

Sunkist Growers, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements

As of and for the Years Ended October 31, 2009 and 2008

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 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 as required. The Company has determined that it has no significant 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.” In addition, certain information in the 2008 consolidated financial statements has been reclassified for comparative purposes to be consistent with 2009.

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.

The Company acts as an agent for certain fresh fruit sales and is required to report such revenue net of amounts remitted to its members. Sunkist has elected not to adopt these accounting provisions 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 \$592 million and \$731 million in the years ended October 31, 2009 and 2008, respectively.

The Company also sells fresh citrus fruit from non-member growers in countries such as South Africa, Mexico, and Australia 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.

All amounts related to shipping and handling that are billed to a customer in a sale transaction are classified as “Transportation revenues” in the Company’s Consolidated Statements of Operations and Comprehensive Income. With the exception of pallet program refunds that have

been included in Payments to Members, transportation-related costs incurred for shipping and handling are classified as "Transportation expenses" in the Consolidated Statements of Operations and Comprehensive Income.

In marketing its domestic fresh fruit, Sunkist offers sales incentives and rebates to customers that meet certain sales volume criteria. The value of such incentives paid is recorded as a reduction to domestic fresh fruit sales revenue. Such amounts totaled approximately \$3 million and \$4 million for the years ended October 31, 2009 and 2008, respectively.

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

Derivative Financial Instruments

The Company has an objective to minimize exposures to fluctuations in the price of frozen concentrated orange juice, which is produced and sold through its Citrus Juices and Oils Division. The Company's strategy for managing this commodity price risk includes periodically entering into futures contracts for a portion of its orange juice inventories. These contracts, for which the Company did not adopt hedge accounting, are marked to market and the changes in fair value are reported in earnings in the period of change. Although not accounted for as hedges, these derivatives effectively limit the risk associated with price movements in the market. The futures contracts are held in a broker account, which includes restricted cash required to be maintained under margin requirements.

The net realized and unrealized losses on orange juice futures contracts recognized in Fruit products sales expense for the years ended October 31, 2009 and 2008 were \$685,000 and \$0, respectively. As of October 31, 2009, the Company held 652 contracts (each contract represents 15,000 orange juice pounds solids) at a fair value of \$105,000 and held restricted cash in a broker account for margin requirements of \$1.2 million. The restricted cash and fair value are recorded in accounts receivable. At October 31, 2008, there were no outstanding contracts.

Advertising Expenses

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

Comprehensive Income

Accounting principles generally require that recognized revenues, expenses, gains and losses be included in net

income. However, certain changes in assets and liabilities, such as the recognition of liability adjustments for pension plans and foreign currency translation adjustments, are reported as a separate component of members' equity. At October 31, 2009 and 2008, accumulated other comprehensive loss included liability amounts for pension plans of approximately \$(9.2 million) and \$(4.3 million), respectively and foreign currency translation adjustments of approximately \$(63,000) and \$(25,000), respectively. There are no deferred taxes in accumulated other comprehensive loss relating to these amounts, due to tax valuation allowances.

Fruit Products

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

The established value of member fruit received for processing is included as part of fruit products inventory. When such fruit inventory is sold, the fruit value is reflected as "Payments on products fruit delivered and sold" in the Consolidated Statements of Operations and Comprehensive Income.

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

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities to the Company of three months or less to be cash equivalents. At times the Company may maintain balances in excess of insured limits. Cash and Cash Equivalents excludes cash held in broker hedge accounts and the Rabbi Trust.

Trade Accounts Receivable

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

Property and Equipment

Property and Equipment is stated at cost. Depreciation and amortization are computed on the straight-line and declining-balance methods at rates based upon the estimated useful lives of the assets. Such lives range from 3 to 40 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 connection with the 2008 Citrus Juice & Oils Plant Consolidation project, the Company performed an impairment analysis. Based on this analysis, an asset impairment loss provision of \$4 million was recorded as of October 31, 2009. (See Note 17 for discussion of the Plant Consolidation project.) As of October 31, 2008, there was no impairment of long-lived assets.

Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date, but before financial statements are available to be issued. The Company recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Company's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before financial statements are available to be issued.

The Company has evaluated subsequent events through the date of the auditor's report, which is the date the financial statements are available to be issued.

Note 2 – Receivables - Trade and Other, Net

<i>(In Thousands)</i>	2009	2008
Fresh Fruit	\$ 38,224	\$ 34,052
Fruit Products	14,622	7,407
Licensing Receivables	5,908	6,395
Other Receivables	13,030	35,496
Allowance for Doubtful Accounts	(615)	(422)
Total	\$ 71,169	\$ 82,928

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

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

Other Receivables also include trade receivables from other business units of the Company, funds receivable from the Foreign Agricultural Service related to the Market Access Program, and notes receivable from Maverick Brands, LLC and Taylor Fresh Foods, Inc. (See Note 5 for additional information.)

Note 3 – Advances in Excess of Margins Earned

Advances in excess of margins earned result from certain revenues and costs related to 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 2009 and 2008, cash rebates totaling \$6.5 million and \$6.3 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 applied to future sales of lemon oil beyond one fiscal year is recorded in "Other Assets" in the Company's consolidated statements of financial position.

The Company periodically evaluates the established value of member fruit received that is included in inventory.

As of October 31, 2009 the estimated net realizable inventory value was \$2 million lower than the established value. Accordingly, an adjustment was made to reduce the inventory value and related shipper payable. No adjustment in value was deemed necessary at October 31, 2008.

Note 4 – Inventory - Net

<i>(In Thousands)</i>	2009	2008
Fruit Products	\$ 39,532	\$ 37,575
Materials and Supplies	5,346	5,684
Total	\$ 44,878	\$ 43,259

Fruit products inventory included a total of \$13.9 million and \$15.3 million of established value relating to fruit at October 31, 2009 and 2008, respectively.

Note 5 – Investments

<i>(In Thousands)</i>	2009	2008
Rabbi Trust (cash surrender value of life insurance policies and cash)	\$ 10,387	\$ 10,167
Maverick Brands LLC	2,311	2,311
Sunkist Taylor LLC	-	(1,212)
Other	1,189	1,092
Total	\$ 13,887	\$ 12,358

The Company has established a Rabbi Trust for participants in the Company's Deferred Compensation Plan and/or Supplemental Excess Benefit Plan. This Trust is the owner and beneficiary of the investment-oriented variable life insurance policies on participants in both Plans. Investments under these policies are directed by the Company. The participants have no specific right to the Trust assets and the assets of the Trust are available to satisfy the claims of the general creditors in the event of Company bankruptcy. Accordingly, the life insurance policies' cash surrender value is recorded as an asset of the Company. (See Note 11 - Long-term Obligations for additional information). As of October 31, 2009 these policies had a combined face value of \$27 million and there were no loans against the policies or contractual restrictions on the ability to surrender a policy. The cash surrender values may increase or decrease based on the underlying investment experience. The cash surrender value of these life insurance policies is recorded, in aggregate, as an asset. The change in cash surrender value of the policies each period is reflected in current year retained income. Due to the change in surrender value on these policies, the Company recorded \$480,000 of income and \$2.7 million of loss, net

of premium payments, for the years ended October 31, 2009 and 2008, respectively.

During 2007, Maverick Brands LLC was formed by the Company and two other investors to market Sunkist Natural 100% juice and smoothie consumer packaged products. The Company made an initial investment of \$1.5 million during 2007. During 2008, the Company invested an additional \$811,000 in the LLC. The Company provided a short-term loan in the amount of \$811,000 during 2008 and acquired \$200,000 of convertible notes in 2009 pursuant to a promissory note agreement. Maverick has the right to convert the notes to membership securities at the same terms and price being paid by others in the next round of financing. The short-term loan and convertible notes are both included in Other Receivables on the Consolidated Statements of Financial Position. The Company retains a minority equity interest in the LLC, and its investment is accounted for under the cost method of investment accounting. In addition, under separate agreement, Sunkist granted a trademark license to Maverick Brands, LLC.

In July 2006, the Company formed Sunkist Taylor LLC with Taylor Fresh Foods, Inc. to package and sell certain fresh-cut fruit and vegetable products. The Company's 50 percent portion of the LLC's income (loss) in 2009 and 2008 was \$158,000 and \$(406,000), respectively. During 2009, Sunkist Growers sold its share of the business to Taylor Fresh Foods, Inc. and granted a trademark license agreement for ongoing operations. All outstanding investments and loans to Sunkist Taylor LLC were liquidated as part of the sale, resulting in a small net gain. In a related transaction, the Company sold certain processing equipment to Taylor Fresh Foods, Inc. and recorded a note receivable for \$2 million, payable over two years.

Other investments include the Company's share of Co-Bank allocated equity stock at cost. Distribution of this non-marketable investment is at the sole discretion of the CoBank Board. The stock is pledged as collateral for the CoBank debt discussed in Notes 8 and 11.

Note 6 – Property and Equipment - Net

<i>(In Thousands)</i>	2009	2008
Machinery, Equipment and Fixtures	\$ 69,827	\$ 103,445
Land and Buildings	33,410	38,326
Software	21,715	21,264
Construction in Progress	1,739	5,319
Accumulated Depreciation and Amortization	(78,180)	(115,592)
Total	\$ 48,511	\$ 52,762

Depreciation and amortization expense in 2009 and 2008 was \$8.2 million and \$8.6 million, respectively.

In 2009 and 2008, the Company sold buildings and equipment for \$12.1 million and \$2.9 million, respectively. Total gains on sales for 2009 and 2008 were \$4.5 million and \$16.3 million, respectively (gains also include sale of water rights and air emission credits). Part of the 2009 property sales include the sale of the Tank Farm portion of the former Ontario processing plant. The terms of such sale included a 30-month leaseback provision which resulted in a deferral of approximately \$3.6 million of the \$5.6 million gain on sale. This revenue deferral is recorded in other accrued liabilities.

At October 31, 2009, the Company evaluated the Ontario plant facility property and equipment for impairment. Pursuant to this analysis, the net book value of such items plus estimated demolition and other costs exceeded the projected sales proceeds by approximately \$4 million. Accordingly, the carrying value of these assets was reduced by \$4 million and an impairment loss was recorded in General administrative and other expenses in the Consolidated Statements of Operations and Comprehensive Income. No impairment existed at October 31, 2008. (See Note 17 for additional information.)

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. Rental income recognized on these leases totaled \$6.4 million and \$6.6 million in 2009 and 2008, respectively, and is included in "Other Revenues" and "Sale and lease of packinghouse equipment" in the Consolidated Statements of Operations and Comprehensive Income. At October 31, 2009, the Company's minimum future rental income on noncancelable operating leases, for the years indicated, was as follows (in thousands):

2010.....	\$ 5,269
2011.....	3,549
2012.....	2,947
2013.....	1,813
2014.....	1,191
Thereafter.....	146
Total	\$ 14,915

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 \$181,000 and \$346,000 in 2009 and 2008, respectively.

The Company's net investment in equipment leased to packinghouses subject to these operating leases was \$2.7 million and \$2.3 million at October 31, 2009 and 2008, respectively. The cost of such equipment leased at October 31, 2009 and 2008 was \$8.6 million and \$8.2 million, respectively.

Note 7 – Other Assets

<i>(In Thousands)</i>	2009	2008
Unamortized Contract Payments ..	\$ 3,815	\$ 3,339
Prepaid Pension Contributions – Salaried Plan	2,061	2,061
Other	86	94
Total	\$ 5,962	\$ 5,494

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

Note 8 – Short-term Obligations

Short-term obligations outstanding as of October 31, 2009 and 2008 include short-term debt of \$20.3 million and \$20 million, respectively. Also included is \$6.1 million and \$2.5 million of bank overdrafts (resulting from normal delays in the presentation of checks for payment), respectively. In addition, \$9.9 million is included at October 31, 2009 for the final payment of the Stark matter. (See Note 13 for additional information.)

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 \$371,000 and \$195,000 in 2009 and 2008, respectively. The effective interest rate was 2.65% at October 31, 2009. The remaining amount of short-term lines of credit available at October 31, 2009 was \$19.5 million. The Company is subject to covenants and restrictions under the lines of credit.

Note 9 – Trade Payables and Other Accrued Liabilities

Trade payables and other accrued liabilities include various outstanding payments due to the Company's vendors,

its trade partners, and various agencies. These payables and other accrued liabilities result primarily from the Company's normal operating activities.

Note 10 – Payables to Members

<i>(In Thousands)</i>	2009	2008
Fresh Fruit Proceeds	\$ 50,458	\$ 39,385
Product Pools – Oranges	1,052	10,627
Product Pools – Lemons	8,816	3,594
Capital Fund Refunds	337	318
Total	<u>\$ 60,663</u>	<u>\$ 53,924</u>

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

Product Pool payments are made in various stages depending on terms in effect at the time fruit receipts arrive at the processing facility. Under the products pooling plan currently in effect, the Company normally makes initial advance payments and additional/final payments upon closure of a pool. When a substantial portion of a pool's inventory has been sold, the final settlement is determined with respect to the difference between actual pool earnings, calculated in accordance with the pooling plan, and amounts previously paid. Products Pools Payables to Members outstanding at any point in time represents the balance of established value.

Note 11 – Long-term Obligations

<i>(In Thousands)</i>	2009	2008
Long-term Debt	\$ 10,000	\$ 20,000
Deferred Compensation and Pension Payable	12,963	6,449
Subsidiary Company Retirement Benefits	1,028	890
Legal Obligation	-	15,865
Total	<u>\$ 23,991</u>	<u>\$ 43,204</u>

In 2007, the Company established a \$20 million unsecured term loan facility with CoBank. This facility was restructured and reduced to \$10 million in 2009. Under the terms of this facility, which matures in 2011, several interest options are provided. The Company is subject to covenants and restrictions under this facility. As of October 31, 2009 the balance outstanding on this facility was \$10 million and the effective interest rate was 2.65%.

Interest on the Company's long-term borrowings totaled \$310,000 and \$1.1 million in 2009 and 2008, respectively.

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

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

The Legal Obligation is comprised of a liability to cover a legal matter. This amount was reduced and reclassified to Short-term Obligations in 2009. (See Note 13 – Commitments and Contingencies.)

Note 12 – Members' Equity

Capital Fund

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

Unallocated Retained Earnings

Unallocated retained earnings are primarily comprised of accumulated income derived from trademark licensing, the sale and lease of packinghouse equipment, gain on sale of property, and other non-member business activities. The unallocated retained earnings increases in 2009 and 2008 are due primarily to sales of property.

Note 13 – Commitments and Contingencies

Long-term Contract

In 2001, the Company entered into a long-term sales agreement with a multinational manufacturer, which calls for the customer to purchase fixed amounts of fruit products inventory annually at predetermined prices. Under

the agreement, Sunkist is obligated to pay a fixed amount of annual cash rebates until 2018. Rebates totaling \$6.5 million and \$6.3 million were paid in 2009 and 2008, respectively. Under the terms of the contract, future annual rebates are \$6.5 million. All rebates paid or expensed in conjunction with this agreement are recorded as a reduction of fruit products sales revenue in the corresponding year the product is sold. As of October 31, 2009 and 2008, Other Assets included unamortized contract payments of \$3.8 million and \$3.3 million, respectively. (See Note 7.)

Legal Matters

In November 2001, Stark Packing Corporation initiated a legal action against Sunkist based upon a variety of assertions. The action subsequently went to trial on November 6, 2006. On December 20, 2006, the jury returned a verdict against Sunkist for breach of contract and awarded the plaintiffs approximately \$13.4 million. The Company appealed the verdict and the award was reduced by \$790,000 in 2009. A partial settlement of \$1.8 million was reached with one of the co-defendants in 2009, which resulted in a further award reduction of \$4.6 million. The Company initially recorded a liability of \$13.4 million in long-term obligations in the accompanying Consolidated Statements of Financial Position. After the award reductions, the partial settlement payment, and accrual of statutory post-judgment interest the liability was adjusted to \$9.9 million and reclassified to short-term obligations. Final payment of the settlement was made in November 2009.

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 will not have a material adverse impact of 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 2014. 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, 2009, the Company's aggregate minimum rental commitments for the years indicated are as follows (in thousands):

2010.....	\$ 3,178
2011.....	2,821
2012.....	1,317
2013.....	444
2014.....	388
Total	\$ 8,148

Total rent expense was \$3.0 million and \$3.5 million for 2009 and 2008, respectively.

Irrevocable Letters of Credit

As of October 31, 2009, the Company maintained three irrevocable and unconditional letters of credit with CoBank totaling \$13.8 million. These letters are for a workers compensation insurance policy, the Stark Packing legal matter, and obligations related to a property sale. The beneficiaries are Zurich American Insurance Company, American Contractors Indemnity Company, and Agrigold Joint Venture, respectively. Letters of credit totaling \$20.6 million at October 31, 2008 for the Stark matter were reduced to \$12.7 million in June 2009. (See discussion in Legal Matters.)

At October 31, 2009, there were no amounts drawn against any of the letters of credit.

Note 14 – Income Taxes

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

The income tax provision consists of the following:

<i>(In Thousands)</i>	2009	2008
Current Expense (Benefit)	\$ 2,804	\$ 4,095
Deferred Expense (Benefit).....	(2,900)	(256)
Total Provision	\$ (96)	\$ 3,839

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

<i>(In Thousands)</i>	2009	2008
Income Tax Expense (Benefit) at Statutory Rate	\$ 2,105	\$ 4,483
Foreign and Other Tax Credits ...	(476)	(467)
Change in Valuation Allowance ...	(2,022)	(296)
Other.....	297	119
Total	\$ (96)	\$ 3,839

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

The valuation allowance relates to tax benefits that are deductible for tax purposes in future years. The current year decrease in the allowance reflects a decrease in net deferred patronage assets. In assessing the realizability of non-patronage deferred tax assets, management considers whether it is probable that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences, net of the existing valuation allowances at October 31, 2009. 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 \$44.7 million of patronage net operating loss carryforwards remaining as of October 31, 2009. If left unused, these carryforwards will expire in the following amounts and years: \$10.4 million in 2011, \$433,000 in 2012, \$5.2 million in 2020, \$5.8 million in 2023, \$973,000 in 2024, \$18.8 million in 2025, and \$3.1 million in 2026. The patronage net operating loss carryforwards arose from timing differences of income and expense recognition. This is primarily due to the timing differences between members' payments for tax and financial reporting purposes, as well as a tax deferred exchange of real property.

Income taxes receivable (payable) totaled \$1.7 million and (\$942,000) at October 31, 2009 and 2008, 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:

<i>(In Thousands)</i>	2009	2008
Deferred Assets		
Net Operating Losses	\$ 15,646	\$ 17,061
Capitalized Inventory Costs	2,077	2,077
Lease Deposits	301	482
Vacation Pay Accrual	418	439
Depreciation	2,249	1,872
Deferred Compensation	1,266	1,169
Legal Settlement Reserve	3,479	5,553
Impairment Charge	1,408	-
Deferred Revenue	1,273	-
Other	1,464	1,738
Total Deferred Assets	\$ 29,581	\$ 30,391
Deferred Liabilities		
Membership Payments	\$ 3,557	\$ 4,977
Deferred Gain on Exchange of Property	5,542	5,542
Other	1,712	1,979
Total Deferred Liabilities	\$ 10,811	\$ 12,498
Net Deferred Asset Before Valuation Allowance	\$ 18,770	\$ 17,893
Valuation Allowance	(14,633)	(16,655)
Net Deferred Assets	\$ 4,137	\$ 1,238

In June 2006, new accounting pronouncements were issued that provided further guidance on the issue of accounting for uncertain tax positions. Private companies have been given the option to defer the adoption of this new pronouncement until years beginning after December 15, 2008. The Company has elected to defer adoption and continue accounting for uncertain tax positions as contingencies in the financial statements until the year ended October 31, 2010. The effect of an uncertain tax position is recorded if the outcome is considered probable and can be reasonably estimated. As of October 31, 2009 and 2008, the Company had no amounts accrued for uncertain tax positions.

Note 15 – Retirement Plans and Other Benefits

Sunkist Retirement Plan-A

The Sunkist Retirement Plan-A (“the Plan”) is a non-contributory, defined benefit, multi-employer pension plan which provides retirement benefits for all eligible employees of the Company and other participating companies. The Plan was funded in accordance with the funding requirements of federal law and regulations. The Plan benefits are calculated based on years of service, highest

consecutive five-year average earnings, retirement age, and the primary Social Security benefit. The Plan was frozen effective December 31, 2004.

Service costs plus amortized actuarial gains and losses, net of earnings on Plan assets and interest costs, are funded currently for the Plan. The Company contributed \$2.9 million and \$2.6 million to the Plan in 2009 and 2008, respectively. The Company records as an expense the amount of the required contribution to the Plan. In certain years, the Company's contribution to the Plan has been in excess of the required contribution. Accumulated excess contributions are included in Other Assets and totaled \$2.1 million at October 31, 2009 and 2008. Plan assets are invested in a group trust, consisting primarily of bonds, fixed income securities, private equity funds, hedge funds, and cash. Sunkist is the largest participating employer in the Plan and constitutes approximately two-thirds of the active participants.

The actuarial present value of the benefit obligations of the Plan is in excess of the plan assets currently available for payment of such obligations. As of October 31, 2009, the Company's estimated portion of the projected benefit obligation in excess of the plan assets totaled \$7.3 million. In accordance with the accounting requirements for a multi-employer pension plan, 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 Hourly Plan was amended in 2007 to partially freeze benefit accruals. The funded status is recognized in the Consolidated Statement of Financial Position. The funded status is measured as the difference between the fair value of plan assets and the benefit obligation at October 31, the measurement date. The projected benefit obligation represents the actuarial present value of benefits expected to be paid upon retirement based on estimated future compensation levels. The fair value of plan assets represents the current market value of assets held in an irrevocable trust fund. The pension liability is recorded in Long-term Obligations. (See Note 11.)

Net periodic pension cost is recorded in the Consolidated Statement of Operations and Comprehensive Income. Gains/losses arise as a result of differences between actual experience and assumptions or as a result of changes in

actuarial assumptions. Prior service costs/credits represent the cost of benefit improvement attributable to prior service granted in plan amendments. Gains/losses and prior service costs/credits not recognized as a component of net periodic pension cost as they arise are recognized as a component of Other Comprehensive Income. Those gains/losses and prior service costs/credits are subsequently recognized as a component of net periodic pension cost pursuant to the recognition and amortization provisions of applicable accounting standards (generally amortized over the service lives provided such amounts exceed thresholds which are based upon the benefit obligation or the value of plan assets).

The following disclosure sets forth the Hourly Plan's benefit obligation, fair value of assets and its funded status as of the October 31, 2009 and 2008 measurement dates. The accumulated benefit obligation for the Hourly Plan was \$25 million and \$19 million at October 31, 2009 and 2008, respectively.

	Pension Benefits	
	2009	2008
<i>(In Thousands)</i>		
Projected Benefit Obligation	\$ 25,627	\$ 19,270
Fair Value of Plan Assets	<u>20,195</u>	<u>18,993</u>
Funded Status	\$ (5,432)	\$ (277)
Net Pension Liability	\$ (5,432)	\$ (277)
Net Periodic Pension Cost	\$ 1,081	\$ 518
Employer Contributions	\$ -	\$ -
Benefits Paid	\$ 1,509	\$ 1,431

Amounts included in accumulated other comprehensive loss which have not yet been recognized in net periodic benefit cost consist of net actuarial and asset losses of \$8.7 million and prior service cost of \$115,000. The estimated net actuarial and asset loss and prior service cost for the Hourly Plan that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next fiscal year are \$726,000 and \$70,000, respectively.

Amounts recognized in other comprehensive income consist of:

	2009	2008
<i>(In Thousands)</i>		
Net actuarial loss arising during the period	\$ (4,521)	\$ (918)
Amortization included in net benefit cost:		
Amortization of net actuarial loss	345	157
Amortization of prior service cost	<u>101</u>	<u>173</u>
	\$ (4,075)	\$ (588)

The weighted-average assumptions used to determine the benefit obligation at October 31, 2009 and 2008 were as follows:

	2009	2008
Discount Rate	5.50%	8.00%
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, 2009 and 2008 were as follows:

	2009	2008
Discount Rate	8.00%	6.25%
Rate of Increase in Future Compensation	4.50%	4.50%
Expected Long-Term Rate of Return on Assets	7.25%	7.25%

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

The investment policies and strategies for the pension benefits include the use of target asset allocations for the individual asset categories. The 2009 targets and actual asset allocation of the Company's pension benefits at October 31, 2009 and 2008 are as follows:

	2009 Actual	2009 Target	2008 Actual
Public Equity	16%	20%	16%
Private Equity/Special Situations	15%	10%	17%
Hedge Funds/Real Estate	9%	10%	13%
Fixed Income/Cash	60%	60%	54%
Total	100%	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.

Although not required, the Company will likely make an additional contribution during 2010, due to the current

funding status. Expected future benefit payments in subsequent years are as follows: \$1.5 million in 2010 through 2012, \$1.6 million in 2013, \$1.7 million in 2014, and \$9.1 million for the years from 2015 through 2019. The expected benefits are based on the same assumptions used to measure the Company's benefit obligation at October 31, 2009 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 \$2 million and \$1.8 million in 2009 and 2008, respectively. The Company made a discretionary contribution to the Match+ Savings Plan in an amount equal to 6% of eligible employee's earnings in both years. No contributions have been made to either the Voluntary Investment Plan or the SITRA Plan since 1986.

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

The net periodic benefit cost of the SERP was \$185,000 and \$301,000 in 2009 and 2008, respectively. Projected benefit obligations of \$3.9 million and \$3.1 million were recorded in the Company's Consolidated Statements of Financial Position as of October 31, 2009 and 2008, respectively. Amounts recognized in other comprehensive income are as follows:

(In Thousands)	2009	2008
Net actuarial gain (loss)	\$ (828)	\$ 478
Amortization of net gain	(72)	(6)
Amortization of prior service cost	8	64
	<u>\$ (892)</u>	<u>\$ 536</u>

In 2008 and 2009, there has been significant volatility in the domestic and international investment markets, primarily as a result of liquidity issues in credit markets. Consequently, the fair value of plan assets within the Company's employee benefit plans, including the Hourly

Plan, the Sunkist Retirement Plan-A and the life insurance policies in Note 5, are exposed to higher than typical price volatility which could result in a substantial reduction in the fair value of such investments from the amounts reported as of October 31, 2009. The amounts of gains and losses that will be recognized in subsequent periods, and the impact on net funding status of future contributions, cannot be estimated.

Note 16 – Research and Development

The cost of research and development for both processed products and fresh fruit operations is charged to the Company's operations when incurred and amounted to \$1.9 million and \$1.6 million in 2009 and 2008, respectively.

Note 17 – Plant Consolidation

As part of Management's evaluation of overall company operations, in September 2007, the Board approved a plan of realignment to consolidate the Citrus Juice and Oil Division's processing activities. This consolidation involved the relocation of the Company's Lemon juice processing from its Ontario facility to its Tipton facility. With the exception of the Ontario Tank Farm activities, this plan resulted in the ultimate closure and sale of the Company's Ontario processing plant. Almost all activities were completed in the 2008 and 2009 years. Consolidation costs relate primarily to the relocation of equipment from the Ontario facility to the Tipton facility, workforce reductions and employee relocation expenses. \$13.7 million of Tipton facility capital improvements were associated with the consolidation.

Late in the 2008 fiscal year, a \$24 million commitment was entered into for the sale of the Ontario processing plant. Approximately \$15 million of this sale was recorded in the 2008 financial statements and payment was received in 2009. An additional \$2 million was recorded in 2009 for the sale of emission credits. The remaining \$7 million in proceeds is expected upon satisfaction of obligations in the sales agreement. The carrying value of the assets included in the Ontario asset disposal group totaled \$4.6 million at October 31, 2009 and is included in "Property and Equipment - net" in the Company's Consolidated Statement of Financial Position.

Exit and disposal activity costs associated with the consolidation, as well as the impairment adjustment are included in "General administrative and other expense" in the

Company's Consolidated Statement of Operations and Comprehensive Income.

A summary of the consolidation costs for the year ended October 31, 2009 is as follows:

<i>(In Thousands)</i>	Equipment Relocation	Workforce Reduction	Employee Relocation	Total
Amount expected to be incurred . . .	\$ 4,636	\$ 1,398	\$ 217	\$ 6,251
Amount incurred in 2009	\$ 645	\$ 157	\$ 20	\$ 822
Cumulative amount incurred as of October 31, 2009	<u>\$ 4,585</u>	<u>\$ 1,387</u>	<u>\$ 217</u>	<u>\$ 6,189</u>

At October 31, 2009 the accrued liability associated with the consolidation activities consisted of the following:

<i>(In Thousands)</i>	Equipment Relocation	Workforce Reduction	Employee Relocation	Total
Balance at October 31, 2007	\$ -	\$ 326	\$ -	\$ 326
Provision in General Administrative and other expense . . .	3,355	904	197	4,456
Actual Expenditures charged to accrual	(3,355)	(618)	(190)	(4,163)
Adjustments to prior provision . .	-	(15)	-	(15)
Balance at October 31, 2008	-	597	7	604
Provision in General Administrative and other expense . . .	645	157	20	822
Actual Expenditures charged to accrual	(645)	(306)	(21)	(972)
Adjustments to prior provision . .	-	30	(6)	24
Balance at October 31, 2009	<u>\$ -</u>	<u>\$ 478</u>	<u>\$ -</u>	<u>\$ 478</u>

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

The carrying value of the Company’s investment in CoBank was \$1.2 million and \$1.1 million at October 31, 2009 and October 31, 2008, respectively. Because there is no market for this investment, a reasonable estimate of fair value is not available.

Fair Value Hierarchy

Effective November 1, 2008, the Company adopted a new accounting pronouncement for fair value measurements of financial assets and financial liabilities that are recognized in the financial statements on a recurring basis. The pronouncement will apply to nonfinancial items that are recognized on a non-recurring basis in fiscal 2010. The pronouncement defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Fair value is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques, giving the

highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows: Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date; Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; Level 3 inputs are unobservable inputs for the asset or liability. The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

At October 31, 2009, the only assets measured at fair value on a recurring basis are orange juice futures contracts, with a fair value of \$105,000, which are considered Level 1.

Other Related Parties

Fruit Growers Supply Company (FGS) is a cooperative and supplier of shipping materials. The Company (Sunkist Growers, Inc.) is a member of FGS. The Company and FGS have the same members and some common directors. The Company purchased shipping materials from FGS in the amount of \$9.3 million and \$11.6 million in 2009 and 2008, respectively.