

CALAVO GROWERS INC  
Form 10-K  
January 11, 2010

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**  
For the fiscal year ended October 31, 2009

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**Commission file number: 000-33385  
CALAVO GROWERS, INC.**

(Exact name of registrant as specified in its charter)

**California**  
(State of incorporation)

**33-0945304**  
(I.R.S. Employer Identification No.)

**1141-A Cummings Road, Santa Paula, CA**  
(Address of principal executive offices)

**93060**  
(Zip code)

**Registrant's telephone number, including area code: (805) 525-1245**

**Securities registered pursuant to Section 12(b) of the Act:**

<b>Title of Each Class</b>	<b>Name Of Each Exchange On Which Registered</b>
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<b>Common Stock, \$0.001 Par Value per Share</b>	<b>Nasdaq Global Select Market</b>
<b>Securities registered pursuant to Section 12(g) of the Act: None</b>	

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer <input type="radio"/>	Accelerated filer <input checked="" type="checkbox"/>	Non-accelerated filer <input type="radio"/>	Smaller reporting company <input type="radio"/>
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(Do not check if a smaller reporting  
company)

Indicate by check mark if whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Based on the closing price as reported on the Nasdaq Global Select Market, the aggregate market value of the Registrant's Common Stock held by non-affiliates on April 30, 2009 (the last business day of the Registrant's most recently completed second fiscal quarter) was approximately \$162.5 million. Shares of Common Stock held by each executive officer and director and by each shareholder affiliated with a director or an executive officer have been excluded from this calculation because such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes. The number of outstanding shares of the Registrant's Common Stock as of November 30, 2009 was 14,504,833.

**Documents Incorporated by Reference**

Portions of the Registrant's Proxy Statement for the 2010 Annual Meeting of Shareholders, which we intend to hold on April 21, 2010 are incorporated by reference into Part III of this Form 10-K. The definitive Proxy Statement will be filed within 120 days after October 31, 2009.

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**CAUTIONARY STATEMENT**

This Annual Report on Form 10-K contains statements relating to future results of Calavo Growers, Inc. (including certain projections and business trends) that are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and are subject to the safe harbor created by those sections. Forward-looking statements frequently are identifiable by the use of words such as believe, anticipate, expect, intend, will, and other similar expressions. Our actual results may differ materially from those projected as a result of certain risks and uncertainties. These risks and uncertainties include, but are not limited to: increased competition, general economic and business conditions, energy costs and availability, conducting substantial amounts of business internationally, pricing pressures on agricultural products, adverse weather and growing conditions confronting avocado growers, new governmental regulations, as well as other risks and uncertainties, including those set forth in Item 1A. Risk Factors and elsewhere in this Annual Report on Form 10-K and those detailed from time to time in our other filings with the Securities and Exchange Commission. These forward-looking statements are made only as of the date hereof, and we undertake no obligation to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise.

**Table of Contents****PART I****Item 1. Business****General development of the business**

Calavo Growers, Inc. (Calavo, the Company, we, us or our) procures and markets avocados and other perishable commodities and prepares and distributes processed avocado products. Our expertise in marketing and distributing avocados, processed avocados, and other perishable foods allows us to deliver a wide array of fresh and processed food products to food distributors, produce wholesalers, supermarkets, and restaurants on a worldwide basis. We procure avocados principally from California, Mexico, and Chile. Through our operating facilities in southern California, Texas, New Jersey, Arizona, and Mexico, we sort, pack, and/or ripen avocados for distribution both domestically and internationally. Additionally, we also distribute other perishable foods, such as Hawaiian grown papayas, and prepare processed avocado products. We report our operations in two different business segments: (1) fresh products and (2) processed products. See Note 11 in our consolidated financial statements for further information about our business segments.

On October 9, 2001, we completed a series of transactions whereby common and preferred shareholders of Calavo Growers of California (the Cooperative), an agricultural marketing cooperative association, exchanged all of their outstanding shares for shares of our common stock. Concurrent with this transaction, the Cooperative was merged into us with Calavo Growers, Inc. (Calavo) emerging as the surviving entity. These transactions had the effect of converting the legal structure of the business from a non-profit cooperative to a for-profit corporation. All references herein to us for periods prior to the merger refer to the business and operations of the Cooperative.

In August 2006, we entered into a joint venture agreement with San Rafael Distributing (SRD) for the purpose of the marketing, sale and distribution of fresh produce from the existing location of SRD at the Los Angeles Wholesale Produce Market (Terminal Market), located in Los Angeles, California. Such joint venture operates under the name of Maui Fresh International, LLC (Maui Fresh) and commenced operations in August 2006. SRD and Calavo each have an equal one-half ownership interest in Maui Fresh, but SRD has overall management responsibility for the operations of Maui Fresh at the Terminal Market. We use the equity method to account for our investment.

In June 2007, we entered into a distribution agreement with Agricola Belher (Belher) of Mexico, a well-established quality producer of fresh vegetables, primarily tomatoes, for export to the U.S. market. Pursuant to such distribution agreement, Belher agreed, at their sole cost and expense, to harvest, pack, export, ship, and deliver tomatoes exclusively to our company, primarily our Arizona facility. In exchange, we agreed to sell and distribute such tomatoes, advance \$2 million to Belher for operating purposes, provide additional advances as shipments are made during the season (subject to limitations, as defined), and return the proceeds from such tomato sales to Belher, net of our commission and aforementioned advances. The agreement also allows for us to advance additional amounts to Belher at our sole discretion. As of October 31, 2009 and 2008, we have advanced \$2.0 million to Belher pursuant to this agreement, which is recorded in advances to suppliers.

We also entered into an infrastructure agreement in June 2007 with Belher in order to significantly increase production yields and fruit quality. Pursuant to this agreement, we are to advance up to \$5.0 million to be used solely for the acquisition, construction, and installation of improvements to and on certain land owned by Belher, as well as packing line equipment. Advances incur interest at 6.8% and 8.8% at October 31, 2009 and 2008. We advanced \$4.2 million and \$4.8 million as of October 31, 2009 and 2008 (\$1.8 million and \$1.2 million included in prepaid expenses and other current assets and \$2.4 million and \$3.6 million included in other long-term assets). Belher is to annually repay these advances in no less than 20% increments through July 2012. For fiscal 2009, a portion of the 2009 payment was not made and both parties agreed to defer the payment until 2010. For fiscal year 2008, we advanced \$0.8 million to Agricola Belher pursuant to our infrastructure agreement. Agricola Belher paid \$1.0 million in 2008 for net cash provided of \$0.2 million. For fiscal year 2009, we have not made any infrastructure advances to Agricola Belher. Agricola Belher paid \$0.5 million in fiscal year 2009 related to infrastructure advances. In addition, the agreement allows for additional \$1.0 million advances to take place during the last five months of each of our fiscal years 2009 and 2010, but they are subject to certain conditions and are to be made at our sole discretion. Belher is to annually repay these advances in full on or before each of July 2010 and July 2011. For fiscal 2009, no additional advances were made to Belher. Interest is to be paid monthly or annually, as defined. Belher may prepay, without

penalty, all or any portion of the advances at any time.

In order to secure their obligations pursuant to both agreements discussed above, Belher granted us a first-priority security interest in certain assets, including cash, inventory and fixed assets, as defined.

Effective December 2007, we entered into a consignment and marketing agreement with Maui Pineapple Company, LTD. (MPC) to market and sell Maui Gold Pineapples throughout the continental United States and Canada. MPC agreed, among other things, to source, pack and ship such pineapples to an agreed port of entry. In exchange, we agreed, among other things, to be responsible for

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such product upon arrival at the port, to market and sell the related product, and to develop and implement marketing strategies aimed at building the Maui Gold brand recognition. The agreement calls for us to provide certain advances, as defined, and return the proceeds from such pineapple sales to MPC, net of our commission, fees, and incentives, if applicable. Our agreement expired in December 2009. See Note 16 in our consolidated financial statements for further information.

In May 2008, we purchased all of the outstanding shares of Hawaiian Sweet, Inc. ( HS ) and all ownership interests of Hawaiian Pride, LLC ( HP ) from the Chairman of our Board of Directors, Chief Executive Office and President. HS and HP engage in tropical-product packing and processing operations in Hawaii. The Acquisition Agreement provides, among other things, that as a result of the Acquisition Agreement, Calavo shall make an initial purchase price payment in the aggregate amount of \$3,500,000 for both entities. Calavo made the initial payment on May 20, 2008. Calavo shall also make two additional annual payments, ranging from \$2,500,000 to \$4,500,000, based on certain operating results (the Earn-Out Payment(s) ), as defined. On September 23, 2009, we remitted the first annual Earn-Out payment, totaling approximately \$2.4 million. This represents the minimum payment of \$2.5 million, less \$0.1 million of working capital shortfall. As a result of this payment, we recorded an adjustment decreasing property, plant and equipment by \$0.9 million, other assets by \$0.1 million, and accrued expenses by \$1.0 million. Such adjustment relates to the resolution of the first deferred and contingent payment. We anticipate recording one more adjustment once the second deferred and contingent payment is determined in fiscal 2010. See Note 17 in our consolidated financial statements.

Our principal executive offices are located at 1141-A Cummings Road, Santa Paula, California 93060; telephone (805) 525-1245.

At October 31, 2009, we employed 1,049 employees worldwide.

### **Available information**

We maintain an Internet website at <http://www.calavo.com>. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to such reports filed or furnished pursuant to section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and other information related to us, are available, free of charge, on our website as soon as reasonably practicable after we electronically file those documents with, or otherwise furnish them to, the Securities and Exchange Commission. Our Internet website and the information contained therein, or connected thereto, is not and is not intended to be incorporated into this Annual Report on Form 10-K.

### **Fresh products**

Calavo was founded in 1924 to market California avocados. In California, the growing area stretches from San Diego County to Monterey County, with the majority of the growing areas located approximately 100 miles north and south of Los Angeles County. The storage life of fresh avocados is limited. It generally ranges from one to four weeks, depending upon the maturity of the fruit, the growing methods used, and the handling conditions in the distribution chain.

We sell avocados to a diverse group of supermarket chains, wholesalers, food service and other distributors, under the Calavo family of brand labels, as well as private labels. From time to time, some of our larger customers seek short-term sales contracts that formalize their pricing and volume requirements. Generally, these contracts contain provisions that establish a price floor and/or ceiling during the contract duration. Again, in our judgment, the shift by our customers to drafting sales contracts benefits large handlers like us, which have the ability to fulfill the terms of these contracts. During fiscal year 2009, our 5 and 25 largest fresh customers represented approximately 20% and 46% of our total consolidated revenues. During fiscal year 2008, our 5 and 25 largest fresh customers represented approximately 17% and 43% of our total consolidated revenues. During fiscal years 2009, 2008 and 2007 none of our fresh customers represented more than 10% of total consolidated revenues.

The Hass variety is the predominant avocado variety marketed on a worldwide basis. Generally, California grown Hass avocados are available year-round, with peak production periods occurring between January through October. Other varieties have a more limited picking season and generally command a lower price. Approximately 2,000 California growers deliver avocados to us, generally pursuant to a standard marketing agreement. Over the past several years, our share of the California avocado crop has remained strong, with approximately 31% of the 2009



shipped California avocado crop handled by us, based on data published by the California Avocado Commission. We attribute our solid foothold in the California industry principally to the competitiveness of the per pound returns we pay and the communication and service we maintain with our growers.

California avocados delivered to our packinghouses are graded, sized, packed, cooled and, at times, ripened for delivery to customers. Our ability to estimate the size, as well as the timing of the delivery of the annual avocado crop, has a substantial impact on both our costs and the sales price we receive for the fruit. To that end, our field personnel maintain direct contact with growers and farm managers and coordinate harvest plans. The feedback from our field-managers is used by our sales department to prepare sales plans used by our direct sales force.

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A significant portion of our California avocado handling costs is fixed. As a result, significant fluctuations in the volume of avocados delivered have a considerable impact on the per pound packing costs of avocados we handle. Generally, larger crops will result in a lower per pound handling cost. We believe that our cost structure is geared to optimally handle larger avocado crops. Our strategy calls for continued efforts in aggressively recruiting new growers, retaining existing growers, and procuring a larger percentage of the California avocado crop.

California avocados delivered to us are grouped as a homogenous pool on a weekly basis based on the variety, size, and grade. The proceeds we receive from the sale of each separate avocado pool, net of a packing and marketing fee to cover our costs and a profit, are paid back to the growers once each month. The packing and marketing fee we withhold is set annually by our Board of Directors and is revised based on our estimated per pound packing and operating costs, as well as our operating profit. This fee is a fixed rate per pound. Significant competitive pressures dictate that our grower returns are set at the highest possible level to attract new and retain existing grower business. We believe that, if net proceeds paid ceased to be competitive, growers would choose to deliver their avocados to alternate competitive handlers. Consequently, we strive to deliver growers the highest return possible on avocados delivered to our packinghouses.

The California avocado market is highly competitive with 9 major avocado handlers. A marketing order enacted by the state legislature is in effect for California grown avocados and provides the financial resource to fund generic advertising and promotional programs. Avocados handled by us are identifiable through packaging and the Calavo brand name sticker.

We have leveraged our expertise in the handling and marketing of California avocados to our non-California sourced avocados and perishable food products. Non-California sourced avocados primarily include fruit imported from Mexico, Chile and Peru. Our strategy is to increase our market share of currently sourced avocados to all accepted marketplaces. We believe our diversified avocado sources provide a level of supply stability that may, over time, help solidify the demand for avocados among consumers in the United States and elsewhere in the world. We believe our efforts in distributing our other various commodities complement our offerings of avocados.

We typically purchase Mexican avocados from two sources located in Mexico, growers and packers. The purchase price we pay for fruit acquired from Mexican growers is generally negotiated for substantially all the fruit in a particular grove. Once a purchase price is agreed to, the fruit is then harvested and delivered to our packinghouse located in Uruapan, Michoacán, Mexico. Once delivered, such fruit is weighed, graded, sized, packed, and cooled for shipment, primarily to the United States. Fruit purchased directly from Mexican packers, however, is already packed for shipment and, as a result, generally commands a higher purchase price, as it is already boxed and ready for shipment. In either case, the purchase price of Mexican avocados is generally based on our estimated selling prices of such fruit, less anticipated packing and/or selling costs and our desired margin. We believe these two sources allow us to maximize both the timely acquisition, as well as purchase price, of Mexican fruit.

Similar to California avocados, a significant portion of our handling costs for Mexican avocados are fixed. As a result, significant fluctuations in the volume of Mexican avocados delivered to our packinghouse can have a considerable impact on the per pound packing costs of avocados we handle. Generally, larger crops will result in a lower per pound handling cost. We believe that our cost structure for Mexican avocados is geared to optimally handle larger avocado crops.

We believe that our continued success in marketing Mexican avocados is largely dependent upon securing a reliable, high-quality supply of avocados at reasonable prices, and keeping the handling costs low as we ship the Mexican avocados to our packinghouses. We are subject to USDA and other regulatory inspections to ensure the safety and the quality of the fruit being delivered from Mexico. The Mexican avocado harvest, which is often considerably larger than the California avocado harvest, is both complimentary and competitive with the California market, as the Mexican harvest is near year round (most significant from September to June). As a result, it is common for Mexican growers to monitor the supply of avocados for export to the United States in order to obtain higher field prices. During 2009, we packed and distributed approximately 20% of the avocados exported from Mexico into the United States and approximately 3% of the avocados exported from Mexico to countries other than the United States, based on our estimates.

We also handle avocados from Chile and Peru, most of which are on a consignment basis with the suppliers. Our commission percentages often range from 8% to 10%. Additionally, from time to time, we may purchase Chilean sourced avocados. Pursuant to our consignment arrangements, we occasionally make advances to both Chilean and Peruvian growers. Historically, we made such advances related to both pre-harvest and post-harvest activities, but our focus during fiscal 2008 and 2009 was primarily related to post-harvest activities. Typically, we obtain collateral (i.e. fruit, fixed assets, etc.) that approximates the value at risk, prior to making such advances. Historical experience demonstrates that providing post-harvest advances results in our acquiring full market risk for the product, as it is possible (although unlikely) that our resale proceeds may be less than the amounts we paid to the grower. This is a result of the high level of volatility inherent in the avocado and perishable food markets, which are subject to significant pricing declines based on the availability of fruit in the market. In the event that we do make a pre-season advance, our ability to recover such

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pre-harvest advance would be largely dependent on the growers' ability to deliver avocados to us, as well as the inherent risks of farming, such as weather and pests.

Chilean growers continue to increase/monitor avocado plantings to capitalize on returns available in the worldwide avocado markets. Sales of Chilean grown avocados have generally been significant during our 4<sup>th</sup> and 1<sup>st</sup> fiscal quarters. Additionally, with the Chilean harvesting season being complimentary to the California season (August through February), Chilean avocados are able to command competitive retail pricing in the market. During 2009, we distributed approximately 8% of the total Chilean avocados imported into the United States, based on our estimates.

We have developed a series of marketing and sales initiatives primarily aimed at our largest customers that are designed to differentiate our products and services from those offered by our competitors. Some of these key initiatives are as follows:

We continue to have success with our ProRipeVIP<sup>®</sup> avocado ripening program. This proprietary program allows us to deliver avocados evenly ripened to our customers' specifications. We have invested in the Aweta AFS (acoustic firmness sensor) technology and equipment. ProRipeVIP<sup>®</sup> is the next generation of selling conditioned avocados that have firmness determined via soundwaves. This technology is new to avocados. The most significant and compelling reason we invested in the Aweta systems is because the acoustic sensors measure firmness of the entire piece of fruit, as opposed to competitive mechanical tests that use pressure and calculated averages to measure firmness. We believe that ripened avocados help our customers address the consumers' immediate needs and accelerate the sale of avocados through their stores. We currently have three Aweta systems in use in the United States, which, we believe, can effectively meet our customers' demand for conditioned fruit.

We have developed various display techniques and packages that appeal to consumers and, in particular, impulse buyers. Some of our techniques include the bagging of avocados and the strategic display of the bags within the produce section of retail stores. Our research has demonstrated that consumers generally purchase a larger quantity of avocados when presented in a bag as opposed to the conventional bulk displays. We also believe that the value proposition of avocados in a bag provides for a higher level of sales to grocery stores. From time to time, we market our avocados under joint promotion programs with other food manufacturers. Under these programs, we seek to increase the promotional exposure of our products by providing certain sales incentives. These incentives will be offered in conjunction with various promotional campaigns designed to advertise the products of all parties involved. We believe these programs will help us minimize our advertising costs, as they will be shared with other parties, while still achieving recognition in the marketplace.

The acquisition of Maui Fresh International, Inc. expanded our perishable food products to include various commodities, like tomatoes, mushrooms, and pineapples. While many of these items are purchased, the majority of our sales are generated from tomatoes and pineapples, both of which are handled on a consigned basis. Commission rates for all products generally range from a flat commission rate per dollar sold to a fixed rate per-carton. Sales of our diversified products do not generally experience significant fluctuations related to seasonality.

### **Processed Products**

The processed product segment was originally conceived as a mechanism to stabilize the price of California avocados by reducing the volume of avocados available to the marketplace. In the 1960's and early 1970's, we pioneered the process of freezing avocado pulp and developed a wide variety of guacamole recipes to address the diverse tastes of consumers and buyers in both the retail and food service industries. One of the key benefits of frozen products is its long shelf-life. With the introduction of low cost processed products delivered from Mexican based processors, however, we realigned the segment's strategy by shifting the fruit procurement and pulp processing functions to Mexico. In 1995, we invested in a processing plant in Mexicali, Mexico to derive the benefit of competitive avocado prices available in Mexico.

Through January 2003, the primary function of our Mexicali processed operation was to produce pulp for our Santa Paula plant. Our processing facility in Santa Paula, California would receive the pulp from Mexicali, add ingredients, and package the product in various containers. The product would then be frozen for storage with shipment to warehouses and, ultimately, to our customers. From January 2003 to August 2004, however, our Mexicali processed operations became primarily focused on our individually quick frozen (IQF) avocado half product line and one of our

ultra high-pressure lines. Our IQF line provides food service and retail customers with peeled avocado halves that are ripe and suitable for immediate consumption. These halves were frozen, packaged and shipped out of Mexicali to warehouses located in the U.S., and, ultimately, to our customers.

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In February 2003, our Board of Directors approved a plan whereby the operations of our processed products business would be relocated. The plan called for the closing of our Santa Paula, California and Mexicali, Baja California Norte (Mexicali) processing facilities and relocating these operations to a new facility in Uruapan, Michoacan, Mexico (Uruapan). This restructuring has provided for cost savings in the elimination of certain transportation costs, duplicative overhead structures, and savings in the overall cost of labor and services. The Uruapan facility commenced operations in February 2004 and the Santa Paula and Mexicali facilities ceased production in February 2003 and August 2004. Net sales of frozen products, typically sold to foodservices customers, represented approximately 53% and 56% of total processed segment sales for the years ended October 31, 2009 and 2008.

We have two 215L ultra high pressure machines designed to cold pasteurize fresh guacamole. Utilizing ultra high pressure only and without the need of any additives or preservatives, this procedure substantially destroys the cells of any bacteria that could lead to spoilage or oxidation issues. Once the procedure is completed, our guacamole is cased and shipped to various retail and food service customers throughout the United States and Canada. These two 215L ultra high pressure machines are located in Uruapan and we estimate are operating at approximately 59% and 50% of the combined machines capacities as of October 31, 2009 and 2008. We believe the capacity provided by these two machines is reasonable given our current sales projections and expected growth. Net sales of our ultra high pressure (fresh) products, typically sold to retail customers, represented approximately 47% and 44% of total processed segment sales for the years ended October 31, 2009 and 2008.

Sales are made principally through a commissioned nationwide broker network, which is supported by our regional sales managers. We believe that our marketing strength is distinguished by providing quality products, innovation, year-round product availability, strategically located warehouses, and market relationships. During fiscal year 2009, our 5 and 25 largest processed product customers represented approximately 7% and 12% of our total consolidated revenues. During fiscal year 2008, our 5 and 25 largest processed product customers represented approximately 6% and 11% of our total consolidated revenues. During fiscal years 2009, 2008 and 2007 none of our processed product customers represented more than 10% of total consolidated revenues.

We believe that these ultra high pressure machines will enable our company to deliver the widest available array of prepared avocado and other products to our customers. Consequently, we believe that we are positioned to expand our ultra high pressure product line to include more avocado related products, high-end salsas, mangoes and other readily available fruit products.

### **Sales and Other Financial Information by Business Segment and Product Category**

Sales and other financial information by business segment are provided in Note 11 to our consolidated financial statements that are included in this Annual Report.

### **Patents and Trademarks**

Our trademarks include the Calavo brand name and related logos. We also utilize the following trademarks in conducting our business: Avo Fresco, Bueno, Calavo Gold, Celebrate the Taste, El Dorado, Fresh Ripe, Select, Taste of Paradise, The First Name in Avocados, Tico, Mfresh, Maui Fresh International and Triggered Avocados, and ProRipeVIP .

### **Working Capital Requirements**

Generally, we make payments to our California avocado growers and other suppliers in advance of collecting all of the related accounts receivable. We generally bridge the timing between vendor payments and customer receipts by using operating cash flows and commercial bank borrowings. In addition, we provide crop loans and other advances to some of our growers, which are also funded through operating cash flows and borrowings.

Non-California sourced avocados and perishable food products often require working capital to finance the payment of advances to suppliers and collection of accounts receivable. These working capital needs are also financed through the use of operating cash flows and bank borrowings.

With respect to our processed products business, we require working capital to finance the production of our processed avocado products, building and maintaining an adequate supply of finished product, and collecting our accounts receivable balances. These working capital needs are financed through the use of operating cash flows and bank borrowings.

**Backlog**

Our customers do not place product orders significantly in advance of the requested product delivery dates. Customers typically order perishable products two to ten days in advance of shipment, and typically order processed products within thirty days in advance of shipment.

**Table of Contents****Research and Development**

We do not undertake significant research and development efforts. Research and development programs, if any, are limited to the continuous process of refining and developing new techniques to enhance the effectiveness and efficiency of our processed products operations and the handling, ripening, storage, and packing of fresh avocados.

**Compliance with Government Regulations**

The California State Department of Food and Agriculture oversees the packing and processing of California avocados and conducts tests for fruit quality and packaging standards. All of our packages are stamped with the state seal as meeting standards. Various states have instituted regulations providing differing levels of oversight with respect to weights and measures, as well as quality standards.

As a manufacturer and marketer of processed avocado products, our operations are subject to extensive regulation by various federal government agencies, including the Food and Drug Administration (FDA), the USDA and the Federal Trade Commission (FTC), as well as state and local agencies, with respect to production processes, product attributes, packaging, labeling, storage and distribution. Under various statutes and regulations, these agencies prescribe requirements and establish standards for safety, purity and labeling. In addition, advertising of our products is subject to regulation by the FTC, and our operations are subject to certain health and safety regulations, including those issued under the Occupational Safety and Health Act. Our manufacturing facilities and products are subject to periodic inspection by federal, state and local authorities.

As a result of our agricultural and food processing activities, we are subject to numerous environmental laws and regulations. These laws and regulations govern the treatment, handling, storage and disposal of materials and waste and the remediation of contaminated properties.

We seek to comply at all times with all such laws and regulations and to obtain any necessary permits and licenses, and we are not aware of any instances of material non-compliance. We believe our facilities and practices are sufficient to maintain compliance with applicable governmental laws, regulations, permits and licenses. Nevertheless, there is no guarantee that we will be able to comply with any future laws and regulations or requirements for necessary permits and licenses. Our failure to comply with applicable laws and regulations or obtain any necessary permits and licenses could subject us to civil remedies including fines, injunctions, recalls or seizures, as well as potential criminal sanctions.

**Employees**

As of October 31, 2009, we had 1,049 employees, of which 378 were located in the United States and 671 were located in Mexico. We do not have a significant number of United States employees covered by a collective bargaining agreement. 553 of Calavo's Mexican employees are represented by a union. We consider the relationship with our employees to be good and we have never experienced a significant work stoppage.

The following is a summary of the number of salaried and hourly employees as of October 31, 2009.

	<b>Location</b>	<b>Salaried</b>	<b>Hourly</b>	<b>Total</b>
United States		121	257	378
Mexico		118	553	671
<b>TOTAL</b>		<b>239</b>	<b>810</b>	<b>1,049</b>



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**Item 1A. Risk Factors**

**Risks Related to Our Business**

*We are subject to increasing competition that may adversely affect our operating results.*

The market for avocados and processed avocado products is highly competitive and affects each of our businesses. Each of our businesses are subject to competitive pressures, including the following:

California avocados are impacted by an increasing volume of foreign grown avocados being imported into the United States. Recently, there have been significant plantings of avocados in Mexico, Chile, the Dominican Republic, Peru and other parts of the world, which have had, and will continue to have, the effect of increasing the volume of foreign grown avocados entering the United States market.

California avocados are subject to competition from other California avocado handlers. If we are unable to consistently pay California growers a competitive price for their avocados, these growers may choose to have their avocados marketed by alternate handlers.

Non-California sourced avocados and perishable food products are impacted by competitors operating in Mexico. Generally, handlers of Mexican grown avocados operate facilities that are substantially smaller than our facility in Uruapan, Mexico. If we are unable to pack and market a sufficient volume of Mexican grown avocados, smaller handlers will have a lower per unit cost and be able to offer Mexican avocados at a more competitive price to our customers.

Non-California sourced avocados and perishable food products are also subject to competition from other California avocado handlers that market Chilean grown avocados. If we are unable to consistently pay Chilean packers a competitive price for their avocados, these packers may choose to have their avocados marketed by alternate handlers.

*We are subject to the risks of doing business internationally.*

We conduct a substantial amount of business with growers and customers who are located outside the United States. We purchase avocados from foreign growers and packers, sell fresh avocados and processed avocado products to foreign customers, and operate a packinghouse and a processing plant in Mexico. In the most recent years, there has been an increase in organized crime in Mexico. This has not had an impact on our operations, but this does increase the risk of doing business in Mexico. We are also subject to regulations imposed by the Mexican government, and also to examinations by the Mexican tax authorities (See Note 8 in the consolidated financial statements). Significant changes to these government regulations and to assessments by the Mexican tax authorities can have a negative impact on our operations and operating results in Mexico. For additional information about our non-California sourced fruit, see the Business section included in this Annual Report.

Our current international operations are subject to a number of inherent risks, including:

Local economic and political conditions, including disruptions in trading and capital markets;

Restrictive foreign governmental actions, such as restrictions on transfers of funds and trade protection measures, including export duties and quotas and customs duties and tariffs;

Changes in legal or regulatory requirements affecting foreign investment, loans, taxes, imports, and exports; and

*Currency exchange fluctuations may impact the results of our operations.*

Currency exchange rate fluctuations, depending upon the nature of the changes, may make our domestic-sourced products more expensive compared to foreign grown products or may increase our cost of obtaining foreign-sourced products. Because we do not hedge against our foreign currency exposure, our business has increased susceptibility to foreign currency fluctuations.

*We and our growers are subject to the risks that are inherent in farming.*

Our results of operations may be adversely affected by numerous factors over which we have little or no control and that are inherent in farming, including reductions in the market prices for our products, adverse weather and growing conditions, pest and disease problems, and new government regulations regarding farming and the marketing of agricultural products.

*Our earnings are sensitive to fluctuations in market prices and demand for our products.*

Excess supplies often cause severe price competition in our industry. Growing conditions in various parts of the world, particularly weather conditions such as windstorms, floods, droughts and freezes, as well as diseases and pests, are primary factors affecting market prices because of their influence on the supply and quality of product.

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Fresh produce is highly perishable and generally must be brought to market and sold soon after harvest. The selling price received for each type of produce depends on all of these factors, including the availability and quality of the produce item in the market, and the availability and quality of competing types of produce.

In addition, general public perceptions regarding the quality, safety or health risks associated with particular food products could reduce demand and prices for some of our products. To the extent that consumer preferences evolve away from products that we produce for health or other reasons, and we are unable to modify our products or to develop products that satisfy new consumer preferences, there will be a decreased demand for our products.

*Increases in commodity or raw product costs, such as fuel, and paper, could adversely affect our operating results.*

Many factors may affect the cost and supply of fresh produce, including external conditions, commodity market fluctuations, currency fluctuations, changes in governmental laws and regulations, agricultural programs, severe and prolonged weather conditions and natural disasters. Increased costs for purchased fruit have in the past negatively impacted our operating results, and there can be no assurance that they will not adversely affect our operating results in the future.

The price of various commodities can significantly affect our costs. Fuel and transportation cost is a significant component of the price of much of the produce that we purchase from growers, and there can be no assurance that we will be able to pass on to our customers the increased costs we incur in these respects.

The cost of paper is also significant to us because some of our products are packed in cardboard boxes. If the price of paper increases and we are not able to effectively pass these price increases along to our customers, then our operating income will decrease.

*We are subject to the risk of product liability claims.*

The sale of food products for human consumption involves the risk of injury to consumers. Such injuries may result from tampering by unauthorized third parties, product contamination or spoilage, including the presence of foreign objects, substances, chemicals, other agents, or residues introduced during the growing, storage, handling or transportation phases. While we are subject to governmental inspection and regulations and believe our facilities comply in all material respects with all applicable laws and regulations, we cannot be sure that consumption of our products will not cause a health-related illness in the future or that we will not be subject to claims or lawsuits relating to such matters. Even if a product liability claim is unsuccessful or is not fully pursued, the negative publicity surrounding any assertion that our products caused illness or injury could adversely affect our reputation with existing and potential customers and our corporate and brand image.

*We are subject to possible changing USDA and FDA regulations which govern the importation of foreign avocados into the United States and the processing of processed avocado products.*

The USDA has established, and continues to modify, regulations governing the importation of avocados into the United States. Our permits that allow us to import foreign-sourced avocados into the United States generally are contingent on our compliance with these regulations. Our results of operations may be adversely affected if we are unable to comply with existing and modified regulations and are unable to secure avocado import permits in the future.

The FDA establishes, and continues to modify, regulations governing the production of processed avocado products. Our results of operations may be adversely affected if we are unable to comply with existing and modified regulations.

*The acquisition of other businesses could pose risks to our operating income.*

We intend to review acquisition prospects that would complement our business. While we are not currently a party to any agreement with respect to any acquisitions, we may acquire other businesses in the future. Future acquisitions by us could result in accounting charges, potentially dilutive issuances of equity securities, and increased debt and contingent liabilities, any of which could have a material adverse effect on our business and the market price of our common stock. Acquisitions entail numerous risks, including the assimilation of the acquired operations, diversion of management's attention to other business concerns, risks of entering markets in which we have limited prior experience, and the potential loss of key employees of acquired organizations. We may be unable to successfully integrate businesses or the personnel of any business that might be acquired in the future, and our failure to do so could have a material adverse effect on our business and on the market price of our common stock.



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*Our ability to competitively serve our customers is a function of reliable and low cost transportation. Disruption of the supply of these services and/or significant increases in the cost of these services could impact our operating income.*

We use multiple forms of transportation to bring our products to market. They include ocean, truck, and air-cargo. Disruption to the timely supply of these services or dramatic increases in the cost of these services for any reason including availability of fuel for such services, labor disputes, or governmental restrictions limiting specific forms of transportation could have an adverse effect on our ability to serve our customers and consumers and could have an adverse effect on our financial performance.

*A portion of our workforce is unionized and labor disruptions could decrease our profitability.*

While we believe that our relations with our employees are good, we cannot assure you that we will be able to negotiate collective bargaining agreements on favorable terms, or at all, and without production interruptions, including labor stoppages. A prolonged labor dispute, which could include a work stoppage, could have a material adverse effect on the portion of our business affected by the dispute, which could impact our business, results of operations and financial condition.

*The value of our common stock may be adversely affected by market volatility.*

The trading price of our common stock fluctuates and may be influenced by many factors, including:

- Our operating and financial performance and prospects;
- The depth and liquidity of the market for our common stock;
- Investor perception of us and the industry and markets in which we operate;
- Our inclusion in, or removal from, any equity market indices;
- Changes in earnings estimates or buy/sell recommendations by analysts; and
- General financial, domestic, international, economic and other market conditions;

### **Item 1B. Unresolved Staff Comments**

None.

### **Item 2. Properties**

We lease our corporate headquarters building from Limoneira located in Santa Paula, California. Additionally, we own two packinghouses and one distribution and ripening facility (our former processing facility) in California, lease one facility in Arizona, lease one facility in New Jersey, lease one facility in Texas, own one processing facility and own one packinghouse in Mexico.

#### *United States Locations*

Our two California facilities handle avocados delivered to us by California, Mexican and Chilean growers. The Temecula, California facility was built in 1985 and has been improved in capacity and efficiency since then. The Santa Paula, California facility was purchased in 1955 and has had equipment improvements substantially equivalent to our Temecula facility. We believe that the combined annual capacity of the two packinghouses, under normal workweek operations, is sufficient to pack the annually budgeted volume of California avocados delivered to us by our growers.

Our Santa Paula, California processing facility was built in 1975 and had a major expansion in 1988. In conjunction with our restructuring plan, which was approved in February 2003, this facility ceased operating as a processed product avocado processing facility and now functions primarily as a ripening, storage and shipping facility for our fresh avocado operations. Additionally, it also serves to store and ship certain processed avocado products as well. Also, effective December 2005, we sort and pack certain tropical commodities as well. We believe that the annual capacity of this facility will be sufficient to pack and ripen, if necessary, the expected annual volume of avocados and specialty commodities delivered to us.

Our leased Nogales, Arizona facility primarily sorts, packs, ripens, and ships, tomatoes, avocados, and other tropical commodities as well. We believe that the annual capacity of this facility will be sufficient to handle our budgeted annual production needs.

Our leased Swedesboro, New Jersey facility primarily sorts, packs, ripens, and ships avocados. Additionally, it also serves to store and ship certain tropical commodities as well. We believe that the annual capacity of this facility will be sufficient to handle our budgeted annual production needs.



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In February 2009, we ceased operating in our distribution center located in San Antonio, Texas. This location was neither leased nor owned, but rather operated pursuant to a usage agreement whereby we paid handling and distribution fees. We transferred our operations to our newly leased facility location in Garland, Texas. This facility primarily ripens, sorts, packs and ships fresh avocados. We believe that the annual capacity of this facility will be sufficient to handle our budgeted annual production needs.

During fiscal 2008, through the acquisition of HS and HP, we now own a Hawaiian facility that primarily sorts, packs and ships papayas. We believe that the annual capacity of this facility will be sufficient to handle our budgeted annual production needs.

***Mexico Locations***

Our owned processing facility in Uruapan, Michoacan, Mexico was constructed pursuant to our restructuring plan approved in February 2003. This facility commenced operations in February 2004. We believe that the annual capacity of this facility will be sufficient to process our budgeted annual production needs.

During fiscal 2008, we purchased our previously leased fresh avocado packinghouse located in Uruapan, Michoacan, Mexico for \$4.0 million, plus acquisition costs. This facility was built to our specifications. We believe that the annual capacity of this facility will be sufficient to process our budgeted annual production needs.

**Item 3. Legal Proceedings**

From time to time, we become involved in legal proceedings that are related to our business operations. We are not currently a party to any legal proceedings that could have a material adverse effect upon our financial position or results of operations.

**Item 4. Submission of Matters to a Vote of Security Holders**

No matters were submitted to a vote of our shareholders during the quarter ended October 31, 2009.

**Executive Officers of the Registrant**

The following table sets forth the name, age and position of individuals who hold positions as executive officers of our company. There are no family relationships between any director or executive officer and any other director or executive officer of our company. Executive officers are elected by the Board of Directors and serve at the discretion of the Board.

<b>Name</b>	<b>Age</b>	<b>Position</b>
Lecil E. Cole	70	Chairman of the Board, Chief Executive Officer and President
Arthur J. Bruno	59	Chief Operating Officer, Chief Financial Officer and Corporate Secretary
Robert J. Wedin	60	Vice President, Sales and Fresh Marketing
Alan C. Ahmer	61	Vice President, Processed Product Sales and Production
Michael A. Browne	51	Vice President, Fresh Operations

*Lecil E. Cole* has been a member of our board of directors since February 1982 and has served as Chairman of the Board since 1988. Mr. Cole has also served as our Chief Executive Officer and President since February 1999. He served as an executive of Safeway Stores from 1964 to 1976 and as Chairman of Central Coast Federal Land Bank from 1986 to 1996. Mr. Cole has served as Chairman and President of Hawaiian Sweet, Inc. and Tropical Hawaiian Products, Inc. since 1996. Mr. Cole farms approximately 4,400 acres in California on which avocados and cattle are produced and raised.

*Arthur J. Bruno* has served as our Chief Financial Officer and Corporate Secretary since October 2003. During fiscal 2004, Mr. Bruno also assumed the title and responsibilities of Chief Operating Officer. From 1988 to 2003, Mr. Bruno served as the president and co-founder of Maui Fresh International, Inc. Mr. Bruno is a Certified Public Accountant.

*Robert J. Wedin* has served as our Vice President since 1993. Mr. Wedin joined us in 1973 at our then Santa Barbara packinghouse. Beginning in 1990, Mr. Wedin served as a director of the California Avocado Commission for a period of ten years. Mr. Wedin currently is a board member of ProduceSupply.org and serves as a member of that organization's executive committee.

*Alan C. Ahmer* has served as our Vice President since 1989. Mr. Ahmer joined us in 1979 as a regional sales manager in our processed products business. In September 2003, Mr. Ahmer's new title became Vice-President, Processed Products Sales and Production.



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*Michael A. Browne* has served as our Vice President since 2005. From 1997 until joining us, Mr. Browne served as the founder and co-owner of Fresh Directions International, a closely held multinational fresh produce company, which marketed fresh avocados from Mexico, Chile, and the Dominican Republic. Mr. Browne joined us in May 2005.

**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

In March 2002, our common stock began trading on the OTC Bulletin Board under the symbol CVGW. In July 2002, our common stock began trading on the Nasdaq National Market under the symbol CVGW and currently trades on the Nasdaq Global Select Market.

The following tables set forth, for the periods indicated, the high and low sales prices per share of our common stock as reported on the Nasdaq Global Select Market.

<b>Fiscal 2009</b>	<b>High</b>	<b>Low</b>
First Quarter	\$ 13.34	\$ 5.93
Second Quarter	\$ 14.49	\$ 10.22
Third Quarter	\$ 20.01	\$ 11.82
Fourth Quarter	\$ 20.30	\$ 16.29
<b>Fiscal 2008</b>	<b>High</b>	<b>Low</b>
First Quarter	\$ 22.71	\$ 14.75
Second Quarter	\$ 20.09	\$ 13.53
Third Quarter	\$ 15.65	\$ 10.46
Fourth Quarter	\$ 13.87	\$ 8.42

As of November 30, 2009, there were approximately 1,150 stockholders of record of our common stock.

During the year ended October 31, 2009, we did not issue any shares of common stock that were not registered under the Securities Act of 1933 and we did not repurchase any shares of our common stock.

**Dividend Policy**

Our dividend policy is to provide for an annual dividend payment, as determined by the Board of Directors. We anticipate paying dividends in the first quarter of our fiscal year.

On December 11, 2009, we paid a \$0.50 per share dividend in the aggregate amount of \$7,252,000 to shareholders of record on December 1, 2009.

On December 23, 2008, we paid a \$0.35 per share dividend in the aggregate amount of \$5,047,000 to shareholders of record on December 9, 2008.

**Table of Contents****Item 6. Selected Financial Data****SELECTED CONSOLIDATED FINANCIAL DATA**

The following summary consolidated financial data (other than pounds information) for each of the years in the five-year period ended October 31, 2009 are derived from the audited consolidated financial statements of Calavo Growers, Inc.

Historical results are not necessarily indicative of results that may be expected in any future period. The following data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and notes thereto that are included elsewhere in this Annual Report.

	<b>Fiscal Year Ended October 31,</b>				
	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<b>(In thousands, except per share data)</b>				
<b>Income Statement Data: (1)</b>					
Net sales	\$344,765	\$361,474	\$302,984	\$273,723	\$258,822
Gross margin	44,533	33,181	31,772	29,084	21,734
Net income	13,611	7,725	7,330	5,788	3,322
Basic net income per share	\$ 0.94	\$ 0.54	\$ 0.51	\$ 0.40	\$ 0.24
Diluted net income per share	\$ 0.94	\$ 0.53	\$ 0.51	\$ 0.40	\$ 0.24
<b>Balance Sheet Data as of End of Period:</b>					
Working capital	\$ 12,557	\$ 15,413	\$ 16,334	\$ 12,023	\$ 17,618
Total assets	123,216	134,686	128,018	107,563	108,482
Current portion of long-term obligations	1,366	1,362	1,307	1,308	1,313
Long-term debt, less current portion	13,908	25,351	13,106	10,406	11,719
Shareholders' equity	69,487	65,517	74,003	58,943	64,746
<b>Cash Flows Provided by (Used in):</b>					
Operations	\$ 21,997	\$ 5,296	\$ 4,629	\$ 7,819	\$ 5,568
Investing(2)(3)	(5,990)	(7,454)	(7,950)	(4,663)	(11,941)
Financing	(16,641)	2,700	4,238	(4,239)	6,870
<b>Other Data:</b>					
Dividends declared per share	\$ 0.50	\$ 0.35	\$ 0.35	\$ 0.32	\$ 0.32
Net book value per share	\$ 4.79	\$ 4.52	\$ 5.15	\$ 4.12	\$ 4.51
Pounds of California avocados sold	53,000	92,165	91,038	218,460	104,950
Pounds of non-California avocados sold	162,950	123,740	135,723	70,063	103,830
Pounds of processed avocados products sold	21,259	22,274	22,556	20,489	15,628

(1) Operating results for fiscal 2009 and 2008 include the acquisitions of

HS and HP.

Such acquisitions, however, did not significantly impact trends or results of operations for fiscal 2008, as such acquisitions substantially replaced the previous consigned arrangement, as discussed in Note 9 to our consolidated financial statements. See Note 17 to our consolidated financial statements for further discussion of these acquisitions.

- (2) For fiscal year 2008, we advanced \$0.8 million to Agricola Belher pursuant to our infrastructure agreement. Agricola Belher paid \$1.0 million in 2008 for net cash provided of \$0.2 million. For fiscal year 2009, we have not made any infrastructure advances to Agricola Belher. Agricola Belher

paid  
\$0.5 million in  
fiscal year 2009  
related to  
infrastructure  
advances. See  
Note 15 to our  
consolidated  
financial  
statements for  
further  
discussion of  
the  
infrastructure  
advances to  
Agricola Belher.

- (3) In fiscal 2008,  
we purchased  
HS and HP for  
\$5.2 million.  
See Note 17 to  
our consolidated  
financial  
statements for  
further  
discussion of  
these  
acquisitions.

**Table of Contents****Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*You should read the following discussion and analysis of our financial condition and results of operations together with Selected Consolidated Financial Data and our consolidated financial statements and notes thereto that appear elsewhere in this Annual Report. This discussion and analysis contains forward-looking statements that involve risks, uncertainties, and assumptions. Actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including, but not limited to, those presented under Risks related to our business included in Item 1A and elsewhere in this Annual Report.*

**Overview**

We are a leader in the distribution of avocados, prepared avocado products, and other perishable food products throughout the United States. Our history and expertise in handling California grown avocados has allowed us to develop a reputation of delivering quality products, at competitive prices, while providing competitive returns to our growers. This reputation has enabled us to expand our product offerings to include avocados sourced on an international basis, prepared avocado products, and other perishable foods. We report our operations in two different business segments: (1) fresh products and (2) processed products. See Note 11 to our consolidated financial statements for further discussion. We report our financial results on a November 1 to October 31 fiscal year basis to coincide with the California avocado harvest season.

Our Fresh Products business grades, sizes, packs, cools, and ripens (if desired) avocados for delivery to our customers. We presently operate three packinghouses in Southern California. These packinghouses handled approximately 31% of the California avocado crop during the 2009 fiscal year, based on data obtained from the California Avocado Commission. Our operating results and the returns we pay our growers are highly dependent on the volume of avocados delivered to our packinghouses, as a significant portion of our costs are fixed. Our strategy calls for continued efforts to retain and recruit growers that meet our business model. Additionally, our Fresh products business also procures avocados grown in Chile, Mexico and Peru, as well as other various commodities, including tomatoes, papayas, mushrooms, and pineapples. We operate a packinghouse in Mexico that, together with certain co-packers that we frequently purchase fruit from, handled approximately 20% of the Mexican avocado crop bound for the United States market and approximately 3% of the avocados exported from Mexico to countries other than the United States during the 2008-2009 Mexican season, based on our estimates. Additionally, during the 2008-2009 Chilean avocado season, we handled approximately 8% of the Chilean avocado crop, based on our estimates. Our strategy is to increase our market share of currently sourced avocados to all accepted marketplaces. We believe our diversified avocado sources provides a level of supply stability that may, over time, help solidify the demand for avocados among consumers in the United States and elsewhere in the world. We believe our efforts in distributing our other various commodities, such as those shown above, complement our offerings of avocados. From time to time, we continue to explore distribution of other crops that provide reasonable returns to the business.

Our processed products business procures avocados, processes avocados into a wide variety of guacamole products, and distributes the processed product to our customers. Customers include both food service industry and retail businesses and our products primarily include both frozen and cold pasteurized fresh guacamole. Cold pasteurized fresh guacamole refers to fresh guacamole products that has been treated by one of our ultra high pressure machines. These machines utilize ultra high pressure only (i.e. without additives or preservatives) and destroy the cells of any bacteria that could lead to spoilage or oxidation issues.

Due to the long shelf-life of our frozen processed products and the purity of our ultra high pressure guacamole, we believe that we are well positioned to address the diverse taste and needs of today's customers. We believe our ultra high pressure machines will enable our company to deliver the widest available array of prepared avocado products to our customers. We also believe that we are positioned to expand our ultra high pressure product line to include more avocado related products, high-end salsas, mangoes and other readily available fruit products. We continue to seek to expand our relationships with major food service companies and develop alliances that will allow our products to reach a larger percentage of the marketplace.

Net sales of frozen products represented approximately 53% and 56% of total processed segment sales for the years ended October 31, 2009 and 2008. Net sales of our ultra high pressure products represented approximately 47% and 44% of total processed segment sales for the years ended October 31, 2009 and 2008.

Our Fresh Products business is characterized by crop volume and price changes. Furthermore, the operating results of all of our businesses, including our processed products business, have been, and will continue to be, affected by quarterly and annual fluctuations and market downturns due to a number of factors, such as pests and disease, weather patterns, changes in demand by consumers, the timing of the receipt, reduction, or cancellation of significant customer orders, the gain or loss of significant customers, market acceptance of our products, our ability to develop, introduce, and market new products on a timely basis, availability and cost of avocados and supplies from growers and vendors, new product introductions by our competitors, change in the mix of avocados and processed products we sell, and general economic conditions. We believe, however, that we are currently positioned to address these risks and deliver favorable operating results for the foreseeable future.

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### ***Recent Developments***

#### ***Dividend Payment***

On December 11, 2009, we paid a \$0.50 per share dividend in the aggregate amount of \$7,252,000 to shareholders of record on December 1, 2009.

#### ***Contingencies***

***Hacienda Suit*** We are currently under examination by the Mexican tax authorities (Hacienda) for the tax years ended December 31, 2000 and December 31, 2004. We have received assessments totaling approximately \$2.0 million and \$4.5 million from Hacienda related to the amount of income at our Mexican subsidiary. Subsequent to that initial assessment, the Hacienda offered a settlement of approximately \$400,000 related to the tax year 2000 assessment, which we declined. In the second quarter of 2009, we won our most recent appeal case for the tax year ended December 31, 2000. The Hacienda subsequently appealed that decision and the case was sent back to the tax court due to administrative error by such jurisdiction. In the second quarter of 2009, the Hacienda initiated an examination related to tax year ended December 31, 2007 as well. We are not aware of any assessments related to this examination, but we do not expect this examination to have a significant impact on our results of operations. We pledged our processed products building located in Uruapan, Michoacan, Mexico as collateral to the Hacienda in regards to these assessments.

***IRS examination*** The Internal Revenue Service has concluded their examination for the year ended October 31, 2005. No changes were noted.

From time to time, we are also involved in litigation arising in the ordinary course of our business that we do not believe will have a material adverse impact on our financial statements.

#### ***Term Revolving Credit Agreement***

In July 2009, we renewed and extended our non-collateralized, revolving credit facility with Bank of America, N.A. Under the terms of this agreement, we are advanced funds for both working capital and long-term productive asset purchases. Total credit available under the borrowing agreement is now \$15.0 million, up from \$10.0 million and now expires on July 1, 2011. This increase was at our request and not due to any immediate cash flows needs. The credit facility contains various financial covenants, the most significant relating to tangible net worth (as defined), and Funded Debt to Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) ratio (as defined). We were in compliance with all such covenants at October 31, 2009.

#### ***First Earn-Out Payment***

In May 2008, we purchased all of the outstanding shares of Hawaiian Sweet (HS) and all ownership interests of Hawaiian Pride (HP) from the Chairman of our Board of Directors, Chief Executive Office and President. HS and HP engage in tropical-product packing and processing operations in Hawaii. The Acquisition Agreement provides, among other things, that as a result of the Acquisition Agreement, Calavo shall make an initial purchase price payment in the aggregate amount of \$3,500,000 for both entities. Calavo made the initial payment on May 20, 2008. Calavo shall also make two additional annual payments, ranging from \$2,500,000 to \$4,500,000, based on certain operating results (the

Earn-Out Payment(s) ), as defined. On September 23, 2009, we remitted the first annual Earn-Out payment, totaling approximately \$2.4 million. This represents the minimum payment of \$2.5 million, less \$0.1 million of working capital shortfall. As a result of this payment, we recorded an adjustment decreasing property, plant and equipment by \$0.9 million, other assets by \$0.1 million, and accrued expenses by \$1.0 million. Such adjustment relates to the resolution of the first deferred and contingent payment. We anticipate recording one more adjustment once the second deferred and contingent payment is determined in fiscal 2010.

### **Critical Accounting Estimates**

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an ongoing basis, we re-evaluate all of our estimates, including those related to the areas of customer and grower receivables, inventories, useful lives of property, plant and equipment, promotional allowances, income taxes, retirement benefits, and commitments and contingencies. We base our estimates on historical experience and on various other assumptions that are believed to be

reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may materially differ from these estimates under different assumptions or conditions as additional information becomes available in future periods.



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Management has discussed the development and selection of critical accounting estimates with the Audit Committee of the Board of Directors and the Audit Committee has reviewed our disclosure relating to critical accounting estimates in this Annual Report.

We believe the following are the more significant judgments and estimates used in the preparation of our consolidated financial statements.

*Promotional allowances.* We provide for promotional allowances at the time of sale, based on our historical experience. Our estimates are generally based on evaluating the relationship between promotional allowances and gross sales. The derived percentage is then applied to the current period's sales revenues in order to arrive at the appropriate debit to sales allowances for the period. The offsetting credit is made to accrued liabilities. When certain amounts of specific customer accounts are subsequently identified as promotional, they are written off against this allowance. Actual amounts may differ from these estimates and such differences are recognized as an adjustment to net sales in the period they are identified. A 1% change in the derived percentage for the entire year would impact results of operations by approximately \$0.5 million.

*Income Taxes.* We account for deferred tax liabilities and assets for the future consequences of events that have been recognized in our consolidated financial statements or tax returns. Measurement of the deferred items is based on enacted tax laws. In the event the future consequences of differences between financial reporting bases and tax bases of our assets and liabilities result in a deferred tax asset, we perform an evaluation of the probability of being able to realize the future benefits indicated by such asset. A valuation allowance related to a deferred tax asset is recorded when it is more likely than not that some portion or all of the deferred tax asset will not be realized.

As a multinational corporation, we are subject to taxation in many jurisdictions, and the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in various taxing jurisdictions. If we ultimately determine that the payment of these liabilities will be unnecessary, the liability will be reversed and we will recognize a tax benefit during the period in which it is determined the liability no longer applies. Conversely, we record additional tax charges in a period in which it is determined that a recorded tax liability is less than the ultimate assessment is expected to be.

The application of tax laws and regulations is subject to legal and factual interpretation, judgment and uncertainty. Tax laws and regulations themselves are subject to change as a result of changes in fiscal policy, changes in legislation, the evolution of regulations and court rulings. Therefore, the actual liability for U.S. or foreign taxes may be materially different from management's estimates, which could result in the need to record additional tax liabilities or potentially reverse previously recorded tax liabilities.

*Goodwill and acquired intangible assets.* Goodwill, defined as unidentified asset(s) acquired in conjunction with a business acquisition, is tested for impairment on an annual basis and between annual tests whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill is tested at the reporting unit level, which is defined as an operating segment or one level below the operating segment. Goodwill impairment testing is a two-step process. The first step of the goodwill impairment test, used to identify potential impairment, compares the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired, and the second step of the impairment test would be unnecessary. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test must be performed to measure the amount of impairment loss, if any. The second step of the goodwill impairment test, used to measure the amount of impairment loss, compares the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss must be recognized in an amount equal to that excess. Goodwill impairment testing requires significant judgment and management estimates, including, but not limited to, the determination of (i) the number of reporting units, (ii) the goodwill and other assets and liabilities to be allocated to the reporting units and (iii) the fair values of the reporting units. The estimates and assumptions described above, along with other factors such as discount rates, will significantly affect the outcome of the impairment tests and the amounts of any resulting impairment losses. We performed our annual assessment of goodwill and determined that no impairment existed as of October 31, 2009.

*Allowance for accounts receivable.* We provide an allowance for estimated uncollectible accounts receivable balances based on historical experience and the aging of the related accounts receivable. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

**Table of Contents****Results of Operations**

The following table sets forth certain items from our consolidated statements of income, expressed as percentages of our total net sales, for the periods indicated:

	Year ended October 31,		
	2009	2008	2007
Net sales	100.0%	100.0%	100.0%
Gross margins	12.9%	9.2%	10.5%
Selling, general and administrative	6.6%	5.8%	6.5%
Operating income	6.3%	3.4%	4.0%
Interest income	0.1%	0.1%	0.1%
Interest expense	(0.3)%	(0.4)%	(0.4)%
Other income, net	0.1%	0.2%	0.2%
Net income	3.9%	2.1%	2.4%

**Net Sales**

We believe that the fundamentals for our products continue to be favorable. Firstly, Americans are eating more avocados. Over the last 10 years, United States (U.S.) consumption of avocados has expanded at a 9% compound annual growth rate and we do not anticipate this growth significantly changing. We believe that the healthy eating trend that has been developing in the United States contributes to such growth, as avocados, which are cholesterol and sodium free, are dense in fiber, vitamin B6, antioxidants, potassium, folate, and contain unsaturated fat, which help lower cholesterol. Also, a growing number of research studies seem to suggest that phytonutrients, which avocados are rich in, help fight chronic illnesses, such as heart disease and cancer.

Additionally, we believe that the demographic changes in the U.S. will greatly impact the consumption of avocados and avocado-based products. The Hispanic community currently accounts for approximately 15% of the U.S. population, and the total number of Hispanics is estimated to triple by the year 2050. Avocados are considered a staple item purchased by Hispanic consumers, as the per-capita avocado consumption in Mexico is estimated to be more than seven-fold that of the U.S.

We anticipate avocado products will further penetrate the United States marketplace driven by year-round availability of fresh avocados due to imports, a rapid growing Hispanic population, and the promotion of the health benefits of avocados. As the largest marketer of avocado products in the United States, we believe that we are well positioned to leverage this trend and to grow all segments of our business. Additionally, we also believe that avocados and avocado based products will further penetrate other marketplaces that we currently operate in, as interest in avocados continues to expand.

In October 2002, the USDA announced the creation of a Hass Avocado Board to promote the sale of Hass variety avocados in the U.S. marketplace. This board provides a basis for a unified funding of promotional activities based on an assessment on all avocados sold in the U.S. marketplace. The California Avocado Commission, which receives its funding from California avocado growers, has historically shouldered the promotional and advertising costs supporting avocado sales. We believe that the incremental funding of promotional and advertising programs in the U.S. will, in the long term, positively impact average selling prices and will favorably impact our avocado businesses. During fiscal 2009, 2008 and 2007, on behalf of avocado growers, we remitted approximately \$0.6 million, \$2.2 million and \$1.7 million to the California Avocado Commission. During fiscal 2009, 2008 and 2007, we remitted approximately \$3.8 million, \$4.2 million and \$4.5 million to the Hass Avocado Board related to avocados.

Sales of products and related costs of products sold are recognized when persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable and collectability is reasonably assured. Service revenue, including freight, ripening, storage, bagging and palletization charges, is recorded when services are performed and sales of the related products are delivered. We provide for sales returns and promotional allowances at the time of shipment, based on our experience. The following table summarizes our net sales by business segment:

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	<b>2009</b>	<b>Change</b>	<b>2008</b>	<b>Change</b>	<b>2007</b>
	<b>(Dollars in thousands)</b>				
Net sales:					
Fresh products	\$ 300,235	(4.9%)	\$ 315,667	20.8%	\$ 261,325
Processed products	44,530	(2.8%)	45,807	10.0%	41,659
Total net sales	\$ 344,765	(4.6%)	\$ 361,474	19.3%	\$ 302,984
As a percentage of net sales:					
Fresh products	87.1%		87.3%		86.3%
Processed products	12.9%		12.7%		13.7%
	100.0%		100.0%		100.0%

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Net sales for the year ended October 31, 2009, when compared to 2008, decreased by approximately \$16.7 million, or 4.6%, principally as a result of a decrease in both our fresh products and processed products segments. The decrease in fresh product sales for the year ended October 31, 2009 was primarily related to decreased sales of California avocados, tomatoes, and pineapples. These decreases were partially offset, however, by increased sales from Mexican and Chilean sourced avocados. While the procurement of fresh avocados related to our fresh products segment is seasonal based on region, our processed products business is generally not subject to a seasonal effect. The decrease in net sales delivered by our processed products business was due primarily to a decrease in pounds sold.

The following tables set forth sales by product category and sales incentives, by segment (dollars in thousands):

	Year ended October 31, 2009			Year ended October 31, 2008		
	Fresh products	Processed products	Total	Fresh products	Processed products	Total
Third-party sales:						
Avocados	\$ 259,558	\$	\$ 259,558	\$ 268,674	\$	\$ 268,674
Tomatoes	14,067		14,067	19,666		19,666
Pineapples	13,341		13,341	16,442		16,442
Papayas	9,118		9,118	8,392		8,392
Other Fresh products	4,219		4,219	2,564		2,564
Processed food service		36,493	36,493		38,919	38,919
Processed retail and club		15,554	15,554		14,634	14,634
Total gross sales	300,303	52,047	352,350	315,738	53,553	369,291
Less sales incentives	(68)	(7,517)	(7,585)	(71)	(7,746)	(7,817)
Net sales	\$ 300,235	\$ 44,530	\$ 344,765	\$ 315,667	\$ 45,807	\$ 361,474

	Year ended October 31, 2008			Year ended October 31, 2007		
	Fresh products	Processed products	Total	Fresh products	Processed products	Total
Third-party sales:						
Avocados	\$ 268,674	\$	\$ 268,674	\$ 242,197	\$	\$ 242,197
Tomatoes	19,666		19,666	8,837		8,837
Pineapples	16,442		16,442	24		24
Papayas	8,392		8,392	6,044		6,044
Other Fresh products	2,564		2,564	4,242		4,242
Processed food service		38,919	38,919		39,006	39,006
Processed retail and club		14,634	14,634		10,777	10,777
Total gross sales	315,738	53,553	369,291	261,344	49,783	311,127
Less sales incentives	(71)	(7,746)	(7,817)	(19)	(8,124)	(8,143)
Net sales	\$ 315,667	\$ 45,807	\$ 361,474	\$ 261,325	\$ 41,659	\$ 302,984

Net sales to third parties by segment exclude value-added services billed by our Uruapan packinghouse, Uruapan processing plant and Mexicali processing plant to the parent company. For fiscal years 2009, 2008, and 2007, inter-segment sales and cost of sales for fresh products totaling \$14.1 million, \$13.9 million and \$13.0 million were eliminated. For fiscal years 2009, 2008, and 2007, inter-segment sales and cost of sales for processed products totaling \$7.8 million, \$9.6 million, and \$8.1 million were eliminated.

*Fresh Products*

Fiscal 2009 vs. Fiscal 2008:

Net sales delivered by the business decreased by approximately \$15.4 million, or 4.9%, from fiscal 2008 to 2009. This decrease was primarily related to decreased sales of California avocados, tomatoes, and pineapples. Such decreases were partially offset, however, by increased sales from Mexican and Chilean sourced avocados. For fiscal 2009, due to the significant increase in the Mexican avocado crop, there was an increase in the volume of avocados delivered to the United States market. As a result, avocado prices industry-wide decreased for most of fiscal 2009, which primarily caused our total avocado revenues to decrease for the year.

For fiscal year 2009, California sourced avocado sales reflect a 42.5% decrease in pounds of avocados sold, when compared to the same prior year period. This decrease in pounds sold is primarily related to the corresponding decrease in the California avocado crop for fiscal 2008/2009. Such decrease is believed to be primarily related to poor weather conditions. Our market share of California avocados increased to 31% for fiscal year 2009, when compared to a 28% market share for the same prior year period. The average selling price, on a per carton basis, of California avocados sold increased approximately 13.8% when compared to the same prior year period. We attribute some of this increase to the lower overall volume of California avocados in the marketplace.

California avocados are primarily sold in the U.S. marketplace. We anticipate that sales of California grown avocados will significantly increase in fiscal 2010, due to a significantly larger expected avocado crop.

Sales of tomatoes decreased \$5.6 million, or 28.5%, for fiscal year 2009, when compared to the same prior year period. The decrease in sales for tomatoes is primarily due to the decrease in the average carton selling price by 38.0%. This was partially offset

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by an increase in the volume of tomatoes by approximately 0.3 million cartons, or 15.3%, when compared to the same prior year period. We attribute most of this decrease in the per carton selling price to the out of season production from the U.S. east coast that increased the volume of tomatoes in the U.S. marketplace at the very beginning of the Mexican tomato season.

Sales of pineapples decreased \$3.1 million, or 18.9%, when compared to the same prior year period. The decrease in sales for pineapples is primarily due to the decrease in the per unit selling price by 12.2%, in addition to the decrease in the volume of pineapples by approximately 0.1 million units, or 7.5%, when compared to the same prior year period. We attribute some of this decrease in the per carton selling price to the volume of pineapples in the U.S. marketplace and the recession in the United States. Our agreement with Maui Pineapple Company ended December 31, 2009, and is not expected to be extended. We are actively pursuing other sources of pineapples, but the volume of pineapples is expected to decrease next year.

Partially offsetting such decreases was an increase in sales of Mexican sourced avocados, which increased \$20.1 million, or 13.5%, for fiscal year 2009, when compared to the same prior year period. The increase in Mexican sourced avocados was primarily related to an increase in the volume of Mexican fruit sold of 35.1 million pounds, or 31.1%, when compared to the same prior year period. We attribute some of this increase to the large Mexican avocado crop for fiscal 2009. Such increase was partially offset, however, by a decrease in the average carton selling price of Mexican avocados, which decreased approximately 13.4% when compared to the same prior year period. We attribute some of this decrease to the higher overall volume of Mexican avocados in the marketplace.

Sales of Chilean sourced avocados increased \$9.0 million, or 117.0% for fiscal year 2009, when compared to the same prior year period. The volume of Chilean fruit sold increased by approximately 7.0 million pounds, or 94.6%, when compared to the same prior year period. This increase was primarily related to the improvement of the Chilean avocado crop in fiscal year 2009 when compared to the disappointing crop in fiscal year 2008. In addition to the increase in pounds sold, our average selling prices, on a per carton basis, experienced an increase of 11.5% for fiscal 2009, when compared to the same prior year period. We attribute some of these price fluctuations to the smaller California avocado crops, as well as the timing of the delivery of such crops, in the marketplace during fiscal 2009.

Mexican and Chilean grown avocados are primarily sold in the U.S., Japanese, and/or European marketplace. We anticipate that the combined sales of Mexican and Chilean grown avocados will increase marginally in fiscal 2010.

**Fiscal 2008 vs. Fiscal 2007:**

Net sales delivered by the business increased by approximately \$54.3 million, or 20.8%, from fiscal 2007 to 2008. This increase was primarily related to an increase in sales related to Mexico and California sourced avocados, tomatoes, and pineapples. Such increases were partially offset, however, by a decrease in Chilean avocado sales.

Sales of Mexican sourced avocados increased \$23.5 million, or 16.9%, for fiscal year 2008, when compared to the same prior year period. This increase was primarily due to an increase in the average per carton selling price of Mexican avocados. The average per carton selling price of Mexican avocados increased approximately 19.5% when compared to the same prior year period. We attribute some of this increase to the small California avocado crop in the marketplace during fiscal 2008, as well as the premium pricing related to our ProRipeVIP™ avocado ripening program. The volume of Mexican fruit sold decreased by approximately 2.6 million pounds, or 2.2%, when compared to the same prior year period.

Sales of pineapples and tomatoes increased \$16.4 million and \$10.8 million from fiscal 2007 to 2008. The volume of pineapples and tomatoes increased by approximately 1.6 million cartons, or 100.0% and 0.7 million cartons, or 59.1%, when compared to the same prior year period. These increases were primarily related to our agreements with Agricola Belher of Mexico (for the tomatoes) and our consignment and marketing agreement with Maui Pineapple Company, LTD (for the pineapples). See Notes 15 and 16 to our consolidated financial statements for further discussion of these agreements. Additionally, the average selling price, on a per carton basis, of tomatoes increased approximately 39.8% when compared to the same prior year period. We attribute some of this increase to the quality of our tomatoes in the U.S. marketplace.

Sales of Chilean sourced avocados decreased \$4.9 million for fiscal year 2008, when compared to the same prior year period. The volume of Chilean fruit sold decreased by approximately 9.4 million pounds, or 55.9%, when compared to the same prior year period. This decrease was primarily related to the smaller size of the Chilean avocado

crop. Such decreased volume was partially offset, however, by an increase in our average selling prices, on a per carton basis, which experienced an increase of 39.2% for fiscal 2008, when compared to the same prior period. We attribute some of these price fluctuations to the smaller Chilean and California avocado crops, as well as the delivery of such crops, in the marketplace during fiscal 2008.



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Sales of California sourced avocados increased \$8.3 million for fiscal 2008, when compared to the same prior period. This increase was primarily related to an increase in our average selling prices of 6.1%. The pounds sold of California sourced avocados remained consistent with the same prior year period. Our market share of shipped California avocados decreased to 27.7% for fiscal 2008, when compared to a 33.7% market share for the same prior year period.

For fiscal year 2008, average selling prices, on a per carton basis, for California avocados were 6.1% higher when compared to the same prior year period. We attribute some of this increase to the small California avocado crop for the 2007/2008 season.

*Processed Products*

Fiscal 2009 vs. Fiscal 2008:

Net sales decreased by approximately \$1.3 million, or 2.8% for fiscal 2009, when compared to the same prior period. This decrease is primarily related to a 4.4% decrease in total pounds sold for fiscal year 2009, when compared to the same prior year period. Frozen product sales are closely linked to the economic environment of the foodservice industry. Due to the economic decline in 2009, we experienced a decrease in sales for our frozen products, as fewer consumers went out to eat at restaurants. Partially offsetting this decline, however, the average net selling price per pound increased 1.9% from the corresponding prior year period. This increase is primarily related to a change in sales mix.

We currently have two 215L ultra high pressure machines located in Uruapan and estimate we are operating at approximately 59% of the combined machines capacities as of October 31, 2009. We believe this combined capacity is reasonable given our current sales projections and expected growth. Net sales of our ultra high pressure products represented approximately 47% and 44% of total processed segment sales for the years ended October 31, 2009 and 2008.

We believe that these ultra high pressure machines will enable our company to deliver the widest available array of prepared avocado and other products to our customers. Consequently, we believe that we are positioned to expand our ultra high pressure product line to include more avocado related products, high-end salsas, mangoes and other readily available fruit products. We anticipate a marginal increase in sales related to our processed products.

Fiscal 2008 vs. Fiscal 2007:

Net sales increased by approximately \$4.1 million, or 10.0% for fiscal 2008, when compared to the same prior period. The increase in net sales is primarily attributable to an increase in the net selling price totaling \$0.22 per product pound sold, or 12.0%, partially offset by a decrease of 0.3 million pounds of product sold, or 1.2%. The increase in our net average selling price primarily relates to a change in our product mix. During fiscal year 2008, the decrease in pounds sold primarily relates to a decrease in the sale of both our frozen and high-pressure guacamole products, which decreased approximately 0.9% and 1.9% when compared to the same prior year period.

*Gross Margins*

The following table summarizes our gross margins and gross profit percentages by business segment:

	2009	Change	2008	Change	2007
	(Dollars in thousands)				
Gross Margins:					
Fresh products	\$ 29,076	30.8%	\$ 22,223	3.6%	\$ 21,461
Processed products	15,457	41.1%	10,958	6.3%	10,311
Total gross margins	\$ 44,533	34.2%	\$ 33,181	4.4%	\$ 31,772
Gross profit percentages:					
Fresh products	9.7%		7.0%		8.2%
Processed products	34.7%		23.9%		24.8%
Consolidated	12.9%		9.2%		10.5%

Our cost of sales consists predominantly of fruit costs, packing materials, freight and handling, labor and overhead (including depreciation) associated with preparing food products, and other direct expenses pertaining to products sold. Consolidated gross margin, as a percent of sales, increased 2.7% for fiscal year 2009 when compared to fiscal year 2008. Gross margins increased by approximately \$11.4 million, or 34.2%, for fiscal year 2009, when compared to the same prior year period. These increases were attributable to improvements in both our fresh products and our processed products segment.

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## Fiscal 2009 vs. Fiscal 2008:

During fiscal year 2009, as compared to the same prior year period, the increase in our fresh products segment gross margin percentage was primarily related to a significant decrease in fruit costs for Mexican sourced avocados, as well as a decrease in substantially all operating costs related to our Mexican operations. These decreases are primarily related to the large Mexican avocado crop, as well as the considerable strengthening of the U.S. Dollar compared to the Mexican Peso. For fiscal year 2009, when compared to the prior year period, we experienced an increase in the volume of Mexican sourced avocados sold by 35.1 million pounds or 31.1%. Combined, these had the effect of decreasing our per pound costs, which, as a result, positively impacted gross margins. Such increase was partially offset, however, by a decrease in the average carton selling price of Mexican avocados, which decreased approximately 13.4% when compared to the same prior year period. Collectively, these items positively increased gross margins generated from the sale of Mexican avocados from approximately \$11.1 million in fiscal year 2008 to \$22.5 million in fiscal year 2009.

As mentioned above, the considerable strengthening of the U.S. Dollar compared to the Mexican Peso positively affected our gross margin for fiscal year 2009. In this era of economic uncertainty, it is unknown whether this favorable exchange rate will continue into fiscal year 2010. Any significant fluctuations in the strength of the U.S. Dollar compared to the Mexican Peso may have a material impact on future gross margins for our fresh and processed products segments.

The gross margin and gross profit percentage for consignment sales, including Chilean avocados, pineapples, and tomatoes, are dependent on the volume of fruit we handle, the average selling prices, and the competitiveness of the returns that we provide to third-party growers/packers. The gross margin we earn is generally based on a commission agreed to with each party, which varies from a fixed rate per box to a percent of the overall selling price. Although we generally do not take legal title to such avocados and perishable products, we do assume responsibilities (principally assuming credit risk, inventory loss and delivery risk, and limited pricing risk) that are consistent with acting as a principal in the transaction. Accordingly, our results of operations include sales and cost of sales from the sale of avocados and perishable products procured under consignment arrangements. For fiscal years 2009, we generated gross margins of \$2.8 million from the sale of fresh produce products that were packed by third parties.

Gross margin percentages related to California avocados are largely dependent on production yields achieved at our packinghouses, current market prices of avocados, our packing and marketing fee, and the volume of avocados packed. A significant portion of our costs are fixed. As such, a lower volume of fruit going through our packinghouses will decrease our gross margin percentage. Pounds of California avocados sold decreased 42.5% in fiscal 2009 as compared to fiscal 2008. This had the effect of increasing our per pound costs, which, as a result, negatively impacted gross margins.

## Fiscal 2008 vs. Fiscal 2007:

During fiscal year 2008, our gross margins generated from the sale of Mexican avocados decreased from approximately \$14.0 million in fiscal year 2007 to \$11.1 million in fiscal year 2008. Such decrease was primarily related to a 2.2% decrease in the volume of Mexican avocados sold, as well as higher fruit costs. Collectively, these items negatively affected gross margins.

As mentioned above, the gross margin and gross profit percentage for consignment sales, including Chilean avocados, pineapples, and tomatoes, are dependent on the volume of fruit we handle, the average selling prices, and the competitiveness of the returns that we provide to third-party growers/packers. For fiscal years 2008 and 2007, we generated gross margins of \$3.5 million, and \$1.7 million from the sale of fresh produce products that were packed by third parties.

For California sourced avocados, our gross margin percentage increased during fiscal year 2008 when compared to the same prior year period. Such increase is primarily related to a 1.2% increase in pounds of avocados sold, an increase in our packing and marketing fee, and a 6.1% increase in the average sales price of California avocados. Combined, these had the effect of decreasing our per pound costs, which, as a result, positively impacted gross margins.

*Processed Products*

Fiscal 2009 vs. Fiscal 2008:

Gross margin percentages for our processed products business are largely dependent on the pricing of our final product and the cost of avocados used in preparing guacamole. The processed products gross profit percentages for the fiscal year 2009, when

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compared to the same prior year period, increased \$4.4 million or 41.1%, primarily as a result of lower fruit and operating costs, partially offset by a decrease in total pounds sold by 4.4%. As discussed above, the large Mexican avocado crop, as well as the considerable strengthening of the U.S. Dollar compared to the Mexican Peso, significantly decreased our per pound costs. We anticipate that the gross profit percentage for our processed product segment will continue to experience fluctuations during the next fiscal year primarily due to the uncertainty of the cost of fruit that will be used in the production process, and the uncertainty of the exchange rate between the U.S. Dollar and the Mexican Peso (as discussed above).

**Fiscal 2008 vs. Fiscal 2007:**

During fiscal year 2008, the processed products gross profit percentages marginally decreased primarily as a result of high fruit costs, as well as increased packaging costs, both of which had the effect of increasing our per pound costs. In addition, there was a marginal decrease in total pounds produced, which had the effect of increasing our per pound costs. These increases were partially offset, however, by a decrease in the production and sale of less profitable items.

***Selling, General and Administrative***

	<b>2009</b>	<b>Change</b>	<b>2008</b>	<b>Change</b>	<b>2007</b>
	<b>(Dollars in thousands)</b>				
Selling, general and administrative	\$22,791	9.0%	\$20,914	5.8%	\$19,759
Percentage of net sales	6.6%		5.8%		6.5%

Selling, general and administrative expenses include costs of marketing and advertising, sales expenses, and other general and administrative costs. For fiscal year 2009, selling, general and administrative expenses increased \$1.9 million or 9.0% when compared to the same period for fiscal 2008. This increase was primarily related to higher corporate costs, including, but not limited to, costs related to an increase in management bonuses (totaling approximately \$1.7 million), an increase in salaries and benefits (totaling approximately \$0.5 million), and an increase in general insurance (totaling approximately \$0.3 million). Such higher corporate costs were partially offset, however, by lower broker commissions (totaling approximately \$0.3 million) and lower audit fees (totaling approximately \$0.3 million).

For fiscal year 2008, selling, general and administrative expenses increased \$1.2 million or 5.8% when compared to the same period for fiscal 2007. This increase was primarily related to higher corporate costs, including, but not limited to, costs related to an increase in salaries and benefits (totaling approximately \$1.0 million), an increase in broker sales commissions (totaling approximately \$0.4 million), and an increase in repairs and maintenance (totaling approximately \$0.2 million). Such higher corporate costs were partially offset, however, by a decrease in bad debt expense (totaling approximately \$0.4 million).

***Interest income***

	<b>2009</b>	<b>Change</b>	<b>2008</b>	<b>Change</b>	<b>2007</b>
	<b>(Dollars in thousands)</b>				
Interest income	\$381	(26.2%)	\$516	108.1%	\$248
Percentage of net sales	0.1%		0.1%		0.1%

Interest income was primarily generated from loans to growers. The decrease in interest income in fiscal 2009 as compared to 2008 is due to the poor California avocado crop, and the resulting decreases in the balances due to us from these growers. In addition, this decrease in interest income is due to the lower interest rate charged to Agricola Belher for infrastructure advances. During fiscal year 2007, interest income includes interest accrued on notes receivable from directors and officers of approximately \$0.1 million. Such notes were paid in fiscal year 2007.

***Interest expense***

	<b>2009</b>	<b>Change</b>	<b>2008</b>	<b>Change</b>	<b>2007</b>
	<b>(Dollars in thousands)</b>				
Interest expense	\$(1,108)	(25.4%)	\$(1,485)	10.3%	\$(1,346)

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Percentage of net sales (0.3)% (0.4)% (0.4)%

Interest expense is primarily generated from our line of credit borrowings, as well as our term loan agreement with Farm Credit West, PCA. For fiscal 2009, as compared to fiscal 2008, the decrease in interest expense was primarily related to a lower average outstanding balance and an overall decrease in interest rates under our non-collateralized, revolving credit facilities with Farm Credit West, PCA and Bank of America, N.A.

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For fiscal 2008, as compared to fiscal 2007, the increase in interest expense was primarily related to a higher average outstanding balance under our non-collateralized, revolving credit facilities with Farm Credit West, PCA and Bank of America, N.A

**Other Income, Net**

	<b>2009</b>	<b>Change</b>	<b>2008</b>	<b>Change</b>	<b>2007</b>
	<b>(Dollars in thousands)</b>				
Other income, net	\$263	(63.2%)	\$715	39.6%	\$512
Percentage of net sales	0.1%		0.2%		0.2%

Other income, net includes dividend income, as well as certain other transactions that are outside of the normal course of operations. During fiscal 2009, 2008, and 2007, we received \$0.1 million, \$0.6 million, and \$0.4 million as dividend income from Limoneira.

**Provision for Income Taxes**

	<b>2009</b>	<b>Change</b>	<b>2008</b>	<b>Change</b>	<b>2007</b>
	<b>(Dollars in thousands)</b>				
Provision for income taxes	\$8,277	81.2%	\$4,567	6.9%	\$4,271
Percentage of income before provision for income taxes	37.8%		37.2%		36.8%

The effective income tax rate for fiscal years 2009, 2008, and 2007 is higher than the federal statutory rate principally due to state taxes. Our effective income tax rate increased from 37.2% in fiscal year 2008 to 37.8% in fiscal year 2009 primarily due to a higher portion of the total pre-tax book income being taxed at the higher U.S. statutory rate compared to Mexico as well as an increase in our federal tax rate, partially offset by several miscellaneous reductions. Our effective income tax rate increased from 36.8% in fiscal year 2007 to 37.2% in fiscal year 2008 primarily as a result of an increase in foreign taxes, partially offset by a decrease in our average state tax rate.

**Quarterly Results of Operations**

The following table presents our operating results for each of the eight fiscal quarters in the period ended October 31, 2009. The information for each of these quarters is derived from our unaudited interim financial statements and should be read in conjunction with our audited consolidated financial statements included in this Annual Report. In our opinion, all necessary adjustments, which consist only of normal and recurring accruals, have been included to fairly present our unaudited quarterly results. Historically, we receive and sell a substantially lesser number of California avocados in our first fiscal quarter. Certain items in the prior period amounts have been reclassified to conform to the current period presentation.

	<b>Three months ended</b>							
	<b>Oct. 31, 2009</b>	<b>July 31, 2009</b>	<b>Apr. 30, 2009</b>	<b>Jan. 31, 2009</b>	<b>Oct. 31, 2008</b>	<b>July 31, 2008</b>	<b>Apr. 30, 2008</b>	<b>Jan. 31, 2008</b>
	<b>(in thousands, except per share amounts)</b>							
<b>Statement of Operations Data</b>								
Net sales	\$ 80,942	\$ 106,347	\$ 86,829	\$ 70,647	\$ 93,553	\$ 96,903	\$ 98,777	\$ 72,241
Cost of sales	71,713	96,441	73,890	58,188	81,387	89,211	91,483	66,212
Gross margin	9,229	9,906	12,939	12,459	12,166	7,692	7,294	6,029
Selling, general and administrative	6,134	5,822	5,535	5,300	6,162	5,301	4,701	4,750

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Operating income	3,095	4,084	7,404	7,159	6,004	2,391	2,593	1,279
Other income (expense), net	164	(22)	75	(71)	178	(118)	52	(87)
Income before provision for income taxes	3,259	4,062	7,479	7,088	6,182	2,273	2,645	1,192
Provision for income taxes	955	1,597	3,017	2,708	2,190	884	1,033	460
Net income	\$ 2,304	\$ 2,465	\$ 4,462	\$ 4,380	\$ 3,992	\$ 1,389	\$ 1,612	\$ 732
Net income per share:								
Basic	\$ 0.16	\$ 0.17	\$ 0.31	\$ 0.30	\$ 0.28	\$ 0.10	\$ 0.11	\$ 0.05
Diluted	\$ 0.16	\$ 0.17	\$ 0.31	\$ 0.30	\$ 0.28	\$ 0.10	\$ 0.11	\$ 0.05
Number of shares used in per share computation:								
Basic	14,505	14,457	14,423	14,419	14,408	14,405	14,403	14,375
Diluted	14,582	14,529	14,508	14,429	14,443	14,467	14,514	14,503

**Liquidity and Capital Resources**

Operating activities for fiscal 2009, 2008 and 2007 provided cash flows of \$22.0 million, \$5.3 million, and \$4.6 million. Fiscal year 2009 operating cash flows reflect our net income of \$13.6 million, net noncash charges (depreciation and amortization, income from unconsolidated entities, loss on disposal of fixed assets, provision for losses on accounts receivable, interest on deferred



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compensation, deferred income taxes, and stock compensation expense) of \$3.0 million and a net increase from changes in the non-cash components of our working capital accounts of approximately \$5.4 million.

Fiscal year 2009 increases in operating cash flows, caused by working capital changes, include a decrease in accounts receivable of \$5.3 million, a decrease in inventory of \$3.2 million, an increase in trade accounts payable and accrued expenses of \$1.0 million and a decrease in advances to suppliers of \$0.6 million, partially offset by a decrease in payable to growers of \$2.0 million, an increase in prepaid expenses and other current assets of \$1.5 million, an increase in income tax receivable of \$1.1 million and an increase in other assets totaling \$0.1 million.

The decrease in our accounts receivable balance as of October 31, 2009, when compared to October 31, 2008, primarily reflects less California avocado sales recorded in the month of October 2009, as compared to October 2008. This is consistent to what was expected with the poor California avocado season ending earlier in the current year than in prior year. The decrease in our inventory balance is primarily related to a decrease in Mexico and California avocado inventory and processed products inventory on hand at October 31, 2009, as compared to the same prior year period. The increase in our trade accounts payable and accrued expenses primarily reflect the second Earn-Out payment that has been reclassified to a current liability and the increase in our dividend declared but not yet paid (\$7.3 million in fiscal 2009, compared to \$5.0 million for fiscal 2008).

The decrease in payable to our growers primarily reflects a decrease in California fruit delivered in the month of October 2009, as compared to the month of October 2008.

Cash used in investing activities was \$6.0 million, \$7.5 million, and \$8.0 million for fiscal years 2009, 2008, and 2007. Fiscal year 2009 cash flows used in investing activities includes capital expenditures of \$4.1 million and the first annual Earn-Out payment from the acquisition of HS and HP, totaling approximately \$2.4 million. Such payments were partially offset by the collection of \$0.5 million Agricola Belher, pursuant to our tomato agreements. See Note 15 and Note 17 to our consolidated financial statements.

Cash used in financing activities was \$16.6 million for fiscal year 2009. Cash provided by financing activities was \$2.7 million and \$4.2 million for fiscal years 2008 and 2007. Cash used during fiscal year 2009 primarily includes payments on our non-collateralized, revolving credit facilities totaling \$11.2 million, the payment of a dividend totaling \$5.0 million and payments related to our long-term obligations of \$1.4 million. Partially offsetting these payments, however, \$1.0 million in cash was provided by the exercise of stock options.

Our principal sources of liquidity are our existing cash reserves, cash generated from operations and amounts available for borrowing under our existing credit facilities. Cash and cash equivalents as of October 31, 2009 and 2008 totaled \$0.9 million and \$1.5 million. Our working capital at October 31, 2009 was \$12.6 million, compared to \$15.4 million at October 31, 2008.

We believe that cash flows from operations and available credit facilities will be sufficient to satisfy our future capital expenditures, grower recruitment efforts, working capital and other financing requirements. We will continue to evaluate grower recruitment opportunities and exclusivity arrangements with food service companies to fuel growth in each of our business segments. Effective July 31, 2009, we entered into a new loan agreement with Bank of America, N.A. which increased our existing non-collateralized, revolving credit facility to \$15.0 million, from \$10.0 million. This new agreement expires July 1, 2011. Our non-collateralized, revolving credit facilities with Farm Credit West, PCA expires in February 2012. Under the terms of these agreements, we are advanced funds for both working capital and long-term productive asset purchases. Total credit available under these combined borrowing agreements was \$45 million, with a weighted-average interest rate of 2.4% and 4.8% at October 31, 2009 and 2008. Under these credit facilities, we had \$12.0 million and \$23.1 million outstanding as October 31, 2009 and 2008, of which \$6.5 million and \$13.0 million was classified as a long-term liability as October 31, 2009 and 2008. These credit facilities contain various financial covenants, the most significant relating to tangible net worth (as defined), and Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) (as defined). We were in compliance with all such covenants at October 31, 2009.

The following table summarizes contractual obligations pursuant to which we are required to make cash payments. The information is presented as of our fiscal year ended October 31, 2009:

**Payments due by period**

<b>Contractual Obligations</b>	<b>Total</b>	<b>Less than 1 year</b>	<b>1-3 years</b>	<b>3-5 years</b>	<b>More than 5 years</b>
Long-term debt obligations (including interest)	\$ 17,642	\$ 1,992	\$ 10,192	\$ 3,193	\$ 2,265
Revolving credit facilities	5,520	5,520			
Defined benefit plan	283	44	88	88	63
Operating lease commitments	15,044	1,760	3,176	3,034	7,074
<b>Total</b>	<b>\$ 38,489</b>	<b>\$ 9,316</b>	<b>\$ 13,456</b>	<b>\$ 6,315</b>	<b>\$ 9,402</b>

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The California avocado industry is subject to a state marketing order whereby handlers are required to collect assessments from the growers and remit such assessments to the California Avocado Commission (CAC). The assessments are primarily for advertising and promotions. The amount of the assessment is based on the dollars paid to the growers for their fruit, and, as a result, is not determinable until the value of the payments to the growers has been calculated.

With similar precision, amounts remitted to the Hass Avocado Board (HAB) in connection with their assessment program (see Item 7 for further discussion), are likewise not determinable until the fruit is actually delivered to us. HAB assessments are primarily used to fund marketing and promotion efforts.

***Recently Adopted Accounting Pronouncements***

In October 2009, we adopted Financial Accounting Standards Board Accounting Standard Codification (FASB ASC) 105-10 (SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*). FASB ASC 105-10 (SFAS No. 168) establishes the FASB Accounting Standards Codification (the Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial standards in conformity with US GAAP. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative US GAAP for SEC registrants. FASB ASC 105-10 (SFAS No. 168) is effective for financial statements issued by us for interim and annual periods after September 15, 2009. On the effective date of FASB ASC 105-10 (SFAS No. 168), all then-existing non-SEC accounting and reporting standards are superseded, with the exception of certain as the promulgations listed in FASB ASC 105-10 (SFAS No. 168). The adoption of FASB ASC 105-10 (SFAS No. 168) had no effect on the Company's consolidated financial statements, since the purpose of the Codification is not to create new accounting and reporting guidance. Rather, the Codification is meant to simplify user access to all authoritative US GAAP. References to US GAAP in our published financial statements has been updated, as appropriate, to cite the Codification of FASB ASC 105-10 (SFAS No. 168).

In July 2009, we adopted FASB ASC 855-10 (SFAS 165, *Subsequent Events*). FASB ASC 855-10 (SFAS 165) establishes accounting and reporting standards for events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In addition, FASB ASC 855-10 (SFAS 165) requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for selecting that date, that is, whether that date represents the date the financial statements were issued or were available to be issued. FASB ASC 855-10 (SFAS 165) was effective for fiscal years and interim periods ending after June 15, 2009. The adoption of FASB ASC 855-10 (SFAS 165) did not have a material impact on the Company's consolidated financial statements.

In March 2008, we adopted FASB ASC 815-10 (SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*). FASB ASC 815-10 (SFAS No. 161) requires expanded disclosures regarding the location and amount of derivative instruments in an entity's financial statements, how derivative instruments and related hedged items are accounted for under FASB ASC 815-10 (SFAS No. 133) and how derivative instruments and related hedged items affect an entity's financial position, operating results and cash flows. The adoption of FASB ASC 815-10 (SFAS No. 161) did not have an impact on our consolidated financial statements and related disclosures.

In November 2008, we adopted FASB ASC 820-10 (SFAS No. 157, *Fair Value Measurements*), for our financial assets and liabilities. Our adoption of FASB ASC 820-10 (SFAS No. 157) did not have a material impact on our financial position, results of operations or liquidity.

ASC 820-10 (SFAS No. 157) provides a framework for measuring fair value and requires expanded disclosures regarding fair value measurements. FASB ASC 820-10 (SFAS No. 157) defines fair value as the price that would be received for an asset or the exit price that would be paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. FASB ASC 820-10 (SFAS No. 157) also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs, where available. The following summarizes the three levels of inputs required by the standard that we use to measure fair value:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the related assets or liabilities.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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ASC 820-10 (SFAS No. 157) requires the use of observable market inputs (quoted market prices) when measuring fair value and requires a Level 1 quoted price to be used to measure fair value whenever possible.

In accordance with FASB ASC 820-10 (FSP FAS No. 157-2, *Effective Date of FASB Statement No. 157*), we elected to defer, until November 2009, the adoption of FASB ASC 820-10 (SFAS No. 157) for all nonfinancial assets and liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis. The adoption of FASB ASC 820-10 (SFAS No. 157) for those assets and liabilities within the scope of FASB ASC 820-10 (FSP FAS No. 157-2) is not expected to have a material impact on our financial position, results of operations, or liquidity.

Under the FASB ASC 820-10 (SFAS No. 157) hierarchy, an entity is required to maximize the use of quoted market prices and minimize the use of unobservable inputs. The following table sets forth our financial assets (there are no liabilities requiring disclosure) as of October 31, 2009 that are measured on a recurring basis during the period, segregated by level within the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
	(All amounts are presented in thousands)			
<b>Assets at Fair Value:</b>				
Investment in Limoneira Company <sup>(1)</sup>	\$ 24,200			\$ 24,200
Total assets at fair value	\$ 24,200	\$	\$	\$ 24,200

<sup>(1)</sup> The investment in Limoneira Company consists of marketable securities in the Limoneira Company stock. We currently own approximately 15% of Limoneira's outstanding common stock. These securities are measured at fair value by quoted market prices. Limoneira's stock price at October 31, 2009 and October 31, 2008 equaled \$140.00 per share and \$173.00 per

share.

Unrealized gain and losses are recognized through other comprehensive income.

Unrealized pre-tax investment holding losses arising during the year ended October 31, 2009 was \$5.7 million.

In November 2008, we adopted FASB ASC 825-10 (SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115*), which permits entities to choose to measure many financial instruments and certain other items at fair value. We already record our marketable securities at fair value in accordance with FASB ASC 320-10 (SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*). The adoption of FASB ASC 825-10 (SFAS No. 159) did not have an impact on our consolidated financial statements, as management did not elect the fair value option for any other financial instruments or certain other assets and liabilities.

#### ***Recently Issued Accounting Standards***

In August 2009, the FASB issued Accounting Standards Update No. 2009-5, *Measuring Liabilities at Fair Value* ( ASU No. 2009-05 ). ASU 2009-05 amends Accounting Standards Codification Topic 820, *Fair Value Measurements*. Specifically, ASU 2009-05 provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more of the following methods: 1) a valuation technique that uses a) the quoted price of the identical liability when traded as an asset or b) quoted prices for similar liabilities or similar liabilities when traded as assets and/or 2) a valuation technique that is consistent with the principles of Topic 820 of the Accounting Standards Codification. ASU 2009-05 also clarifies that when estimating the fair value of a liability, a reporting entity is not required to adjust to include inputs relating to the existence of transfer restrictions on that liability. ASU 2009-05 is effective for the first reporting period after the issuance, which will require the Company to adopt these provisions in the first quarter of fiscal 2010. We do not believe that the adoption of ASU 2009-05 will have a material impact on our consolidated financial statements.

In June 2009, the FASB issued Financial Accounting Standard No. 166, *Accounting for Transfers of Financial Assets – an amendment of FASB Statement No. 140* (SFAS No. 166). SFAS No. 166 clarifies the information that an entity must provide in its financial statements surrounding a transfer of financial assets and the effect of the transfer on its financial position, financial performance, and cash flows. This Statement is effective as of the beginning of the annual period beginning after November 15, 2009. We do not believe that the adoption of SFAS No. 166 will have a material impact on our consolidated financial statements.

In June 2009, the FASB issued Financial Accounting Standard No. 167, *Amendments to FASB Interpretation No. 46(R)* (SFAS No. 167). SFAS No. 167 clarifies and improves financial reporting by entities involved with variable interest entities. This Statement is effective as of the beginning of the annual period beginning after November 15, 2009. We do not believe that the adoption of SFAS No. 167 will have a material impact on our consolidated financial statements.

In April 2008, the FASB issued FASB ASC 350-30 (FSP FAS No. 142-3, *Determination of the Useful Life of Intangible Assets*). FASB ASC 350-30 (FSP FAS No. 142-3) amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB ASC 350-10 (SFAS No. 142). This change is intended to improve the consistency between the useful life of a

recognized intangible asset under FASB ASC 350-10 (SFAS No. 142) and the period of expected cash flows used to measure the fair value of the asset under FASB ASC 805-10

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(SFAS No. 141R) and other generally accepted account principles (GAAP). The requirement for determining useful lives must be applied prospectively to intangible assets acquired after the effective date and the disclosure requirements must be applied prospectively to all intangible assets recognized as of, and subsequent to, the effective date. FASB ASC 350-30 (FSP FAS No. 142-3) is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years, which will require us to adopt these provisions in our first quarter of fiscal 2010. We do not believe that the adoption of FASB ASC 350-30 (FSP FAS No. 142-3) will have a material impact on our consolidated financial statements.

In December 2008, the FASB issued FASB ASC 810-10 (SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB 51*.) which changes the accounting and reporting for minority interests. Minority interests will be re-characterized as noncontrolling interests and will be reported as a component of equity separate from the parent's equity, and purchases or sales of equity interests that do not result in a change in control will be accounted for as equity transactions. In addition, net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement and, upon a loss of control, the interest sold, as well as any interest retained, will be recorded at fair value with any gain or loss recognized in earnings. We will adopt FASB ASC 810-10 (SFAS No. 160) no later than the first quarter of fiscal 2010. We do not believe that the adoption of FASB ASC 810-10 (SFAS No. 160) will have a material impact on our consolidated financial statements.

In December 2008, the FASB issued FASB ASC 805-10 (SFAS No. 141R (revised 2008), *Business Combinations*), which replaces SFAS No. 141. The statement retains the purchase method of accounting for acquisitions, but requires a number of changes, including changes in the way assets and liabilities are recognized in the purchase accounting. It also changes the recognition of assets acquired and liabilities assumed arising from contingencies, requires the capitalization of in-process research and development at fair value, and requires the expensing of acquisition-related costs as incurred. We will adopt FASB ASC 805-10 (SFAS No. 141R) no later than the first quarter of fiscal 2010 and it will apply prospectively to business combinations completed on or after that date.

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

Our financial instruments include cash and cash equivalents, accounts receivable, payable to growers, accounts payable, current and long-term borrowings pursuant to our credit facilities with financial institutions, and long-term, fixed-rate obligations. All of our financial instruments are entered into during the normal course of operations and have not been acquired for trading purposes. The table below summarizes interest rate sensitive financial instruments and presents principal cash flows in U.S. dollars, which is our reporting currency, and weighted-average interest rates by expected maturity dates, as of October 31, 2009.

(All amounts in thousands)	Expected maturity date October 31,						Total	Fair Value
	2010	2011	2012	2013	2014	Thereafter		
<b>Assets</b>								
Cash and cash equivalents								
(1)	\$ 875	\$	\$	\$	\$	\$	\$ 875	\$ 875
Accounts receivable (1)	22,314						22,314	22,314
Advances to suppliers (1)	2,329						2,329	2,329
<b>Liabilities</b>								
Payable to growers (1)	\$ 396	\$	\$	\$	\$	\$	\$ 396	\$ 396
Accounts payable (1)	2,223						2,223	2,223
Current borrowings pursuant to credit facilities								
(1)	5,520						5,520	5,520
Long-term borrowings pursuant to credit facilities								
(2)		1,000	5,450				6,450	6,580



Fixed-rate long-term obligations (3)	1,366	1,370	1,373	1,376	1,380	1,959	8,824	9,843
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(1) We believe the carrying amounts of cash and cash equivalents, accounts receivable, advances to suppliers, payable to growers, accounts payable, and current borrowings pursuant to credit facilities approximate their fair value due to the short maturity of these financial instruments.

(2) Long-term borrowings pursuant to our credit facility bears interest at 2.1%. We believe that a portfolio of loans with a similar risk profile would currently yield a return of 1.4%. We project the impact of an increase or decrease in interest rates of 100 basis points would result in a change of fair value by approximately \$178,000.

(3) Fixed-rate long-term obligations bear interest rates ranging from

4.3% to 5.7% with a weighted-average interest rate of 5.5%. We believe that loans with a similar risk profile would currently yield a return of 2.5%. We project the impact of an increase or decrease in interest rates of 100 basis points would result in a change of fair value of approximately \$324,000.

We were not a party to any derivative instruments during the fiscal year. It is currently our intent not to use derivative instruments for speculative or trading purposes. Additionally, we do not currently use any hedging or forward contracts to offset market volatility.

Our Mexican-based operations transact business in Mexican pesos. Funds are transferred by our corporate office to Mexico on a weekly basis to satisfy domestic cash needs. Historically, the consistency of the spot rate for the Mexican peso has led to a small-to-moderate impact on our operating results. Based on the recent and significant decrease in the valuation of the Mexican peso to the U.S. dollar, however, we are currently considering the use of derivative instruments to hedge the fluctuation in the Mexican peso in our fiscal 2010. Total foreign currency gains for fiscal 2009, 2008, and 2007, net of losses, was less than \$0.1 million, \$0.5 million and \$0.1 million.

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**CALAVO GROWERS, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(in thousands)

	<b>October 31,</b>	
	<b>2009</b>	<b>2008</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 875	\$ 1,509
Accounts receivable, net of allowances of \$2,353 (2009) and \$2,213 (2008)	22,314	27,717
Inventories, net	11,731	14,889
Prepaid expenses and other current assets	7,191	4,993
Advances to suppliers	2,329	3,089
Income taxes receivable	2,178	992
Deferred income taxes	2,728	1,826
Total current assets	49,346	55,015
Property, plant, and equipment, net	38,621	37,709
Investment in Limoneira Company	24,200	29,904
Investment in unconsolidated entities	1,382	682
Goodwill	3,591	3,591
Other assets	6,076	7,785
	<b>\$ 123,216</b>	<b>\$ 134,686</b>
<b>Liabilities and shareholders equity</b>		
Current liabilities:		
Payable to growers	\$ 396	\$ 2,392
Trade accounts payable	2,223	4,567
Accrued expenses	20,032	16,104
Short-term borrowings	5,520	10,130
Dividend payable	7,252	5,047
Current portion of long-term obligations	1,366	1,362
Total current liabilities	36,789	39,602
Long-term liabilities:		
Long-term obligations, less current portion	13,908	25,351
Deferred income taxes	3,032	4,216
Total long-term liabilities	16,940	29,567
Commitments and contingencies		
Shareholders equity:		
Common stock (\$0.001 par value, 100,000 shares authorized; 14,505 and 14,419 shares outstanding at October 31, 2009 and 2008)	14	14
Additional paid-in capital	39,714	38,626
Accumulated other comprehensive income	466	3,943
Retained earnings	29,293	22,934

Total shareholders equity	69,487	65,517
	\$ 123,216	\$ 134,686

*See accompanying notes to consolidated financial statements.*

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**CALAVO GROWERS, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(in thousands, except per share amounts)

	Year Ended October 31,		
	2009	2008	2007
Net sales	\$ 344,765	\$ 361,474	\$ 302,984
Cost of sales	300,232	328,293	271,212
Gross margin	44,533	33,181	31,772
Selling, general and administrative	22,791	20,914	19,759
Operating income	21,742	12,267	12,013
Equity in earnings from unconsolidated entities	610	279	174
Interest income	381	516	248
Interest expense	(1,108)	(1,485)	(1,346)
Other income, net	263	715	512
Income before provision for income taxes	21,888	12,292	11,601
Provision for income taxes	8,277	4,567	4,271
Net income	\$ 13,611	\$ 7,725	\$ 7,330
Net income per share:			
Basic	\$ 0.94	\$ 0.54	\$ 0.51
Diluted	\$ 0.94	\$ 0.53	\$ 0.51
Number of shares used in per share computation:			
Basic	14,451	14,398	14,304
Diluted	14,503	14,481	14,435

*See accompanying notes to consolidated financial statements.*

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**CALAVO GROWERS, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
**(in thousands)**

	<b>2009</b>	<b>Year ended October 31, 2008</b>	<b>2007</b>
Net income	\$ 13,611	\$ 7,725	\$ 7,330
Other comprehensive income (loss), before tax:			
Unrealized holding gains (losses) arising during period	(5,704)	(19,058)	15,083
Income tax benefit (expense) related to items of other comprehensive income (loss)	2,227	7,337	(5,712)
Other comprehensive income (loss), net of tax	(3,477)	(11,721)	9,371
Comprehensive income (loss)	\$ 10,134	\$ (3,996)	\$ 16,701

*See accompanying notes to consolidated financial statements.*

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**CALAVO GROWERS, INC.**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY**  
(in thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Notes Receivable From Shareholders	Accumulated Other Comprehensive Income	Retained Earnings	Total
<b>Balance, October 31, 2006</b>	14,293	14	37,109	(2,430)	6,293	17,957	58,943
Exercise of stock options and income tax benefit of \$233	78		943				943
Stock compensation expense			16				16
Unrealized gain on Limoneira investment, net					9,371		9,371
Collections on shareholder notes receivable				2,430			2,430
Dividend declared to shareholders						(5,030)	(5,030)
Net income						7,330	7,330
<b>Balance, October 31, 2007</b>	14,371	14	38,068		15,664	20,257	74,003
Exercise of stock options and income tax benefit of \$147	48		534				534
Stock compensation expense			24				24
Unrealized loss on Limoneira investment, net					(11,721)		(11,721)
Dividend declared to shareholders						(5,048)	(5,048)
Net income						7,725	7,725
<b>Balance, October 31, 2008</b>	14,419	14	38,626		3,943	22,934	65,517
Exercise of stock options and income tax benefit of \$261	86		1,044				1,044
Stock compensation expense			44				44
Unrealized loss on Limoneira					(3,477)		(3,477)

investment, net									
Dividend declared to shareholders								(7,252)	(7,252)
Net income								13,611	13,611

<b>Balance,</b>										
<b>October 31, 2009</b>	14,505	\$	14	\$	39,714	\$		466	\$ 29,293	\$ 69,487

*See accompanying notes to consolidated financial statements.*



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**CALAVO GROWERS, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands)

	<b>Year Ended October 31,</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>Cash Flows from Operating Activities:</b>			
Net income	\$ 13,611	\$ 7,725	\$ 7,330
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	3,054	2,657	2,391
Provision for losses on accounts receivable	106	20	473
Income from unconsolidated entities	(610)	(279)	(174)
Interest on deferred consideration	152	75	
Stock compensation expense	44	24	16
Loss on disposal of property, plant, and equipment		70	8
Deferred income taxes	290	940	378
Effect on cash of changes in operating assets and liabilities:			
Accounts receivable	5,297	(1,400)	(2,263)
Inventories, net	3,158	(5,587)	2,210
Prepaid expenses and other current assets	(1,545)	(79)	1,023
Advances to suppliers	598	(635)	(886)
Income taxes receivable	(1,072)	461	816
Other assets	(113)	171	92
Payable to growers	(1,996)	(22)	(3,920)
Trade accounts payable and accrued expenses	1,023	1,155	(2,865)
Net cash provided by operating activities	21,997	5,296	4,629
<b>Cash Flows from Investing Activities:</b>			
Acquisitions of property, plant, and equipment	(4,149)	(2,674)	(2,950)
Loan to Agricola Belher		(750)	(5,000)
Collections from Agricola Belher	507	1,000	
Acquisition of Hawaiian Sweet and Pride, net of cash acquired	(2,348)	(5,030)	
Net cash used in investing activities	(5,990)	(7,454)	(7,950)
<b>Cash Flows from Financing Activities:</b>			
Dividend paid to shareholders	(5,047)	(5,031)	(4,573)
Proceeds (repayments) from (on) line of credit borrowings, net	(11,160)	8,500	6,826
Payments on long-term obligations	(1,364)	(1,389)	(1,301)
Proceeds from stock option exercises	783	387	710
Tax benefit of stock option exercises	147	233	146
Proceeds from collection of shareholder notes receivable			2,430
Net cash provided by (used in) financing activities	(16,641)	2,700	4,238
Net increase (decrease) in cash and cash equivalents	(634)	542	917
Cash and cash equivalents, beginning of year	1,509	967	50
Cash and cash equivalents, end of year	\$ 875	\$ 1,509	\$ 967

**Supplemental Information**

Cash paid during the year for:

Interest	\$ 1,195	\$ 1,455	\$ 1,310
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Income taxes	\$ 8,803	\$ 2,504	\$ 3,100
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**Noncash Investing and Financing Activities:**

Tax receivable increase related to stock option exercise	\$ 261	\$ 147	\$ 233
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Declared dividends payable	\$ 7,252	\$ 5,047	\$ 5,030
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Construction in progress included in trade accounts payable and accrued expenses	\$ 245	\$ 259	\$
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Capital lease obligations	\$	\$ 1,125	\$
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Fixed asset acquired with long term debt	\$	\$ 4,000	\$
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Minimum earnout adjustment related to the acquisition of Hawaiian Sweet and Pride	\$ 902	\$	\$
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Unrealized holding gains (losses)	\$ (5,704)	\$ (19,058)	\$ 15,083
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In May 2008, we acquired all of the outstanding shares of Hawaiian Sweet, Inc. and all ownership interests of Hawaiian Pride, LLC for approximately \$5.0 million, as well as approximately \$7.7 million in deferred and contingent consideration, plus acquisition costs of approximately \$0.2 million. See Note 17 for further explanation. The following table summarizes the estimated fair values of the non-cash assets acquired and liabilities assumed at the date of acquisition.

<b>(in thousands)</b>	<b>2008</b>
Current assets	\$ 1,303
Fixed assets	10,947
Intangible assets	1,310
Total non-cash assets acquired	13,560
Current liabilities assumed	809
Deferred and contingent consideration	7,721
Net non-cash assets acquired	\$ 5,030

*See accompanying notes to consolidated financial statements.*

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**CALAVO GROWERS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Description of the business*****Business***

Calavo Growers, Inc. (Calavo, the Company, we, us or our) procures and markets avocados and other perishable commodities and prepares and distributes processed avocado products. Our expertise in marketing and distributing avocados, processed avocados, and other perishable foods allows us to deliver a wide array of fresh and processed food products to food distributors, produce wholesalers, supermarkets, and restaurants on a worldwide basis. We procure avocados principally from California, Mexico, and Chile. Through our operating facilities in southern California, Texas, New Jersey, Arizona, and Mexico, we sort, pack, and/or ripen avocados and/or tomatoes for distribution both domestically and internationally. Additionally, we also distribute other perishable foods, such as pineapples and Hawaiian grown papayas, and prepare processed avocado products. We report our operations in two different business segments: (1) fresh products and (2) processed products.

**2. Basis of Presentation and Significant Accounting Policies**

The accompanying consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States.

Our consolidated financial statements include the accounts of Calavo Growers, Inc. and our wholly owned subsidiaries, Calavo Foods, Inc., Calavo de Mexico S.A. de C.V., Calavo Foods de Mexico S.A. de C.V., Maui Fresh International, Inc. (Maui), Calavo Inversiones (Chile) Limitada, Hawaiian Sweet, Inc. ( HS ) and Hawaiian Pride, LLC ( HP ). Effective November 2007, we dissolved our Calavo Foods, Inc. subsidiary. Such dissolution did not have any impact on our financial position or our results of operations. All intercompany accounts and transactions have been eliminated in consolidation. Effective July 2009, we created Calavo Inversiones (Chile) Limitada, a wholly owned subsidiary.

***Cash and Cash Equivalents***

We consider all highly liquid financial instruments purchased with an original maturity date of three months or less to be cash equivalents. The carrying amounts of cash and cash equivalents approximate their fair values.

***Inventories***

Inventories are stated at the lower of cost or market. Cost is computed on a weighted-average basis, which approximates the first-in, first-out method; market is based upon estimated replacement costs. Costs included in inventory primarily include the following: fruit, picking and hauling, overhead, labor, materials and freight.

***Property, Plant, and Equipment***

Property, plant, and equipment are stated at cost and depreciated over their estimated useful lives using the straight-line method. Leasehold improvements are stated at cost and amortized over the lesser of their estimated useful lives or the term of the lease, using the straight-line method. Useful lives are as follows: buildings and improvements 7 to 50 years; leasehold improvements the lesser of the term of the lease or 7 years; equipment 7 to 25 years; information systems hardware and software 3 to 15 years. Significant repairs and maintenance that increase the value or extend the useful life of our fixed asset are capitalized. Replaced fixed assets are written off. Ordinary maintenance and repairs are charged to expense.

We capitalize software development costs for internal use beginning in the application development stage and ending when the asset is placed into service. We amortize such costs using the straight-line basis over estimated useful lives. The net book value of capitalized computer software costs was \$0.4 million and \$0.3 million as of October 31, 2009 and 2008 and the related depreciation expense was \$0.1 million for the fiscal years ended October 31, 2009, 2008 and 2007.

***Goodwill and Acquired Intangible Assets***

Goodwill is tested for impairment on an annual basis and between annual tests whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill is tested at the reporting unit level, which is defined as an operating segment or one level below the operating segment. Goodwill impairment testing is a two-step process. The first step of the goodwill impairment test, used to identify potential impairment, compares the fair value of a reporting unit with its carrying amount,



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including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired, and the second step of the impairment test would be unnecessary. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test must be performed to measure the amount of impairment loss, if any. The second step of the goodwill impairment test, used to measure the amount of impairment loss, compares the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss must be recognized in an amount equal to that excess. Goodwill impairment testing requires significant judgment and management estimates, including, but not limited to, the determination of (i) the number of reporting units, (ii) the goodwill and other assets and liabilities to be allocated to the reporting units and (iii) the fair values of the reporting units. The estimates and assumptions described above, along with other factors such as discount rates, will significantly affect the outcome of the impairment tests and the amounts of any resulting impairment losses. We performed our annual assessment of goodwill and determined that no impairment existed as of October 31, 2009.

At October 31, 2009, other assets in the accompanying consolidated financial statements included the following intangible assets: customer-list, trade name and non-competition agreements of \$1.8 million (accumulated amortization of \$0.9 million) and brand name intangibles of \$0.3 million. The customer-list, trade name and non-competition agreements are being amortized over periods up to ten years. The intangible asset related to the brand name currently has an indefinite life and, as a result, is not currently subject to amortization. We recorded amortization expense of approximately \$171,000 and \$247,000 for fiscal years 2009 and 2008, with \$153,000, \$144,000, 131,000, \$131,000, and \$131,000 of amortization expense expected for fiscal years 2010 through 2014. The remainder of approximately \$241,000 will be amortized over fiscal years 2015 through 2018.

***Long-lived Assets***

Long-lived assets, including fixed assets and intangible assets (other than goodwill), are continually monitored and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of any such asset may not be recoverable. The determination of recoverability is based on an estimate of undiscounted cash flows expected to result from the use of an asset and its eventual disposition. The estimate of undiscounted cash flows is based upon, among other things, certain assumptions about future operating performance, growth rates and other factors. Estimates of undiscounted cash flows may differ from actual cash flows due to, among other things, technological changes, economic conditions, changes to the business model or changes in operating performance. If the sum of the undiscounted cash flows (excluding interest) is less than the carrying value, an impairment loss will be recognized, measured as the amount by which the carrying value exceeds the fair value of the asset. We have evaluated our long-lived assets and determined that no impairment existed as of October 31, 2009.

***Investments***

We account for non-marketable investments using the equity method of accounting if the investment gives us the ability to exercise significant influence over, but not control, an investee. Significant influence generally exists when we have an ownership interest representing between 20% and 50% of the voting stock of the investee. Under the equity method of accounting, investments are stated at initial cost and are adjusted for subsequent additional investments and our proportionate share of earnings or losses and distributions. Additional investments by other parties in the investee, if any, will result in a reduction in our ownership interest, and the resulting gain or loss will be recorded in our consolidated statements of income.

In August 2006, we entered into a joint venture agreement with San Rafael Distributing (SRD) for the purpose of the wholesale marketing, sale and distribution of fresh produce from the existing location of SRD at the Los Angeles Wholesale Produce Market (Terminal Market), located in Los Angeles, California. Such joint venture operates under the name of Maui Fresh International, LLC (Maui Fresh LLC) and commenced operations in August 2006. SRD and Calavo each have an equal one-half ownership interest in Maui Fresh, but SRD has overall management responsibility for the operations of Maui Fresh at the Terminal Market. We use the equity method to account for this investment.

Commencing on the first anniversary of this agreement and continuing thereafter during the term of the agreement, Calavo has the unconditional right, but not the obligation, to purchase the one-half interest in Maui Fresh owned by SRD at a purchase price to be determined pursuant to the agreement. The term of the agreement is for five years, which may be extended, or terminated early, as defined. As of October 31, 2009 and 2008, we have advanced Maui

Fresh approximately \$0.4 million and \$0.7 million (included in prepaid expenses and other current assets) for working capital purposes. Per the agreement, these advances were made at our own discretion and are expected to be paid back in cash.

In June 2009, we (through a newly created wholly owned subsidiary: Calavo Inversiones (Chile) Limitada) entered into a joint venture agreement with Exportadora M5, S.A. (M5) for the purpose of selling and distributing Chilean sourced avocados. Such joint venture operates under the name of Calavo de Chile and commenced operations in July 2009. M5 and Calavo each have an equal one-

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half ownership interest in Calavo de Chile, but M5 has overall management responsibility for the operations of Calavo De Chile. We use the equity method to account for this investment.

***Marketable Securities***

Our marketable securities consist of our investment in Limoneira Company (Limoneira) stock. We currently own approximately 15% of Limoneira's outstanding common stock. These securities are carried at fair value as determined from quoted market prices. The estimated fair value, cost, and gross unrealized gain related to such investment was \$24.2 million, \$23.5 million and \$0.7 million as of October 31, 2009. The estimated fair value, cost, and gross unrealized gain related to such investment was \$29.9 million, \$23.5 million and \$6.4 million as of October 31, 2008.

***Advances to Suppliers***

We advance funds to third-party growers primarily in Chile and Mexico for various farming needs. Typically, we obtain collateral (i.e. fruit, fixed assets, etc.) that approximates the value at risk, prior to making such advances. We continuously evaluate the ability of these growers to repay advances in order to evaluate the possible need to record an allowance. No such allowance was required at October 31, 2009, nor October 31, 2008.

***Accrued Expenses***

Included in accrued expenses at October 31, 2009 are un-vouchered receipts and deferred consideration (see Note 17) of approximately \$2.0 million and \$3.9 million. Included in accrued expenses at October 31, 2008 are un-vouchered receipts and deferred consideration of \$1.5 million and \$3.6 million.

***Revenue Recognition***

Sales of products and related costs of products sold are recognized when (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred, (iii) the price is fixed or determinable and (iv) collectability is reasonably assured. These terms are typically met upon shipment of product to the customer. Service revenue, including freight, ripening, storage, bagging and palletization charges, is recorded when services are performed and sales of the related products are delivered.

***Shipping and Handling***

We include shipping and handling fees billed to customers in net revenues. Amounts incurred by us for freight are included in cost of goods sold.

***Promotional Allowances***

We provide for promotional allowances at the time of sale, based on our historical experience. Our estimates are generally based on evaluating the relationship between promotional allowances and gross sales. The derived percentage is then applied to the current period's sales revenues in order to arrive at the appropriate debit to sales allowances for the period. The offsetting credit is made to accrued expenses. When certain amounts of specific customer accounts are subsequently identified as promotional, they are written off against this allowance. Actual amounts may differ from these estimates and such differences are recognized as an adjustment to net sales in the period they are identified.

***Allowance for Accounts Receivable***

We provide an allowance for estimated uncollectible accounts receivable balances based on historical experience and the aging of the related accounts receivable.

***Consignment Arrangements***

We frequently enter into consignment arrangements with avocado and tomato growers and packers located outside of the United States and growers of certain perishable products in the United States. Although we generally do not take legal title to these avocados and perishable products, we do assume responsibilities (principally assuming credit risk, inventory loss and delivery risk, and limited pricing risk) that are consistent with acting as a principal in the transaction. Accordingly, the accompanying financial statements include sales and cost of sales from the sale of avocados and perishable products procured under consignment arrangements. Amounts recorded for each of the fiscal years ended October 31, 2009, 2008 and 2007 in the financial statements pursuant to consignment arrangements are as follows (in thousands):

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	<b>2009</b>	<b>2008</b>	<b>2007</b>
Sales	\$ 44,776	\$ 49,189	\$ 22,347
Cost of Sales	41,941	45,739	20,640
Gross Margin	\$ 2,835	\$ 3,450	\$ 1,707

**Advertising Expense**

Advertising costs are expensed when incurred. Such costs in fiscal 2009, 2008, and 2007 were approximately \$0.1 million.

**Other income, net**

Included in other income, net is dividend income totaling \$0.2 million, \$0.6 million and \$0.4 million for fiscal years 2009, 2008, and 2007.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Among the significant estimates affecting the financial statements are those related to valuation allowances for accounts receivable, goodwill, grower advances, inventories, long-lived assets, valuation of and estimated useful lives of identifiable intangible assets, stock-based compensation, promotional allowances and income taxes. On an ongoing basis, management reviews its estimates based upon currently available information. Actual results could differ materially from those estimates.

**Income Taxes**

We account for deferred tax liabilities and assets for the future consequences of events that have been recognized in our consolidated financial statements or tax returns. Measurement of the deferred items is based on enacted tax laws. In the event the future consequences of differences between financial reporting bases and tax bases of our assets and liabilities result in a deferred tax asset, we perform an evaluation of the probability of being able to realize the future benefits indicated by such asset. A valuation allowance related to a deferred tax asset is recorded when it is more likely than not that some portion or all of the deferred tax asset will not be realized.

We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

As a multinational corporation, we are subject to taxation in many jurisdictions, and the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in various taxing jurisdictions. If we ultimately determine that the payment of these liabilities will be unnecessary, the liability will be reversed and we will recognize a tax benefit during the period in which it is determined the liability no longer applies. Conversely, we record additional tax charges in a period in which it is determined that a recorded tax liability is less than the ultimate assessment is expected to be.

The application of tax laws and regulations is subject to legal and factual interpretation, judgment and uncertainty. Tax laws and regulations themselves are subject to change as a result of changes in fiscal policy, changes in legislation, the evolution of regulations and court rulings. Therefore, the actual liability for U.S. or foreign taxes may be materially different from management's estimates, which could result in the need to record additional tax liabilities or potentially reverse previously recorded tax liabilities.

**Basic and Diluted Net Income per Share**

Basic earnings per share is calculated using the weighted-average number of common shares outstanding during the period without consideration of the dilutive effect of stock options. The basic weighted-average number of common shares outstanding was 14,451,000, 14,398,000, and 14,304,000 for fiscal years 2009, 2008, and 2007. Diluted earnings per common share is calculated using the weighted-average number of common shares outstanding



during the period after consideration of the dilutive effect of stock options, which were 52,000, 83,000, and 131,000 for fiscal years 2009, 2008 and 2007. There were no anti-dilutive options for fiscal years 2009, 2008 and 2007.

**Table of Contents*****Stock-Based Compensation***

We account for awards of equity instruments issued to employees under the fair value method of accounting and recognize such amounts in their statements of operations. We measure compensation cost for all stock-based awards at fair value on the date of grant and recognize compensation expense in our consolidated statements of operations over the service period that the awards are expected to vest.

The value of each option award that contains a market condition is estimated using a lattice-based option valuation model, while all other option awards are valued using the Black-Scholes-Merton option valuation model. We primarily consider the following assumptions when using these models: (1) expected volatility, (2) expected dividends, (3) expected life and (4) risk-free interest rate. Such models also consider the intrinsic value in the estimation of fair value of the option award. Forfeitures are estimated when recognizing compensation expense, and the estimate of forfeitures will be adjusted over the requisite service period to the extent that actual forfeitures differ, or are expected to differ, from such estimates. Changes in estimated forfeitures will be recognized through a cumulative catch-up adjustment in the period of change and will also impact the amount of compensation expense to be recognized in future periods.

We measure the fair value of our stock option awards on the date of grant. The following assumptions were used in the estimated grant date fair value calculations for stock options:

	<b>2009</b>	<b>2008</b>	<b>2007</b>
Risk-free interest rate	2.02%	2.95%	3.25%
Expected volatility	67.95%	28.24%	22.19%
Dividend yield	4.3%	2.4%	3.1%
Expected life (years)	4.0	4.0	5.5

For the years ended October 31, 2009, 2008 and 2007, we recognized compensation expense of \$44,000, \$24,000, and \$16,000 related to stock-based compensation.

The expected stock price volatility rates were based on the historical volatility of our common stock. The risk free interest rate was based on the U.S. Treasury yield curve in effect at the time of grant for periods approximating the expected life of the option. The expected life represents the average period of time that options granted are expected to be outstanding, as calculated using the simplified method described in the Securities and Exchange Commission's Staff Accounting Bulletin No. 107.

The Black-Scholes-Merton and lattice-based option valuation models were developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. Because options held by our directors and employees have characteristics significantly different from those of traded options, in our opinion, the existing models do not necessarily provide a reliable single measure of the fair value of these options.

***Foreign Currency Translation and Remeasurement***

Our foreign operations are subject to exchange rate fluctuations and foreign currency transaction costs. The functional currency of our foreign subsidiaries is the United States dollar. As a result, monetary assets and liabilities are translated into U.S. dollars at exchange rates as of the balance sheet date and non-monetary assets, liabilities and equity are translated at historical rates. Sales and expenses are translated using a weighted-average exchange rate for the period. Gains and losses resulting from those remeasurements are included in income. Gains and losses resulting from foreign currency transactions are also recognized currently in income. Total foreign currency gains for fiscal 2009, 2008, and 2007, net of losses, was less than \$0.1 million, \$0.5 million and \$0.1 million.

***Fair Value of Financial Instruments***

We believe that the carrying amounts of cash and cash equivalents, accounts receivable, and accounts payable approximates fair value based on either their short-term nature or on terms currently available to the Company in financial markets. We believe that our fixed-rate long-term obligations have a fair value of approximately \$9.8 million as of October 31, 2009, with a corresponding carrying value of approximately \$8.8 million. In addition, our long-term borrowings pursuant to credit facilities have a fair value of approximately \$6.6 million, with a corresponding carrying value of approximately \$6.5 million.



**Table of Contents*****Derivative Financial Instruments***

We do not presently engage in derivative or hedging activities. In addition, we have reviewed agreements and contracts and have determined that we have no derivative instruments, nor do any of our agreements and contracts contain embedded derivative instruments, as of October 31, 2009.

***Recently Adopted Accounting Pronouncements***

In October 2009, we adopted Financial Accounting Standards Board Accounting Standard Codification (FASB ASC) 105-10 (SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*). FASB ASC 105-10 (SFAS No. 168) establishes the FASB Accounting Standards Codification (the Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial standards in conformity with US GAAP. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative US GAAP for SEC registrants. FASB ASC 105-10 (SFAS No. 168) will be effective for financial statements issued by us for interim and annual periods after September 15, 2009. On the effective date of FASB ASC 105-10 (SFAS No. 168), all then-existing non-SEC accounting and reporting standards are superseded, with the exception of certain as the promulgations listed in FASB ASC 105-10 (SFAS No. 168). The adoption of FASB ASC 105-10 (SFAS No. 168) had no effect on the Company's consolidated financial statements, since the purpose of the Codification is not to create new accounting and reporting guidance. Rather, the Codification is meant to simplify user access to all authoritative US GAAP. References to US GAAP in our published financial statements has been updated, as appropriate, to cite the Codification of FASB ASC 105-10 (SFAS No. 168).

In July 2009, we adopted FASB ASC 855-10 (SFAS 165, *Subsequent Events*). FASB ASC 855-10 (SFAS 165) establishes accounting and reporting standards for events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In addition, FASB ASC 855-10 (SFAS 165) requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for selecting that date, that is, whether that date represents the date the financial statements were issued or were available to be issued. FASB ASC 855-10 (SFAS 165) was effective for fiscal years and interim periods ending after June 15, 2009. The adoption of FASB ASC 855-10 (SFAS 165) did not have a material impact on the Company's consolidated financial statements.

In November 2008, we adopted FASB ASC 820-10 (SFAS No. 157, *Fair Value Measurements*), for our financial assets and liabilities. Our adoption of FASB ASC 820-10 (SFAS No. 157) did not have a material impact on our financial position, results of operations or liquidity.

ASC 820-10 (SFAS No. 157) provides a framework for measuring fair value and requires expanded disclosures regarding fair value measurements. FASB ASC 820-10 (SFAS No. 157) defines fair value as the price that would be received for an asset or the exit price that would be paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. FASB ASC 820-10 (SFAS No. 157) also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs, where available. The following summarizes the three levels of inputs required by the standard that we use to measure fair value:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the related assets or liabilities.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

ASC 820-10 (SFAS No. 157) requires the use of observable market inputs (quoted market prices) when measuring fair value and requires a Level 1 quoted price to be used to measure fair value whenever possible.

In accordance with FASB ASC 820-10 (FSP FAS No. 157-2, *Effective Date of FASB Statement No. 157*), we elected to defer, until November 2009, the adoption of FASB ASC 820-10 (SFAS No. 157) for all nonfinancial assets and liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis. The

adoption of FASB ASC 820-10 (SFAS No. 157) for those assets and liabilities within the scope of FASB ASC 820-10 (FSP FAS No. 157-2) is not expected to have a material impact on our financial position, results of operations, or liquidity.

Under the FASB ASC 820-10 (SFAS No. 157) hierarchy, an entity is required to maximize the use of quoted market prices and minimize the use of unobservable inputs. The following table sets forth our financial assets (there are no liabilities requiring

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disclosure) as of October 31, 2009 that are measured on a recurring basis during the period, segregated by level within the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
	(All amounts are presented in thousands)			
<b>Assets at Fair Value:</b>				
Investment in Limoneira Company <sup>(1)</sup>	\$ 24,200			\$ 24,200
Total assets at fair value	\$ 24,200	\$	\$	\$ 24,200

(1) The investment in Limoneira Company consists of marketable securities in the Limoneira Company stock. We currently own approximately 15% of Limoneira's outstanding common stock. These securities are measured at fair value by quoted market prices. Limoneira's stock price at October 31, 2009 and October 31, 2008 equaled \$140.00 per share and \$173.00 per share. Unrealized gain and losses are recognized through other comprehensive income. Unrealized pre-tax

investment  
holding losses  
arising during  
the year ended  
October 31,  
2009 was \$5.7  
million.

In November 2008, we adopted FASB ASC 825-10 (SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115*), which permits entities to choose to measure many financial instruments and certain other items at fair value. We already record our marketable securities at fair value in accordance with FASB ASC 320-10 (SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*). The adoption of FASB ASC 825-10 (SFAS No. 159) did not have an impact on our consolidated financial statements, as management did not elect the fair value option for any other financial instruments or certain other assets and liabilities.

In March 2008, we adopted FASB ASC 815-10 (SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*). FASB ASC 815-10 (SFAS No. 161) requires expanded disclosures regarding the location and amount of derivative instruments in an entity's financial statements, how derivative instruments and related hedged items are accounted for under FASB ASC 815-10 (SFAS No. 133) and how derivative instruments and related hedged items affect an entity's financial position, operating results and cash flows. The adoption of FASB ASC 815-10 (SFAS No. 161) did not have an impact on our consolidated financial statements and related disclosures.

#### **Recently Issued Accounting Standards**

In August 2009, the FASB issued Accounting Standards Update No. 2009-5, *Measuring Liabilities at Fair Value* (ASU No. 2009-05). ASU 2009-05 amends Accounting Standards Codification Topic 820, *Fair Value Measurements*. Specifically, ASU 2009-05 provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more of the following methods: 1) a valuation technique that uses a) the quoted price of the identical liability when traded as an asset or b) quoted prices for similar liabilities or similar liabilities when traded as assets and/or 2) a valuation technique that is consistent with the principles of Topic 820 of the Accounting Standards Codification. ASU 2009-05 also clarifies that when estimating the fair value of a liability, a reporting entity is not required to adjust to include inputs relating to the existence of transfer restrictions on that liability. ASU 2009-05 is effective for the first reporting period after the issuance, which will require the Company to adopt these provisions in the first quarter of fiscal 2010. We do not believe that the adoption of ASU 2009-05 will have a material impact on our consolidated financial statements.

In June 2009, the FASB issued Financial Accounting Standard No. 166, *Accounting for Transfers of Financial Assets - an amendment of FASB Statement No. 140* (SFAS No. 166). SFAS No. 166 clarifies the information that an entity must provide in its financial statements surrounding a transfer of financial assets and the effect of the transfer on its financial position, financial performance, and cash flows. This Statement is effective as of the beginning of the annual period beginning after November 15, 2009. We do not believe that the adoption of SFAS No. 166 will have a material impact on our consolidated financial statements.

In June 2009, the FASB issued Financial Accounting Standard No. 167, *Amendments to FASB Interpretation No. 46(R)* (SFAS No. 167). SFAS No. 167 clarifies and improves financial reporting by entities involved with variable interest entities. This Statement is effective as of the beginning of the annual period beginning after November 15, 2009. We do not believe that the adoption of SFAS No. 167 will have a material impact on our consolidated financial statements.

In December 2008, the FASB issued FASB ASC 810-10 (SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB 51*), which changes the accounting and reporting for minority interests. Minority interests will be re-characterized as noncontrolling interests and will be reported as a component of equity separate from the parent's equity, and purchases or sales of equity interests that do not result in a change in control will be accounted for as equity transactions. In addition, net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement and, upon a loss of control, the interest sold, as well as any interest retained, will be recorded at fair value with any gain or loss recognized in earnings. We will

adopt FASB ASC 810-10 (SFAS No. 160) no later than the first quarter of fiscal 2010. We do not believe that the adoption of FASB ASC 810-10 (SFAS No. 160) will have a material impact on our consolidated financial statements.



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In December 2008, the FASB issued FASB ASC 805-10 (SFAS No. 141R (revised 2008), *Business Combinations*), which replaces SFAS No. 141. The statement retains the purchase method of accounting for acquisitions, but requires a number of changes, including changes in the way assets and liabilities are recognized in the purchase accounting. It also changes the recognition of assets acquired and liabilities assumed arising from contingencies, requires the capitalization of in-process research and development at fair value, and requires the expensing of acquisition-related costs as incurred. We will adopt FASB ASC 805-10 (SFAS No. 141R) no later than the first quarter of fiscal 2010 and it will apply prospectively to business combinations completed on or after that date.

In April 2008, the FASB issued FASB ASC 350-30 (FSP FAS No. 142-3, *Determination of the Useful Life of Intangible Assets*). FASB ASC 350-30 (FSP FAS No. 142-3) amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB ASC 350-10 (SFAS No. 142). This change is intended to improve the consistency between the useful life of a recognized intangible asset under FASB ASC 350-10 (SFAS No. 142) and the period of expected cash flows used to measure the fair value of the asset under FASB ASC 805-10 (SFAS No. 141R) and other generally accepted account principles (GAAP). The requirement for determining useful lives must be applied prospectively to intangible assets acquired after the effective date and the disclosure requirements must be applied prospectively to all intangible assets recognized as of, and subsequent to, the effective date. FASB ASC 350-30 (FSP FAS No. 142-3) is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years, which will require us to adopt these provisions in our first quarter of fiscal 2010. We do not believe that the adoption of FASB ASC 350-30 (FSP FAS No. 142-3) will have a material impact on our consolidated financial statements.

**Comprehensive Income (Loss)**

Comprehensive income (loss) is defined as all changes in a company's net assets, except changes resulting from transactions with shareholders. For the fiscal year ended October 31, 2009, other comprehensive loss includes the unrealized loss on our Limoneira investment totaling \$3.5 million, net of income taxes. Limoneira's stock price at October 31, 2009 equaled \$140.00 per share. For the fiscal year ended October 31, 2008, other comprehensive loss includes the unrealized loss on our Limoneira investment totaling \$11.7 million, net of income taxes. Limoneira's stock price at October 31, 2008 equaled \$173.00 per share. For the fiscal year ended October 31, 2007, other comprehensive income includes the unrealized gain on our Limoneira investment totaling \$9.4 million, net of income taxes. Limoneira's stock price at October 31, 2007 equaled \$283.25 per share.

**Reclassifications**

Certain items in the prior period financial statements have been reclassified to conform to the current period presentation.

**3. Inventories**

Inventories consist of the following (in thousands):

	<b>October 31,</b>	
	<b>2009</b>	<b>2008</b>
Fresh fruit	\$ 4,495	\$ 6,019
Packing supplies and ingredients	2,652	3,059
Finished processed foods	4,584	5,811
	<b>\$ 11,731</b>	<b>\$ 14,889</b>

We did not record any lower of cost or market adjustments during fiscal year 2009. Cost of goods sold for fiscal year 2008 included a lower of cost or market adjustment of \$0.1 million, which related primarily to a reduction in the cost of fresh fruit inventory.

We assess the recoverability of inventories through an ongoing review of inventory levels in relation to sales and forecasts and product marketing plans. When the inventory on hand, at the time of the review, exceeds the foreseeable

demand, the value of inventory that is not expected to be sold is written down. The amount of the write-down is the excess of historical cost over estimated realizable value (generally zero). Once established, these write-downs are considered permanent adjustments to the cost basis of the excess inventory.

The assessment of the recoverability of inventories and the amounts of any write-downs are based on currently available information and assumptions about future demand and market conditions. Demand for processed avocado products may fluctuate significantly over time, and actual demand and market conditions may be more or less favorable than our projections. In the event that actual demand is lower than originally projected, additional inventory write-downs may be required.

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We may retain and make available for sale some or all of the inventories which have been written down. In the event that actual demand is higher than originally projected, we may be able to sell a portion of these inventories in the future. We generally scrap inventories which have been written down and are identified as obsolete.

**4. Property, Plant, and Equipment**

Property, plant, and equipment consist of the following (in thousands):

	<b>October 31,</b>	
	<b>2009</b>	<b>2008</b>
Land	\$ 6,923	\$ 7,179
Buildings and improvements	17,694	17,769
Leasehold improvements	828	416
Equipment	45,812	43,311
Information systems Hardware and software	5,209	5,270
Construction in progress	648	1,049
	77,114	74,994
Less accumulated depreciation and amortization	(38,493)	(37,285)
	\$ 38,621	\$ 37,709

In August 2006 and updated in April 2008, we entered into a capital lease for various fixed assets related to our Swedesboro, New Jersey facility. Such fixed assets are included in buildings and improvements and equipment at October 31, 2008, totaling \$0.6 million and \$0.5 million. Depreciation expense was \$2.6 million, \$2.1 million and \$2.0 million for fiscal years 2009, 2008, and 2007, of which \$0.1 million was related to depreciation on capital leases for fiscal years 2009 and 2008.

Effective July 2008, we purchased our previously leased fresh avocado packinghouse located in Uruapan, Michoacan, Mexico for \$4.0 million, plus acquisition costs. We recorded approximately \$0.9 million in land and \$3.1 million in buildings and improvements related to this transaction. The building is currently being depreciated over a 40-year period.

**5. Other Assets**

During 1999, we established a Grower Development Program whereby funds can be advanced to growers in exchange for their commitment to deliver a minimum volume of avocados on an annual basis. These commitments to deliver fruit generally extend over a multi-year period. During fiscal 2009 and fiscal 2008, no amounts were advanced pursuant to this program. \$2.1 million and \$2.4 million were included in other assets as of October 31, 2009 and October 31, 2008. Advances are not repaid and are amortized to cost of goods sold over the term of the related agreements, up to a maximum of approximately 11 years. The consolidated financial statements for fiscal years 2009, 2008 and 2007 include a charge of approximately \$296,000, \$296,000 and \$304,000 representing the amortization of these advances.

**6. Revolving Credit Facilities**

In July 2009 and May 2008, we renewed and/or extended our non-collateralized, revolving credit facilities with Bank of America, N.A. and Farm Credit West, PCA. These two credit facilities expire in July 2011 and February 2012. Under the terms of these agreements, we are advanced funds for working capital, the purchase and installation of capital items, and/or other corporate needs of the Company. In July 2009, our credit available under these combined borrowing agreements was increased from \$40 million to \$45 million, with a weighted-average interest rate of 2.4% at October 31, 2009 and 4.8% at October 31, 2008. This increase was at our request and not due to any immediate cash flows needs. Under these credit facilities, we had \$12.0 million and \$23.1 million outstanding as October 31, 2009 and 2008, of which \$6.5 million and \$13.0 million was classified as a long-term liability as October 31, 2009 and 2008. These credit facilities contain various financial covenants, the most significant relating to

tangible net worth (as defined), and Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) (as defined). We were in compliance with all such covenants at October 31, 2009.

**Table of Contents****7. Employee Benefit Plans**

We sponsor two defined contribution retirement plans for salaried and hourly employees. Expenses for these plans approximated \$557,000, \$604,000, and \$543,000 for fiscal years 2009, 2008 and 2007, which are included in selling, general and administrative expenses in the accompanying financial statements.

We also sponsor a non-qualified defined benefit plan for two retired executives. Pension expenses, including actuarial losses, approximated \$48,000 for the year ended October 31, 2009. Pension income, including actuarial gains approximated \$36,000, and \$6,000 for the years ended October 31, 2008 and 2007. These amounts are included in selling, general and administrative expenses in the accompanying financial statements.

Components of the change in projected benefit obligation for fiscal year ends consist of the following (in thousands):

	<b>2009</b>	<b>2008</b>
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ 279	\$ 361
Interest cost	18	20
Actuarial loss/(gain)	30	(56)
Benefits paid	(44)	(46)
Projected benefit obligation at end of year (unfunded)	\$ 283	\$ 279

The following is a reconciliation of the unfunded status of the plans at fiscal year ends included in accrued expenses (in thousands):

	<b>2009</b>	<b>2008</b>
Projected benefit obligation	\$ 283	\$ 279
Unrecognized net (gain) loss		
Recorded pension liabilities	\$ 283	\$ 279

Significant assumptions used in the determination of pension expense consist of the following:

	<b>2009</b>	<b>2008</b>
Discount rate on projected benefit obligation	5.25%	7.00%

**8. Commitments and Contingencies*****Commitments and guarantees***

We lease facilities and certain equipment under non cancelable operating leases expiring at various dates through 2021. We are committed to make minimum cash payments under these agreements as of October 31, 2009 as follows (in thousands):

2010	\$ 1,760
2011	1,612
2012	1,564
2013	1,553
2014	1,481
Thereafter	7,074
	\$ 15,044

Total rent expense amounted to approximately \$1.8 million, \$1.7 million and \$1.5 million for the years ended October 31, 2009, 2008, and 2007. Rent to Limoneira, for our corporate office, amounted to approximately \$0.2 million for fiscal years 2009, 2008, and 2007. We are committed to rent our corporate facility through fiscal 2015 at an annual rental of \$0.2 million per annum (subject to annual CPI increases, as defined).

We indemnify our directors and officers and have the power to indemnify each of our employees and other agents, to the maximum extent permitted by applicable law. The maximum amount of potential future payments under such indemnifications is not determinable. No amounts have been accrued in the accompanying financial statements.

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In February 2009, we ceased operating in our distribution center in San Antonio, Texas and transferred our operations to our newly leased facility location in Garland, Texas. The term of the operating lease is for 10 years, with two five year options to extend at our choice. Total rent expense amounted to approximately \$0.5 million for the year ended October 31, 2009.

**Litigation**

*Hacienda Suit* We are currently under examination by the Mexican tax authorities (Hacienda) for the tax years ended December 31, 2000 and December 31, 2004. We have received assessments totaling approximately \$2.0 million and \$4.5 million from Hacienda related to the amount of income at our Mexican subsidiary. Subsequent to that initial assessment, the Hacienda offered a settlement of approximately \$400,000 related to the tax year 2000 assessment, which we declined. In the second quarter of 2009, we won our most recent appeal case for the tax year ended December 31, 2000. The Hacienda subsequently appealed that decision and the case was sent back to the tax court due to administrative error by such jurisdiction. In the second quarter of 2009, the Hacienda initiated an examination related to tax year ended December 31, 2007 as well. We are not aware of any assessments related to this examination, but we do not expect this examination to have a significant impact on our results of operations. We pledged our processed products building located in Uruapan, Michoacan, Mexico as collateral to the Hacienda in regards to these assessments.

*IRS examination* The Internal Revenue Service has concluded their examination for the year ended October 31, 2005. No changes were noted.

From time to time, we are also involved in litigation arising in the ordinary course of our business that we do not believe will have a material adverse impact on our financial statements.

**9. Related-Party Transactions**

We sell papayas obtained from an entity previously owned by our Chairman of the Board of Directors, Chief Executive Officer and President. Sales of papayas amounted to approximately \$5,887,000 for the years ended October 31, 2007, resulting in gross margin of approximately \$547,000. Net amounts due to this entity approximated \$438,000 at October 31, 2007. On May 30, 2008, we acquired all of the outstanding shares of this entity. Sales of papayas through the acquisition date amounted to approximately \$4,383,000, resulting in gross margins of approximately \$323,000. See Note 17 for further discussion.

Certain members of our Board of Directors market avocados through Calavo pursuant to our customary marketing agreements. During the years ended October 31, 2009, 2008 and 2007, the aggregate amount of avocados procured from entities owned or controlled by members of our Board of Directors, was \$7.2 million, \$11.9 million, and \$9.7 million. We did not have an accounts payable balance to these Board member as of October 31, 2009. Accounts payable to these Board members was \$0.4 million as of October 31, 2008. During fiscal 2009, 2008 and 2007, we received \$0.1 million, \$0.6 million, and \$0.4 million as dividend income from Limoneira.

**10. Income Taxes**

The income tax provision consists of the following for the years ended October 31 (in thousands):

	2009	2008	2007
Current:			
Federal	\$ 6,305	\$ 2,639	\$ 2,865
State	1,522	615	817
Foreign	160	251	211
Total current	7,987	3,505	3,893
Deferred	290	1,062	378
Total income tax provision	\$ 8,277	\$ 4,567	\$ 4,271

At October 31, 2009 and 2008, gross deferred tax assets totaled approximately \$3.0 million and \$2.5 million, while gross deferred tax liabilities totaled approximately \$3.3 million and \$4.9 million. Deferred income taxes reflect the net of temporary differences between the carrying amount of assets and liabilities for financial reporting and income tax purposes.



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Significant components of our deferred taxes assets (liabilities) as of October 31, 2009 and 2008 are as follows (in thousands):

	<b>2009</b>	<b>2008</b>
Allowances for accounts receivable	\$ 1,568	\$ 1,014
Inventories	283	305
State taxes	342	166
Intangible assets	73	11
Accrued liabilities	462	330
Current deferred income taxes	\$ 2,728	\$ 1,826
Property, plant, and equipment	(2,732)	(2,151)
Intangible assets	(178)	(222)
Unrealized gain, Limoneira investment	(292)	(2,511)
Retirement benefits	(83)	362
Stock-based compensation	250	286
Other	3	20
Long-term deferred income taxes	\$(3,032)	\$(4,216)

A reconciliation of the significant differences between the federal statutory income tax rate and the effective income tax rate on pretax income is as follows:

	<b>2009</b>	<b>2008</b>	<b>2007</b>
Federal statutory tax rate	35.0%	35.0%	35.0%
State taxes, net of federal effects	4.9	4.3	5.0
Foreign income taxes greater (less) than U.S.	(1.1)	(1.2)	(1.3)
Benefit of lower federal tax brackets		(0.6)	(0.7)
Other	(1.0)	(0.3)	(1.2)
	37.8%	37.2%	36.8%

We intend to reinvest our accumulated foreign earnings, which approximated \$6.1 million at October 31, 2009, indefinitely. As a result, we have not provided any deferred income taxes on such unremitted earnings. For fiscal years 2009, 2008 and 2007, income before income taxes related to domestic operations was approximately \$21.0 million, \$10.9 million, and \$10.6 million. For fiscal years 2009, 2008 and 2007, income before income taxes related to foreign operations was approximately \$0.9 million, \$1.4 million and \$1.0 million.

As of October 31, 2009 and 2008, we provided a liability of \$0.1 million for unrecognized tax benefits related to various federal and state income tax matters. The tax effected amount would reduce our effective income tax rate if recognized.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

Balance at November 1, 2007	\$ 153
Additions for tax positions of prior years	109
Balance at October 31, 2008	262

Removal of tax positions of prior years	(13)
Balance at October 31, 2009	\$249

We recognize accrued interest and penalties related to unrecognized tax benefits in income tax expense. For fiscal 2009 and 2008, we did not record any significant accrued interest and penalties. We do not expect any unrecognized tax benefits to reverse in fiscal 2010. We are subject to U.S. federal income tax as well as income of multiple state tax jurisdictions.

#### **11. Segment Information**

We report our operations in two different business segments: (1) fresh products and (2) processed products. These two business segments are presented based on how information is used by our president to measure performance and allocate resources. The fresh products segment includes all operations that involve the distribution of avocados grown both inside and outside of California, as well as the distribution of other non-processed, perishable food products. The processed products segment represents all operations related to the purchase, manufacturing, and distribution of processed avocado products. Additionally, selling, general and administrative

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expenses and non-operating line items are not charged directly, nor allocated to, a specific product line. These items are now evaluated by our president only in aggregate. We do not allocate assets, or specifically identify them to, our operating segments.

	<b>Fresh products</b>	<b>Processed products</b>	<b>Total</b>
<b>(All amounts are presented in thousands)</b>			
<b>Year ended October 31, 2009</b>			
Net sales	\$ 300,235	\$ 44,530	\$ 344,765
Cost of sales	271,159	29,073	300,232
Gross margin	\$ 29,076	\$ 15,457	\$ 44,533
<b>Year ended October 31, 2008</b>			
Net sales	\$ 315,667	\$ 45,807	\$ 361,474
Cost of sales	293,444	34,849	328,293
Gross margin	\$ 22,223	\$ 10,958	\$ 33,181
<b>Year ended October 31, 2007</b>			
Net sales	\$ 261,325	\$ 41,659	\$ 302,984
Cost of sales	239,864	31,348	271,212
Gross margin	\$ 21,461	\$ 10,311	\$ 31,772

For fiscal years 2009, 2008 and 2007, inter-segment sales and cost of sales of \$21.9 million, \$23.5 million, and \$21.1 million were eliminated in consolidation.

The following table sets forth sales by product category, by segment (in thousands):

	<b>Year ended October 31, 2009</b>			<b>Year ended October 31, 2008</b>		
	<b>Fresh products</b>	<b>Processed products</b>	<b>Total</b>	<b>Fresh products</b>	<b>Processed products</b>	<b>Total</b>
Third-party sales:						
Avocados	\$ 259,558	\$	\$ 259,558	\$ 268,674	\$	\$ 268,674
Tomatoes	14,067		14,067	19,666		19,666
Pineapples	13,341		13,341	16,442		16,442
Papayas	9,118		9,118	8,392		8,392
Other Fresh products	4,219		4,219	2,564		2,564
Processed food service		36,493	36,493		38,919	38,919
Processed retail and club		15,554	15,554		14,634	14,634
Total gross sales	300,303	52,047	352,350	315,738	53,553	369,291
Less sales incentives	(68)	(7,517)	(7,585)	(71)	(7,746)	(7,817)
Net sales	\$ 300,235	\$ 44,530	\$ 344,765	\$ 315,667	\$ 45,807	\$ 361,474

	Year ended October 31, 2008			Year ended October 31, 2007		
	Fresh products	Processed products	Total	Fresh products	Processed products	Total
Third-party sales:						
Avocados	\$ 268,674	\$	\$ 268,674	\$ 242,197	\$	\$ 242,197
Tomatoes	19,666		19,666	8,837		8,837
Pineapples	16,442		16,442	24		24
Papayas	8,392		8,392	6,044		6,044
Other Fresh products	2,564		2,564	4,242		4,242
Processed food service		38,919	38,919		39,006	39,006
Processed retail and club		14,634	14,634		10,777	10,777
Total gross sales	315,738	53,553	369,291	261,344	49,783	311,127
Less sales incentives	(71)	(7,746)	(7,817)	(19)	(8,124)	(8,143)
Net sales	\$ 315,667	\$ 45,807	\$ 361,474	\$ 261,325	\$ 41,659	\$ 302,984

For fiscal years 2009, 2008, and 2007, inter-segment sales and cost of sales for fresh products totaling \$14.1 million, \$13.9 million and \$13.0 million were eliminated. For fiscal years 2009, 2008, and 2007, inter-segment sales and cost of sales for processed products totaling \$7.8 million \$9.6 million, and \$8.1 million were eliminated.

Long-lived assets attributed to geographic areas as of October 31 are as follows (in thousands):

	United States	Mexico	Consolidated
2009	\$ 22,748	\$ 15,873	\$ 38,621
2008	\$ 21,560	\$ 16,149	\$ 37,709

Sales to customers outside the United States were approximately \$16.3 million, \$27.3 million and \$17.9 million for fiscal years 2009, 2008, and 2007.

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Long-term obligations at fiscal year ends consist of the following (in thousands):

	<b>2009</b>	<b>2008</b>
Farm Credit West, PCA, term loan, bearing interest at 5.7%	\$ 7,800	\$ 9,100
Farm Credit West, PCA, long-term portion of revolving credit facility (Note 6)	6,450	13,000
Capital Lease, bearing interest at 4.3% at October 31, 2009 and 2008 (Note 4)	1,024	1,088
Deferred and contingent consideration related to acquisition of Hawaiian Sweet, deferred consideration bears interest at 3.8% at October 31, 2009 and 2008 (Note 17)		3,525
Other		
	15,274	26,713
Less current portion	(1,366)	(1,362)
	\$ 13,908	\$ 25,351

In July 2005, we entered into a non-collateralized term loan agreement with Farm Credit West, PCA to finance the purchase of our Limoneira Stock. Pursuant to such agreement, we borrowed \$13.0 million, which is to be repaid in 10 annual installments of \$1.3 million. Such annual installments began July 2006 and continue through July 2015. Interest is paid monthly, in arrears, and began in August 2005, and will continue through the life of the loan. Such loan bears interest at a fixed rate of 5.70%.

Such term loan contains various financial covenants, the most significant relating to tangible net worth (as defined), and Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) (as defined). We were in compliance with all such covenants at October 31, 2009.

At October 31, 2009, annual debt payments are scheduled as follows (in thousands):

	<b>Total</b>
Year ending October 31:	
2010	\$ 1,366
2011	2,370
2012	6,823
2013	1,376
2014	1,380
Thereafter	1,959
	\$ 15,274

**13. Stock-Based Compensation**

In November 2001, our Board of Directors approved two stock-based compensation plans.

***The Directors Stock Option Plan***

Participation in the director's stock option plan was limited to members of our Board of Directors. The plan made available to the Board of Directors the right to grant options to purchase up to 3,000,000 shares of common stock. In connection with the adoption of the plan, the Board of Directors approved an award of fully vested options to purchase 1,240,000 shares of common stock at an exercise price of \$5.00 per share.

A summary of stock option activity is as follows (in thousands, except for share amounts):

<b>Number of Shares</b>	<b>Weighted-Average Exercise Price</b>
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Outstanding at October 31, 2005	100	\$ 6.00
Exercised	(51)	\$ 5.04
Outstanding at October 31, 2006	49	\$ 7.00
Outstanding at October 31, 2007	49	\$ 7.00
Exercised	(25)	\$ 7.00
Forfeited	(24)	\$ 7.00
Outstanding at October 31, 2008		

We terminated this plan during fiscal 2007 and no options remain outstanding as of October 31, 2008.

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***The Employee Stock Purchase Plan***

The employee stock purchase plan was approved by our Board of Directors and shareholders. Participation in the employee stock purchase plan is limited to employees. The plan provides the Board of Directors, or a plan administrator, the right to make available up to 2,000,000 shares of common stock at a price not less than fair market value. In March 2002, the Board of Directors awarded selected employees the opportunity to purchase up to 474,000 shares of common stock at \$7.00 per share, the closing price of our common stock on the date prior to the grant. The plan also permits us to advance all or some of the purchase price of the purchased stock to the employee upon the execution of a full-recourse note at prevailing interest rates. These awards expired in April 2002, with 84 participating employees electing to purchase approximately 279,000 shares. There was no activity related to such plan since this award.

***The 2005 Stock Incentive Plan***

The 2005 Stock Incentive Plan of Calavo Growers, Inc. (the 2005 Plan ) was approved by our Board of Directors and shareholders. The 2005 Plan authorizes the granting of the following types of awards to persons who are employees, officers, consultants, advisors, or directors of Calavo Growers, Inc. or any of its affiliates:

Incentive stock options that are intended to satisfy the requirements of Section 422 of the Internal Revenue Code of 1986, as amended, and the regulations thereunder;

Non-qualified stock options that are not intended to be incentive stock options; and

Shares of common stock that are subject to specified restrictions

Subject to the adjustment provisions of the 2005 Plan that are applicable in the event of a stock dividend, stock split, reverse stock split or similar transaction, up to 2,500,000 shares of common stock may be issued under the 2005 Plan and no person shall be granted awards under the 2005 Plan during any 12-month period that cover more than 500,000 shares of common stock.

In December 2006, our Board of Directors approved the issuance of options to acquire a total of 20,000 shares of our common stock to two members of our Board of Directors. Each grant to acquire 10,000 shares vests in increments of 2,000 per annum over a five-year period and has an exercise price of \$10.46 per share. Vested options have a term of five years from the vesting date. The market price of our common stock at the grant date was \$10.46. The estimated fair market value of such option grant was approximately \$40,000. The total compensation cost not yet recognized as of October 31, 2009 was not significant.

In May 2008, our Board of Directors approved the issuance of options to acquire a total of 58,000 shares of our common stock to three members of our Board of Directors. Each grant vests in equal increments over a five-year period and has an exercise price of \$14.58 per share. Vested options have a term of five years from the vesting date. The market price of our common stock at the grant date was \$14.58. The estimated fair market value of such option grants were approximately \$184,000. The total compensation cost not yet recognized as of October 31, 2009 was approximately \$132,000, which will be recognized over the remaining service period of 43 months

In December 2008, our Board of Directors approved the issuance of options to acquire a total of 10,000 shares of our common stock to one member of our Board of Directors. Such grant vests in equal increments over a five-year period and has an exercise price of \$8.05 per share. Vested options have a term of five years from the vesting date. The market price of our common stock at the grant date was \$8.05. The estimated fair market value of such option grant was approximately \$37,000. The total compensation cost not yet recognized as of October 31, 2009 was approximately \$30,000, which will be recognized over the remaining service period of 49 months.

**Table of Contents**

A summary of stock option activity is as follows (in thousands, except for share amounts):

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Fair-Value	Aggregate Intrinsic Value
Outstanding at October 31, 2006	391	\$ 9.10		
Granted	20	\$ 10.46	\$2.06/share	
Forfeited	(78)	\$ 9.10		
Outstanding at October 31, 2007	333	\$ 9.18		
Granted	58	\$ 14.58	\$3.18/share	
Forfeited	(8)	\$ 10.46		
Exercised	(23)	\$ 9.22		
Outstanding at October 31, 2008	360	\$ 10.02		
Granted	10	\$ 8.05	\$3.67/share	
Exercised	(86)	\$ 9.10		
Outstanding at October 31, 2009	284	\$ 10.23		\$ 2,170
Exercisable at October 31, 2009	222	\$ 9.41		\$ 1,875

The weighted average remaining life of such outstanding options is 2.4 years and the total intrinsic value of options exercised during fiscal 2009 was \$0.8 million. The fair value of shares vested during the year ended October 31, 2009 was approximately \$0.2 million. The fair value of shares vested during the year ended October 31, 2008 and 2007 was not significant.

**14. Dividends**

On December 11, 2009, we paid a \$0.50 per share dividend in the aggregate amount of \$7,252,000 to shareholders of record on December 1, 2009. On December 23, 2008, we paid a \$0.35 per share dividend in the aggregate amount of \$5.0 million to shareholders of record on December 9, 2008.

**15. Agreements with Tomato Grower**

In June 2007, we entered into a distribution agreement with Agricola Belher (Belher) of Mexico, a well-established quality producer of fresh vegetables, primarily tomatoes, for export to the U.S. market. Pursuant to such distribution agreement, Belher agreed, at their sole cost and expense, to harvest, pack, export, ship, and deliver tomatoes exclusively to our company, primarily our Arizona facility. In exchange, we agreed to sell and distribute such tomatoes, advance \$2 million to Belher for operating purposes, provide additional advances as shipments are made during the season (subject to limitations, as defined), and return the proceeds from such tomato sales to Belher, net of our commission and aforementioned advances. The agreement also allows for us to advance additional amounts to Belher at our sole discretion. As of October 31, 2009 and 2008, we have advanced \$2.0 million to Belher pursuant to this agreement, which is recorded in advances to suppliers. We record gross revenues related to this agreement, as we believe we are acting more like the principal in these sales transactions (principally primary obligor, inventory loss and delivery risk, latitude in establishing prices, and determination of product specifications).

We also entered into an infrastructure agreement in June 2007 with Belher in order to significantly increase production yields and fruit quality. Pursuant to this agreement, we are to advance up to \$5.0 million to be used solely for the acquisition, construction, and installation of improvements to and on certain land owned by Belher, as well as packing line equipment. Advances incur interest at 6.8% and 8.8% at October 31, 2009 and 2008. We advanced \$4.2 million and \$4.8 million as of October 31, 2009 and 2008 (\$1.8 million and \$1.2 million included in prepaid expenses and other current assets and \$2.4 million and \$3.6 million included in other long-term assets). Belher is to annually repay these advances in no less than 20% increments through July 2012. For fiscal 2009, a portion of the



2009 payment was not made and both parties agreed to defer the payment until 2010. For fiscal year 2008, we advanced \$0.8 million to Agricola Belher pursuant to our infrastructure agreement. Agricola Belher paid \$1.0 million in 2008 for net cash provided of \$0.2 million. For fiscal year 2009, we have not made any infrastructure advances to Agricola Belher. Agricola Belher paid \$0.5 million in fiscal year 2009 related to infrastructure advances. In addition, the agreement allows for additional \$1.0 million advances to take place during the last five months of each of our fiscal years 2009 and 2010, but they are subject to certain conditions and are to be made at our sole discretion. Belher is to annually repay these advances in full on or before each of July 2010 and July 2011. For fiscal 2009, no additional advances were made to Belher. Interest is to be paid monthly or annually, as defined. Belher may prepay, without penalty, all or any portion of the advances at any time.

**16. Agreement with Pineapple Grower**

Effective December 2007, we entered into a consignment and marketing agreement with Maui Pineapple Company, LTD. (MPC) to market and sell Maui Gold Pineapples throughout the continental United States and Canada. MPC agreed, among other things, to source, pack and ship such pineapples to an agreed port of entry. In exchange, we agreed, among other things, to be responsible for

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such product upon arrival at the port, to market and sell the related product, and to develop and implement marketing strategies aimed at building the Maui Gold brand recognition.

The agreement calls for us to provide certain advances, as defined, and return the proceeds from such pineapple sales to MPC, net of our commission, fees, and incentives, if applicable. Our agreement expired in December 2009 and we don't expect MPC to continue to be a source of pineapples for us in the future. We are currently exploring other sources of pineapples.

**17. Business Acquisitions**

Calavo and Lecil E. Cole, Suzanne Cole-Savard, Guy Cole, Eric Weinert, and Lecil E. Cole and Mary Jeanette Cole, as trustees of the Lecil E. and Mary Jeanette Cole Revocable Trust dated October 19, 1993 (the Cole Trust ) (collectively, the Sellers ), entered into an Acquisition Agreement, dated May 19, 2008 (the Acquisition Agreement ), which sets forth the terms and conditions pursuant to which Calavo purchased all of the outstanding shares of Hawaiian Sweet, Inc. ( HS ) and all ownership interests of Hawaiian Pride, LLC ( HP ). HS and HP engage in tropical-product packing and processing operations in Hawaii. The Acquisition Agreement provides, among other things, that as a result of the Acquisition Agreement, Calavo shall make an initial purchase price payment in the aggregate amount of \$3,500,000 for both entities. Calavo made the initial payment on May 20, 2008. Calavo shall also make two additional annual payments, ranging from \$2,500,000 to \$4,500,000, based on certain operating results (the

Earn-Out Payment(s) ), as defined. Mr. Cole is President, Chief Executive Officer, and Chairman of the Board of Directors of Calavo.

The first Earn-Out Payment to be made by Calavo will be adjusted if the aggregate working capital ( WC ) of HS and HP does not equal \$700,000 as of the closing date. In the event that WC is less than \$700,000, Calavo shall reduce its first Earn-Out payment by an amount equal to the difference between \$700,000 and the closing date aggregate working capital of HS and HP. In the event that WC is greater than \$700,000, Calavo shall increase its first Earn-Out payment by an amount equal to the difference between \$700,000 and the closing date aggregate working capital of HS and HP.

Pursuant to the Acquisition Agreement, the transaction closed on May 30, 2008.

We initially recorded approximately \$7.7 million as a liability related to deferred and contingent consideration to the Sellers, of which \$3.9 million was recorded in accrued expenses and \$3.8 million was recorded in long-term obligations, less current portion. Additionally, we initially recorded \$1,310,000 as intangible assets, of which \$1,140,000 was assigned to customer contract/relationships with a weighted average life of 8 years, \$100,000 to trade names with an average life of 8 years and \$70,000 to non-competition agreements with an average life of 3 years.

Concurrently with the execution of the Acquisition Agreement, Calavo and the Cole Trust entered into an Agreement and Escrow Instructions for Purchase and Sale of Real Property (the Real Estate Contract ), dated the same date as the acquisition agreement, pursuant to which Calavo purchased from the Cole Trust approximately 727 acres of agricultural land located in Pahoehoe, Hawaii for a purchase price of \$1,500,000, which Calavo delivered on May 19, 2008. The Real Estate Contract also closed on May 30, 2008.

On September 23, 2009, we remitted the first annual Earn-Out payment, totaling approximately \$2.4 million. This represents the minimum payment of \$2.5 million, less \$0.1 million of working capital shortfall.

As a result of this payment, we recorded an adjustment, decreasing property, plant and equipment by \$0.9 million, other assets by \$0.1 million, and accrued expenses by \$1.0 million. Such adjustment relates to first deferred and contingent payment resolving. We anticipate recording one more adjustment once the second deferred and contingent payment resolves. Included in accrued expenses at October 31, 2009 and 2008 is deferred consideration of approximately \$3.9 million and \$3.6 million.

Subsequent to the aforementioned adjustment, we had the following recorded as of October 31, 2009:

**(in thousands)**

Customer contract/relationships	\$1,046
Trade names	92
Non-competition agreement	64

**18. Subsequent Events**

The Company has evaluated events subsequent to October 31, 2009 to assess the need for potential recognition or disclosure in this report. Such events were evaluated through January 11, 2010, the date these financial statements were issued. Based upon this evaluation, it was determined that no subsequent events occurred that require recognition or disclosure in the financial statements.

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders of Calavo Growers, Inc.

We have audited the accompanying consolidated balance sheets of Calavo Growers, Inc. and subsidiaries (the Company ) as of October 31, 2009 and 2008, and the related consolidated statements of income, comprehensive income (loss), shareholders' equity, and cash flows for each of the three years in the period ended October 31, 2009. Our audits also included the financial statement schedule listed at Item 15(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Calavo Growers, Inc. and subsidiaries at October 31, 2009 and 2008, and the consolidated results of their operations and their cash flows for each of the three years in the period ended October 31, 2009, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Calavo Growers Inc.'s internal control over financial reporting as of October 31, 2009, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated January 11, 2010 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Los Angeles, California

January 11, 2010

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**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

Not applicable.

**Item 9A. Controls and Procedures**

**Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures**

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act), as of the end of the period covered by this report. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of October 31, 2009.

**Changes in Internal Control Over Financial Reporting**

There were no changes in our internal control over financial reporting during the quarter ended October 31, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Management's Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of the end of the period covered by this report based on the framework set forth in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework set forth in *Internal Control - Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of October 31, 2009. Our internal control over financial reporting as of October 31, 2009 has been audited by Ernst and Young LLP, an independent registered public accounting firm, as stated in their report which is included herein.

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders of Calavo Growers, Inc.

We have audited Calavo Growers, Inc.'s internal control over financial reporting as of October 31, 2009, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Calavo Growers, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Calavo Growers, Inc. maintained, in all material respects, effective internal control over financial reporting as of October 31, 2009, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Calavo Growers, Inc. as of October 31, 2009 and 2008 and the related consolidated statements of income, comprehensive income (loss), shareholders' equity, and cash flows for each of the three years in the period ended October 31, 2009 of Calavo Growers Inc., and our report dated January 11, 2010 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Los Angeles, California

January 11, 2010

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**Item 9B. Other Information**

None.

**PART III**

Certain information required by Part III is omitted from this Annual Report because we will file a definitive Proxy Statement for the Annual Meeting of Shareholders pursuant to Regulation 14A of the Securities Exchange Act of 1934 (the Proxy Statement ), not later than 120 days after the end of the fiscal year covered by this Annual Report, and the applicable information included in the Proxy Statement is incorporated herein by reference.

**Item 10. Directors, Executive Officers, and Corporate Governance**

The names of our executive officers and their ages, titles and biographies are incorporated by reference from Part I, above.

The following information is included in our Notice of Annual Meeting of Shareholders and Proxy Statement to be filed within 120 days after our fiscal year end of October 31, 2009 (the Proxy Statement ) and is incorporated herein by reference:

Information regarding our directors who are standing for reelection and any persons nominated to become our directors is set forth under Election of Directors.

Information regarding our Audit Committee and designated audit committee financial expert is set forth under Corporate Governance Principles and Board Matters Board Structure and Committee Composition Audit Committee.

Information on our code of ethics for directors, officers and employees and our Corporate Governance Guidelines is set forth under Corporate Governance Principles and Board Matters.

Information regarding Section 16(a) beneficial ownership reporting compliance is set forth under Section 16(a) Beneficial Ownership Reporting Compliance.

**Item 11. Executive Compensation**

The information required by this Item is incorporated herein by reference to the sections entitled Executive Compensation and Directors Compensation in the Proxy Statement.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information required by this Item is incorporated herein by reference to the sections entitled Security Ownership of Certain Beneficial Owners and Management and Equity Compensation Plan Information in the Proxy Statement.

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information required by this Item is incorporated herein by reference to the section entitled Certain Relationships and Related Transactions in the Proxy Statement.

**Item 14. Principal Accountant's Fees and Services**

Information required by this Item is incorporated herein by reference to the section of the Proxy Statement entitled Principal Accountant Fees and Services.

**Table of Contents****Part IV****Item 15. Exhibits and Financial Statement Schedules****(a)(1) Financial Statements**

The following consolidated financial statements as of October 31, 2009 and 2008 and for each of the three years in the period ended October 31, 2009 are included herewith:

Consolidated Balance Sheets, Consolidated Statements of Income, Consolidated Statements of Comprehensive Income (Loss), Consolidated Statements of Cash Flows, Consolidated Statements of Shareholders' Equity, Notes to Consolidated Financial Statements, and Report of Ernst & Young LLP, Independent Registered Public Accounting Firm.

**(2) Supplemental Schedules**

Schedule II Valuation and Qualifying Accounts

All other schedules have been omitted since the required information is not present in amounts sufficient to require submission of the schedule, or because the required information is included in the consolidated financial statements or notes thereto.

**(3) Exhibits**

<b>Exhibit Number</b>	<b>Description</b>
2.1	Agreement and Plan of Merger and Reorganization dated as of February 20, 2001 between Calavo Growers, Inc. and Calavo Growers of California. <sup>1</sup>
2.2	Agreement and Plan of Merger dated as of November 7, 2003 Among Calavo Growers, Inc., Calavo Acquisition, Inc., Maui Fresh International, Inc. and Arthur J. Bruno, Robert J. Bruno and Javier J. Badillo <sup>6</sup>
3.1	Articles of Incorporation of Calavo Growers, Inc. <sup>1</sup>
3.2	Amended and Restated Bylaws of Calavo Growers, Inc. <sup>3</sup>
10.1	Form of Marketing Agreement for Calavo Growers, Inc. <sup>7</sup>
10.2	Marketing Agreement dated as of April 1, 1996 between Tropical Hawaiian Products, Inc., a Hawaiian corporation, and Calavo Growers of California. <sup>1</sup>
10.3	Stock Purchase Agreement dated as of June 1, 2005, between Limoneira Company and Calavo Growers, Inc. <sup>4</sup>
10.4	Lease Agreement dated as of November 21, 1997, between Tede S.A. de C.V., a Mexican corporation, and Calavo de Mexico, S.A. de C.V., a Mexican corporation, including attached Guaranty of Calavo Growers of California dated December 16, 1996. <sup>1</sup>
10.5	



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Lease agreement dated as of February 15, 2005, between Limoneira Company and Calavo Growers, Inc.<sup>4</sup>

10.6 Standstill agreement dated June 1, 2005, between Limoneira Company and Calavo Growers, Inc.<sup>4</sup>

10.7 Standstill agreement dated June 1, 2005 between Calavo Growers, Inc. And Limoneira Company<sup>4</sup>

10.8 Term Loan Agreement dated April 9, 2008 (effective date May 1, 2008) between Farm Credit West, PCA, and Calavo Growers, Inc.<sup>10</sup>

10.9 2005 Stock Incentive Plan Of Calavo Growers, Inc.<sup>5</sup>

10.10 Calavo Supplemental Executive Retirement Agreement dated March 11, 1989 between Egidio Carbone, Jr. and Calavo Growers of California.<sup>1</sup>

10.11 Amendment to the Calavo Growers of California Supplemental Executive Retirement Agreement dated November 9, 1993 Between Egidio Carbone, Jr. and Calavo Growers of California.<sup>1</sup>

10.12 2001 Stock Option Plan for Directors.<sup>2</sup>

10.13 2001 Stock Purchase Plan for Officers and Employees.<sup>2</sup>

10.14 Business Loan Agreement between Bank of America, N.A. and Calavo

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<b>Exhibit Number</b>	<b>Description</b>
	Growers, Inc., dated October 15, 2007 <sup>8</sup>
10.15	First Amendment Agreement between Bank of America, N.A. and Calavo Growers, Inc., dated August 28, 2008 <sup>12</sup>
10.16	Form of Stock Option Agreement <sup>9</sup>
10.17	Acquisition Agreement between Calavo Growers, Inc., a California corporation and Lecil E. Cole, Eric Weinert, Suzanne Cole-Savard, Guy Cole, and Lecil E. Cole and Mary Jeanette Cole, acting jointly and severally as trustees of the Lecil E. and Mary Jeanette Cole Revocable Trust dated October 19, 1993, also known as the Lecil E. and Mary Jeanette Cole Revocable 1993 Trust dated May 19, 2008 <sup>11</sup>
10.18	Amendment No. 2 to Loan Agreement dated as of July 31, 2009 between Calavo Growers, Inc. and Bank of America, N.A. <sup>13</sup>
10.19	Amendment to Term Loan Agreement between Farm Credit West, PCA, and Calavo Growers, Inc
21.1	Subsidiaries of Calavo Growers, Inc. <sup>1</sup>
23.1	Consent of Ernst & Young LLP.
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-15(e) or Rule 15d-15(e)
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-15(e) or Rule 15d-15(e)
32	Certification of Chief Executive Officer and Chief Financial Officer of Periodic Report Pursuant to 18 U.S.C. Section 1350

1 Previously filed on April 24, 2001 as an exhibit to the Registrant's Registration Statement on Form S-4, File No. 333-59418, and incorporated herein by reference.

Previously filed on December 18, 2001 as an exhibit to the Registrant's Registration Statement on Form S-8, File No. 333-75378, and incorporated herein by reference.

3 Previously filed on December 19, 2002 as an exhibit to the Registrant's Report on Form 8-K, and incorporated herein by reference.

4 Previously filed on June 9, 2005 as an exhibit to the Registrant's Report on Form 10-Q and incorporated herein by reference.

5 Previously filed on March 21, 2005 as an exhibit to the Registrant's Definitive Proxy Statement on Form DEF14A and incorporated herein by reference.

6

Previously filed on January 23, 2004 as an exhibit to the Registrant's Report on Form 10-K and incorporated herein by reference.

7 Previously filed on January 28, 2003 as an exhibit to the Registrant's Report on Form 10-K and incorporated herein by reference.

8 Previously filed on October 19, 2007 as an exhibit to the Registrant's Report on Form 8-K and incorporated herein by reference.

9 Previously filed on September 11, 2006 as an exhibit to the Registrant's Report on Form 10-Q and incorporated herein by reference.

10 Previously filed on May 8, 2008 as an exhibit to the Registrant's Report on Form 8-K and

incorporated  
herein by  
reference.

11 Previously filed  
on May 29,  
2008 as an  
exhibit to the  
Registrant's  
Report on Form  
8-K and  
incorporated  
herein by  
reference.

12 Previously filed  
on January 27,  
2009 as an  
exhibit to the  
Registrant's  
Report on Form  
10-K/A and  
incorporated  
herein by  
reference.

13 Previously filed  
on August 6,  
2009 as an  
exhibit to the  
Registrant's  
Report on Form  
8-K and  
incorporated  
herein by  
reference.

(b) Exhibits

See subsection (a) (3) above.

(c) **Financial Statement Schedules**

See subsection (a) (1) and (2) above.

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on January 11, 2010.

CALAVO GROWERS, INC

By: /s/ Lecil E. Cole  
 Lecil E. Cole  
*Chairman of the Board of Directors,  
 Chief Executive Officer and President*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on January 11, 2010 by the following persons on behalf of the registrant and in the capacities indicated:

<b>Signature</b>	<b>Title</b>
/s/ Lecil E. Cole	Chairman of the Board of Directors,
Lecil E. Cole	Chief Executive Officer and President (Principal Executive Officer)
/s/ Arthur J. Bruno	Chief Operating Officer, Chief Financial Officer and Corporate Secretary
Arthur J. Bruno	(Principal Financial Officer)
/s/ James E. Snyder	Corporate Controller
James E. Snyder	(Principal Accounting Officer)
/s/ Donald M. Sanders	Director
Donald M. Sanders	
/s/ Fred J. Ferrazzano	Director
Fred J. Ferrazzano	
/s/ John M. Hunt	Director
John M. Hunt	
/s/ George H. Barnes	Director
George H. Barnes	
/s/ J. Link Leavens	Director
J. Link Leavens	

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/s/ Alva V. Snider	Director
Alva V. Snider	
/s/ Michael D. Hause	Director
Michael D. Hause	
/s/ Dorcas H. McFarlane	Director
Dorcas H. McFarlane	
/s/ Egidio Carbone, Jr	Director
Egidio Carbone, Jr	
/s/ Steven W. Hollister	Director
Steven W. Hollister	
/s/ Harold Edwards	Director
Harold Edwards	
/s/ Scott Van Der Kar	Director
Scott Van Der Kar	

**Table of Contents****SCHEDULE II**

**CALAVO GROWERS, INC.**  
**VALUATION AND QUALIFYING ACCOUNTS (in thousands)**

	<b>Fiscal year ended October 31:</b>	<b>Balance at beginning of year</b>	<b>Additions(1)</b>	<b>Deductions(2)</b>	<b>Balance at end of year</b>
Allowance for customer deductions	2007	1,345	6,449	6,465	1,329
	2008	1,329	7,065	7,163	1,231
	2009	1,231	6,080	6,058	1,253
Allowance for doubtful accounts	2007	488	473	19	942
	2008	942	93	53	982
	2009	982	122	4	1,100

(1) Charged to net sales (customer deductions) or costs and expenses (doubtful accounts).

(2) Customer deductions taken or write off of accounts receivables.



**Table of Contents****EXHIBIT INDEX**

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10.10	Calavo Supplemental Executive Retirement Agreement dated March 11, 1989 between Egidio Carbone, Jr. and Calavo Growers of California. <sup>1</sup>
10.11	Amendment to the Calavo Growers of California Supplemental Executive Retirement Agreement dated November 9, 1993 Between Egidio Carbone, Jr. and Calavo Growers of California. <sup>1</sup>
10.12	2001 Stock Option Plan for Directors. <sup>2</sup>
10.13	2001 Stock Purchase Plan for Officers and Employees. <sup>2</sup>

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- 10.14 Business Loan Agreement between Bank of America, N.A. and Calavo Growers, Inc., dated October 15, 2007<sup>8</sup>
- 10.15 First Amendment Agreement between Bank of America, N.A. and Calavo Growers, Inc., dated August 28, 2008<sup>12</sup>
- 10.16 Form of Stock Option Agreement<sup>9</sup>
- 10.17 Acquisition Agreement between Calavo Growers, Inc., a California corporation and Lecil E. Cole, Eric Weinert, Suzanne Cole-Savard, Guy Cole, and Lecil E. Cole and Mary Jeanette Cole, acting jointly and severally as trustees of the Lecil E. and Mary Jeanette Cole Revocable Trust dated October 19, 1993, also known as the Lecil E. and Mary Jeanette Cole Revocable 1993 Trust dated May 19, 2008<sup>11</sup>
- 10.18 Amendment No. 2 to Loan Agreement dated as of July 31, 2009 between Calavo Growers, Inc. and Bank of America, N.A. <sup>13</sup>
- 10.19 Amendment to Term Loan Agreement between Farm Credit West, PCA, and Calavo Growers, Inc
- 21.1 Subsidiaries of Calavo Growers, Inc. <sup>1</sup>
- 23.1 Consent of Ernst & Young LLP.
- 31.1 Certification of Chief Executive Officer Pursuant to Rule 13a-15(e) or Rule 15d-15(e)
- 31.2 Certification of Chief Financial Officer Pursuant to Rule 13a-15(e) or Rule 15d-15(e)
- 32 Certification of Chief Executive Officer and Chief Financial Officer of Periodic Report Pursuant to 18 U.S.C. Section 1350

**Table of Contents**

- 1 Previously filed on April 24, 2001 as an exhibit to the Registrant's Registration Statement on Form S-4, File No. 333-59418, and incorporated herein by reference.
- 2 Previously filed on December 18, 2001 as an exhibit to the Registrant's Registration Statement on Form S-8, File No. 333-75378, and incorporated herein by reference.
- 3 Previously filed on December 19, 2002 as an exhibit to the Registrant's Report on Form 8-K, and incorporated herein by reference.
- 4 Previously filed on June 9, 2005 as an exhibit to the Registrant's Report on Form 10-Q and incorporated

herein by  
reference.

5 Previously filed  
on March 21,  
2005 as an  
exhibit to the  
Registrant's  
Definitive Proxy  
Statement on  
Form DEF14A  
and  
incorporated  
herein by  
reference.

6 Previously filed  
on January 23,  
2004 as an  
exhibit to the  
Registrant's  
Report on Form  
10-K and  
incorporated  
herein by  
reference.

7 Previously filed  
on January 28,  
2003 as an  
exhibit to the  
Registrant's  
Report on Form  
10-K and  
incorporated  
herein by  
reference.

8 Previously filed  
on October 19,  
2007 as an  
exhibit to the  
Registrant's  
Report on Form  
8-K and  
incorporated  
herein by  
reference.

9 Previously filed  
on

September 11, 2006 as an exhibit to the Registrant's Report on Form 10-Q and incorporated herein by reference.

10 Previously filed on May 8, 2008 as an exhibit to the Registrant's Report on Form 8-K and incorporated herein by reference.

11 Previously filed on May 29, 2008 as an exhibit to the Registrant's Report on Form 8-K and incorporated herein by reference.

12 Previously filed on January 27, 2009 as an exhibit to the Registrant's Report on Form 10-K/A and incorporated herein by reference.

13 Previously filed on August 6, 2009 as an exhibit to the Registrant's Report on Form 8-K and incorporated herein by

reference.