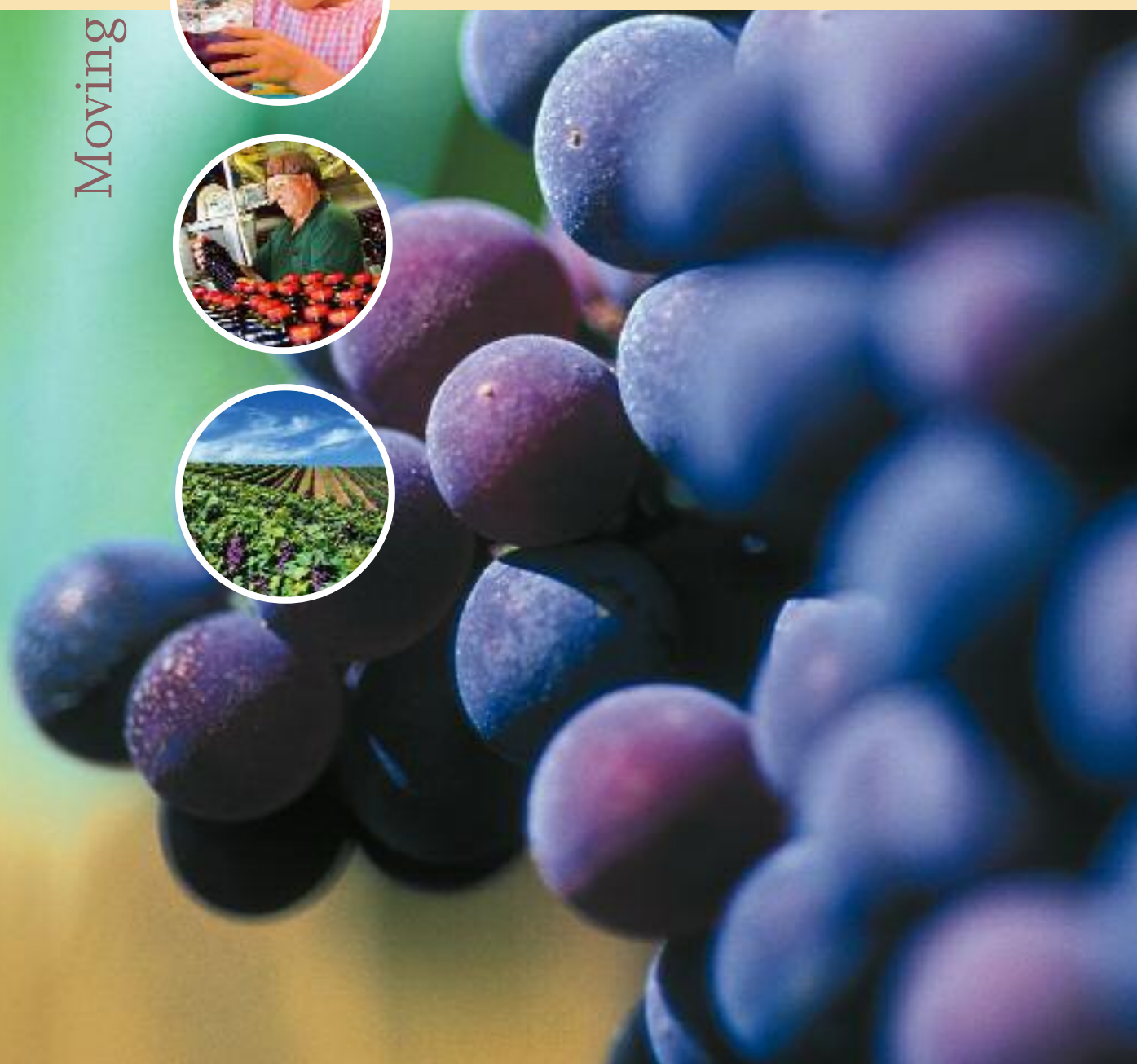


Moving from Good to Great

National Grape Cooperative Association, Inc. & Welch Foods Inc., A Cooperative Annual Report

2007





Our Mission:

To maximize the value of the enterprise from the crop to the consumer.



Our Company: Headquartered in Concord, Massachusetts, Welch's is a leading marketer of Concord and Niagara grape-based consumer products—including grape juice, jelly, and other fruit-based offerings. We are the processing and marketing affiliate of the National Grape Cooperative Association. Our 1,200-plus grower-owners supply our principal raw products—Concord and Niagara grapes—from 49,000-plus acres of vineyards in Pennsylvania, Michigan, New York, Ohio, Washington and Ontario, Canada.

Our History



During more than a century of operation, Welch's has built a strong reputation for high-quality products that combine great taste with nutritional and health benefits. Welch's traces our beginnings to 1869 when Dr. Thomas Bramwell Welch successfully processed an unfermented Concord grape wine that could be used in his church's communion service. Applying the theory of Louis Pasteur to pasteurize his juice, Welch unknowingly led the way to fruit juice processing in the United States. Today, fruit juice processors continue to use the same principles that Dr. Welch applied in his kitchen in Vineland, New Jersey.

Our Products



Over the years, our product mix and packaging have changed to meet the evolving needs of consumers. We produce a variety of fruit-based consumer products, including 100% juices and juice cocktails in convenient packaging—bottled, refrigerated, single-serve, and frozen and shelf-stable concentrates. We also produce jams, jellies, and preserves under both the Welch's and BAMA brand names. We develop and market Dried Fruit snacks. We license the Welch's name for frozen fruit confections, fruit snacks, and carbonated soft drinks. And we continue to introduce new products and refine our current product mix to better match the needs of today's consumers—in the U.S. and throughout the world.

Our Markets



Our products are sold by the grocery, non-grocery, industrial, licensing, and international divisions—achieving broad distribution throughout the United States and in more than 50 countries around the world.

Letter from the President



In the 2007 fiscal year, we made major changes to transform Welch's from a good company—with an excellent brand, products, and people—to a great company, one that is more efficient, profitable, innovative, and competitive. Our new vision for the company—From Good to Great—is much more than a catchy slogan. It's a long-term strategy for growth that affects all aspects of our business. And it's already becoming part of the corporate culture at Welch's as we build on the potential of our brand and company.

To achieve this ambitious vision for the company, we have established five key “pillars” that describe our specific goals and strategies for reaching them (see page 7). These goals will guide us as we move ahead. I'm pleased to say that FY '07 results already show the impact of our company-wide effort to transform Welch's and build value at every step of our business—from crop to consumer:

- **Achieving proceeds targets** — In FY '07, we beat our bottom-line net proceeds target of \$55.9 million for the fiscal year. It's especially gratifying that we delivered \$65.2 million of distributable patron proceeds, an \$18.7 million increase from last year. While this year

“Our new vision will keep us on target to achieve our financial and organizational goals—and to continue to strengthen and grow our company for years to come.”

marks a return to achieving these targets, we are working to continue to meet—and raise them—in coming years.

- **Implementing ERP** — We rolled out our new Enterprise Resource Planning (ERP) system at the end of 2007, which will save us millions of dollars via cost reductions and new efficiencies—while fostering communication and collaboration for years to come. Bringing this 4-year, \$31 million project to successful completion is a major accomplishment for Welch's—and central to the eventual success of our vision.
- **Laying the groundwork** — Preparing for the future means establishing clear goals and strategies. Our new vision will keep us on target to achieve our financial and organizational goals—and to continue to strengthen and grow our company for years to come.

Achieving these three stated goals was central to our success in FY '07. But we made a great deal of progress in other areas as well (see Business Highlights, page 5). It's clear that FY '07 was not a *business as usual* year. It was a year of change and growth—a landmark year in our company's 138-year

history. We end the fiscal year as a more agile, smarter company that is building on its core strengths, while making changes and investments that will help us become more innovative and profitable.

Behind this transformative year and its impressive results are the hundreds of Welch's employees who contribute their hard work, skills, passion, and leadership to our company. I want to thank our employees for making change happen—every day—and for their flexibility and commitment during this challenging year. I also want to thank the growers of the National Grape Cooperative Association for their continued faith in Welch's. As our new mission states, we're dedicated to maximizing value—and the grape crop is where it all starts. Our close relationship with National Grape is critical as we move ahead.

Becoming a truly great company is a team effort that involves everyone within Welch's—our employees at all levels, growers in the U.S. and Canada, and trade partners throughout the world. We've improved our company a lot this year. As we complete FY '07 and embark on another challenging, exciting year, we can all be confident that Welch's is:

- More relevant to our consumers
- Innovating at all levels
- More efficient throughout the value chain
- Able to collaborate better with our trade partners
- Positioned for future growth into new markets
- A stronger international presence

“Behind this transformative year and its impressive results are the hundreds of Welch's employees who contribute their hard work, skills, passion, and leadership to our company.”

But we have much further to go before we can truly say we are a great company by all measures. I firmly believe that we've just scratched the surface of how great we can become. The future holds limitless potential for Welch's. I look forward to working with the entire Welch's team to achieve it.



David J. Lukiewski

President and Chief Executive Officer
Welch Foods Inc.

Executive Letter: Randolph H. Graham



As we conclude the 2007 fiscal year, it's helpful to think back to the very different circumstances that marked the beginning of this critical year for Welch's and National Grape. Declining results, lower proceeds, high employee turnover, and other negative factors led to a less-than-encouraging outlook for our company at the beginning of 2007—one that signaled a clear need for change.

The changes came rapidly—starting with a new CEO and major adjustments to the executive team. It was clear to us all that a continuation of these initial results was not acceptable to our Board, or to our 1,200-plus grower-owners. We needed immediate and ongoing change, which resulted in the powerful vision that our new CEO, David Lukiewski, describes in his letter.

Throughout FY '07, we made changes to align our organization to the new vision. These changes have created a much-needed sense of excitement and enthusiasm within our organization. And they've already generated impressive results highlighted in this report—from higher sales to lower employee turnover to value chain savings. However, we all still have much more work ahead of us to achieve our vision of becoming a truly great company.

It's important to note that due to the unique way our organization is structured, these improvements are not yet as visible in crop payments to our member-owners

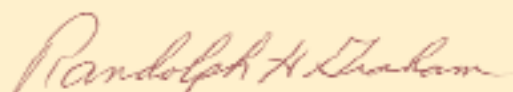
as they will be as we move ahead. Our harvest advance payments in Fall '07 are very strong, and will surpass our prior harvest advance record by more than \$5 million. I would point to this impressive result as tangible, bottom-line proof of the positive transformation happening within our organization.

Looking ahead, I'm confident that Welch's and National Grape are both more focused than ever on delivering results to the bottom line. We're all looking for new ways to innovate and contribute to the momentum of 2007. Change triggers new opportunities, and there are plenty of ways to continue to strengthen our organization at all levels.

I think it's clear that we're pulling together to realize a new vision for Welch's that benefits us all—both in terms of higher proceeds now, and a more successful, sustainable organization far into the future.

Getting from good to great is a journey and we're all working hard to get there. Though we still have more challenges ahead, the results for FY '07 are very encouraging. This year was successful as a much-needed stepping stone for an aggressive Fiscal Year Plan for 2008.

As I look to the future, I see a stronger, leaner, more capable organization well-positioned to meet the new opportunities of the marketplace and redesigned to deliver much-improved proceeds to the bottom line. This future looks exciting—and working together, I'm sure we will continue on the path to becoming a great company.

A handwritten signature in red ink that reads "Randolph H. Graham". The signature is written in a cursive, flowing style.

Randolph H. Graham

Chairman of the Board, Welch Foods Inc.

President, National Grape Cooperative Association, Inc.

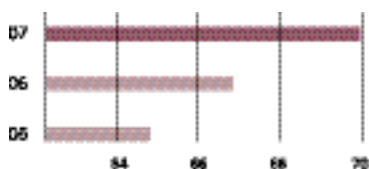
2007 Fiscal Year Business Highlights

This year saw major news and key changes in all areas of our business. Here are just some of the highlights that contributed to a successful year:

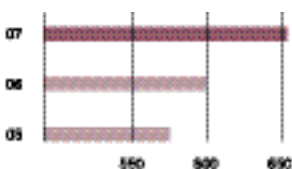
Sales Achieve FY '07 Targets

We sold 343,304 tons of Concord and Niagara grapes in fiscal year 2007. We posted net proceeds and distributable patron proceeds of \$59.5 million and \$65.2 million, respectively, surpassing our expectations for the year. Our net sales totaled \$653.6 million and we sold 69.7 million equivalent cases.

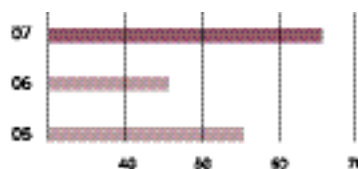
Equivalent Case Sales
(in millions)



Net Sales
(in millions)



Distributable Patron Proceeds
(in millions)



Successfully Managing the 2006 Crop



This year, we received and contained 258,554 tons of Concord and Niagara grapes. These results reflect the hard work of our many growers, who are the lifeblood of our company. Every growing season is different—with varying weather conditions, rainfall, and other challenges. In 2006, as in other seasons, our growers combined expertise, experience, and hard work to grow an impressive crop of high quality. And our processing facilities met the challenge of the harvest as well, working hard to ensure efficient processing.

Marketing the 2007 Crop



The new crop is currently projected to be the second largest in history at more than 385,000 tons. The harvest advance is expected to be our largest in history, \$5 million above the previous record. The fact that we stand ready to contain and market this giant crop profitably is a tangible indication of the health of our business.

New Executives Strengthen Welch's Leadership Team



2007 marks a revitalized executive team—led by President and CEO David Lukiewski—including Welch's veterans and talented executives from outside the company. Key additions to the team in 2007 include David Engelkemeyer, vice president of operations and technology; Chris Heye, vice president of marketing; and Lisa Flynn, vice president of human resources.

2007 Fiscal Year Business Highlights

Innovative Offerings and Packaging Expand Our Product Mix



2007 saw the introduction of several new products, including 100% Grape Juice with Fiber and 100% Grape Juice with Calcium. New flavors and creative packaging in the Sparkling line boosted sales in this area. FY '07 marked the introduction of our 100% juice line in premium single-serving packages. And it was also the first full year of sales for our convenient Dried Fruit offerings, with new varieties and higher sales. Our product mix is broader than ever. And we continue to analyze why our consumers buy—yielding insights that help us adjust our product mix and packaging, as well as the multiple channels that bring Welch's products to market.

Emphasizing Health and Nutritional Benefits



The health and nutritional benefits of grape juice and increasing fruit in the diet continue to add up—and to help build our brand. In FY '07, we made initial investments in advertising, public relations, and promotions that emphasized these benefits. The results were very positive. For example, "Good Morning America" reported on a study that ranked purple grape juice first in antioxidant capacity among all beverages tested.¹ *Redbook*, *Prevention*, and other national publications also featured purple grape juice. And New York State awarded \$300,000 to the New York Wine & Grape Foundation to promote Concord grape juice throughout the state via radio spots, media tours, a special web site, and magazine ads.

Following through at retail, our Healthy Heart program used creative events and promotions to capitalize on health and nutritional benefits. The result—high-impact communication with consumers and impressive incremental sales. We will continue to promote these benefits heavily in 2008.

Major Success with Wal-Mart Boosts Key Channel



Gross sales to Wal-Mart stores totaled \$165.3 million in FY '07, driving growth in this channel, increasing 37% in the past 3 years. Wal-Mart selected Welch's as the Category Advisor for Single-Serve, Multi-Serve Bottled Juice, and Isotonics over much larger competitors—a clear vote of confidence. These results required close collaboration with the Wal-Mart team, from the store level to top management. Strong in-store marketing also contributed to this sales win.

By knowing our customer better, we charted higher FY '07 sales at Wal-Mart as well as other national retailers.

International Sales Continue to Expand



Our international business, including licensing agreements, posted healthy gains in FY '07 of 25% over 2006. Highlights include major success in the UK market, where Welch's is well-established as the top antioxidant brand. A major revitalization plan with new advertising and consumer promotions efforts in Puerto Rico (Searching for Welch's Hearts) gave us terrific exposure in this historically strong market for Welch's. We charted high sales in Japan with special products and packaging. And we conducted successful test marketing in China—opening the door to a potentially huge market.

In FY '07, the international team continued to expand the business model with creative partnerships and licensing agreements in key countries and regions—including the UK and China. This strategy helps us create high-quality, innovative products that meet local consumer needs at the right price—all while staying as efficient, flexible, and responsive as possible.

Welch's Vision: The Power of Pillars



Consumer

Customer

People

Innovation

Value Chain

Five pillars support our long-term strategic vision of moving **From Good to Great**. They focus on key areas where we can improve proceeds and enhance the company's value. Here we take a look at each of the pillars, its goals, and the metrics that will help us gauge success.

Consumer

BECOMING THE FAVORITE BRAND OF FRUIT PRODUCTS



Welch's already has significant strengths with consumers, from exceptional brand awareness to a wide footprint at retail. All of our new efforts associated with this pillar build on these strengths and take them even further. We are committed to nourishing, delighting, and connecting with consumers in new ways.

Our goals? We want to build and expand the number of households that buy Welch's products. We want to encourage our loyal consumer base to buy more, including non-grape products—and more often. And we want to continue to improve our product mix to keep Welch's in high-growth, high-margin segments that raise profitability.

Our Sales and Marketing groups are customizing, re-invigorating, and re-positioning our existing products—and introducing new products that meet the evolving needs of our consumers and expand our brand. They're also working to attract a significant

population of new consumers—including important demographic groups—such as “Gen X Moms,” Hispanic-Americans, Asian-Americans, and others.

We're creating resonant messaging and looking for innovative ways to connect to the consumer via traditional advertising, online advertising, Web-based information, word-of-mouth campaigns, innovative PR, and other tactics. And we're bringing the health and nutrition benefits of our products to the forefront (including our packaging), as more and more studies link grape juice with health.

This powerful combination—more connection with our existing consumers plus inroads into new groups—will help us become the **favorite brand of fruit products with consumers throughout the world.**



Customer

BECOMING A PREFERRED SUPPLIER



To compete in the ever-changing retail environment and implement our key initiatives, Welch's needs to continue to be recognized as a best-of-class company within the customer formats in which we compete—and to become a preferred supplier. For more than ten years, being a preferred supplier has been the vision and focus of the sales organization. To meet this ongoing challenge, the sales team has transformed itself—including strategies, processes, structure, staff, and scorecard measures.

We have achieved a number of key milestones and results that give us confidence that we can expand the number of customers who consider us a preferred supplier. For example, the sales team grew the top line by more than 38% from 1997 to 2007. Wal-Mart also selected us as Supplier of the Year twice during that time, and many other Top 10 customers recognized us as a preferred supplier. To improve the bottom line, our sales organization has consistently implemented new technology and business processes to support effective trade fund management and drive costs out of the value chain.

Reaching the goal of becoming a preferred supplier during 2008 and beyond will require a coordinated effort across Sales, Marketing, International, and the Value Chain. We'll be measuring success across several key areas—including market share, volume and profit growth, success of new product introductions, supplier status, and delivery of best-in-class demand management services.

As we move ahead, four strategies will guide us—and drive overall performance and sales for years to come:

- **Develop our channels** by leveraging shopper insights to develop and deliver custom solutions (products, packaging, and programs) that meet the needs of our channels—and the consumers they serve.
- **Continue to develop our customers** by aligning our strategies and working to collaboratively manage the categories in which we compete.
- **Drive growth through innovation**, delivering value-added products, programs and services our customers need to help us reach our common consumer.
- **Work more closely with our customers** to deliver world-class demand management services and support.

The results are already clear. **In FY '07, the company delivered a 9% increase in net sales.** Some notable categories driving growth include Grocery, as well as Emerging Channels (i.e., Supercenter, Drug, and Dollar).

People

PROVIDING A GREAT PLACE TO WORK



People are the central force in the overall transformation of the company. And people want to work at a company that's thriving, innovating, and moving ahead in all areas. With our new vision in place, change is in the air—the kind of intangible but positive change that re-enlivens veteran employees and helps attract and retain talented and motivated new employees. Together, we are committed to taking Welch's **From Good to Great**.

“Our company is sincerely interested in the success of all our people—and creating a positive, rewarding work environment for them.”



Lisa Flynn, Vice President, Human Resources

To reach this goal, all of our employees need to trust the people they work for, have pride in what they do, and enjoy the people they work with—the three basic tenets of a great place to work.

We are working hard to attract the right, talented people in a competitive marketplace. We're putting people in the right roles, where they can flourish and get the most out of their talents. We're giving people the support and training they need to develop new skills. And we're working to create a culture that supports creativity, innovation and openness. These efforts are already paying off—**our retention of salaried workers is up to 85% for the year and heading higher.**



Innovation

BECOMING MORE INNOVATIVE
AT ALL LEVELS



Innovation involves everyone at Welch's. It means thinking creatively about new ways of working, of meeting consumer needs, and of adding value to our brand. "Winning innovation" is an important facet of innovation, one that lets us introduce new products that get attention in the marketplace and that generate high margins. Our success in new areas, such as Dried Fruit, is inspirational, and speaks to the power of winning innovation.

"Innovation isn't just
about marketing.
It involves everyone."



Chris Heye, Vice President, Marketing

Clearly, today's consumers see Welch's as much more than a juice company, and we have the flexibility to continue to expand into new, fast-growing, and high-margin segments—and into new geographic areas throughout the world.

But innovation means more than new products. Equally important is "sustaining innovation," which lets us innovate our current products to increase sales to existing consumers—and reach new markets. For example, in FY '07 we created special two-packs that helped us boost sales in the Club channel. New varieties and smart changes to the labeling of our refrigerated products helped get more attention and sales from consumers.

And innovation also includes broader efforts well beyond the product level—from the way we go to market to our relations with the media. All of these efforts and more benefit from innovative thinking.

Sustainable growth requires ongoing innovation, not simply doing business the same way year after year. We're working to create a culture of innovation that spreads throughout the company—and that inspires new products, ideas, and energy.



Value Chain

BUILDING A MORE FLEXIBLE,
COMPETITIVE ORGANIZATION



Our value chain stretches from crop to consumer and involves many different groups within Welch's—including Demand Planning, Purchasing, Manufacturing, Logistics, Research & Development, Corporate Quality, Engineering—as well as National Grape. All of these groups are working together to reduce waste and improve productivity and flexibility. Our ERP implementation will enable major improvements in our value chain. However, it's only one element of the larger effort to ensure operational efficiency and excellence.

Our strategy encompasses four strategic cornerstones—achieving operational excellence, deploying flexible and adaptable business processes, building brand equity, and delivering best-in-class innovation. Behind these strategies, you'll find a lot of careful thought and analysis on how to transform our value chain to be more cost-competitive, responsive, and adaptable.

To reach our goals, we're building workforce flexibility and engagement. We're establishing a focused business process organization. We're putting "lean manufacturing" principles into practice, identifying and eliminating waste and non-value-added processes. We want our organization to be the right size—

with the right people in the right roles. We want to protect and build our brand equity through safe, high-quality products, workplaces, and processes. And we want to support innovation and get high-quality products to market quickly—by bringing a disciplined approach to discovery, development, and commercialization of new products.

Achieving operational excellence and maximum efficiency is a journey—one that never ends.

However, we are already experiencing the benefits of this effort **with annual cost reductions of more than \$10 million.**



2007 Fiscal Year Financial Reports

2005 Crop Proceeds Earned in Fiscal Years 2006 and 2007

The Company is a marketing cooperative operating on an open pool basis. Pursuant to the terms of the marketing agreements with its patrons in the Eastern and Western Pools, net proceeds from the sale of its patron grapes, as defined by the Crop Purchase Agreement, are distributed to the patrons in proportion to their deliveries to the pool. The distributions are made in cash, allocation credits and permanent equity credits.

The charts below illustrate the Distributable Patron Proceeds earned on the calendar year 2005 crop (harvested in fiscal 2006) in the Eastern and Western Pools during the two fiscal years in which it was sold. In the top chart, for example, 164,313 tons of the Eastern 2005 crop were sold in fiscal 2006, earning an average of \$147 per ton or \$24.2 million. The balance of the crop, 80,107 tons, was sold in fiscal 2007 earning an average of \$198 per ton or \$15.8 million. Therefore, the total 2005 crop in the Eastern Pool earned \$40.0 million over the two fiscal years or an average crop earnings of \$164 per ton. Based on the same methodology, the total 2005 crop in the Western Pool earned \$22.9 million or \$135 per ton.

SOLD IN FISCAL '07
80,107 Tons @ \$198



SOLD IN FISCAL '06
164,313 Tons @ \$147

East	2007	2006	Total
244,420 Tons at \$164 Per Ton			
Tons Sold	80,107	164,313	244,420
Distributable Patron Proceeds Per Ton	\$ 198	\$ 147	
2005 Crop Proceeds (in millions)	\$ 15.8	\$24.2	\$40.0
2005 Crop Proceeds Per Ton			\$ 164

SOLD IN FISCAL '07
52,750 Tons @ \$178



SOLD IN FISCAL '06
116,929 Tons @ \$115

West	2007	2006	Total
169,679 Tons at \$135 Per Ton			
Tons Sold	52,750	116,929	169,679
Distributable Patron Proceeds Per Ton	\$ 178	\$ 115	
2005 Crop Proceeds (in millions)	\$ 9.4	\$13.5	\$22.9
2005 Crop Proceeds Per Ton			\$ 135

Schedule of Distributions to Patrons – 2005 Crop

Total Distributions for 2005 Crop Based on Average Sugar Solids of Concord Grapes

Eastern Pool	
Final	244,420 Tons
Cash:	
Fiscal 2006	\$ 105
Fiscal 2007	13
September, 2007	2
January, 2008 (to be paid)	7
Total Cash	127
Allocation Credits:	
January, 2007	17
January, 2008 (to be issued)	13
Total Allocation Credits	30
Permanent Equity Credits:	
January, 2007	3
Total Distributions	\$ 160
Average Per Ton Distribution in the Eastern Pool*	\$ 164

*Reflects 9% premium on Niagara Grapes

Western Pool	
Final	169,679 Tons
Cash:	
Fiscal 2006	\$ 89
Fiscal 2007	9
September, 2007	2
January, 2008 (to be paid)	7
Total Cash	107
Allocation Credits:	
January, 2007	13
January, 2008 (to be issued)	12
Total Allocation Credits	25
Permanent Equity Credits:	
January, 2007	3
Total Distributions	\$ 135

Five-Year Summary – Fiscal Years

Years Ended August 31,	2007	2006	2005	2004	2003
Equivalent Case Sales (in thousands)	69,659	66,354	64,821	64,162	63,035
Net Sales (in thousands)	\$653,614	\$599,574	\$577,781	\$577,489	\$573,178
Net Proceeds (in thousands)	\$ 59,484	\$ 30,860 ¹	\$ 58,522	\$ 75,224	\$ 75,752
Distributable Patron Proceeds (in thousands)	\$ 65,229	\$ 46,513	\$ 54,861	\$ 69,704	\$ 73,397
Patron Tons Sold	343,304	347,648	279,415	278,435	254,913
Net Proceeds Per Ton	\$ 173	\$ 89	\$ 209	\$ 270	\$ 297
Distributable Patron Proceeds Per Ton	\$ 190	\$ 134	\$ 196	\$ 250	\$ 288
Distributable Patron Proceeds Per Bearing Acre	\$ 1,330	\$ 948	\$ 1,106	\$ 1,409	\$ 1,513
Concord Grape Payments (Average By Crop – Fiscal Years) **2006 Crop Not Completely Sold					
East	\$ **	\$ 164	\$ 189	\$ 238	\$ 317
West	\$ **	\$ 135	\$ 161	\$ 210	\$ 230
Number of Patrons	1,281	1,295	1,309	1,333	1,351
Patron Acreage (Bearing and Nonbearing)	49,254	49,351	49,893	49,859	49,731
Average Acres Per Patron	38.4	38.1	38.1	37.4	36.8
Patron Tons Received (2006 – 2002 Harvests)	258,554	414,099	257,517	302,115	258,128
Average Tons Per Acre Received					
Concords – Eastern Pool (NY, PA, OH, MI, ONT. CAN)	4.2	7.1	5.0	4.7	4.1
Concords –Western Pool (WA)	7.6	10.9	5.5	8.7	8.2
Concords – Corporate	5.3	8.4	5.2	6.0	5.4
Capital Expenditures (in thousands)	\$ 22,992	\$ 25,187	\$ 28,569	\$ 29,224	\$ 24,720
Long-Term Debt, Trust Preferred Securities and Allocation Credits (in thousands)	\$162,730	\$193,165	\$200,961	\$168,726	\$182,893
Total Assets (in thousands)	\$398,461	\$405,240	\$383,615	\$372,732	\$349,633
Number of Employees	1,228	1,223	1,382	1,390	1,350
Sales Per Employee	\$532,259	\$490,249	\$418,076	\$415,460	\$424,576

¹ Net proceeds before the restructuring charge to close the Kennewick facility, net of related tax benefit, is \$40.2 million.

Management's Discussion and Analysis

The following discussion and analysis is intended to provide a summary of significant factors relevant to the Company's financial performance and condition. The discussion should be read together with the financial statements and related notes beginning on page 21.

Overview

National Grape Cooperative Association, Inc. (National) and Welch Foods Inc., A Cooperative (Welch's) (collectively, the Company) are agricultural marketing cooperatives organized for the benefit of National's Concord and Niagara 1,281 grape-growing patrons. Our Mission is to maximize the value of the enterprise from the crop to the consumer. Welch's is a leading manufacturer and marketer of Concord and Niagara grape-based consumer products including grape juice, jelly and other fruit-based products. The products are sold primarily through grocery stores, mass merchandisers, club discount stores and other consumer outlets. Our market environment is highly competitive with both global and local competitors. Our products compete with other branded products as well as retailer and private-label products.

Results of Operations

Net sales for 2007 were \$653.6 million, \$54.0 million or 9.0% more than 2006 net sales of \$599.6 million. The increase was due to a 5.0% increase in unit volume and increased pricing, partially offset by changes in sales mix. The increase in unit volume was driven by an increase in refrigerated products of 23.7% and a 36.0% increase in bulk grape concentrate.

Net sales for 2006 were \$599.6 million, \$21.8 million or 3.8% more than 2005 net sales of \$577.8 million. The increase was due to a 2.4% increase in unit volume, increased pricing and changes in sales mix. The increase in unit volume was driven by our 100% purple grape juice and refrigerated products.

Cost of sales for 2007 increased \$24.8 million, or 5.8%, from \$431.2 million in 2006 to \$456.0 million. For purposes of determining net proceeds, cost of sales excludes the cost of patron grapes. As a percentage of net sales, cost of sales decreased from 71.9% in 2006 to 69.8% in 2007. The increase in cost of sales in 2007 was primarily due to an increase in unit volume sold and higher commodity costs. These cost increases were partially offset by savings related to closing our Kennewick, Washington production facility in 2006, productivity improvements, and lower energy-based costs.

Cost of sales for 2006 increased \$28.3 million, or 7.0%, from \$402.9 million in 2005 to \$431.2 million. As a percentage of net sales, cost of sales increased from 69.7% in 2005 to 71.9% in 2006. The increase in cost of sales in 2006 was primarily due to an increase in unit volume sold, higher energy-based costs and increased seasonal costs. These cost increases were partially offset by savings related to closing our Kennewick, Washington production facility and other productivity improvements.

Gross margin was 30.2% in 2007, an increase of 2.1 points versus 2006. The increase in 2007 was driven by increased pricing and lower manufacturing and distribution costs, partially offset by changes in sales mix. Gross margin was 28.1% in 2006 compared to 30.3% in 2005. The decrease in 2006 was driven by increased costs, primarily energy-based costs and seasonal costs in excess of price increases combined with a negative change in product mix.

Selling and administrative expense was \$136.0 million, \$126.7 million and \$116.4 million in 2007, 2006 and 2005, respectively. The increase in 2007 of \$9.3 million was primarily due to an increase in incentive compensation, costs associated with changes made in executive management and the implementation of our Enterprise Resource Planning (ERP) system. These costs were partially offset by lower advertising costs. The increase in 2006 of \$10.3 million was primarily due to an increase in advertising and other marketing costs offset, in part, by lower incentive compensation.

Interest expense was \$10.2 million, \$9.9 million and \$7.6 million in 2007, 2006 and 2005, respectively. The increase in 2006 was due to higher average debt levels and higher interest rates.

During 2006, a pretax restructuring charge of \$14.1 million was incurred due to closing production facilities in Kennewick, Washington, to improve the overall cost base. The charge was primarily related to employee separation costs and an impairment loss on the write-down of assets held for sale to the estimated net realizable value of approximately \$3.2 million.

Other income includes royalty income, patronage distributions from CoBank and miscellaneous income and expense items. Other income, net of other expense, was \$6.0 million, \$6.7 million and \$8.0 million in 2007, 2006 and 2005, respectively. The decrease in 2006 was due primarily to a decrease in income received from class-action and other legal settlements.

Proceeds before federal income taxes were \$57.5 million, \$24.3 million, and \$58.9 million in 2007, 2006 and 2005, respectively. The increase in 2007 of \$33.2 million was primarily due to increased sales volume, improved profit margins, lower advertising expenses, and the nonrecurring restructuring charge incurred in 2006 to close the Kennewick facility, offset in part, by higher administrative costs. The decrease in 2006 of \$34.6 million was primarily due to the restructuring charge as previously mentioned, increased advertising and other marketing costs, and increased energy-based costs. These cost increases were offset, in part, by cost reduction initiatives, price increases, and lower incentive compensation.

Federal income tax (benefit) expense for 2007, 2006 and 2005 was (\$2.0) million, (\$6.5) million and \$0.4 million, respectively. The federal income tax benefit in 2007 was due to nonpatron losses. The federal income tax benefit in 2006 was due to the patron portion of the restructuring charge to close the Kennewick facility and nonpatron losses. Nonpatron income (loss) for 2007, 2006 and 2005 was (\$7.7) million, (\$7.7) million and \$2.6 million, respectively. The nonpatron loss in 2007 resulted primarily from significant marketing investments made in new nonpatron products, including the national rollout of dried fruit and new flavors in the refrigerated line. The nonpatron loss in 2006 resulted from the restructuring charge, investments made in nonpatron products, and increased energy-based costs.

Net proceeds for 2007, 2006 and 2005 were \$59.5 million, \$30.9 million and \$58.5 million, respectively.

Distributable patron proceeds (patron proceeds adjusted for the restructuring charge adjustment, Note B) were \$65.2 million, \$46.5 million and \$54.9 million in 2007, 2006 and 2005, respectively.

Net proceeds per ton were \$173 in 2007, \$89 in 2006 and \$209 in 2005. Distributable patron proceeds per ton were \$190 in 2007, \$134 in 2006 and \$196 in 2005. Patron tons sold were 343.3 thousand, 347.6 thousand and 279.4 thousand in 2007, 2006 and 2005, respectively.

Financial Condition

Cash provided by operations and selected borrowings are the Company's primary sources of funds to finance operating needs and capital investments and to pay our grower-owners. \$97.7 million of cash was provided by operations before payments to patrons in 2007, compared to \$55.4 million in 2006. The increase in cash from operations in 2007 was primarily driven by an increase in net proceeds and a decrease in working capital requirements, driven by a decrease in inventory and an increase in accounts payable and accrued liabilities. Crop cash payments to patrons were \$37.7 million, \$47.2 million, and \$46.6 million in 2007, 2006 and 2005, respectively.

Cash invested in property, plant and equipment was \$23.0 million in 2007, compared to \$25.2 million in 2006 and \$28.6 million in 2005. We expect capital expenditures in 2008 to be approximately \$20.0 million.

During 2007, \$17.4 million of patron investments were redeemed, approximately the same as 2006. On February 1, 2007, the Company called for redemption the entire \$17.0 million of its Series 2000 Allocation Credits, which were due in 2020, at a redemption price of 100% of their principal amount.

At August 31, 2007, the Company had \$121.9 million of outstanding debt compared to \$148.5 million at August 31, 2006. At the end of fiscal 2007, \$53.4 million of the debt was long-term. The Company uses debt acquisition when necessary as a means for providing working capital and term financing for capital expenditures, new product introductions and other business investments.

The patron retention rate (the percent of patron proceeds distributable in allocation credits and permanent equity credits) was 21% in 2007, 2006 and 2005. Patron retention provides working capital and helps maintain a prudent capital structure.

To meet seasonal and operating cash requirements, the Company has various sources of financing available to supplement internally generated funds, including bank loans and other forms of financing in domestic financial markets. On August 31, 2007, the Company had \$57.5 million of available borrowing under its \$100.0 million line of credit. The Company's senior unsecured debt rating of A was reaffirmed by Standard and Poor's Corporation in 2007.

Management believes that internally generated funds, existing working capital and available credit facilities are adequate to meet normal operating requirements, to fund capital expenditures, to meet current debt service requirements and to provide for the redemption of allocation credits in 2008. As the need for external financing arises, the Company expects to have continued access to short-term credit markets to fund seasonal working capital requirements and to have the ability to raise additional funds in long-term debt markets.

Commitments

The Company has contractual obligations at August 31, 2007, payable or maturing in the following years:

(in thousands)	Total	Less Than 1 Year	2 – 3 Years	4 – 5 Years	After 5 Years
Short-Term Debt	\$ 42,500	\$42,500	\$ –	\$ –	\$ –
Long-Term Debt	79,400	26,000	–	–	53,400
Notes Payable to Patrons	3,424	3,424	–	–	–
Operating Leases	12,438	3,367	4,571	3,591	909
Retirement Plans (1)	29,520	4,480	14,699	10,341	–
Trust Preferred Securities	23,500	–	–	–	23,500
Total	\$190,782	\$79,771	\$19,270	\$13,932	\$77,809

(1) Estimated future funding requirements related to pension and postretirement benefit plans. The projected payments after 5 years are not currently determinable.

The Company has purchase commitments for materials, supplies, services and property, plant and equipment as part of the ordinary course of business. Some of these commitments are long-term and contain penalty provisions for early termination. The Company does not believe that a material amount of penalties is likely to be incurred under these contracts based upon historical experience and current expectations.

The Company does not have material financial guarantees or other contractual commitments that are reasonably likely to adversely affect liquidity.

Off-Balance Sheet Arrangements

The Company does not have off-balance sheet arrangements, financings or other relationships with unconsolidated entities or other persons, also known as "variable interest entities." In addition, the Company does not have any related party transactions that materially affect the results of operations, cash flow or financial condition other than the marketing agreements with National's member and non-member patrons (Note A).

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions about the effect of matters that are inherently uncertain. In preparing these financial statements, management has made its best estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. Actual results may differ significantly from those estimates under different assumptions and conditions.

The selection of significant accounting policies, discussed in Note A of the Consolidated Financial Statements on page 25, and the effect of the estimates have been discussed with the Audit Committee of Welch's Board of Directors.

Revenue Recognition – Most of our revenue transactions represent the sale of inventory. Revenue is recognized from product sales when goods are shipped and title and risk of loss passes to the customer. A provision for payment discounts and product returns are recorded as a reduction of sales within the same period that the revenue is recognized. We offer sales incentives to our customers through various programs to encourage them to offer temporary price reductions of the Company’s products to consumers, to obtain favorable display positions in stores or to obtain shelf space for new products. Trade promotions are recorded as a reduction of sales at the time of sale of product to the customer based on expected levels of performance. We offer sales incentives to consumers in the form of coupons and rebates. Consumer promotions are recorded as a reduction of sales at the time of the offer based on estimated redemption cost. Actual cost of trade and consumer promotions may differ significantly if factors such as level and success of the programs or other conditions differ from expectations.

Employee Benefits – The Company sponsors various pension plans and other postretirement benefit plans such as healthcare for retirees. For accounting purposes, these plans require assumptions to estimate the projected and accumulated benefit obligations and related current year expense. These assumptions, based on the most reasonable information available, include discount rates, expected investment returns, expected salary increases and health care trends, mortality and employee turnover. The Company uses third-party actuaries to assist management in reviewing the assumptions and in measuring the expense and related liabilities associated with these benefits. Different assumptions may result in a significant impact to the amount of benefit expense and related liability recorded in the financial statements.

New Accounting Pronouncements Adopted

In fiscal 2007, the Company adopted Financial Accounting Standards Board (FASB) Statement No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans,” as required by new accounting standards. Under FASB Statement No. 158, the Company is required to recognize on a prospective basis the funded status of its pension and postretirement plans in the consolidated balance sheets and recognize as a component of other comprehensive income (loss), net of income tax, the gains or losses and prior service costs that arise during the period but are not recognized as components of net periodic benefit costs. The new rule is discussed in more detail in Note A to the consolidated financial statements on page 26.

No other new accounting pronouncement issued or effective during fiscal 2007 has had or is expected to have a material impact on the consolidated financial statements.

Forward-Looking Statements

This annual report includes statements regarding future performance, events, and outcomes that have not yet occurred. These “forward-looking statements” are based on financial data, business plans and expectations only as of the time the statements are made, which may become out-of-date or incomplete. Forward-looking statements are inherently uncertain and subject to risks including, but not limited to, those associated with (1) development, market share growth and continued consumer acceptance of the Company’s products; (2) competitive activity in the marketplace; (3) cost trends particularly due to changes in commodity prices, energy costs and benefit costs; and (4) agricultural factors affecting the crop delivered to the Company. Readers should consider these risks and uncertainties when evaluating these forward-looking statements and recognize that events could be significantly different than our expectations. The Company assumes no obligation to update these statements as a result of new information, future events or other factors.

Management's Responsibility for Financial Statements

Company management is responsible for the accuracy and completeness of the information and representations presented in the accompanying consolidated financial statements and in other sections of this Annual Report. The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and necessarily include amounts that are based on estimates and judgments of management. The financial information throughout this report is consistent with our consolidated financial statements. We believe these financial statements and disclosures fairly present, in all material respects, the operations and financial condition of the Company.

Management is responsible for establishing and maintaining an adequate internal control system designed to provide reasonable assurance that assets are properly safeguarded and that accounting records provide a reliable basis for the preparation of financial statements. Such controls, in the broader sense, also encompass the organizational arrangements and personnel selection and evaluation criteria designed to provide reasonable assurances that the financial and other functions of the Company are performed by competent personnel, under adequate checks and balances. The effectiveness of the various internal accounting controls is tested by the Company's internal auditors.

The Audit Committee has engaged independent auditors, KPMG LLP, to audit our consolidated financial statements. Their audits were conducted in accordance with auditing standards generally accepted in the United States of America, which include the consideration of the Company's internal controls to the extent necessary to determine the nature, timing and extent of their year-end audit procedures. We have made available to KPMG LLP all financial records and related data. Their report is on page 34 of this report.

The Audit Committee exercises an oversight role on the Company's financial reporting and system of internal controls. The Committee consists of three grower-directors and three independent outside directors. The Committee meets periodically with management, the internal auditors and the independent auditors to review matters relating to financial reporting, the internal control system, and the nature, extent and results of audit efforts. Both the internal and independent auditors have direct access to the Audit Committee and meet with the Committee periodically, both with and without management present.



David J. Lukiewski
President and CEO
Welch Foods Inc.



Albert B. Wright III
Senior Vice President, Finance, and CFO
Welch Foods Inc.

Consolidated Statements of Operations and Distributions of Net Proceeds

Years Ended August 31,	(in thousands)		
	2007	2006	2005
Net sales (Note A)	\$653,614	\$599,574	\$577,781
Cost of sales	455,959	431,245	402,877
Selling and administrative expense	135,970	126,673	116,406
Interest expense	10,174	9,934	7,580
Restructuring charge (Note B)	—	14,144	—
Other income – net	(5,973)	(6,740)	(8,004)
	596,130	575,256	518,859
Proceeds before federal income taxes	57,484	24,318	58,922
Federal income taxes (benefit) (Note F)	(2,000)	(6,542)	400
Net proceeds	\$ 59,484	\$ 30,860	\$ 58,522
 Patron distributions:			
Cash:			
East	\$ 31,329	\$ 24,190	\$ 29,297
West	20,202	12,555	14,043
Total	51,531	36,745	43,340
Allocation credits:			
East	7,553	5,466	6,673
West	4,845	2,802	3,278
Total	12,398	8,268	9,951
Permanent equity credits:			
East	775	964	1,115
West	525	536	455
Total	1,300	1,500	1,570
Total patron distributions	65,229	46,513	54,861
Distributed (undistributed) restructuring charge (Note B)	1,960	(7,907)	1,039
Nonpatron net proceeds	(7,705)	(7,746)	2,622
Net proceeds	\$ 59,484	\$ 30,860	\$ 58,522

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

August 31,	(in thousands)	
	2007	2006
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,464	\$ 6,926
Accounts receivable	68,477	60,200
Inventories (Note C)	80,905	94,076
Assets held for sale (Note A)	—	3,178
Other	3,085	6,690
Total current assets	155,931	171,070
Property, plant and equipment:		
Land and improvements	11,173	11,148
Buildings and improvements	83,649	82,531
Machinery and equipment	281,408	259,357
	376,230	353,036
Less accumulated depreciation	262,172	235,520
Net property, plant and equipment	114,058	117,516
Goodwill (Note A)	19,370	19,622
Other assets (Note D)	109,102	97,032
	\$398,461	\$405,240
Liabilities, Patrons' Investments, Accumulated Deficit and Accumulated Other Comprehensive Loss		
Current liabilities:		
Accounts payable	\$ 40,540	\$ 34,467
Accrued liabilities	47,395	39,153
Accounts payable to patrons	10,836	6,933
Notes payable to patrons	3,424	2,590
Short-term debt (Note E)	42,500	56,100
Current maturities of long-term debt (Note E)	26,000	13,000
Current maturities of patrons' investments	547	416
Total current liabilities	171,242	152,659
Long-term debt (Note E)	53,400	79,400
Other liabilities (Note G)	92,592	67,196
Trust preferred securities (Note H)	23,500	23,500
Patrons' investments (Note I):		
Allocation credits	85,830	90,265
Permanent equity credits	13,498	12,887
Accumulated deficit	(26,339)	(20,594)
Accumulated other comprehensive loss (Note A)	(15,262)	(73)
Commitments and contingencies (Notes K and L)		
	\$398,461	\$405,240

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years Ended August 31,	(in thousands)		
	2007	2006	2005
Cash flows from operating activities:			
Net proceeds	\$59,484	\$30,860	\$58,522
Adjustments to reconcile net proceeds to net cash provided by operating activities:			
Depreciation and amortization	21,391	21,312	22,519
Deferred income taxes	(2,272)	(4,464)	503
Noncash restructuring charge	–	11,254	–
Loss on impairment of equipment	173	870	–
Cash provided (used) by changes in:			
Accounts receivable	(8,277)	(5,737)	3,105
Inventories	13,171	(10,409)	(3,665)
Other current assets	533	(680)	(2,062)
Accounts payable	7,857	2,327	1,314
Accrued liabilities	12,419	2,804	(4,194)
Accounts payable to patrons	(14,329)	4,742	(1,478)
Other operating activities	7,548	2,560	(6,230)
Total adjustments	38,214	24,579	9,812
Cash provided by operations	97,698	55,439	68,334
Cash payments to patrons	(37,737)	(47,168)	(46,584)
Net cash provided by operating activities	59,961	8,271	21,750
Cash flows from investing activities:			
Property, plant and equipment acquisitions	(22,992)	(25,187)	(28,569)
Sale of property, plant and equipment	3,299	200	8
Purchase of investments	(1,701)	(1,578)	(3,922)
Sale of investments	1,126	2,587	2,943
Net cash used by investing activities	(20,268)	(23,978)	(29,540)
Cash flows from financing activities:			
Increase (decrease) in short-term debt	(13,600)	37,900	(15,500)
Proceeds from long-term debt	–	–	50,000
Repayment of long-term debt	(13,000)	–	(13,000)
Proceeds from patron notes issued	5,376	4,896	4,136
Repayment of patron notes	(4,540)	(4,340)	(4,389)
Redemption of patrons' investments	(17,391)	(16,765)	(15,678)
Net cash provided (used) by financing activities	(43,155)	21,691	5,569
Net increase (decrease) in cash and cash equivalents	(3,462)	5,984	(2,221)
Cash and cash equivalents at beginning of year	6,926	942	3,163
Cash and cash equivalents at end of year	\$ 3,464	\$ 6,926	\$ 942
Supplemental cash flow information:			
Interest paid	\$10,496	\$ 9,461	\$ 6,530
Income taxes paid	\$ –	\$ 50	\$ 2,099

See accompanying notes to consolidated financial statements

Consolidated Statements of Changes in Patrons' Investments, Accumulated Deficit and Accumulated Other Comprehensive Loss

(in thousands)	Allocation Credits	Permanent Equity Credits	Accumulated Deficit	Accumulated Other Comprehensive Loss
Balance, August 31, 2004	\$102,826	\$11,297	\$ (8,602)	\$ (2,610)
Adjustment for actual distribution of 2004 allocation credits and permanent equity credits	489	(492)	—	—
1998 allocation credits called for redemption	(15,205)	—	—	—
Permanent equity credits estimated to be redeemed	—	(364)	—	—
Permanent equity credits paid below prior year's estimate	—	34	—	—
2005 allocation credits and permanent equity credits estimated to be distributed	9,951	1,570	—	—
Distributed (undistributed) restructuring charge (Note B)	—	—	1,039	—
Nonpatron net proceeds (loss)	—	—	2,622	—
Minimum pension liability	—	—	—	(3,552)
Balance, August 31, 2005	98,061	12,045	(4,941)	(6,162)
Adjustment for actual distribution of 2005 allocation credits and permanent equity credits	218	(220)	—	—
1999 allocation credits called for redemption	(16,282)	—	—	—
Permanent equity credits estimated to be redeemed	—	(465)	—	—
Permanent equity credits paid below prior year's estimate	—	27	—	—
2006 allocation credits and permanent equity credits estimated to be distributed	8,268	1,500	—	—
Distributed (undistributed) restructuring charge (Note B)	—	—	(7,907)	—
Nonpatron net proceeds (loss)	—	—	(7,746)	—
Net change of unrealized losses on hedge investments	—	—	—	(73)
Minimum pension liability	—	—	—	6,162
Balance, August 31, 2006	90,265	12,887	(20,594)	(73)
Adjustment for actual distribution of 2006 allocation credits and permanent equity credits	162	(164)	—	—
2000 allocation credits called for redemption	(16,995)	—	—	—
Permanent equity credits estimated to be redeemed	—	(565)	—	—
Permanent equity credits paid below prior year's estimate	—	40	—	—
2007 allocation credits and permanent equity credits estimated to be distributed	12,398	1,300	—	—
Distributed (undistributed) restructuring charge (Note B)	—	—	1,960	—
Nonpatron net proceeds (loss)	—	—	(7,705)	—
Net change of unrealized losses on hedge investments	—	—	—	(234)
Impact of adoption of FASB Statement No. 158, net of tax \$2,020 (Notes A and J)	—	—	—	(14,955)
Balance, August 31, 2007	\$ 85,830	\$13,498	\$(26,339)	\$(15,262)

See accompanying notes to consolidated financial statements.

Note A Summary of Significant Accounting Policies

Operations – National Grape Cooperative Association, Inc. (National) and Welch Foods Inc., A Cooperative (Welch's) (collectively, the Company) are agricultural marketing cooperatives organized for the benefit of National's member and nonmember patrons (growers). Welch's processes growers' grapes and is a leading marketer of Concord and Niagara grape-based consumer products, including grape juice, jelly and other fruit-based products. The Company's primary markets are in the United States and accounted for approximately 91% of net sales in 2007. Products are also sold internationally, either directly or by licensees, principally in Japan, the United Kingdom and Canada. The Company's customers are primarily retailers and distributors, a number of which are significant. The Company's largest customer, Wal-Mart Stores, Inc. and affiliates, accounted for approximately 26% of net sales in 2007.

The Company operates on an open pool basis. Pursuant to the terms of marketing agreements with its growers, the net proceeds earned from the sale of patron grapes, as defined by the Crop Purchase Agreement, are distributed to patrons, based on patronage, in cash, allocation credits and permanent equity credits on a crop year per ton basis. Net proceeds from nonpatronage sources, if any, are retained in the business.

Basis of presentation – The consolidated financial statements include the accounts of National, Welch's and subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Significant estimates include accruals for marketing and merchandising programs, determination of discount rate and other assumptions for defined benefit pension and other postretirement benefit expenses and liabilities, allowances for doubtful accounts, net realizable value of inventories and asset impairment. Actual results could differ from those estimates.

Revenue recognition – Revenue from sales of inventory is recognized when products are shipped and title and risk of loss passes to the customer. Sales are recorded net of payment discounts, product returns, trade promotions and consumer coupons. Shipping and handling costs invoiced to customers are included in net sales and related costs are included in cost of sales. Trade promotions, consisting principally of customer pricing allowances and merchandising funds are recognized as incurred, generally at the time of sale. Consumer coupons and rebates are recognized at the time of offer at estimated redemption cost. Accruals for expected payouts under these programs are included in accrued liabilities. Revenue for upfront fees received from long-term contracts is deferred and recognized systematically over the periods that the fees are earned. Deferred revenue is included in other liabilities.

Cost of sales – Cost of sales includes direct materials and supplies consumed in the manufacture of the product, manufacturing labor and overhead expense necessary to convert purchased materials and supplies into finished product, and the cost to warehouse and distribute products to customers. Cost of sales excludes the cost of patron grapes for the purpose of determining net proceeds earned by the Company's patrons.

Selling and administrative expense – Selling and administrative expense includes advertising and other marketing costs, selling expenses and administrative expenses. Advertising costs are expensed in the year in which the advertising first takes place and were \$17,323 in 2007, \$29,976 in 2006 and \$20,600 in 2005.

Cash and cash equivalents – Cash equivalents include highly liquid investments with a maturity date of 90 days or less from date of purchase.

Accounts receivable – In the normal course of business, the Company extends credit to customers based on an evaluation of a customer's financial condition. The Company's top five customers, collectively, accounted for 35.2% and 34.2% of accounts receivable as of August 31, 2007 and 2006, respectively. The Company evaluates its exposure for credit losses and establishes an allowance for doubtful accounts based on a combination of specific customer circumstances, credit conditions, and historical write-offs and collections. The allowance for doubtful accounts at August 31, 2007 and 2006 was \$793 and \$835, respectively.

Inventories – Inventories include the estimated cost of patron grapes and are stated at the lower of cost (first-in, first-out) or market. Cost of patron grapes is based on prevailing market prices at the time of harvest or at current prevailing market prices, if lower. Net proceeds are not impacted by the valuation of patron grapes.

Property, plant and equipment – Property, plant and equipment are stated at cost. Depreciation is provided on the straight-line or sum-of-the-years-digits methods over the estimated useful lives of the assets.

Long-lived assets – Long-lived assets and certain identifiable intangibles are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. When an impairment occurs, the asset is written down to its fair value and an impairment loss is recognized. Assets to be sold are recorded at the lower of carrying value or net realizable value at the time assets are being actively marketed for sale and disposal is expected to occur within one year. As of August 31, 2007 and 2006, the carrying value of assets held for sale was \$0 and \$3,178, respectively.

Goodwill – Goodwill is shown net of accumulated amortization of \$7,641 and \$7,390 as of August 31, 2007, and 2006, respectively. Pursuant to limited exceptions under FASB Statement No. 142, goodwill from business combinations between mutual enterprises including cooperatives of \$3,226 at August 31, 2007 is amortized over periods not exceeding 40 years. Remaining goodwill is not amortized but is evaluated annually for impairment. To date, there has been no impairment of goodwill.

Software costs – Computer software and software development costs incurred in connection with developing or obtaining computer software for internal use are capitalized. Capitalized computer software costs are included in other assets and are amortized on a straight-line basis over the estimated useful lives of the software.

Federal income taxes – The Company is not subject to Federal income taxes on net patron proceeds distributed or allocated to patrons in qualified form. The Company is subject to Federal income taxes on nonpatronage net proceeds. The Company utilizes the asset and liability method of accounting for income taxes.

Financial instruments – The Company's financial instruments consist primarily of cash and cash equivalents, accounts receivable, short-term and long-term investments, short-term and long-term debt and derivative instruments. Unless otherwise specified, the Company believes the carrying values of financial instruments approximate their fair value.

The Company uses derivative instruments for the purpose of hedging commodity price exposures which exist as part of ongoing business operations. The Company carries derivative instruments on the balance sheet at fair value as determined by reference to quoted market prices. Changes in the fair value of non-qualifying derivative instruments and any ineffectiveness associated with cash flow hedges are recognized immediately in net proceeds. For derivative instruments designated as cash flow hedges, changes in fair value are deferred within accumulated other comprehensive income (loss) to the extent the hedge is effective and then recognized in net proceeds in the period during which the related hedged transaction affects earnings. The Company does not hold or issue derivative instruments for speculative trading purposes.

Employee related benefits – Pension and postretirement benefits such as healthcare costs are expensed as such benefits are earned by employees. The recognition of expense is significantly impacted by estimates such as discount rates used to value certain liabilities and future health care costs. The Company uses independent third-party specialists to assist management in appropriately measuring the expense and liabilities associated with pension and postretirement benefits.

Accumulated other comprehensive loss – Accumulated other comprehensive loss includes (a) the net change in unrealized income (loss) on hedge investments and (b) gains (losses) and prior service costs associated with pension and postretirement benefit plans that arise during the period but not included as components of net periodic benefit cost, net of tax, as a result of the adoption of FASB Statement No. 158.

New accounting pronouncements – Effective August 31, 2007, the Company adopted the recognition and disclosure provisions of FASB Statement No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." This statement requires companies to recognize the over or under funded status of defined benefit pension and other postretirement plans as a net asset or liability on the balance sheet and to recognize changes in the funded status in the year in which the changes occur through accumulated other comprehensive income (loss) to the extent those changes are not included in the net periodic cost. The funded status reported on the balance sheet as of August 31, 2007 under FASB Statement No. 158 was measured as the difference between the fair value of plan assets and the benefit obligation on a plan-by-plan basis. The adoption of FASB Statement No. 158 did not impact net proceeds, distributable patron proceeds, cash flow, debt covenants or the Company's funding requirements for the periods presented. The Company has historically used its fiscal year end as the measurement date for its company-sponsored defined benefit plans.

The following table reflects the effect of the adoption of FASB Statement No. 158 on the Company's consolidated balance sheet as of August 31, 2007:

	Before Application of FASB Statement No. 158	Adjustments	After Application of FASB Statement No. 158
Other assets	\$ 107,082	\$ 2,020	\$ 109,102
Total assets	396,441	2,020	398,461
Accrued liabilities	52,599	(5,204)	47,395
Total current liabilities	176,446	(5,204)	171,242
Other liabilities	70,413	22,179	92,592
Accumulated other comprehensive loss	(3 07)	(14,955)	(15,262)

Recent accounting pronouncements – In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation (FIN) No. 48, “Accounting for Uncertainty in Income Taxes,” an interpretation of FASB Statement No. 109. FIN 48 addresses the accounting and disclosure of uncertain tax positions. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The provisions of FIN 48 will be effective for periods beginning after December 15, 2006, (fiscal year 2008 for the Company) with any cumulative effect of the change in accounting principle recorded as an adjustment to retained earnings. The Company has not yet completed its adoption assessment of FIN 48.

In September 2006, the Financial Accounting Standards Board's Emerging Issues Task Force reached a consensus on Issue No. 06-5, “Accounting for Purchases of Life Insurance—Determining the Amount That Could be Realized in Accordance with FASB Technical Bulletin No. 85-4, Accounting for Purchases of Life Insurance” (EITF 06-5). EITF 06-5 provides guidance on how an entity should determine the amount that could be realized under a life insurance contract at the balance sheet date. This guidance is effective for reporting periods beginning after December 15, 2006 (fiscal year 2008 for the Company). The Company has not yet completed its adoption assessment of EITF 06-5.

Reclassification of prior years' statements – Certain reclassifications have been made to the 2006 and 2005 consolidated financial statements to conform with the 2007 presentation.

Note B Restructuring Charge

During 2006, the Company closed its production facilities in Kennewick, Washington to improve its overall cost base. Production was transferred to plants in Lawton, Michigan and North East, Pennsylvania. In conjunction with the restructuring, the Company recorded a pre-tax charge of \$14,144 related primarily to employee separation costs and an impairment loss on the write-down of the assets held for sale to the estimated net realizable value of \$3,178. These assets were subsequently sold in 2007. Cash payments related to the restructuring were approximately \$2,890. Pursuant to the Crop Purchase Agreement and the approval of the Boards of Directors of National and Welch's, approximately \$9,759 (patron portion) of the above charge will be deducted over a 60-month period for purposes of determining patron distributions. As a result, approximately \$1,960 and \$813 of the restructuring charge reduced 2007 and 2006 distributable patron proceeds, respectively, and the remaining \$6,986, included in accumulated deficit, will reduce patron distributions in future years as the expected savings are realized.

During 2002, the Company implemented a restructuring project that resulted in a charge to operations of \$7,568. Pursuant to the Crop Purchase Agreement and the approval of the Boards of Directors of National and Welch's, approximately \$5,195 of the restructuring charge reduced patronage distributions ratably over a five-year period, beginning in 2002, when the expected savings were realized. This restructuring charge was fully amortized as of August 31, 2006.

Note C Inventories

Inventories are classified as follows:

August 31,	2007	2006
Raw materials	\$ 13,735	\$ 27,730
Supplies and ingredients	22,149	24,500
Finished product	45,021	41,846
	\$ 80,905	\$ 94,076

The cost of patron grapes in inventory as of August 31, 2007 and 2006 was \$8,680 and \$21,128, respectively.

Note D Other Assets

Other assets consist of the following:

August 31,	2007	2006
Cash value of company-owned		
life insurance policies (Note J)	\$ 31,981	\$ 30,071
Investment in CoBank, ACB (Note E)	11,041	10,726
Notes receivable and other investments	17,739	17,312
Computer software cost	27,050	20,513
Deferred income taxes	17,783	9,840
Other	3,508	8,570
	\$109,102	\$ 97,032

Note E Short-Term and Long-Term Debt

The Company has a short-term line of credit of \$100,000 with CoBank, ACB (the Bank). Short-term debt at August 31, 2007 and 2006 was \$42,500 and \$56,100, respectively. The weighted average interest rate at August 31, 2007 and 2006 was 6.09% and 5.82%, respectively.

Long-term debt consists of the following:

August 31,	2007	2006
CoBank, ACB		
Term loans, due 2008 to 2019, 5.30% weighted		
average rate at August 31, 2007	\$ 76,000	\$ 89,000
Industrial development revenue bonds, 5.60%, due 2017	3,400	3,400
Total outstanding	79,400	92,400
Current maturities	26,000	13,000
Noncurrent	\$ 53,400	\$ 79,400

As of August 31, 2007, long-term debt maturities for the next five fiscal years are as follows:

2008 – \$26,000; 2009 – \$0; 2010 – \$0; 2011 – \$0; and 2012 – \$0.

The Company is required to maintain an investment in CoBank under its borrowing arrangements. The Class E stock of the Bank owned by the Company (Note D) is pledged as security for the Company's CoBank loans.

At the Company's option, it may periodically elect either fixed or variable rates of interest for specified periods of time on its short-term line of credit and its term loans with CoBank. The Company may prepay any of its variable-rate debt at any time without penalty.

Various debt agreements contain covenants which require the Company to, among other things, achieve certain financial ratios and a specified level of net worth as of each fiscal year-end. The Company was in compliance with these covenants at August 31, 2007.

The fair value of the Company's fixed-rate long-term debt, estimated using current market rates and a discounted cash flow analysis, was approximately \$76,693 at August 31, 2007. The Company does not anticipate any significant refinancing activities that would settle long-term debt at fair value.

Note F Federal Income Taxes

Income taxes are recognized for (a) amount of taxes receivable (payable) for the current year and (b) deferred tax liabilities and assets for future tax consequences of events that have been recognized differently in the financial statements and for tax purposes.

The provision (benefit) for income taxes consists of the following:

Years Ended August 31,	2007	2006	2005
Current	\$ 272	\$(2,078)	\$(543)
Deferred	(2,272)	(4,464)	943
	<u>\$(2,000)</u>	<u>\$(6,542)</u>	<u>\$ 400</u>

The difference between Federal income taxes and the amount computed by applying the statutory tax rate to proceeds before Federal income taxes results principally from the distributions to patrons.

The significant components of the deferred tax assets and liabilities are as follows:

August 31,	2007	2006
Deferred tax assets related to:		
Employee benefits	\$24,833	\$21,279
Assets held for sale	—	3,704
Tax credits	4,750	4,128
Net operating losses	4,723	1,434
Other	2,494	2,234
Total gross deferred tax assets	<u>36,800</u>	<u>32,779</u>
Valuation allowance	(1,880)	(1,761)
Total deferred tax assets, net of valuation allowance	<u>\$34,920</u>	<u>\$31,018</u>
Deferred tax liabilities related to:		
Property, plant and equipment	\$10,470	\$11,024
Intangibles	4,029	3,757
Other	747	886
Total deferred tax liabilities	<u>\$15,246</u>	<u>\$15,667</u>
Net deferred tax assets	<u>\$19,674</u>	<u>\$15,351</u>

The adoption of FASB Statement No. 158 resulted in a \$2,020 increase in net deferred tax assets at August 31, 2007 as described in Note A.

At August 31, 2007, the Company has unused tax net operating losses of \$13,891 that expire in 2026 and 2027. In addition, the Company has Alternative Minimum Tax credit carryforwards of \$3,290 which have no expiration date and other tax credit carryforwards of \$1,460 which expire between 2010 and 2022.

The realization of certain deferred tax assets is dependent upon generating taxable income prior to expiration of the carryforward periods. Although realization is not assured, management believes it is more likely than not the net deferred tax assets, net of applicable valuation allowances, will be realized. Valuation allowance relates primarily to tax credits which the Company believes there is an uncertainty of realizing.

Note G Other Liabilities

Other liabilities consist of the following:

August 31,	2007	2006
Deferred compensation	\$27,649	\$28,413
Pension and postretirement benefits	58,707	30,788
Other	6,236	7,995
	<u>\$92,592</u>	<u>\$67,196</u>

Note H Trust Preferred Securities

In May 1998, the Welch Foods Preferred Capital Trust I (Trust), a wholly owned subsidiary of Welch's, issued \$25 million of 7.41% Series A Cumulative Guaranteed Preferred Securities (Trust Preferred Securities), of which \$1,500 was subsequently purchased by Welch's, at par, from a third party holder. The entire proceeds from the sale of the Trust Preferred Securities were loaned to Welch's under the terms of a Subordinated Loan Agreement (Loan). The Loan, guaranteed by National, is unsecured and ranks subordinate to all other Welch's indebtedness except for certain obligations of Welch's regarding the redemption of allocation credits and certificates and permanent equity credits. Interest on the Trust Preferred Securities is payable quarterly, but can be deferred for up to ten consecutive quarters plus penalty, if Welch's so elects. The Loan is to be repaid beginning May 1, 2023, in six equal annual installments of approximately \$4,167, each with a matching scheduled redemption of Trust Preferred Securities. Welch's has the right at any time to prepay the Loan, in whole or part, subject to a penalty that may be excludable under certain circumstances. The Subordinated Loan Agreement contains various covenants, both financial and other, with which Welch's is in compliance at August 31, 2007. The fair value of Trust Preferred Securities, estimated using current market rates and a discounted cash flow analysis, was approximately \$28,239 at August 31, 2007.

Note I Patrons' Investments

The noncash portion of distributable patron proceeds is distributed in the form of allocation credits and permanent equity credits.

The outstanding allocation credits and certificates consist of the following:

August 31,	2007	2006
Series 2000, due 2020 (redeemed in 2007)	\$ —	\$16,995
Series 2001, due 2021	14,559	14,559
Series 2002, due 2022	14,803	14,803
Series 2003, due 2023	13,074	13,074
Series 2004, due 2024	12,397	12,397
Series 2005, due 2025	10,169	10,169
Series 2006, due 2026	8,430	8,268
Series 2007, due 2027 (to be distributed)	12,398	—
Unpresented allocation certificates previously called for redemption	82	86
Total outstanding	85,912	90,351
Current maturities	82	86
Noncurrent	\$85,830	\$90,265

It has been National's practice to call each series for redemption, at a price equal to 100% of its aggregate principal amount, approximately six years after the date of issue. The decision to continue this practice is reviewed annually by National's Board of Directors. Permanent equity credits are redeemable only in limited circumstances.

Note J Employee Benefit Plans

The Company has noncontributory defined benefit pension plans covering substantially all employees not covered by union-sponsored plans. The plans generally provide pension benefits that are based on the employee's years of service and compensation prior to retirement. The Company funds these plans in accordance with the minimum and maximum limits required by law. The Company also sponsors unfunded postretirement medical and life insurance benefit plans that cover certain salaried and nonsalaried employees. Employees at some locations are required to contribute a portion of the premium.

As discussed in Note A, the Company adopted FASB Statement No. 158 on August 31, 2007, on the required prospective basis. The Company's August 31, 2007 disclosure is in accordance with the new requirements.

The following provides a reconciliation of benefit obligations, plan assets and funded status of these plans.

Years Ended August 31,	Pension Plans		Postretirement Benefit Plans	
	2007	2006	2007	2006
Change in benefit obligation:				
Benefit obligation at beginning of year	\$ 76,597	\$ 84,224	\$ 28,471	\$ 34,111
Service cost	2,936	3,215	747	1,184
Interest cost	4,670	4,283	1,957	1,708
Special termination benefits	—	—	—	(1,292)
Assumption changes	—	—	—	(3,339)
Actuarial (gain) loss	(544)	(10,864)	3,531	(1,919)
Benefits paid	(5,128)	(4,261)	(2,170)	(1,982)
Benefit obligation at end of year	\$ 78,531	\$ 76,597	\$ 32,536	\$ 28,471
Change in plan assets:				
Fair value of plan assets at beginning of year	\$ 61,716	\$ 60,787	\$ —	\$ —
Actual return on plan assets	7,883	5,190	—	—
Employer contributions	20	—	2,170	1,982
Benefits paid	(5,128)	(4,261)	(2,170)	(1,982)
Fair value of plan assets at end of year	\$ 64,491	\$ 61,716	\$ —	\$ —
Underfunded	\$ (14,040)	\$ (14,881)	\$ (32,536)	\$ (28,471)
Calculation of net amount recognized:				
Funded status at end of year	(14,040)	\$ (14,881)	(32,536)	\$ (28,471)
Unrecognized net actuarial loss	—	9,215	—	6,227
Unrecognized net transition obligation	—	—	—	1,615
Unrecognized prior service cost	—	832	—	5
Net amount recognized	\$ (14,040)	\$ (4,834)	\$ (32,536)	\$ (20,624)
Classification of net amount recognized:				
Current liabilities	—	(4,834)	(2,279)	—
Noncurrent liabilities	(14,040)	—	(30,257)	(20,624)
Net amount recognized	\$ (14,040)	\$ (4,834)	\$ (32,536)	\$ (20,624)

Amounts recognized in accumulated other comprehensive loss (AOCL) as of August 31, 2007 consists of:

	Postretirement		Total
	Pension Plans	Benefit Plans	
Net actuarial loss	\$ 5,829	\$ 8,966	\$ 14,795
Prior service cost	728	4	732
Transition obligation	—	1,448	1,448
Deferred tax benefit	(780)	(1,240)	(2,020)
Net amounts recognized in AOCL	\$ 5,777	\$ 9,178	\$ 14,955

The accumulated benefit obligation for all defined benefit retirement pension plans was \$68,278 and \$65,310 at August 31, 2007 and 2006, respectively. Pension plans with accumulated benefit obligations in excess of plan assets consist of the following:

August 31,	2007	2006
Projected benefit obligation	\$78,531	\$60,481
Accumulated benefit obligation	\$68,278	\$52,120
Fair value of plan assets	\$64,491	\$48,301

Components of net periodic benefit cost were as follows:

Years Ended August 31,	Pension Plans		Postretirement Benefit Plans	
	2007	2006	2007	2006
Service cost	\$ 2,936	\$ 3,215	\$ 747	\$ 1,184
Interest cost	4,670	4,283	1,957	1,708
Expected return on plan assets	(5,308)	(5,385)	—	—
Amortization of deferred amounts	370	726	432	449
Recognized net actuarial loss	—	—	528	814
Net periodic benefit cost	\$ 2,668	\$ 2,839	\$ 3,664	\$ 4,155

The net loss and prior service cost for the defined benefit pension plans that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next fiscal year are \$45 and \$103, respectively. The net loss, prior service cost, and transition obligation for the defined postretirement benefit plans that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next fiscal year are \$409, \$4 and \$432, respectively.

The Company expects to contribute approximately \$2,201 to its qualified defined benefit plans in fiscal year ending August 31, 2008. Pension benefits expected to be paid in each year 2008 – 2012 are \$3,203, \$3,343, \$3,594, \$3,827, and \$4,149, respectively. The aggregated expected pension benefits expected to be paid in the five years from 2013 – 2017 are \$25,974. The expected benefit payments are based on the same assumptions used to measure the Company's benefit obligation at August 31 and include estimated future employee service.

The Company expects to contribute approximately \$2,279 to the postretirement medical and life insurance plans in fiscal year ending August 31, 2008. Postretirement benefits expected to be paid in each year 2008 – 2012 are \$2,279, \$2,346, \$2,409, \$2,451 and \$2,490, respectively. The aggregate expected benefits expected to be paid in the five years from 2013 – 2017 are \$12,660.

The expected return on pension plan assets is based on historical experience, pension plan investment guidelines, and expectations for long-term rates of return. The pension plan investment guidelines are established based upon an evaluation of market conditions, tolerance for risk, and cash requirements for benefit payments. The Company's pension plans' asset target and actual allocations are as follows:

Asset Category	Target Allocation	Actual Allocation	
		2007	2006
Equity securities	70%	72%	70%
Debt securities	30%	28%	30%
Total	100%	100%	100%

The weighted-average assumptions used to determine benefit obligations were as follows:

August 31,	Pension Plans		Postretirement Benefit Plans	
	2007	2006	2007	2006
Discount rate	6.375%	6.125%	6.375%	6.125%
Compensation increase rate	3.80%	3.80%	3.50%	3.50%
Measurement date	8/31/2007	8/31/2006	8/31/2007	8/31/2006

The weighted-average assumptions used to determine net benefit cost were as follows:

Years Ended August 31,	Pension Plans		Postretirement Benefit Plans	
	2007	2006	2007	2006
Discount rate	6.125%	5.375%	6.125%	5.375%
Expected long-term rate of return on assets	9.00%	9.00%	—	—
Compensation rate increase	3.80%	3.80%	3.50%	3.50%

The assumed healthcare cost trend rates used in determining the accumulated postretirement benefit obligation for participants was 6.5% for fiscal 2007, scaled down to 4.0% over the next six years.

Assumed healthcare trend rates have a significant effect on the amounts reported for postretirement medical plans. A one percentage point change in the assumed healthcare cost trend rate would have the following effect:

	One Percentage Point Increase	One Percentage Point Decrease
Effect on postretirement benefit obligation	\$4,147	\$(3,441)
Effect on net postretirement benefit cost	\$ 450	\$ (361)

For the years ended August 31, 2007, 2006 and 2005, multi-employer pension expense for contributions to union-sponsored plans was \$1,419, \$1,744, and \$1,911, respectively.

The Company has a qualified 401(k) plan and a nonqualified pension restoration plan (PRP). For the years ended August 31, 2007, 2006 and 2005, net expenses for these plans were \$4,964, \$2,310, and \$2,051, respectively. At August 31, 2007, \$31,981 of investments represented principally by Company-owned life insurance policies was restricted to fund the expected benefits under the PRP (Note D). The Company has agreements with certain officers which would require the payment of additional compensation in the event of a change in control as defined.

Participants in certain Company incentive plans may elect to defer all or part of their incentive compensation until retirement in a nonqualified deferred compensation plan. Deferred incentive compensation as of August 31, 2007 and 2006, was \$27,649 and \$28,413, respectively (Note G).

Note K Leases

The Company leases certain equipment and buildings under operating leases. Rental expenses related to these leases amounted to \$4,567 in 2007, \$3,987 in 2006 and \$3,946 in 2005. As of August 31, 2007, future minimum lease payments under these operating leases for the next five years are as follows: 2008 – \$3,367; 2009 – \$2,628; 2010 – \$1,943; 2011 – \$1,791; and 2012 – \$1,800.

Note L Commitments and Contingencies

The Company has purchase commitments for materials, supplies, services and property, plant and equipment as part of the normal course of business. Certain supply contracts contain penalty provisions for early termination. The Company does not expect potential payments under these provisions to have a material adverse effect on the financial condition of the Company.

The Company has standby letters of credit in the amount of \$1,815 primarily for the benefit of its workers' compensation insurance providers.

The Company is involved in certain litigation, both insured and uninsured, which is being defended and handled in the ordinary course of business. In the opinion of management, the outcome of such litigation will not have a material adverse effect on the financial condition of the Company.

Report of Independent Auditors

Board of Directors and Patrons National Grape Cooperative Association, Inc.:

We have audited the accompanying consolidated balance sheets of National Grape Cooperative Association, Inc. and Welch Foods Inc., A Cooperative, as of August 31, 2007 and 2006, and the related consolidated statements of operations and distributions of net proceeds, changes in patrons' investments, accumulated deficit and accumulated other comprehensive loss, and cash flows for each of the years in the three-year period ended August 31, 2007. These consolidated financial statements are the responsibility of the Cooperatives' management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for purposes of expressing an opinion on the effectiveness of the Cooperatives' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, and assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of National Grape Cooperative Association, Inc. and Welch Foods Inc., A Cooperative, as of August 31, 2007 and 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended August 31, 2007, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

Boston, Massachusetts
October 12, 2007

Directory

National Grape Cooperative Association, Inc. Westfield, New York

Officers

Randolph H. Graham
President

Joseph C. Falcone
First Vice President

James A. Shafer
Second Vice President

Timothy E. Grow
Third Vice President

Brent J. Roggie
General Manager,
Chief Operating Officer
and Treasurer

Timothy A. Buss
Secretary and Assistant Treasurer

Albert B. Wright III
Financial and Accounting Officer

Vivian S.Y. Tseng, Esq.
Chief Legal Officer
Assistant Secretary

Richard H. Alpert, Esq.
Assistant Secretary

Matthew A. Aufman
Assistant Secretary

Thomas A. Bockhorst
Assistant Treasurer

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Grandview, Washington

Jerry A. Czebotar
Pasco, Washington

Anthony J. Falcone Jr.
Silver Creek, New York

*Joseph C. Falcone
Silver Creek, New York

Douglas R. Forraht
Sodus, Michigan

*Randolph H. Graham
North East, Pennsylvania

Timothy E. Grow
Grandview, Washington

Jon B. Hinkelman
Watervliet, Michigan

*David P. Mobilia
North East, Pennsylvania

*James A. Shafer
Baroda, Michigan

Dennis C. Vacco
Boston, NY

Marvin D. Vining
Grandview, Washington

Gary R. Youngs
North East, Pennsylvania

All National Directors are growers of
Concord and/or Niagara grapes and may
grow other agricultural products.

*Members of the Executive Committee

Directory (continued)

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Officers

David J. Lukiewski
President and
Chief Executive Officer

Albert B. Wright III
Senior Vice President, Finance
and Chief Financial Officer

Judy B. Carr
Vice President
Corporate Planning

David F. Engelkemeyer
Vice President
Operations and Technology

Lisa D. Flynn
Vice President
Human Resources

Damon G. Hart
Vice President
Sales and International

William C. Hewins
Vice President
International

Christopher D. Heye
Vice President
Marketing

Robert W. McMillen III
Vice President and
Corporate Controller

Vivian S.Y. Tseng, Esq.
Vice President, Legal,
General Counsel and Secretary

Directors

Randolph H. Graham ^(1, 2, 3, 5, 6, 7)
Chairman of the Board
Owner-Operator
South Shore Farms
North East, Pennsylvania

Charles J. Chapman ^(1, 4, 6, 7)
Executive Vice President (Retired)
Tambrands
White Plains, New York

Timothy E. Grow ^(1, 4, 5, 6)
Owner
Grow Fruit
Grandview, Washington

Jon B. Hinkelman ^(2, 4, 5, 7)
Owner - Family Farm
Hinkelman Farms
Watervliet, Michigan

David J. Lukiewski ^(1, 5, 6)
President and
Chief Executive Officer
Welch's
Concord, Massachusetts

Joseph J. Schena ^(2, 3, 4, 6)
Partner
Centerview Partners
Rye, New York

Dennis C. Vacco ^(2, 3, 5, 7)
Vice President - Vacco Farms Inc.
Partner - Crane, Vacco and Sanders
Albany, New York

Stephen H. Warhover ^(2, 4, 5, 6)
President and
Chief Executive Officer
Gorton's Seafoods
Gloucester, Massachusetts

James T. Winton ^(1, 2, 3, 6, 7)
Executive Vice President (Retired)
Clarion Marketing and Communications
Greenwich, Connecticut

Albert B. Wright III ^(3, 5, 7)
Senior Vice President, Finance
and Chief Financial Officer
Welch's
Concord, Massachusetts

Committees of the Board

- (1) Acquisition
- (2) Audit
- (3) Capital Structure
- (4) Compensation
- (5) Long-Range Planning
- (6) Nominating
- (7) Pension Investment

Operations

Headquarters

Welch Foods Inc.
Concord, Massachusetts
01742

National Grape Cooperative
Association, Inc.
Westfield, New York 14787

Technology Center

**Research and Development,
Corporate Quality, Corporate
Engineering**
Billerica, Massachusetts 01821

Plants

**Receiving, Pressing, Storage,
Production**
Lawton, Michigan
North East, Pennsylvania
Westfield, New York

Receiving, Pressing, Storage
Grandview, Washington

Domestic Sales Offices

Alpharetta, Georgia
Rogers, Arkansas
Westchester, Ohio

International Offices

Welch's Asia/Pacific
Hong Kong

Welch's Caribbean/Latin America
Boca Raton, Florida

Welch's China
Hong Kong

Welch's Europe
Camberley, England

Welch's Japan/Korea
Tokyo, Japan

Licensees

Cadbury Beverages
North America
Toronto, Canada

Calpis Co., Ltd.
Tokyo, Japan

C.H. Robinson Company
Eden Prairie, Minnesota

Cadbury Schweppes
Americas Beverages
A Division of Cadbury
Schweppes, PLC
Plano, Texas

Denali Flavors
Wayland, MI

Nong Shim Co., Ltd.
Seoul, South Korea

Portion Pac Division of
H. J. Heinz Co., Inc.
Mason, Ohio

Promotion in Motion, Inc.
Closter, New Jersey

7UP/RC Bottling Co. of Southern
California
Vernon, California

National Grape Cooperative and Welch
Foods are Equal Opportunity Employers

