

## Sunkist Growers, Inc. and Subsidiaries Financial Review 2007


### 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, 2007, 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



**Timothy J. Lindgren**  
President & Chief Executive Officer

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

For the Years Ended October 31, 2007 and 2006

In thousands of dollars

	2007	2006
<b>Revenues:</b>		
Fresh fruit sales, all varieties:		
Domestic .....	\$ 618,245	\$ 659,758
Export .....	<u>186,640</u>	<u>233,948</u>
Total Fresh Fruit Sales .....	<b>804,885</b>	893,706
Fruit products sales, all varieties .....	71,747	83,280
Royalty income .....	23,892	23,374
Sale and lease of packinghouse equipment .....	8,957	9,437
Transportation revenues .....	75,325	84,867
Other revenues .....	8,593	12,434
Gain on sale of property and equipment .....	<u>204</u>	<u>7,527</u>
Total Revenues .....	<b><u>993,603</u></b>	<b><u>1,114,625</u></b>
<b>Costs and Expenses:</b>		
Production costs of fruit products sold .....	38,922	46,092
Payments on products fruit delivered and sold .....	19,840	25,565
Costs of sale and lease of packinghouse equipment .....	4,301	4,228
General administrative & other expenses .....	66,710	89,803
Transportation expenses .....	69,365	84,829
Advertising & promotion expenses .....	13,158	26,679
Depreciation & amortization expenses .....	<u>6,137</u>	<u>4,367</u>
Total Costs and Expenses .....	<b><u>218,433</u></b>	<b><u>281,563</u></b>
<b>Revenues in Excess of Costs and Expenses .....</b>	<b><u>775,170</u></b>	<b><u>833,062</u></b>
<b>Payments to Members .....</b>	<b><u>797,048</u></b>	<b><u>864,758</u></b>
Payments on products fruit delivered and sold included in Costs and Expenses .....	<u>(19,840)</u>	<u>(25,565)</u>
<b>Payments to members - net of payments on     products fruit delivered and sold .....</b>	<b><u>777,208</u></b>	<b><u>839,193</u></b>
<b>Retained Loss Before Income Tax Expense .....</b>	<b>(2,038)</b>	<b>(6,131)</b>
<b>Income Tax Expense (Benefit) .....</b>	<b><u>(487)</u></b>	<b><u>1,809</u></b>
<b>Retained Loss .....</b>	<b>(1,551)</b>	<b>(7,940)</b>
<b>Other Comprehensive Income</b>		
Foreign currency translation adjustment .....	(73)	1
Change in minimum pension liability .....	<u>6,316</u>	<u>1,304</u>
<b>Comprehensive Income (Loss) .....</b>	<b><u>\$ 4,692</u></b>	<b><u>\$ (6,635)</u></b>

See accompanying notes to consolidated financial statements.

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

As of October 31, 2007 and 2006

In thousands of dollars

	2007	2006
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents . . . . .	\$ 5,694	\$ 8,137
Receivables - trade and other - net . . . . .	76,415	85,759
Income tax receivable . . . . .	1,753	1,409
Advances in excess of margins earned . . . . .	6,845	6,420
Inventory - net . . . . .	32,622	31,653
Deferred tax assets . . . . .	1,332	894
Prepaid expenses . . . . .	2,905	2,499
Total Current Assets . . . . .	<u>127,566</u>	<u>136,771</u>
Investments . . . . .	14,610	12,461
Property & Equipment - net . . . . .	50,476	46,230
Other Assets . . . . .	9,388	9,069
Total Assets . . . . .	<u>\$ 202,040</u>	<u>\$ 204,531</u>
<b>Liabilities and Members' Equity</b>		
<b>Current Liabilities:</b>		
Short-term obligations . . . . .	\$ 19,248	\$ 43,617
Trade payables and other accrued liabilities . . . . .	20,399	30,607
Payables to members:		
Fresh fruit proceeds . . . . .	46,631	28,334
Product pools . . . . .	9,913	14,610
Other . . . . .	95	135
Total payables to members . . . . .	<u>56,639</u>	<u>43,079</u>
Total Current Liabilities . . . . .	96,286	117,303
Deferred Tax Liabilities . . . . .	351	108
Long-term Obligations . . . . .	42,947	25,724
<b>Members' Equity</b>		
Capital fund . . . . .	4,417	3,831
Accumulated other comprehensive loss . . . . .	(4,323)	(6,348)
Unallocated retained earnings . . . . .	62,362	63,913
Members' Equity . . . . .	<u>62,456</u>	<u>61,396</u>
Total Liabilities and Members' Equity . . . . .	<u>\$ 202,040</u>	<u>\$ 204,531</u>

See accompanying notes to consolidated financial statements.

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

For the Years Ended October 31, 2007 and 2006

In thousands of dollars

	2007	2006
<b>Cash Flows from Operating Activities:</b>		
Retained (loss) . . . . .	\$ (1,551)	\$ (7,940)
Adjustments to reconcile retained loss to net cash from operating activities:		
Depreciation and amortization . . . . .	6,137	4,368
Non-cash charge for legal accrual . . . . .	1,125	13,400
Provision for losses on trade receivables . . . . .	(189)	779
Deferred income taxes . . . . .	(195)	155
Change in inventory reserve . . . . .	(85)	(302)
Gain on sale of property and equipment . . . . .	(175)	(7,527)
Increase in life insurance policy surrender value . . . . .	(1,031)	(902)
Changes in assets and liabilities:		
Receivables . . . . .	10,283	(28,616)
Advances in excess of margins earned . . . . .	(425)	4,930
Investments . . . . .	382	(876)
Inventory . . . . .	(884)	978
Prepaid expenses . . . . .	(406)	(319)
Other assets . . . . .	(319)	706
Trade payables, other accrued liabilities, and income taxes receivable . . . . .	(10,552)	(867)
Payables to members . . . . .	14,146	(127)
Long-term obligations . . . . .	(1,804)	82
Net cash from operating activities . . . . .	<u>14,457</u>	<u>(22,078)</u>
<b>Cash Flows from Investing Activities:</b>		
Purchase of property and equipment . . . . .	(10,461)	(14,449)
Investment in Maverick Brands, LLC . . . . .	(1,500)	-
Loans to Sunkist Taylor, LLC . . . . .	(750)	-
Proceeds from sales of property & equipment . . . . .	253	9,261
Net cash from investing activities . . . . .	<u>(12,458)</u>	<u>(5,188)</u>
<b>Cash Flows from Financing Activities:</b>		
Short-term borrowings (repayments), net . . . . .	(24,369)	30,715
Long-term debt issuance . . . . .	20,000	-
Net cash from financing activities . . . . .	<u>(4,369)</u>	<u>30,715</u>
Effect of Changes in Foreign Currency . . . . .	(73)	-
Net Increase (Decrease) in Cash and Cash Equivalents . . . . .	(2,443)	3,449
Cash and Cash Equivalents at Beginning of Year . . . . .	8,137	4,688
Cash and Cash Equivalents at End of Year . . . . .	<u>\$ 5,694</u>	<u>\$ 8,137</u>
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Cash paid for:		
Interest . . . . .	\$ 1,302	\$ 770
Income taxes . . . . .	112	1,928

See accompanying notes to consolidated financial statements.

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

For the Years Ended October 31, 2007 and 2006

	Capital Fund	Accumulated Other Comprehensive Loss	Unallocated Retained Earnings	Total
<b>Balance, October 31, 2005</b> .....	\$ 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)
<b>Balance, October 31, 2006</b> .....	<b>3,831</b>	<b>(6,348)</b>	<b>63,913</b>	<b>61,396</b>
Net capital fund assessment .....	586	-	-	586
Foreign currency translation adjustment .....	-	(73)	-	(73)
Change in minimum pension liability .....	-	6,316	-	6,316
Retained loss for 2007 .....	-	-	(1,551)	(1,551)
Adjustment to initially apply SFAS 158 .....	-	(4,218)	-	(4,218)
<b>Balance, October 31, 2007</b> .....	<b>\$ 4,417</b>	<b>\$ (4,323)</b>	<b>\$ 62,362</b>	<b>\$ 62,456</b>

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, 2007 and 2006

### 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 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 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. 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 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.

#### Reclassifications

Certain information in the consolidated financial statements for fiscal year 2006 has been reclassified for comparative purposes.

#### 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 \$690 million and \$746 million in the years ended October 31, 2007 and 2006, respectively.