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

For the Years Ended October 31, 2006 and 2005

Changes in Members' Equity

	Capital Fund	Accumulated Other Comprehensive Loss	Unallocated Retained Earnings	Total
Balance, October 31, 2004	$ 3,957	$ (8,652)	$ 73,483	$ 68,788
Net capital fund refund	(78)	–	–	(78)
Foreign currency translation adjustment	–	76	–	76
Change in minimum pension liability	–	923	–	923
Retained loss for 2005	–	–	(1,630)	(1,630)
Balance, October 31, 2005	**3,879**	**(7,653)**	**71,853**	**68,079**
Net capital fund refund	**(48)**	**–**	**–**	**(48)**
Foreign currency translation adjustment	**–**	**1**	**–**	**1**
Change in minimum pension liability	**–**	**1,304**	**–**	**1,304**
Retained loss for 2006	**–**	**–**	**(7,940)**	**(7,940)**
Balance, October 31, 2006	**$ 3,831**	**$ (6,348)**	**$ 63,913**	**$ 61,396**

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, 2006 and 2005

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

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 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 46(R). This statement was adopted by the Company in 2006. Management has determined that the adoption of this statement had no material impact on the Company's financial position or results of operations.

Foreign currency translation adjustments related to the operation of the Company's foreign subsidiaries are accumulated and reported in the Company's Consolidated Statement of Operations and Comprehensive Loss as a component of "Other Comprehensive Income."

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 $746 million and $668 million for the years ended October 31, 2006 and 2005, respectively.

The Company sells fresh citrus fruit from non-member growers in Australia, South Africa, and Mexico on consignment through its wholly-owned subsidiary, Sunkist Global, LLC ("Global LLC"). In addition, Global LLC markets fresh strawberries and Clementines from non-member growers in California. Global LLC receives a 6% to 8%

commission on such sales, which is recorded as "Other Revenues" 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 Income Loss.

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 $2.6 million and $2.2 million for the years ended October 31, 2006 and 2005, 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 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, 2006 and 2005, 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.

Investment Securities
Investment securities are classified as trading and are stated at fair value as determined by quoted market prices. Unrealized holding gains and losses on trading securities are included in earnings.

Advertising Expenses
The Company expenses advertising costs as incurred.

Comprehensive Loss
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 additional minimum pension liabilities, as well as foreign currency translation adjustments, are reported as a separate component of members' equity. At October 31, 2006 and 2005, accumulated other comprehensive loss was comprised of minimum pension liability of approximately $6.3 million and $7.6 million, respectively and foreign currency translation adjustments of approximately $1,000 and $76,000, 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 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.

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, 2006 and 2005, there was no impairment of long-lived assets.

Note 2 – Receivables - Trade and Other, Net

(In Thousands)	**2006**	2005
Fresh Fruit - Domestic	**$ 47,630**	$ 31,676
Fresh Fruit - Export	**6,857**	7,109
Fruit Products	**12,422**	6,992
Licensing Receivables	**11,070**	6,930
Other Receivables	**8,492**	5,358
Allowance for Doubtful Accounts	**(712)**	(143)
Total	**$ 85,759**	$ 57,922

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 marketing reimbursements due, 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, and advances receivable from Global LLC shippers.

In 2006, the Company entered into an agreement with a domestic packinghouse to participate in the funding of the 2006 strawberry operations of a California grower. The packinghouse and the Company each contributed $731,000 to the grower as a note receivable bearing interest at the prime rate, to be repaid by the end of the 2006 season from strawberry sales proceeds, net of standard packing, cooling and shipper expenses. Due primarily to adverse weather conditions, 2006 strawberry sales volume and average prices were significantly less than anticipated, resulting in the shortfall of net funds to repay the loan. Consequently, the Company has recorded an allowance of approximately $500,000 for potential nonpayment of the balance of the loan, which is included in the 2006 allowance for doubtful accounts.

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 2006 and 2005, cash rebates totaling $5.3 million and $4.8 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)	**2006**	2005
Fruit Products	**$ 27,212**	$ 27,961
Materials and Supplies	**5,484**	5,714
Reserve for Inventory Write-Down	**(1,043)**	(1,346)
Total	**$ 31,653**	$ 32,329

Fruit products inventory included a total of $6.5 million and $7.2 million of gross fruit value at October 31, 2006 and 2005, respectively.

Note 5 – Investments

(In Thousands)	**2006**	2005
Money Market and Debt/Equity Securities	**$ 11,242**	$ 9,742
Sunkist Real Estate Inc.	**65**	65
CoBank	**906**	876
Sunkist Taylor LLC	**248**	–
Total	**$ 12,461**	$ 10,683

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 $901,000 and $255,000 of unrealized gain on its securities investments in 2006 and 2005, 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"), each of which owns a 50 percent 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 joint venture is inactive as of October 31, 2006.

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. During fiscal year 2006, Sunkist contributed $500,000 in cash to the LLC. The Company's 50 percent portion of the LLC's operating loss at October 31, 2006 was $252,000.

Note 6 – Assets Held for Sale

Assets held for sale were $0 and $1.1 million at October 31, 2006 and 2005, respectively.

Note 7 – Property, Net

(In Thousands)	**2006**	2005
Machinery, Equipment and Fixtures	**$ 96,288**	$ 98,781
Land and Buildings	**25,119**	28,277
Software	**20,301**	14,902
Construction in Progress	**10,090**	5,458
Accumulated Depreciation and Amortization	**(105,568)**	(110,669)
Total	**$ 46,230**	$ 36,749

Depreciation and amortization expense in 2006 and 2005 was $4.4 million and $4.7 million, respectively.

In 2006 and 2005, the Company sold buildings and equipment for $9.1 million and $2.3 million, respectively, and recognized related gains on sales of $7.5 million and $1.7 million, respectively.

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, 2006 the total project commitment was approximately $14.0 million, $7.9 million of which had been capitalized as Construction in Progress and $2.8 million expensed as of that date. Included in this amount is $775,000 for capitalized internal labor associated with the implementation of the system, and $175,000 for capitalized interest. Depreciation will not begin until the system is 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 $5.1 million and $5.6 million in 2006 and 2005, respectively, and is included in "Other revenues" and "Sale and lease of packinghouse equipment" in the Consolidated Statements of Operations and Comprehensive Loss. At October 31, 2006, the Company's minimum future rental income on noncancelable

operating leases, for the years indicated, was as follows (in thousands):

2007	$ 4,581
2008	2,639
2009	1,714
2010	501
2011	103
Total	$ 9,538

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 $364,000 and $311,000 in 2006 and 2005, respectively.

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

(In Thousands)	**2006**	2005
Machinery and Equipment	**$ 11,452**	$ 12,108
Accumulated Depreciation and Amortization	**(9,173)**	(9,783)
Total	**$ 2,279**	$ 2,325

Note 8 – Other Assets

(In Thousands)	**2006**	2005
Unamortized Contract Payments	**$ 6,244**	$ 8,491
Intangible Pension Assets	**1,049**	1,233
Other	**1,776**	51
Total	**$ 9,069**	$ 9,775

See Note 14 - Commitments and Contingencies for additional information on the unamortized contract payments and rebates. See Note 16 - Retirement Plans and Other Benefits for additional information on the intangible pension assets. Other includes approximately $1.8 million for excess contributions to the Sunkist Retirement Plan-A (See Note 16).

Note 9 – Short-term Obligations

Short-term obligations outstanding as of October 31, 2006 and 2005 includes $0.5 million and $3.1 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 $770,000 and $171,000 in 2006 and 2005, respectively. At October 31, 2006 and 2005, the short-term debt was approximately $42.5 million and $9.8 million, respectively. The total line available at October 31, 2006 was $60 million, but was reduced to $50 million on December 1, 2006.

The Company has a $947,000 note payable to Nature's Pleasure, a former partner, as a result of a contract settlement with the following principal repayment dates: January 2007 - $292,000, July 2007 - $332,000, and January 2008 - $323,000. The January 2008 payment of $323,000 is included in long-term obligations.

Note 10 – Trade Payables and Other Accrued Liabilities

Trade payables and other accrued liabilities as of October 31, 2006 and 2005 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 11 – Payables to Members

Fresh Fruit Proceeds

(In Thousands)	**2006**	2005
Domestic	**$ 26,168**	$ 26,569
Export	**2,166**	5,991
Total	**$ 28,334**	$ 32,560

Product Pools

(In Thousands)	**2006**	2005
Oranges	**$ 11,893**	$ 7,684
Lemons	**2,717**	2,739
Total	**$ 14,610**	$ 10,423

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.

Other

(In Thousands)	**2006**	2005
Capital Fund Refunds	**$ 135**	$ 171
Other	**–**	4
Total	**$ 135**	$ 175

Note 12 – Long-term Obligations

(In Thousands)	**2006**	2005
Deferred Compensation and Pension Payable	**$ 11,362**	$ 12,814
Subsidiary Company Retirement Benefits	**639**	733
Nature's Pleasure Notes Payable	**323**	–
Legal Obligation	**13,400**	–
Total	**$ 25,724**	$ 13,547

As of October 31, 2006 and 2005, the Company had no long-term borrowings.

Interest on the Company's long-term borrowings totaled $0 and $31,000 in 2006 and 2005, 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.

The Nature's Pleasure Notes Payable relates to the January 2008 payment. All other payments to Nature's Pleasure will be paid within 12 months and are included in short-term liabilities. (See Note 9 - Short-term Obligations).

The legal obligation is comprised of a liability to cover a legal matter. (See Note 14 - Commitments and Contingencies).

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 2006 and 2005 in connection with the annual capital fund assessment, the Company returned the 2001 and 2000 capital fund assessments, respectively. No capital fund assessment was made in fiscal year 2002; as such, under the current five-year rolling retention period no capital fund refund is planned in connection with the 2007 capital fund assessment.

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 Value-Added/Fresh-Cut business. Unallocated retained earnings decreased in 2006 due to a legal obligation accrual. (See Note 14 - Commitments and Contingencies for additional information.) For the years ended October 31, 2006 and 2005, Global LLC reported net operating losses before taxes of $541,000 and $1.6 million, respectively. For the years ended October 31, 2006 and 2005, the Value-Added/Fresh-Cut business reported net operating losses before taxes of $2.7 million and $1.1 million, respectively

Note 14 – Commitments and Contingencies

Long-Term Commitments

Lemon Oil Purchase 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. 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, 2006, management has determined that no liability should be recorded, as the agreement is not in a loss position.

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 $5.3 million and $4.8 million were paid in March 2006 and 2005, 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 Statements of Financial Position. Future annual rebates range in amounts from $6.0 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, 2006 and 2005, the balance of the unamortized payment was $3.5 million and $3.8 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.

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 plaintiffs approximately $13.4 million. The Company believes that the jury verdict was not justified by the evidence and intends to vigorously challenge that verdict at both the trial level and on appeal. As a result of the verdict, the Company has recorded a liability of $13.4 million in long-term obligations in the accompanying "Consolidated Statements of Financial Position" for 2006. 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 2007 fiscal year as the ultimate outcome is contingent upon the appeal process. In February of 2007, the Company received notice that a motion was filed seeking prejudgment interest on the $13.4 million award. Sunkist's legal counsel is not able, at this time, to provide a formal opinion as to the likelihood of success of the motion filed or give an estimate of the possible loss or range of loss.

In March of 2006, Sunkist received written notice from an affiliated entity alleging that Sunkist had not utilized adequate efforts to assure that such entity receive optimum economic results from the marketing of its fruit by Sunkist. As of October 31, 2006, formal legal proceedings had not been initiated and the parties have been negotiating for the purpose of reaching an amicable settlement of the claim. Sunkist's legal counsel is not able at this time to provide a formal opinion as to the likelihood of success by such claimant, or give an estimate of the possible loss or range of loss whether the matter is resolved by mutual agreement or formal legal action.

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 aggregated 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 determined to be adequate to cover the settlement. During 2006, the Company settled the liability with a cash payment.

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 matter 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 2011. 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, 2006, the Company's aggregate minimum rental commitments for the years indicated are as follows (in thousands):

2007	$ 2,392
2008	2,052
2009	1,186
2010	974
2011	723
Total	$ 7,327

Total rent expense was $2.6 million and $2.7 million for 2006 and 2005, 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, 2006, the balance of the lease obligation was approximately $700,000.

Irrevocable Letter of Credit

In January 2004, the Company established a $1.3 million irrevocale and unconditional letter of credit with CoBank. The beneficiary of the letter of credit is Zurich American Insurance Company, the Company's workers' compensation carrier. The purpose of the letter of credit is to secure the Company's workers' compensation insurance policy deductible of $250,000 per incident, a reduction from $500,000 in 2005. At October 31, 2006, 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:

(In Thousands)	**2006**	2005
Current Expense	**$ 1,654**	$ 996
Deferred Expense	**155**	(355)
Total	**$ 1,809**	$ 641

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:

(In Thousands)	**2006**	2005
Income Tax Expense (Benefit) at Statutory Rate	**$ (2,145)**	$ (340)
Foreign and Other Tax Credits	**(616)**	(829)
Change in Valuation Allowance	**4,852**	1,758
Other	**(282)**	52
Total	**$ 1,809**	$ 641

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. A valuation allowance is established against patronage deferred tax assets as the Company's patronage operating activity is not subject to income tax as a result of such activity being paid or allocated to members. The current year increase in the allowance reflects an increase 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, 2006. 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 $52.3 million of patronage net operating loss carryforwards remaining as of October 31, 2006. 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, $18.7 million in 2025, and $4.0 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 totaled $1.4 million and $1.1 million at October 31, 2006 and 2005, 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)	**2006**	2005
Deferred Assets		
Net Operating Losses	**$ 18,354**	$ 16,388
Capitalized Inventory Costs	**1,631**	1,503
Lease Deposits	**330**	307
Vacation Pay Accrual	**376**	368
Depreciation	**1,125**	750
Deferred Compensation	**1,451**	1,377
Legal Settlement Reserve	**4,690**	–
Other	**855**	1,401
Total Deferred Assets	**$ 28,812**	$ 22,094
Deferred Liabilities		
Membership Payments	**5,113**	3,648
Deferred Gain on Exchange of Property	**5,542**	5,542
Other	**1,347**	791
Total Deferred Liabilities	**$ 12,002**	$ 9,981
Net Deferred Asset Before Valuation Allowance	**16,810**	12,113
Valuation Allowance	**(16,024)**	(11,172)
Net Deferred Assets	**$ 786**	941

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 $7.5 million and $8.7 million to the plan in 2006 and 2005, respectively. The Company records as an expense the amount of the required contribution to the Plan. During 2006, the Company contribution to the plan was in excess of the required contribution. The excess contribution of $1.8 million is included in other non-current assets at October 31, 2006. 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 in excess of the plan assets currently available for payment of such obligations. As of October 31, 2006, the Company's estimated portion of the accumulated benefit obligation in excess of the plan assets totaled $19.2 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.

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, 2006 and 2005 measurement dates. In 2006, the Company had a decrease in its recognized minimum pension liability and pension intangible asset of $1.3 million, which was recorded as Other Comprehensive Income in the Company's Consolidated Statements of Operations and Comprehensive Loss. In 2005, the Company had a decrease in additional pension liability and pension intangible asset of $923,000.

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 $919,000 and $1.2 million, is included in "Other Assets" in the Company's Consolidated Statements of Financial Position as of October 31, 2006 and 2005, respectively.

The accumulated benefit obligation for the pension plan was $22.8 million and $22.1 million at October 31, 2006 and 2005 respectively.

	Pension Benefits	
(In Thousands)	**2006**	2005
Projected Benefit Obligation	**$ 24,342**	$ 23,273
Fair Value of Plan Assets	**19,315**	16,554
Funded Status	**$ (5,027)**	$ (6,719)
Net Accrued Pension Liability Recognized in the Consolidated Statements of Financial Position	**3,508**	5,511
Net Periodic Pension Cost	**1,802**	1,677
Employer Contributions	**2,139**	2,148
Benefits Paid	**1,352**	1,416

The weighted-average assumptions used to determine the benefit obligation at October 31, 2006 and 2005 were as follows:

	2006	2005
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, 2006 and 2005 were as follows:

	2006	2005
Discount Rate	**5.75%**	5.75%
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%. 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 benefits include the use of target asset allocations for the individual asset categories which are as follows:

	Target	**Range**
Public Equity	**40%**	40%-50%
Private Equity/Special Situations	**10%**	5%-15%
Hedge Funds/Real Estate	**15%**	10%-20%
Fixed Income	**35%**	25%-35%
Cash Reserves	**–**	0%-5%
	100%	

The asset allocation of the Company's pension benefits at October 31, 2006 and 2005 were as follows:

	2006	2005
Public Equity	**42%**	48%
Private Equity/Special Situations	**10%**	8%
Hedge Funds/Real Estate	**15%**	13%
Fixed Income	**32%**	27%
Cash	**1%**	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 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 $2.8 million to its Hourly Plan in 2007. Pension benefits expected to be paid in each year are as follows: $1.3 million in 2008 and 2009, $1.4 million in 2010, $1.5 million in 2011, and $8.7 million for the years from 2012 through 2016. The expected benefits are based on the same assumptions used to measure the Company's benefit obligation at October 31, 2006 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 $1.6 million in 2006 and 2005, 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 ("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 $351,000 and $271,000 in 2006 and 2005, respectively. As of October 31, 2006, the accumulated benefit obligation of $3.6 million, and an intangible asset of $130,000 was recognized in the Company's Consolidated Statements of Financial Position. As of October 31, 2005, the accumulated benefitobligation of $3.4 million, and an intangible asset of $31,000, 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 $2.6 million and $2.8 million in 2006 and 2005, respectively.

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.

Investments - The fair value of investments in marketable securities at October 31, 2006 and 2005 was $11.2 million and $9.7 million, respectively, and was determined based upon quoted market prices of investments. The carrying value of the investments is equal to the fair value.

The carrying value of the Company's investment in CoBank was $906,000 and $876,000 at October 31, 2006 and October 31, 2005, respectively. Because there is no market for this investment, a reasonable estimate of fair value is not available.

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, 2006, the Company had 140 contracts outstanding, with a total contract value of $3.6 million. As of October 31, 2005, the Company had 140 contracts outstanding, with a total contract value of $2.4 million. Net losses of $1.6 million and $109,000 were recognized on hedging activities in 2006 and 2005, respectively. All contracts outstanding at October 31, 2006 expire in January of 2007 and have a fair market value of ($546,000) as of October 31, 2006. Fair market value is defined as the net gain/(loss) on the contracts.

Note 19 – Subsequent Event

Subsequent to year-end, the citrus growing regions of California and Arizona experienced severe sub-freezing temperatures which resulted in significant crop damage. Sunkist's members are primarily located in the regions that experienced the severe weather conditions. As a result, fresh carton volume to be marketed in 2007 is expected to be significantly reduced. A similar reduction in the volume of fruit to be delivered for processing is also anticipated. In response to this event, management is working toward reducing costs and increasing per carton assessment levels while at the same time is focused on preserving Sunkist's core capabilities. Management believes that it will be able to sufficiently mitigate the financial impact of the reduced crop volume through its planned reduction in expenses and increase in per carton assessments. As such, management does not expect the reduced crop volume to have a material adverse impact on the Company's financial condition.