

Sunkist Growers, Inc. and Subsidiaries Financial Review 2008

Management Report on Financial Statements

The following financial statements and related financial information of Sunkist Growers, Inc. and Subsidiaries ("the Company") were prepared by Management, which has the primary responsibility for the integrity of the financial information. Except for the effects of accounting for certain fresh fruit revenues on a gross basis rather than on a net basis as discussed in the following financial statements, these statements have been prepared in conformity with U.S. generally accepted accounting principles and include amounts that are based on Management's best estimates and judgments. Financial information elsewhere in this annual report is consistent with that in the financial statements.

Management has established and is responsible for maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of the financial statements and the protection of assets from unauthorized use or disposition. The system of internal control includes, among other things, an independent Audit Committee of the Board of Directors, careful selection of personnel, division of responsibilities, internal audits, and the application of formal policies and procedures consistent with high standards of accounting and administrative practices.

The Audit Committee, composed of non-employee directors, meets periodically with the independent auditors, the Company's internal auditors, and Management, to evaluate Management's performance in maintaining adequate accounting procedures and reporting processes. The independent auditors and the internal auditors have free access to the Audit Committee, without Management present, to discuss the results of their audit work and provide feedback on the system of internal control in place and the quality of financial reporting.

Management recognizes and cautions that there are inherent limitations in the effectiveness of any system of internal control. However, Management believes that, for the year ended October 31, 2008, the Company's system of internal controls, as described above, provided reasonable assurance as to the integrity and reliability of the financial statements and related financial information and the safeguarding of assets.



Richard G. French
Vice President & Chief Financial Officer



Russell L. Hanlin
President & Chief Executive Officer

Sunkist Growers, Inc. and Subsidiaries Consolidated Statements of Operations and Comprehensive Income

For the Years Ended October 31, 2008 and 2007

In thousands of dollars

	2008	2007
Revenues:		
Fresh fruit sales, all varieties:		
Domestic	\$ 622,842	\$ 618,245
Export	227,630	186,640
Total Fresh Fruit Sales	<u>850,472</u>	<u>804,885</u>
Fruit products sales, all varieties	69,755	71,747
Royalty income	23,353	23,892
Sale and lease of packinghouse equipment	11,011	8,957
Transportation revenues	98,847	75,325
Other revenues	6,839	8,593
Gain on sale of property and equipment	16,298	204
Total Revenues	<u>1,076,575</u>	<u>993,603</u>
Costs and Expenses:		
Production costs of fruit products sold	33,600	38,922
Payments on products fruit delivered and sold	21,731	19,840
Costs of sale and lease of packinghouse equipment	4,789	4,301
General administrative & other expenses	60,180	66,710
Transportation expenses	97,928	69,365
Advertising & promotion expenses	19,374	13,158
Depreciation & amortization expenses	8,566	6,137
Total Costs and Expenses	<u>246,168</u>	<u>218,433</u>
Revenues in Excess of Costs and Expenses	<u>830,407</u>	<u>775,170</u>
Payments to Members	<u>839,231</u>	<u>797,048</u>
Payments on products fruit delivered and sold included in Costs and Expenses	<u>(21,731)</u>	<u>(19,840)</u>
Payments to members - net of payments on products fruit delivered and sold	<u>817,500</u>	<u>777,208</u>
Retained Income (Loss) Before Income Tax	12,907	(2,038)
Income Tax Expense (Benefit)	<u>3,839</u>	<u>(487)</u>
Retained Income (Loss)	9,068	(1,551)
Other Comprehensive Income		
Foreign currency translation adjustment	81	(73)
Pension liability	<u>(52)</u>	<u>6,316</u>
Comprehensive Income	<u>\$ 9,097</u>	<u>\$ 4,692</u>

See accompanying notes to consolidated financial statements.

Sunkist Growers, Inc. and Subsidiaries Consolidated Statements of Financial Position

As of October 31, 2008 and 2007

In thousands of dollars

	2008	2007
Assets		
Current Assets:		
Cash and cash equivalents	\$ 5,288	\$ 5,694
Receivables - trade and other - net	82,928	76,415
Income tax receivable	—	1,753
Advances in excess of margins earned	7,962	6,845
Inventory - net	43,259	32,622
Deferred tax assets	693	1,332
Prepaid expenses	2,165	2,905
Total Current Assets	142,295	127,566
Investments	12,358	14,610
Property & Equipment - net	52,762	50,476
Deferred Tax Assets - Long Term	545	—
Other Assets	5,494	9,388
Total Assets	\$ 213,454	\$ 202,040
Liabilities and Members' Equity		
Current Liabilities:		
Short-term obligations	\$ 22,512	\$ 19,248
Trade payables and other accrued liabilities	22,498	20,399
Payables to members:		
Fresh fruit proceeds	39,385	46,631
Product pools	14,221	9,913
Other	318	95
Total payables to members	53,924	56,639
Total Current Liabilities	98,934	96,286
Deferred Tax Liabilities	—	351
Long-term Obligations	43,204	42,947
Members' Equity		
Capital fund	4,180	4,417
Accumulated other comprehensive loss	(4,294)	(4,323)
Unallocated retained earnings	71,430	62,362
Members' Equity	71,316	62,456
Total Liabilities and Members' Equity	\$ 213,454	\$ 202,040

See accompanying notes to consolidated financial statements.

Sunkist Growers, Inc. and Subsidiaries Consolidated Statements of Cash Flows

For the Years Ended October 31, 2008 and 2007

In thousands of dollars

	2008	2007
Cash Flows from Operating Activities:		
Retained income (loss)	\$ 9,068	\$ (1,551)
Adjustments to reconcile retained income (loss) to net cash from operating activities:		
Depreciation and amortization	8,566	6,137
Non-cash charge for legal accrual	1,340	1,125
Provision for losses on trade receivables	422	(189)
Deferred income taxes	(256)	(195)
Change in inventory reserve	(876)	(85)
Gain on sale of property and equipment	(16,298)	(175)
Decrease (increase) in life insurance policy surrender value	2,706	(1,031)
Changes in assets and liabilities:		
Receivables	9,576	10,283
Advances in excess of margins earned	(1,117)	(425)
Investments	357	382
Inventory	(9,761)	(884)
Prepaid expenses	740	(406)
Other assets	3,894	(319)
Trade payables and other accrued liabilities	3,851	(10,552)
Payables to members	(2,952)	14,146
Deferred compensation and pension obligation	(1,135)	(1,804)
Net cash from operating activities	8,125	14,457
Cash Flows from Investing Activities:		
Purchase of property & equipment	(11,127)	(10,461)
Investment in Maverick Brands, LLC	(811)	(1,500)
Loans to Sunkist Taylor, LLC	(700)	(750)
Loans to Maverick Brands, LLC	(811)	—
Proceeds from sales of property & equipment	1,573	253
Net cash from investing activities	(11,876)	(12,458)
Cash Flows from Financing Activities:		
Short-term borrowings (repayments), net	3,264	(24,369)
Long-term debt issuance	—	20,000
Net cash from financing activities	3,264	(4,369)
Effect of Changes in Foreign Currency	81	(73)
Net Decrease in Cash and Cash Equivalents	(406)	(2,443)
Cash and Cash Equivalents at Beginning of Year	5,694	8,137
Cash and Cash Equivalents at End of Year	\$ 5,288	\$ 5,694
Supplemental Disclosure of Cash Flow Information:		
Cash paid for:		
Interest	\$ 1,334	\$ 1,302
Income taxes	\$ 1,411	\$ 112
Noncash financing and investing activities:		
Proceeds from sale of property in Other Receivables	\$ 15,000	—

See accompanying notes to consolidated financial statements.

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
Balance, October 31, 2006	\$ 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)
Balance, October 31, 2007	4,417	(4,323)	62,362	62,456
Net capital fund assessment	(237)	–	–	(237)
Foreign currency translation adjustment	–	81	–	81
Pension liability	–	(52)	–	(52)
Retained income for 2008	–	–	9,068	9,068
Balance, October 31, 2008	\$ 4,180	\$ (4,294)	\$ 71,430	\$ 71,316

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.