

Sunkist Growers, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements

As of and For the Years Ended October 31, 2005 and 2004

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 fresh fruit sales are remitted to members, net of assessments 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, is retained or absorbed by Sunkist. Such amounts are included in unallocated retained earnings.

Principles of Consolidation

All material intercompany transactions and balances have been eliminated in the consolidated financial statements of Sunkist. 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 Loss as a component of "Other Comprehensive Income (Loss)". In addition, certain information in the consolidated financial statements for fiscal 2004 has been reclassified for comparative purposes.

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 name on certain products produced and sold

by licensees. Licensees typically pay on-going 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 \$668 million and \$655 million for the years ended October 31, 2005 and 2004, respectively.

In fiscal 2004, the Company commenced selling fresh citrus fruit from non-member growers in Australia, South Africa, Chile and Mexico on consignment through its wholly-owned subsidiary, Sunkist Global, LLC ("Global LLC"). In addition to citrus, Global LLC marketed fresh strawberries and Clementines from non-member growers in California. Global LLC receives a 6% to 8% commission on such sales which is reflected in "Other Revenue" in the Company's Consolidated Statements of Operations and Comprehensive Loss.

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 Loss. In addition, related costs incurred for shipping and handling are classified as "Transportation Expenses" in the Consolidated Statements of Operations and Comprehensive Loss.

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In marketing of 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 \$2.2 million for each of the years ended October 31, 2005 and 2004.

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 14 - Commitments and Contingencies for additional information).

Hedging Activities

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, 2005 and 2004, 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.

Advertising Expenses

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

Comprehensive Loss

Accounting principles generally require that recognized revenues, expenses, gains and losses be included in retained income. However, certain changes in assets and liabilities, such as the recognition of the change in unfunded minimum pension liability as well as foreign currency translation adjustments, are reported as a separate component of members' equity.

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 generally made to members in at least two parts. The first payment is an advance payment, and is made in the third month (sixth as to lemons) after fruit delivery. The amount of the advance is equal to approximately

50% of the projected market value of the fruit when delivered to the plant. Final settlements are made after most of the products have been sold and the products pools financially closed.

The market 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 Loss.

Fruit products inventory is stated at the lower of fruit 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.

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. The Company does not have any off-balance-sheet credit exposure related to its customers.

Property

Property 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.

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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." As of October 31, 2005 and 2004, there was no impairment of long-lived assets.

Note 2 – Receivables – Trade and Other, Net

<i>(In Thousands)</i>	2005	2004
Fresh Fruit – Domestic	\$ 31,676	\$ 37,605
Fresh Fruit – Export	7,109	5,735
Fruit Products	6,992	11,254
Licensing Receivables	6,930	6,627
Other Receivables	5,358	7,564
Allowance for Doubtful Accounts	(143)	(153)
TOTAL	\$ 57,922	\$ 68,632

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 leased equipment receivables at the Company's Research and Technical Services division (the "Research Division"), receivables due to the Company's foreign subsidiaries from their customers, advances receivable from Global LLC shippers, and a \$180,000 note from a Global LLC shipper which accrues interest at 4.5% per annum and is due on or before October 31, 2006.

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

In fiscal 2005 and 2004, cash rebates totaling \$4.8 million and \$5.0 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

<i>(In Thousands)</i>	2005	2004
Fruit Products	\$ 27,961	\$ 28,473
Materials and Supplies	5,714	4,422
Reserve for Inventory Write-Down	(1,346)	(5,787)
TOTAL	\$ 32,329	\$ 27,108

Fruit products inventory included a total of \$7.2 million and \$4.8 million of gross fruit value at October 31, 2005 and 2004, respectively.

The reserve for inventory write-down increased \$5.1 million in fiscal 2004 due to a \$5.3 million fruit pool loss which was charged against retained loss (See Note 13 Members' Equity).

Note 5 – Investments

<i>(In Thousands)</i>	2005	2004
Money Market and Debt/ Equity Securities	\$ 9,742	\$ 8,852
Sunkist Real Estate Inc.	65	2,000
CoBank	876	510
TOTAL	\$ 10,683	\$ 11,362

Debt and equity securities are held in a fund principally to satisfy future retirement obligations to participants under the Company's non-qualified deferred compensation and supplemental retirement plans. (See Note 12 - Long-term Obligations for additional information). The securities are classified as trading and are stated at fair value as determined by quoted market prices. The Company recorded \$255,000 and \$211,000 of unrealized gain on its securities investments in 2005 and 2004, respectively. Investment losses and gains on deferred compensation plan assets are significantly offset by changes in amounts due participants in the deferred compensation plan.

Sunkist Real Estate, Inc. ("SREI") is a joint venture, accounted for under the equity method of accounting, of the Company and Fruit Growers Supply Co. ("FGS"),

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each of which owns a 50% interest in SREI. SREI was formed to provide real estate advisory services and financing to members and prospective members.

In October 2005, the SREI Board of Directors elected to dissolve the joint venture and authorized a \$4.1 million dividend and return of capital distribution. The Company and FGS equally shared the distribution. The distribution represented a return of the Company's remaining investment in SREI and as of October 31, 2005, the Company's investment in SREI is comprised entirely of undistributed current year earnings.

Note 6 – Assets Held for Sale

At October 31, 2005, assets held for sale is comprised of the following:

(In Thousands)

Land and Buildings	\$ 995
Machinery, Equipment and Fixtures	139
TOTAL	\$ 1,134

The Company is in escrow with outside parties for the sale of certain land, building, and equipment located in Ontario and Tipton. The sales are expected to close in June 2006 at a gain of approximately \$6.3 million, net of estimated selling costs.

Note 7 – Property, Net

(In Thousands)

	2005	2004
Machinery, Equipment and Fixtures	\$ 98,781	\$ 104,218
Land and Buildings	28,277	28,793
Software	14,902	12,972
Construction in Progress	5,458	2,654
Accumulated Depreciation and Amortization	(110,669)	(114,235)
TOTAL	\$ 36,749	\$ 34,402

Depreciation and amortization expense was \$4.7 million and \$6.0 million for 2005 and 2004, respectively.

In 2005 and 2004, the Company sold land and various equipment for \$2.3 million and \$6.2 million, respectively. The Company recognized a gain on sales totaling \$1.7 million and \$5.8 million, respectively.

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 \$5.6 million and \$6.0 million in 2005 and 2004, respectively, and is included in "Other Revenues" and "Sales and lease of packinghouse equipment" in the Consolidated Statements of Operations and Comprehensive Loss. At October 31, 2005, the Company's minimum future rental income on noncancelable operating leases, for the years indicated, was as follows:

(In Thousands)

2006	\$ 4,802
2007	3,595
2008	2,733
2009	1,753
2010	548
Thereafter	338
TOTAL	\$ 13,769

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 \$311,000 and \$368,000 in 2005 and 2004, respectively.

The Company's net investment in equipment leased to packinghouses subject to these operating leases is as follows:

	2005	2004
Machinery and Equipment	\$ 12,108	\$ 14,152
Accumulated Depreciation and Amortization	(9,783)	(10,593)
TOTAL	\$ 2,325	\$ 3,559

Note 8 – Other Assets

(In Thousands)

	2005	2004
Purchased Lemon Oil	\$ —	\$ 4,091
Unamortized Contract Payments	8,491	6,663
Intangible Pension Assets	1,233	1,555
Other	51	144
TOTAL	\$ 9,775	\$ 12,453

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See Note 14 - Commitments and Contingencies for additional information on the purchased lemon oil, unamortized contract payments, and rebates. See Note 16 - Retirement Plans and Other Benefits for additional information on the intangible pension assets.

Note 9 - Short-term Obligations

Short-term obligations outstanding as of October 31, 2005 and 2004 include \$3.1 million and \$1.3 million of bank overdrafts, respectively, resulting from normal delays in the presentation of checks for payment. The \$10.0 million, due and payable on September 26, 2005, was paid in December 2004.

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 \$171,000 and \$86,000 in 2005 and 2004, respectively. At October 31, 2005, the short-term debt was \$9.8 million. At October 31, 2004, no such short-term debt was outstanding.

Note 10 - 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 as of October 31, 2005 and 2004. These payables and other accrued liabilities result primarily from the Company's normal operating activities.

Note 11 - Payables to Members

Fresh Fruit Proceeds

<i>(In Thousands)</i>	2005	2004
Domestic	\$ 26,569	\$ 44,089
Export	5,991	9,729
TOTAL	\$ 32,560	\$ 53,818

Product Pools

<i>(In Thousands)</i>	2005	2004
Oranges	\$ 7,684	\$ 221
Lemons	2,739	2,524
TOTAL	\$ 10,423	\$ 2,745

Under the products pooling plan currently in effect, the Company makes an initial payment of approximately 50% of market value for fruit received from its members, as estimated at the time of delivery. Upon closure of a pool, which occurs when a substantial portion of the pool's inventory has been sold, a final settlement is made with respect to the difference between actual pool earnings, calculated in accordance with the pooling plan, and amounts previously paid. The total of product pools payables to members outstanding at any point in time represents the sum of any delivery payments not yet remitted.

During fiscal 2004, the Board approved a charge totaling \$15.4 million against current retained loss for the products pool deficit which arose primarily due to a significant decrease in the volume of fruit delivered. During fiscal 2005, the Company's actual loss on the fiscal 2004 product pool was reduced to \$13.4 million due to an increase in sales prices over initial projections.

Other

<i>(In Thousands)</i>	2005	2004
Capital Fund Refunds	\$ 171	\$ 55
Other	4	97
TOTAL	\$ 175	\$ 152

Note 12 - Long-term Obligations

<i>(In Thousands)</i>	2005	2004
Deferred Compensation and Pension Payable	\$ 12,814	\$ 14,599
Subsidiary Company Retirement Benefits	733	865
TOTAL	\$ 13,547	\$ 15,464

At October 31, 2004, the \$10 million of long-term borrowings outstanding under an unsecured revolving term loan agreement was reclassified to "Short-term Obligations". This loan, due and payable on September 26, 2005, was paid in full in December 2004. As of October 31, 2005, the Company had no long-term borrowings.

The Company's lender has imposed various financial and non-financial covenants on its borrowings. The Company was not in compliance with a financial covenant for the quarter ended July 31, 2005 for which

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the lender had issued a waiver. At October 31, 2005 and 2004, the Company was in compliance with all of its borrowing covenants.

Interest on the Company's long-term borrowings totaled \$31,000 and \$196,000 in 2005 and 2004, respectively.

The deferred compensation and pension payable is comprised of the liability to participants under the Company's non-qualified deferred compensation plans and the Company's retirement plan for hourly employees. (See Note 5 - Investments and Note 16 - 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.

Note 13 - 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. The Company's total capital requirements from this source are determined annually by the Board. Each member's capital obligation is determined based upon the member's proportionate use of the facilities and services furnished by Sunkist. Once the member's proportionate assessment shares are calculated, each member's capital fund obligation is determined. 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. Net refunds are paid out at the discretion of the Board.

The amounts assessed and refunded, both in aggregate and for individual members, are based upon the following: 1) comparative volumes of fresh fruit marketed and products fruit processed; 2) the assessment rates applied to such volumes; and 3) the length of the capital retention periods. The assessment rates and the length of the retention periods are

established by the Board and are applied on a per-carton or per-carton equivalent basis for all grower fruit handled by Sunkist.

During fiscal 2001, the Board voted to suspend the capital fund assessment for the 2002 fiscal year. Under the current rolling five-year retention period, such action resulted in a refund of each member's fiscal 1997 capital fund assessment. The capital fund assessment was reinstated in 2003.

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 including Global LLC and ValueAdded/Fresh-Cut business. For the years ended October 31, 2005 and 2004, Global LLC reported net operating losses before taxes of \$1.6 million and \$206,000, respectively. For the years ended October 31, 2005 and 2004, the Value-Added/FreshCut business reported net operating losses before taxes of \$1.1 million and \$598,000, respectively.

In 2005 and 2004, the Company recognized a gain on the sale of land and equipment totaling \$1.7 million and \$5.8 million, respectively. (See Note 7 - Property, net for additional information).

In 2004, a charge against current retained loss was made in the amount of \$13.8 million related to member activities as approved by the Board. Included in such charge was the increase in reserve against fruit products inventory of \$5.1 million (See Note 4 - Inventory, net) as well as \$8.7 million of member payments in excess of margins earned on fruit delivered and sold.

Note 14 - Commitments and Contingencies

Long-Term Commitments

Lemon Oil Purchase Contract

In October 2001, the Company entered into a series of long-term agreements with several outside parties that involve the sale and purchase of various forms of fruit products. The first such arrangement required Sunkist to purchase, on behalf of one of its major customers, up to a certain quantity of lemon oil from two grower-

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processors at an amount totaling approximately \$20 million. As part of the arrangement, Sunkist would sell, by no later than each of December 31, 2004 and December 31, 2005, one-half of the purchased lemon oil to the aforementioned customer at Sunkist's actual cost, excluding interest, with payment to be made to Sunkist within 45 days after each respective year-end. At October 31, 2004, Sunkist held \$4.1 million of lemon oil under this arrangement, reflected in "Other Assets" in the Company's Consolidated Statements of Financial Position. No such inventory was held at October 31, 2005.

Another long-term agreement entered into between Sunkist and a multinational manufacturer calls for Sunkist to sell to such customer, on an annual basis until 2018, a fixed amount of fruit products inventory at predetermined prices. Management monitors the price at which it can obtain products in comparison to the predetermined prices in order to assess potential loss. As of October 31, 2005, management has determined that no liability should be recorded, as the agreement is not in a loss position.

With respect to the sales 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 \$4.8 million and \$5.0 million were paid in March 2005 and 2004, respectively. The portion of said rebates to be recovered from future sales of lemon oil beyond one fiscal year is included in "Other Assets" in the company's consolidated financial statements of financial position. Future annual rebates range in amounts from \$5.25 million to \$6.5 million. In addition, as a condition for entering into the long-term agreement, Sunkist made a payment of \$5 million in October 2001. This payment is being amortized over the life of the agreement and the unamortized amount is included in "Other Assets" in the Company's Consolidated Statements of Financial Position. At October 31, 2005 and 2004, the balance of the unamortized payment was \$3.8 million and \$4.1 million, respectively. All rebates paid in conjunction with this agreement are recorded as a reduction of fruit products sales revenue in the corresponding year the product is sold.

Software Implementation Contracts

In 2005, the Company entered into long-term agreements with Oracle for purchase of software license, implementation, training, hosting and maintenance of the Company's primary financial reporting system. These contracts commit Sunkist to make payments totaling approximately \$7.4 million through fiscal 2007. As of October 31, 2005, Sunkist has paid or accrued \$1.3 million to Oracle under this arrangement. Payments to Oracle are recorded as construction-in-progress, training expense, and prepaid expense as appropriate.

Legal Matters

Sunkist had a trademark licensing agreement with SGP Benefit Plan, Inc. and SGP Benefit Plan Trust (collectively "SGP"). As a nonprofit health benefit organization, SGP offered self-funded health benefit plans to individuals engaged in agriculture. The licensing agreement allowed SGP to use the Sunkist name in exchange for royalty revenues.

In August 2001, SGP management informed Sunkist that it was in severe financial difficulty and requested that Sunkist help address the problem of unpaid health-provider claims, which total approximately \$10 million. The health benefit plans offered by SGP have since been terminated and SGP has filed for bankruptcy protection. In October 2002, the trustee in bankruptcy for SGP ("the Trustee") filed a complaint seeking to recoup the losses of SGP. Sunkist was named as the lead defendant. Bankruptcy proceedings have identified approximately \$7 million of insurance coverage in the name of SGP.

The Company has negotiated a settlement with the Trustee under which it will obtain a release of claims against it. In light of the settlement, the Trustee withdrew the original complaint and filed an amended complaint, which does not name Sunkist as a defendant in any of its causes of action. During 2002, the Company recognized a liability in an amount which management has determined to be adequate to cover the settlement. The liability is included in "Trade payables and other accrued liabilities" in the Company's Consolidated Statements of Financial Position. The liability is expected to be paid in 2006.

The Company is engaged in a number of lawsuits arising from its normal business activities. In the

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opinion of management, the outcome of these matters, and the matter noted above, will not have a material adverse impact on the Company's financial condition.

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 2011. At October 31, 2005, the Company's aggregate minimum rental commitments for the years indicated are as follows:

<i>(In Thousands)</i>	
2006	\$ 2,188
2007	1,764
2008	1,448
2009	565
2010	472
Thereafter	426
TOTAL	\$ 6,863

Total rent expense was \$2.7 million and \$3.3 million for 2005 and 2004, respectively. In 2003, the Company accrued \$2.4 million for the lease obligation on idle equipment taken out of service for which minimum payments are due through fiscal 2008. As of October 31, 2005, approximately \$1.4 million of the previously accrued amount had been paid.

Irrevocable Letter of Credit

In January 2004, the Company established a \$1.3 million irrevocable and unconditional letter of credit with CoBank. The beneficiary of the letter of credit is Zurich American Insurance Company, the Company's worker's compensation insurance carrier. The purpose of the letter of credit is to secure the Company's workers' compensation insurance policy deductible of \$500,000 per incident. At October 31, 2005, there were no amounts drawn against the letter of credit.

Note 15 - 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:

<i>(In Thousands)</i>	2005	2004
Current Expense	\$ 996	\$ 3,807
Deferred Expense	(355)	(343)
TOTAL	\$ 641	\$ 3,464

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

<i>(In Thousands)</i>	2005	2004
Income Tax Benefit at Statutory Rate	\$ (340)	\$ (1,225)
Foreign and Other Tax Credits	(829)	(712)
Change in Valuation Allowance and Other	1,810	5,401
TOTAL	\$ 641	\$ 3,464

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 on patronage-related expense items that are deductible for tax purposes in future years. The current year increase in the allowance reflects an increase in net deferred patronage assets, primarily related to the patronage net operating loss generated in the current year. In assessing the realizability of non-patronage deferred tax assets, management considers whether it is more likely than not 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

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differences, net of the existing valuation allowances at October 31, 2005. 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 \$47 million of patronage net operating loss carryforwards remaining as of October 31, 2005. If left unused, these carryforwards will expire in the following amounts and years: \$6.5 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, and \$17.2 million in 2025. 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 totaled a receivable of \$1.1 million at October 31, 2005 and a payable of \$890,000 at October 31, 2004.

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:

<i>(In Thousands)</i>	2005	2004
Deferred Assets		
Net Operating Losses	\$ 16,388	\$ 10,536
Capitalized Inventory Costs	1,503	1,084
Lease Deposits	307	470
Vacation Pay Accrual	368	309
Inventory Reserve and Other	3,528	2,590
TOTAL DEFERRED ASSETS	\$ 22,094	\$ 14,989
Deferred Liabilities		
Membership Payments	3,648	961
Deferred Gain on Exchange of Property	5,542	5,190
Other	791	341
TOTAL DEFERRED LIABILITIES	\$ 9,981	\$ 6,492

<i>(In Thousands)</i>	2005	2004
Net Deferred Asset Before Valuation Allowance	12,113	8,497
Valuation Allowance	(11,172)	(7,911)
NET DEFERRED ASSETS	\$ 941	\$ 586

Note 16 - 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 Sunkist Pension Plan Board, which is comprised of representatives from Sunkist and other participating employers, decided to freeze the Plan 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 \$8.7 million and \$10.5 million in pension expense in 2005 and 2004, respectively. Plan assets are invested in a group trust, consisting primarily of domestic and international stocks, bonds, real-estate trust funds, short-term investment 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 substantially in excess of the plan assets currently available for payment of such obligations. As of October 31, 2005, the Company's estimated portion of the accumulated benefit obligation in excess of plan assets totaled \$30.4 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"), such benefit obligation liabilities are not recorded in the Company's financial statements.

Sunkist Growers, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements

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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, 2005 and 2004 measurement dates. In 2005, the Company had a decrease in its recognized minimum pension liability of \$923,000 which was recorded as other comprehensive income. In 2004, the Company recognized additional pension liability of \$2.0 million as a charge against other comprehensive loss.

The pension liability is included in “Long-term obligations” in the Company’s Consolidated Statements of Financial Position. An intangible asset, equal to unrecognized prior service costs totaling \$1.2 million and \$1.5 million, is included in “Other Assets” in the Company’s Consolidated Statements of Financial Position as of October 31, 2005 and 2004, respectively.

The accumulated benefit obligation for the pension plan was \$22.1 million and \$21.7 million at October 31, 2005 and 2004 respectively.

<i>(In Thousands)</i>	Pension Benefits	
	2005	2004
Projected Benefit Obligation	\$ 23,273	\$ 23,300
Fair Value of Plan Assets	16,554	14,457
FUNDED STATUS	(6,719)	(8,843)
Accrued Pension Liability Recognized in the Consolidated Statements of Financial Position	8,823	10,056
Net Periodic Pension Cost	1,677	1,824
Employer Contributions	2,148	2,672
Benefits Paid	1,416	1,406

The weighted-average assumptions used to determine the benefit obligation at October 31, 2005 and 2004 were as follows:

	2005	2004
Discount Rate	5.75%	5.75%
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, 2005 and 2004 were as follows:

	2005	2004
Discount Rate	5.75%	6.25%
Rate of Increase in Future Compensation	4.50%	4.50%
Expected Long-Term Rate of Return on Assets	8.00%	8.00%

The Company’s overall expected long-term rate of return on assets is 8.00%. 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 Sunkist Pension Plan Board’s investment policies and strategies for the pension assets include the use of target asset allocations for the individual asset categories which are as follows:

	<u>Target</u>	<u>Range</u>
Public Equity	45%	40% - 50%
Private Equity/Special Situations	10%	5% - 15%
Hedge Funds/Real Estate	15%	10% - 20%
Fixed Income	30%	25% - 35%
Cash Reserves	—	0% - 5%
	<u>100%</u>	

The asset allocation of the Company’s pension assets at October 31, 2005 and 2004 were as follows:

	2005	2004
Public Equity	48%	60%
Private Equity/Special Situations	8%	7%
Hedge Funds/Real Estate	13%	10%
Fixed Income	27%	19%
Cash	4%	4%
TOTAL	100%	100%

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

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Notes to the Consolidated Financial Statements

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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.

The Company expects to contribute \$1.8 million to its Hourly Plan in 2006. Pension benefits expected to be paid in each year are as follows: \$1.4 million in 2006, \$1.3 million per annum from 2007 through 2010 and \$8.1 million per annum from 2011 through 2015. The expected benefits are based on the same assumptions used to measure the Company's benefit obligation at October 31, 2005 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 \$1.6 million and \$430,000 in 2005 and 2004, respectively. As the Sunkist Retirement Plan-A was frozen in December 2004, the Company made a discretionary contribution to the Match+ Savings Plan in an amount equal to 6% of eligible employee's earnings. No contributions have been made to either the Voluntary Investment Plan or the SITRA Plan since 1986.

The Sunkist Excess Benefits Retirement Plan, ("the SERP"), which provides supplemental retirement income and survivor benefits to eligible employees of Sunkist, was frozen effective December 31, 2004. The SERP is funded through a separate trust account and the assets held in the trust account are available to the general creditors of the Company. Contributions to this plan approximate benefit payments.

The periodic pension cost of the SERP was \$271,000 and \$844,000 in 2005 and 2004, respectively. As of October 31, 2005, the accumulated benefit obligation of \$3.4 million, and an intangible asset of \$31,000 was recognized in the Company's Consolidated Statements of Financial Position. As of October 31, 2004, the accumulated

benefit obligation of \$3.4 million, and an intangible asset of \$69,000, was recognized in the Company's Consolidated Statements of Financial Position.

Note 17 - 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 \$2.8 million and \$3.1 million in 2005 and 2004, respectively.

Note 18 - Additional Disclosures About the Financial Statements

Fair Value of Financial Instruments

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

Investments - The fair value of the investments in marketable securities at October 31, 2005 and 2004 was \$9.7 million and \$8.9 million, respectively, and was determined based upon quoted market prices of investments. The carrying value of the investments is equal to the fair value.

Hedged Transactions

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. As of October 31, 2005, the Company had 140 contracts outstanding, with a total contract value of \$2.4 million. As of October 31, 2004, the Company had 370 contracts outstanding, with a total contract value of \$4.6 million. A net loss of \$109,000 and a net gain of \$16,000 were recognized on hedging activities in 2005 and 2004, respectively.