufacturing equipment	1693140.69	1375596.00	317544.69	231858.99
Furniture and fixtures	749496.78	385684.35	363812.43	249376.83
Office equipment	108352.86	90299.22	18053.64	24020.76
Computer equipment	250683.90	225157.26	25526.64	53214.81
Leasehold improvements	914332.83	193817.19	720515.64	373836.12
	7735007.61	3370480.92	4364526.69	3922182.90

Source: Company files.

EXHIBIT 6: CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended March 31	**2011**	2010
Increase (decrease) in cash and cash equivalents		
Operating		
Net earnings	**$ 891,081**	$ 1,069,326
Amortization	**332,355**	244,026
	1,223,436	1,313,352
Change in non-cash oper. working capital	**(328,344)**	350,045
	895,092	1,663,397
Financing		
(Repayments of) advances from LT debt	**(349,168)**	661,806
Dividends paid	**-**	(701,870)
	(349,168)	(40,064)
Investing		
Purchase of assets of Sandwich Heaven	**-**	(1,198,500)
Purchase of property and equipment	**(772,470)**	(419,307)
	(772,470)	(1,617,807)
Net (decrease) increase in cash and cash equivalents	**(226,546)**	5,526
Cash and cash equivalents, beginning of year	**151,802**	146,276
Cash and cash equivalents, end of year	**$ 74,744**	$ 151,802
Comprised of:		
Cash	**$ 112,185**	$ 750,948
Bank indebtedness	**(186,929)**	(599,146)
	$ 74,744	$ 151,802

Source: Company files.

EXHIBIT 7: JOB AD

A unique company........ a unique location........... a unique opportunity.

Our client, one of New England's oldest and respected confectionery companies, is seeking a **PRESIDENT** to oversee the entire business on a day-to-day basis, and provide the vision and guidance for long-term success and profitable growth.

Reporting to the Board of Directors, the President will:

- Deliver superior results and guide the organization to improve.
- Develop formal planning systems and ongoing personnel development.
- Oversee the development of business and marketing strategies to maintain market leadership.
- Provide the necessary leadership to motivate and transform the organization to meet growth expectations.
- Leads, protects and reinforces the positive corporate culture, and is the overseer of the ethics and values in the organization.

An executive level compensation plan commensurate with the importance of this role is offered.

An opportunity that blends an executive level position with the lifestyle only Portland can offer.

CANDIDATE PROFILE:
Given the high levels of autonomy and accountability, the President must display considerable maturity and business experience.

From a personal perspective, the ideal candidate will be:

- A strong non-authoritative team builder.
- A highly motivated and results oriented self-starter.
- Extremely, customer, quality and safety oriented.
- People oriented with the innate ability to establish a high degree of credibility.
- Capable of providing objective insight in a non-confrontational manner.

The successful candidate will likely be or have been in one of the following positions in a manufacturing environment:

- President or General Manager
- At a VP level in operations/finance/marketing looking to rise to the next level

While food manufacturing experience would be a clear asset, it is not a pre-requisite.