

## Sunkist Growers, Inc. and Subsidiaries Consolidated Statements of Changes of Members' Equity

For the Years Ended October 31, 2008 and 2007

	Capital Fund	Accumulated Other Comprehensive Loss	Unallocated Retained Earnings	Total
<b>Balance, October 31, 2006</b> .....	\$ 3,831	\$ (6,348)	\$ 63,913	\$ 61,396
Net capital fund assessment .....	586	–	–	586
Foreign currency translation adjustment .....	–	(73)	–	(73)
Change in minimum pension liability .....	–	6,316	–	6,316
Retained loss for 2007 .....	–	–	(1,551)	(1,551)
Adjustment to initially apply SFAS 158 .....	–	(4,218)	–	(4,218)
<b>Balance, October 31, 2007</b> .....	<b>4,417</b>	<b>(4,323)</b>	<b>62,362</b>	<b>62,456</b>
Net capital fund assessment .....	(237)	–	–	(237)
Foreign currency translation adjustment .....	–	81	–	81
Pension liability .....	–	(52)	–	(52)
Retained income for 2008 .....	–	–	9,068	9,068
<b>Balance, October 31, 2008</b> .....	<b>\$ 4,180</b>	<b>\$ (4,294)</b>	<b>\$ 71,430</b>	<b>\$ 71,316</b>

See accompanying notes to consolidated financial statements.

## Sunkist Growers, Inc. and Subsidiaries Notes to the Consolidated Financial Statements

As of and For the Years Ended October 31, 2008 and 2007

### Note 1 – Organizational Structure and Significant Accounting Policies

#### Organizational Structure

Sunkist Growers, Inc. and subsidiaries (“Sunkist” or “the Company”) is a membership corporation that acts as a cooperative marketing association for its members. In such capacity, the Company acts as an exclusive agent for the marketing of member fruit, including the administration of fresh fruit sales, as well as the processing and sale of fruit products. Members are primarily located in California and Arizona. Proceeds from member fruit sales are remitted to members, net of the assessment for general administrative and marketing expenses.

Income or losses from activities other than the marketing of member fruit (such as from trademark licensing), net of applicable costs and expenses and income tax, are retained or absorbed by Sunkist. Such amounts are included in unallocated retained earnings.

#### Principles of Consolidation

The consolidated financial statements include the financial statements of Sunkist Growers, Inc. and its majority owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. In addition, the Company evaluates its relationships with other entities to identify whether they are variable interest entities as defined by Financial Accounting Standards Board (FASB) Interpretation No. 46(R) Consolidation of Variable Interest Entities (“FIN 46R”) and to assess whether it is the primary beneficiary of such entities. If the determination is made that the Company is the primary beneficiary, then that entity is included in the consolidated financial statements in accordance with FIN 46R. The Company has determined that it has no significant interests in variable interest entities.

Foreign currency translation adjustments related to the operation of the Company’s foreign subsidiaries are accumulated and reported in the Company’s Consolidated Statements of Operations and Comprehensive Income as a component of “Other Comprehensive Income.”

#### Use of Estimates

In preparing the consolidated financial statements, Management has made certain estimates and assumptions that affect certain amounts and disclosures reported herein. Actual results could differ from those estimates and assumptions.

#### Revenue Recognition

The Company recognizes fresh fruit and fruit products revenue when products are shipped and the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sale price is fixed or determinable. The Company licenses the rights to use the Sunkist® brand on certain products produced and sold by licensees. Licensees typically pay ongoing royalties on their sales of products incorporating the Company’s name. The Company recognizes royalty revenue as earned when reasonable estimates of such amounts can be made. Certain royalty revenues are accrued based on licensee sales estimates and royalty contract data by licensee. When the Company’s licensees report royalties for which the Company accrued revenues based on estimates, the Company adjusts revenues for the period in which the reports are received.

EITF 99-19, “Reporting Revenue Gross as a Principal versus Net as an Agent,” requires the Company to report certain fresh fruit sales revenue net of amounts remitted to its members. Sunkist has elected not to adopt the provisions of EITF 99-19 and continues to report its fresh fruit sales revenue based on the gross amount billed to the customer, believing that such reporting is a better reflection of business conducted on behalf of its members. Accounting for revenue and related costs on a net basis would have resulted in a decrease in both revenue and related costs of \$731 million and \$690 million in the years ended October 31, 2008 and 2007, respectively.

The Company also sells fresh citrus fruit from non-member growers in Australia, South Africa, and Mexico through its wholly-owned subsidiary, Sunkist Global, LLC (“Global LLC”). Global LLC receives commissions on such sales, which are recorded as “Other revenues” in the Company’s Consolidated Statements of Operations and Comprehensive Income.

In accordance with the provisions of EITF 00-10, "Accounting for Shipping and Handling Fees and Costs," all amounts related to shipping and handling that are billed to a customer in a sale transaction are classified as "Transportation revenues" in the Company's Consolidated Statements of Operations and Comprehensive Income. In addition, related costs incurred for shipping and handling are classified as "Transportation expenses" in the Consolidated Statements of Operations and Comprehensive Income.

In marketing its domestic fresh fruit, Sunkist offers sales incentives and rebates to customers that meet certain sales volume criteria. The value of such incentives paid is recorded as a reduction to domestic fresh fruit sales revenue. Such amounts totaled approximately \$4 million and \$1.4 million for the years ended October 31, 2008 and 2007, respectively.

The Company is subject to a long-term sales agreement that requires Sunkist to make certain rebate payments on an annual basis until 2018. (See Note 13 - Commitments and Contingencies for additional information.)

#### Derivative Financial Instruments

The Company applies the provisions of Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Certain Hedging Activities" ("SFAS 133"), as amended, in accounting for its derivative instruments. As of October 31, 2008 and 2007, the Company has not met the formal documentation requirements of SFAS 133 and, accordingly, the derivative instruments do not qualify for hedge accounting. As a result, changes in fair value of the derivative instruments are reflected in earnings in the period of change. No contracts were outstanding at October 31, 2008.

#### Advertising Expenses

The Company's policy is to expense advertising costs as incurred.

#### Comprehensive Income

Accounting principles generally require that recognized revenues, expenses, gains and losses be included in net income. However, certain changes in assets and liabilities, such as the recognition of liability adjustments for pension plans and foreign currency translation adjustments, are reported as a separate component of members' equity. At October 31, 2008 and 2007, accumulated other comprehensive loss included liability amounts for pension plans of approximately \$(4.3 million) and \$(4.3 million), respectively and foreign currency translation adjustments of approximately \$(25,000) and \$(106,000), respectively.

#### Fruit Products

All of the products grade fruit received by Sunkist is accounted for under cooperative pooling principles, in accordance with pooling plans established by the Board of Directors ("the Board"). Payments on products fruit are usually made to members in two or more parts. The first payment is normally an advance payment based on terms that range from one to six months and may be 50% or more of the projected market value of the fruit when delivered to the plant. Additional progress payments can be made and final settlements occur after most of the products have been sold and the products pools financially closed.

The established value of member fruit received for processing is included as part of fruit products inventory in accordance with Statement of Position ("SOP") 85-3, "Accounting by Agricultural Producers and Agricultural Cooperatives." When such fruit inventory is sold, the fruit value is reflected as "Payments on products fruit delivered and sold" in the Consolidated Statements of Operations and Comprehensive Income.

Fruit products inventory is stated at the lower of established value, as described above, plus the average cost incurred by Sunkist in producing products from its members' fruit, or market. Purchased ingredients and materials and supplies, principally used in the production of fruit products, are stated at the lower of cost (on a first-in, first-out basis) or market. Management periodically evaluates the adequacy of the reserve for inventory write-down.

#### Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities to the Company of three months or less to be cash equivalents. At times the Company may maintain balances in excess of insured limits.

#### Trade Accounts Receivable

Substantially all of the Company's trade receivables are related to the food industry. Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. The Company regularly evaluates the credit risk of its customers and, based on this evaluation, records an appropriate provision for bad debts. Bad debts have historically been insignificant. Upon identification of a bad debt, a charge is made to the allowance for doubtful accounts. The Company does not have any off-balance-sheet credit exposure related to its customers and does not believe that any single customer, industry, or geographic area represents significant credit risk.

#### Property and Equipment

Property and Equipment is stated at cost. Depreciation and amortization are computed on the straight line and declining-balance methods at rates based upon the estimated useful lives of the assets. Such lives range from 3 to 50 years.

The Company reviews long-lived assets, such as plant and equipment, for impairment whenever events or changes in circumstances indicate that the net book value of such assets may not be recoverable, in accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." In connection with the 2008 Citrus Juice & Oils Plant Consolidation project, the Company performed an impairment analysis. Based on this analysis, an asset impairment loss provision is not required for the 2008 fiscal year. (See Note 17 for discussion of the Plant Consolidation project.) As of October 31, 2007, there was no impairment of long-lived assets.

#### Note 2 – Receivables – Trade and Other, Net

(In Thousands)	2008	2007
Fresh Fruit . . . . .	\$ 34,052	\$ 47,905
Fruit Products . . . . .	7,407	12,400
Licensing Receivables . . . . .	6,395	6,976
Other Receivables . . . . .	35,496	9,323
Allowance for Doubtful Accounts . . . . .	(422)	(189)
<b>Total . . . . .</b>	<b>\$ 82,928</b>	<b>\$ 76,415</b>

Licensing receivables are royalty fees due from third parties for the use of the SUNKIST® brand under the Company's trademark licensing program.

Other receivables include property sold during 2008, advances receivable from Global LLC shippers, leased equipment receivables at the Company's Research and Technical Services division (the "Research Division"), notes receivable from Maverick Brands, LLC, and amounts due to the Company's foreign subsidiaries from their customers.

Approximately \$15 million of the sale of the Ontario Plant facility property is included in Other Receivables above, and the related gain is reflected in the Company's 2008 Consolidated Statements of Operations and Comprehensive Income. (See Note 17 for additional information.)

#### Note 3 – Advances in Excess of Margins Earned

Advances in excess of margins earned result from certain general and administrative costs that are incurred on inventory that will be sold in subsequent periods.

As the products inventory is sold and the product pools closed, realized margins are offset against such advances.

In fiscal 2008 and 2007, cash rebates totaling \$6.3 million and \$6 million, respectively, were paid in conjunction with a long-term sales agreement and recorded as a reduction of fruit products sales revenue, thereby contributing to the advances in excess of margins earned due to a timing difference between the date the rebate was paid and the date of corresponding sales under the sales agreement. The portion of said rebates to be recovered from future sales of lemon oil beyond one fiscal year is recorded as "Other Assets" in the Company's Consolidated Statements of Financial Position.

#### Note 4 – Inventory - Net

(In Thousands)	2008	2007
Fruit Products . . . . .	\$ 37,575	\$ 27,705
Materials and Supplies . . . . .	5,766	5,875
Reserve for Inventory Write-Down . . . . .	(82)	(958)
<b>Total . . . . .</b>	<b>\$ 43,259</b>	<b>\$ 32,622</b>

Fruit products inventory included a total of \$15.3 million and \$10.1 million of established value relating to fruit at October 31, 2008 and 2007, respectively.

#### Note 5 – Investments

(In Thousands)	2008	2007
Life Insurance Policies – cash surrender value . . . . .	\$ 10,167	\$ 12,873
Maverick Brands LLC . . . . .	2,311	1,500
Sunkist Taylor LLC . . . . .	(1,212)	(806)
Other . . . . .	1,092	1,043
<b>Total . . . . .</b>	<b>\$ 12,358</b>	<b>\$ 14,610</b>

The Company has established a Rabbi Trust for participants in the Company's Deferred Compensation Plan and/or Supplemental Excess Benefit Plan. This Trust is the owner and beneficiary of the investment-oriented variable life insurance policies on participants in both Plans. Investments under these policies are directed by the Company. The participants have no specific right to the Trust assets and the assets of the Trust are available to satisfy the claims of the general creditors in the event of Company bankruptcy. Accordingly, the life insurance policies' cash surrender value is recorded as an asset of the Company. (See Note 11 - Long-term Obligations for additional information.) As of October 31, 2008, these policies had face values of approximately \$3 million each, and there were no loans against the policies or contractual restrictions on the ability to

surrender a policy. The cash surrender values may increase or decrease based on the underlying investment experience. The cash surrender value of these insurance policies is recorded, in aggregate, as an asset in accordance with the FASB Technical Bulletin 85-4, "Accounting for Purchase of Life Insurance." The change in cash surrender value of the policies each period is reflected in current year retained income/loss. Due to the change in surrender value on these policies, the Company recorded \$2.7 million of loss and \$1 million of income, net of premium payments, for the years ended October 31, 2008 and 2007, respectively.

During 2007, Maverick Brands, LLC was formed by the Company and two other investors to market Sunkist Natural 100% juice and smoothie consumer packaged products. The Company made an initial investment of \$1.5 million during 2007. During 2008, the Company invested an additional \$811,000 in the LLC. Also during 2008, the Company provided a short-term loan in the amount of \$811,000 which is included in Other Receivables on the Consolidated Statements of Financial Position. The Company retains a minority equity interest in the LLC, and its investment is accounted for under the cost method of investment accounting. In addition, under separate agreement, Sunkist granted a trademark license to Maverick Brands, LLC.

In July 2006, the Company formed Sunkist Taylor LLC with Taylor Fresh Foods, Inc. Sunkist Taylor LLC is a joint venture, accounted for under the equity method of accounting, of the Company and Taylor Fresh Foods, Inc., each of whom owns a 50 percent interest in Sunkist Taylor LLC. Sunkist Taylor LLC was formed to process, package, distribute, market, and sell fresh-cut fruit and vegetable products. The Company's 50 percent portion of the LLC's operating losses for fiscal years 2008 and 2007 were \$406,000 and \$1.1 million respectively. During fiscal year 2006, the Company invested \$500,000 in cash in the LLC. During fiscal year 2008 and 2007, the Company and Taylor Fresh Foods, Inc. each loaned Sunkist Taylor LLC \$750,000 and \$700,000, respectively, to cover operating expenses. The Company's portions of such loans are included in Other Receivables on the Company's Consolidated Statements of Financial Position. Facilities and equipment are leased to the LLC by each member.

Other investments include the Company's share of CoBank allocated equity stock at cost. Distribution of this non-marketable investment is at the sole discretion of the CoBank Board.

#### Note 6 – Property and Equipment - Net

(In Thousands)	2008	2007
Machinery, Equipment and Fixtures . . . . .	\$ 103,445	\$ 97,494
Land and Buildings . . . . .	38,326	32,632
Software . . . . .	21,264	18,964
Construction in Progress . . . . .	5,319	10,853
Accumulated Depreciation and Amortization . . . . .	(115,592)	(109,467)
<b>Total</b>	<b>\$ 52,762</b>	<b>\$ 50,476</b>

Depreciation and amortization expense in 2008 and 2007 was \$8.6 million and \$6.1 million, respectively.

In 2008 and 2007, the Company sold buildings and equipment for \$2.9 million and \$0.3 million, respectively (excluding the Ontario plant facility sale discussed in Note 17). Total gains on sales were \$16.3 million including the Ontario plant sale and the sale of certain unused air emission credits at the Ontario plant.

In 2005 the Company committed to the purchase and implementation of an Oracle ERP (Enterprise Resource Planning) system and a Data Warehouse system to improve its financial processing, analysis and reporting capabilities. As of October 31, 2008, the total project commitment was approximately \$14 million, \$10.6 million of which had been capitalized and \$3.4 million expensed as of that date. Most of the system was placed into service in 2007.

The Company's Research Division builds various types of packinghouse machinery and equipment which it leases to both member and non-member packinghouses. In addition, the Company leases excess office space at its corporate headquarters location to various tenants. All such leases are classified as operating leases under the provisions of Statement of Financial Accounting Standards No. 13, "Accounting for Leases." Rental income recognized on these leases totaled \$6.6 million and \$6.1 million in 2008 and 2007, respectively, and is included in "Other Revenues" and "Sale and lease of packinghouse equipment" in the Consolidated Statements of Operations and Comprehensive Income. At October 31, 2008, the Company's minimum future rental income on noncancelable operating leases, for the years indicated, was as follows (in thousands):

2009 . . . . .	\$ 5,196
2010 . . . . .	2,611
2011 . . . . .	1,931
2012 . . . . .	1,416
Thereafter . . . . .	713
<b>Total</b>	<b>\$ 11,867</b>

These minimum future amounts do not include contingent rentals, which may be received under certain leases of equipment on the basis of the amount of fruit handled on such equipment. Such income totaled \$346,000 and \$181,000 in 2008 and 2007, respectively.

The Company's net investment in equipment leased to packinghouses subject to these operating leases was \$2.3 million and \$2.6 million at October 31, 2008 and 2007, respectively. The cost of such equipment leased at October 31, 2008 and 2007 was \$8.2 million and \$11.8 million, respectively.

#### Note 7 – Other Assets

(In Thousands)	2008	2007
Unamortized Contract Payments . . . . .	\$ 3,339	\$ 6,412
Excess Pension Contributions – Salaried Plan . . . . .	2,061	2,061
Prepaid Pension Asset – Hourly Plan . . . . .	–	829
Other . . . . .	94	86
<b>Total</b>	<b>\$ 5,494</b>	<b>\$ 9,388</b>

See Note 13 - Commitments and Contingencies for additional information on the unamortized contract payments and rebates. See Note 15 - Retirement Plans and Other Benefits for additional information on the excess pension contributions and prepaid pension asset.

#### Note 8 – Short-term Obligations

Short-term obligations outstanding as of October 31, 2008 and 2007 include \$2.5 million and \$3.6 million of bank overdrafts, respectively, resulting from normal delays in the presentation of checks for payment.

The Company is authorized by its Board to utilize short-term debt to finance its daily operations. Such debt can include lines of credit with CoBank and another commercial bank. Interest expense on the Company's short-term debt totaled \$195,000 and \$667,000 in 2008 and 2007, respectively. The effective interest rate was 2.22% at October 31, 2008. At October 31, 2008 and 2007, the short-term debt was \$20 million and \$15.3 million, respectively. The remaining amount of short-term lines of credit available at October 31, 2008 was \$10 million. The Company is subject to covenants and restrictions under the lines of credit.

The Company had a note payable to Nature's Pleasure, a former partner, as a result of a contract settlement. The remaining \$323,000 principal repayment on the note was repaid in January 2008.

#### Note 9 – Trade Payables and Other Accrued Liabilities

Trade payables and other accrued liabilities include various outstanding payments due to the Company's vendors, its trade partners, and various agencies. These payables and other accrued liabilities result primarily from the Company's normal operating activities.

#### Note 10 – Payables to Members

(In Thousands)	2008	2007
Fresh Fruit Proceeds . . . . .	\$ 39,385	\$ 46,631
Product Pools – Oranges . . . . .	10,627	9,913
Product Pools – Lemons . . . . .	3,594	–
Capital Fund Refunds . . . . .	318	95
<b>Total</b>	<b>\$ 53,924</b>	<b>\$ 56,639</b>

Fresh Fruit proceeds are generally remitted as collected, but in no event later than 55 days subsequent to customer invoicing. Fresh Fruit Payables to Members outstanding at any point in time generally represents the fruit value of orders invoiced to customers, but not yet remitted to members.

Product Pool payments are made in various stages depending on terms in effect at the time fruit receipts arrive at the processing facility. Under the products pooling plan currently in effect, the Company normally makes initial advance payments and additional/final payments upon closure of a pool. During 2007, no advance payments were made for Lemon Pool receipts, based on the estimated outcome of pool margins. When a substantial portion of a pool's inventory has been sold, the final settlement is determined with respect to the difference between actual pool earnings, calculated in accordance with the pooling plan, and amounts previously paid. Products Pools Payables to Members outstanding at any point in time represents the balance of established value not yet remitted.

#### Note 11 – Long-term Obligations

(In Thousands)	2008	2007
Long-Term Debt . . . . .	\$ 20,000	\$ 20,000
Deferred Compensation and Pension Payable . . . . .	6,449	7,708
Subsidiary Company Retirement Benefits . . . . .	890	714
Legal Obligation . . . . .	15,865	14,525
<b>Total</b>	<b>\$ 43,204</b>	<b>\$ 42,947</b>

In 2007, the Company established a \$20 million unsecured term loan facility with CoBank. Under the terms of this facility, which matures in 2010, several interest

options are provided. The Company is subject to covenants and restrictions under this facility. As of October 31, 2008, the balance outstanding on this facility was \$20 million and the effective interest rate was 5.48%.

Interest on the Company's long-term borrowings totaled \$1.1 million and \$600,000 in 2008 and 2007, respectively.

The deferred compensation and pension payable is comprised of the liability to participants under the Company's non-qualified Deferred Compensation Plan, the Supplemental Excess Benefit Retirement Plan, and the Products Hourly Retirement Plan. (See Note 5 - Investments and Note 15 - Retirement Plans and Other Benefits for additional information.)

The subsidiary company retirement benefits represent the Company's obligation to certain employees of Sunkist's Japanese subsidiary. Payments are due to such employees upon their separation from the subsidiary company.

The legal obligation is comprised of a liability to cover a legal matter. (See Note 13 - Commitments and Contingencies.)

## Note 12 - Members' Equity

### Capital Fund

To provide a portion of the capital required to operate Sunkist's business, a non-interest-bearing fund is maintained through annual assessments against members' fruit shipments, at the rate of one cent per carton or per carton equivalent. The capital fund retention period is a rolling five-year period. As such, for growers who have an existing five-year capital fund balance, the net assessment or refund in the sixth year will be the difference between the sixth-year (current) assessment and the first-year refund. The terms of the capital fund program, including payouts of net refunds, are set by the Board.

### Unallocated Retained Earnings

Unallocated retained earnings are primarily comprised of accumulated income derived from trademark licensing, the sale and lease of packinghouse equipment, gain on sale of property, and other non-member business activities. The unallocated retained earnings increase in 2008 is due largely to the sale of property. The decrease in 2007 is due primarily to losses from certain non-member business activities.

## Note 13 - Commitments and Contingencies

### Long-Term Contract

In October 2001, the Company entered into a long-term agreement with a multinational manufacturer, which calls for Sunkist to sell to such customer, on an annual basis until 2018, a fixed amount of fruit products inventory at predetermined prices. Under the agreement, Sunkist is obligated to pay a fixed amount of annual cash rebates, based on projected annual sales volume, throughout the life of the agreement. Rebates totaling \$6.3 million and \$6 million were paid in 2008 and 2007, respectively. Under the terms of the contract, future annual rebates are \$6.5 million. As of October 31, 2008 and 2007, Other Assets included unamortized contract payments of \$3.3 million and \$6.4 million, respectively (see Note 7). All rebates paid or expensed in conjunction with this agreement are recorded as a reduction of fruit products sales revenue in the corresponding year the product is sold.

### Legal Matters

In November 2001, Stark Packing Corporation initiated a legal action against Sunkist based upon a variety of assertions. The action subsequently went to trial on November 6, 2006. On December 20, 2006, the jury returned a verdict against Sunkist for breach of contract and awarded the plaintiffs approximately \$13.4 million. The Company believes that the jury verdict was not justified by the evidence and has appealed the verdict. As a result of the verdict, in 2006, the Company recorded a liability of \$13.4 million in long-term obligations in the accompanying Consolidated Statements of Financial Position. The Company accrued statutory post-judgment interest related to this verdict of \$1.3 million and \$1.1 million in fiscal years 2008 and 2007, respectively. The liability has been classified as long-term as management and the Company's legal counsel believe the matter will not be resolved within the 2009 fiscal year.

The Company is engaged in a number of lawsuits arising from its normal business activities. In the opinion of management, the outcome of these matters, and the matters noted above, will not have a material adverse impact on the Company's financial statements.

### Rental Commitments Under Non-Cancelable Operating Leases

The Company has obligations under non-cancelable operating leases, primarily for office facilities and certain equipment, which expire at various dates through

2013. Minimum rent payments under operating leases are recognized on a straight-line basis over the term of the lease including any periods of free rent. At October 31, 2008, the Company's aggregate minimum rental commitments for the years indicated are as follows (in thousands):

2009	\$ 1,784
2010	1,571
2011	1,206
2012	116
2013	87
<b>Total</b>	<b>\$ 4,764</b>

Total rent expense was \$3.5 million and \$3.3 million for 2008 and 2007, respectively.

### Irrevocable Letters of Credit

The Company maintained an irrevocable and unconditional letter of credit with CoBank in the amount of \$918,000 as of October 31, 2008. The beneficiary of the letter of credit is Zurich American Insurance Company, the Company's workers' compensation insurance carrier. The purpose of the letter of credit is to secure the Company's workers' compensation insurance policy deductible of \$250,000 per incident.

During 2007, the Company established two additional irrevocable letters of credit with CoBank totaling \$20.6 million. These letters are for the Stark Packing Corporation legal matter (see discussion in Legal Matters), and the beneficiary of these letters of credit is American Contractors Indemnity Company.

At October 31, 2008, there were no amounts drawn against any of the letters of credit.

## Note 14 - Income Taxes

Sunkist is taxable under the provisions of sub-chapter T of the Internal Revenue Code. Accordingly, income that is derived from member sources is deductible for income tax purposes upon distribution to members, whereas income derived from non-member sources is subject to tax regardless of whether or not such income is so distributed.

The income tax provision, calculated in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," consists of the following:

(In Thousands)	2008	2007
Current Expense (Benefit)	\$ 4,095	\$ (292)
Deferred Expense (Benefit)	(256)	(195)
<b>Total</b>	<b>\$ 3,839</b>	<b>\$ (487)</b>

The income tax provision differs from the amount that is computed by applying the statutory federal income tax rate to retained income/loss before income tax expense/benefit. The difference is attributable to the following items:

(In Thousands)	2008	2007
Income Tax Expense (Benefit) at Statutory Rate	\$ 4,483	\$ (681)
Foreign and Other Tax Credits	(467)	(862)
Change in Valuation Allowance	(296)	927
Other	119	129
<b>Total</b>	<b>\$ 3,839</b>	<b>\$ (487)</b>

Other adjustments consist of various ordinary operating expenses that are not deductible for income tax purposes and the impact of income generated by the Company's foreign subsidiaries being taxed at rates different than the federal rate.

The valuation allowance relates to tax benefits that are deductible for tax purposes in future years. The current year decrease in the allowance reflects a decrease in net deferred patronage assets. In assessing the realizability of non-patronage deferred tax assets, management considers whether it is probable that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences, net of the existing valuation allowances at October 31, 2008. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

The Company has approximately \$48.7 million of patronage net operating loss carryforwards remaining as of October 31, 2008. If left unused, these carryforwards will expire in the following amounts and years: \$3.9 million in 2010, \$10.7 million in 2011, \$433,000 in 2012, \$5.2 million in 2020, \$5.8 million in 2023, \$972,000 in 2024, \$18.7 million in 2025, and \$3.1 million in 2026. The patronage net operating loss

carryforwards arose from timing differences of income and expense recognition. This is primarily due to the timing differences between members' payments for tax and financial reporting purposes, as well as a tax deferred exchange of real property.

Income taxes receivable (payable) totaled \$(942,000) and \$1.8 million at October 31, 2008 and 2007, respectively.

Deferred taxes are recorded based upon differences between the financial statement basis and tax basis of certain assets and liabilities. These differences arise when an item of income or expense is recognized in a different period for accounting purposes than for income tax purposes. Deferred income taxes are comprised of the following components:

(In Thousands)	2008	2007
<b>Deferred Assets</b>		
Net Operating Losses	\$ 17,061	\$ 17,090
Capitalized Inventory Costs	2,077	1,923
Lease Deposits	482	460
Vacation Pay Accrual	439	390
Depreciation	1,872	1,500
Deferred Compensation	1,169	1,449
Legal Settlement Reserve	5,553	5,085
Other	1,738	1,041
<b>Total Deferred Assets</b>	<b>\$ 30,391</b>	<b>\$ 28,938</b>
<b>Deferred Liabilities</b>		
Membership Payments	\$ 4,977	\$ 3,469
Deferred Gain on Exchange of Property	5,542	5,542
Other	1,979	1,995
<b>Total Deferred Liabilities</b>	<b>\$ 12,498</b>	<b>\$ 11,006</b>
Net Deferred Asset Before Valuation Allowance	\$ 17,893	\$ 17,932
Valuation Allowance	(16,655)	(16,951)
<b>Net Deferred Assets</b>	<b>\$ 1,238</b>	<b>\$ 981</b>

## Note 15 – Retirement Plans and Other Benefits

### Sunkist Retirement Plan-A

The Sunkist Retirement Plan-A ("the Plan") is a non-contributory, defined benefit, multi-employer pension plan which provides retirement benefits for all eligible employees of the Company and other participating companies. The Plan was funded in accordance with the funding requirements of federal law and regulations. The Plan benefits are calculated based on years of service, highest consecutive five-year average earnings, retirement age, and the primary Social Security benefit. The Plan was frozen effective December 31, 2004.

Service costs plus amortized actuarial gains and losses, net of earnings on Plan assets and interest costs, are funded currently for the Plan. The Company contributed \$2.6 million and \$4.7 million to the plan in 2008 and 2007, respectively. The Company records as an expense the amount of the required contribution to the Plan. In certain years, the Company's contribution to the plan has been in excess of the required contribution. Accumulated excess contributions are included in Other Assets and totaled \$2.1 million at October 31, 2008 and 2007. Plan assets are invested in a group trust, consisting primarily of long-duration bonds, as well as private equity funds, hedge funds, and cash. Sunkist is the largest participating employer in the Plan and constitutes approximately two-thirds of the active participants.

The actuarial present value of the benefit obligations of the Plan is in excess of the plan assets currently available for payment of such obligations. As of October 31, 2008, the Company's estimated portion of the projected benefit obligation in excess of the Plan assets totaled \$4.4 million. In accordance with the accounting requirements for a multi-employer pension plan as specified in Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions" ("SFAS 87"), including amendments, such benefit obligation liabilities are not recorded in the Company's financial statements.

### Adoption of SFAS 158

On October 31, 2007, the Company adopted the recognition and disclosure provisions of SFAS 158, "Employers Accounting for Defined Benefit Pension and Other Postretirement Plans" ("SFAS 158"). SFAS 158 required the Company to recognize the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of its defined benefit plans (the Hourly Plan and the SERP discussed below), in the Consolidated Statement of Financial Position as of October 31, 2007 with a corresponding adjustment to accumulated other comprehensive loss. The adjustment to "Accumulated other comprehensive loss" at adoption primarily represents the net unrecognized actuarial and asset losses and unrecognized prior service costs. These amounts will be subsequently recognized as net periodic pension cost pursuant to the Company's historical accounting policy of amortizing such amounts. Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic pension cost in the same periods will be

recognized as a component of other comprehensive income. Those amounts will be subsequently recognized as a component of net periodic pension cost on the same basis as the amounts recognized in "Accumulated other comprehensive loss" at adoption of SFAS 158.

The incremental effects of adopting the provisions of SFAS 158 on the Company's Consolidated Statement of Financial Position at October 31, 2007, are presented in the following table. There was no tax effect due to valuation allowances for deferred taxes.

(In Thousands)	Before Application of SFAS 158	Adjustments	After Application of SFAS 158
Other Assets	\$ 5,022	\$ (4,193)	\$ 829
Total Assets	5,022	(4,193)	829
Long-term Obligations (SERP)	(3,542)	(25)	(3,567)
Accumulated Other Comprehensive Loss	–	(4,218)	(4,218)
Total Members' Equity	–	(4,218)	(4,218)

### Products Hourly Retirement Plan

The Products Hourly Retirement Plan ("the Hourly Plan") is a single-employer defined benefit plan which provides retirement benefits to hourly employees at its Processed Products division. The following disclosure sets forth the Hourly Plan's benefit obligation, fair value of assets and its funded status as of the October 31, 2008 and 2007 measurement dates. In 2007, prior to adoption of SFAS 158, the Company had a net decrease in its recognized minimum pension liability and related intangible asset of \$6.3 million, which was recorded as Other Comprehensive Income on the Company's Consolidated Statements of Operations and Comprehensive Income. Pension assets are classified in "Other Assets" and pension liabilities are classified in "Long-term Obligations" in the Company's Consolidated Statements of Financial Position.

The accumulated benefit obligation for the Hourly Plan was \$19 million and \$22.4 million at October 31, 2008 and 2007, respectively.

(In Thousands)	Pension Benefits 2008	2007
Projected Benefit Obligation	\$ 19,270	\$ 22,722
Fair Value of Plan Assets	18,993	23,551
<b>Funded Status</b>	<b>\$ (277)</b>	<b>\$ 829</b>
Net Pension Asset (Accrued Liability) Recognized in Statements of Financial Position	(277)	829
Net Periodic Pension Cost	518	1,458
Employer Contributions	–	2,833
Benefits Paid	1,431	1,373

The Hourly Plan was amended in 2007 to partially freeze benefit accruals. The change qualified for curtailment accounting. The 2007 net periodic benefit cost includes a \$310,000 loss for the portion of net prior service costs relating to this change. The 2007 change in Other Comprehensive Income includes \$1 million for the related reduction in future projected benefits.

Amounts included in "Accumulated other comprehensive loss" which have not yet been recognized in net periodic benefit cost consisted of net actuarial and asset losses of \$4.6 million and prior service cost of \$216,000. The estimated net actuarial and asset loss and prior service cost for the Hourly Plan that will be amortized from "Accumulated other comprehensive loss" into net periodic benefit cost over the next fiscal year are \$330,000 and \$101,000, respectively.

Amounts recognized in Other Comprehensive Income for the year ending October 31, 2008 consist of:

(In Thousands)	
Net actuarial loss arising during the period	\$ (918)
Amortization included in net benefit cost:	
Amortization of net actuarial loss	157
Amortization of prior service cost	173
<b>Total</b>	<b>\$ (588)</b>

The weighted-average assumptions used to determine the benefit obligation at October 31, 2008 and 2007 were as follows:

	2008	2007
Discount Rate	8.00%	6.25%
Rate of Increase in Future Compensation	4.50%	4.50%

The weighted-average assumptions used to determine net cost for the years ended October 31, 2008 and 2007 were as follows:

	2008	2007
Discount Rate	6.25%	5.75/6.00%
Rate of Increase in Future Compensation	4.50%	4.50%
Expected Long-Term Rate of Return on Assets	7.25%	8.00%

The Company's overall expected long-term rate of return on assets is 7.25%. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

The investment policies and strategies for the pension benefits include the use of target asset allocations for the individual asset categories. The 2008 targets and actual asset allocation of the Company's pension benefits at October 31, 2008 and 2007 are as follows:

	2008 Target	2008 Actual	2007 Actual
Public Equity . . . . .	20%	16%	39%
Private Equity/Special Situations . . . . .	10%	17%	11%
Hedge Funds/Real Estate . . . . .	10%	13%	14%
Fixed Income/Cash . . . . .	60%	54%	36%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

The investment goals are to maximize returns subject to specific risk management policies. Current risk management policies permit investments in mutual funds and prohibit direct investments in debt and equity securities and derivative financial instruments. Diversification is addressed by the use of mutual fund investments whose underlying investments are in domestic and international fixed income securities and domestic and international equity securities. These mutual funds are readily marketable and can be sold to fund benefit payment obligations as they become payable.

Although the Hourly Plan is in a slight underfunded position, the Company does not expect to make a contribution during 2009. Expected future benefit payments in subsequent years are as follows: \$1.4 million in 2009 through 2011, \$1.5 million in 2012, \$1.6 million in 2013, and \$9 million for the years from 2014 through 2018. The expected benefits are based on the same assumptions used to measure the Company's benefit obligation at October 31, 2008, and include estimated future employee service.

#### Other Plans

The Company sponsors several other plans that provide retirement and related benefits to the employees of Sunkist and other related companies. The Deferred Compensation Plan, the Match+ Savings Plan, the Voluntary Investment Plan, and the SITRA Plan are all defined contribution plans. The Company's contributions to the Match+ Savings Plan were \$1.8 million and \$1.9 million in 2008 and 2007, respectively. The Company made a discretionary contribution to the Match+ Savings Plan in an amount equal to 6% of eligible employee's earnings in both years. No contributions have been made to either the Voluntary Investment Plan or the SITRA Plan since 1986.

The Supplemental Excess Benefits Retirement Plan ("SERP"), which provides supplemental retirement income and survivor benefits to eligible employees of Sunkist, was frozen effective December 31, 2004. The SERP, and Deferred Compensation Plan are funded by life insurance policies in a Rabbi Trust. The assets of the Rabbi Trust are available to the general creditors of the Company.

The net periodic benefit cost of the SERP was \$301,000 and \$331,000 in 2008 and 2007, respectively. Projected benefit obligations of \$3.1 million and \$3.6 million were recorded in the Company's Consolidated Statements of Financial Position as of October 31, 2008 and 2007, respectively. Amounts recognized in Other Comprehensive Income of \$536,000 for the year ending October 31, 2008, consist of net actuarial gain arising during the period of \$478,000 and amortization of net gain and prior service cost of \$(6,000) and \$64,000, respectively.

In 2008, there has been significant volatility in the domestic and international investment markets, primarily as a result of liquidity issues in credit markets. Consequently, the fair value of plan assets within the Company's employee benefit plans, including the Hourly Plan, the Sunkist Retirement Plan-A and the life insurance policies in Note 5, are exposed to higher than typical price volatility which could result in a substantial reduction in the fair value of such investments from the amounts reported as of October 31, 2008. The amounts of gains and losses that will be recognized in subsequent periods, and the impact on net funding status of future contributions, cannot be estimated.

#### Note 16 – Research and Development

The cost of research and development for both processed products and fresh fruit operations is charged to the Company's operations when incurred and amounted to \$1.6 million and \$2 million in 2008 and 2007, respectively.

#### Note 17 – Plant Consolidation

As part of management's evaluation of overall Company operations, in September 2007, the Board approved a plan of realignment to consolidate the Citrus Juice and Oil Division's processing activities. This consolidation involves the relocation of the Company's lemon juice processing from its Ontario facility to its Tipton facility. With the exception of the Ontario Tank Farm activities, this plan will result in the ultimate closure and sale of the Company's Ontario processing

plant. Management expects that the consolidation of these facilities will result in significant overall cost savings due primarily to efficiencies gained through the elimination of redundant plant overhead costs. Activities related to the consolidation were mostly completed during the 2008 fiscal year, with work on the final phase expected to be completed during fiscal year 2009. Consolidation costs relate primarily to the relocation of equipment from the Ontario facility to the Tipton facility, workforce reductions and employee relocation expenses. In total, the Company expects to expend approximately \$11.7 million for capital improvements at the Tipton facility necessary to accommodate the additional fruit processing activities.

Late in the 2008 fiscal year, a \$24 million commitment was entered into for the sale of the Ontario processing plant. Approximately \$15 million of this sale was recorded in the financial statements, with payment of these sales proceeds expected in 2009. Concurrently, property, plant and equipment was tested for impairment in accordance with SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" and, if impairment exists, the carrying value of the assets reduced to estimated fair value. At October 31, 2008, no such impairment was warranted. The carrying value of the assets included in the Ontario asset disposal group totaled \$8.9 million at October 31, 2008, and are included in "Property & Equipment - net" in the Company's Consolidated Statement of Financial Position.

Costs associated with the consolidation are recognized in accordance with SFAS 146, "Accounting for Costs Associated with Exit or Disposal Activities" and are included in "General administrative and other expense" in the Company's Consolidated Statement of Operations and Comprehensive Income.

A summary of the consolidation costs for the year ended October 31, 2008 is as follows:

(In Thousands)	Equipment Relocation	Workforce Reduction	Employee Relocation	Total
Amount expected to be incurred . . .	\$ 4,435	\$ 1,386	\$ 236	\$ 6,057
Amount incurred in 2008 . . . . .	\$ 3,355	\$ 904	\$ 197	\$ 4,456
Cumulative amount incurred as of October 31, 2008.	\$ 3,355	\$ 1,230	\$ 197	\$ 4,782

At October 31, 2008 the accrued liability associated with the consolidation activities consisted of the following:

(In Thousands)	Equipment Relocation	Workforce Reduction	Employee Relocation	Total
Balance at October 31, 2007. . . . .	\$ -	\$ 326	\$ -	\$ 326
Provision in General administrative and other expense . . . . .	3,355	904	197	4,456
Actual expenditures charged to accrual . . .	(3,355)	(618)	(190)	(4,163)
Adjustments to prior provision . . . . .	-	(15)	-	(15)
Balance at October 31, 2008. . . . .	\$ -	\$ 597	\$ 7	\$ 604

#### Note 18 – Additional Disclosures About the Financial Statements

##### Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, receivables, trade payables, short-term obligations, and long-term obligations are a reasonable estimate of fair value due to the short-term nature or variable interest component of the instruments.

The Company's investments are comprised primarily of cash surrender value of variable life insurance policies. The net carrying value approximates the fair value and was provided by the insurance carrier. Also included in other investments are a joint venture (accounted for under the equity method) and a minority equity interest (accounted for under the cost method). (See Note 5 – Investments.)

The carrying value of the Company's investment in CoBank was \$1.1 million and \$979,000 at October 31, 2008 and 2007, respectively. Because there is no market for this investment, a reasonable estimate of fair value is not available.

##### Commodity Forward Contracts

In connection with certain sales of frozen concentrated orange juice, the Company, at times, enters into commodity forward contracts to reduce the risk of future price fluctuations. No contracts were outstanding as of October 31, 2008 or 2007. A net gain of \$0 and \$78,000 was recognized on these activities in 2008 and 2007, respectively.

##### Other Related Parties

Fruit Growers Supply Company (FGS) is a cooperative and supplier of shipping materials. The Company (Sunkist Growers, Inc.) is a member of FGS, and FGS and the Company have the same members and some common directors. The Company purchased shipping materials from FGS in the amount of \$11.6 million and \$8.7 million in 2008 and 2007, respectively.