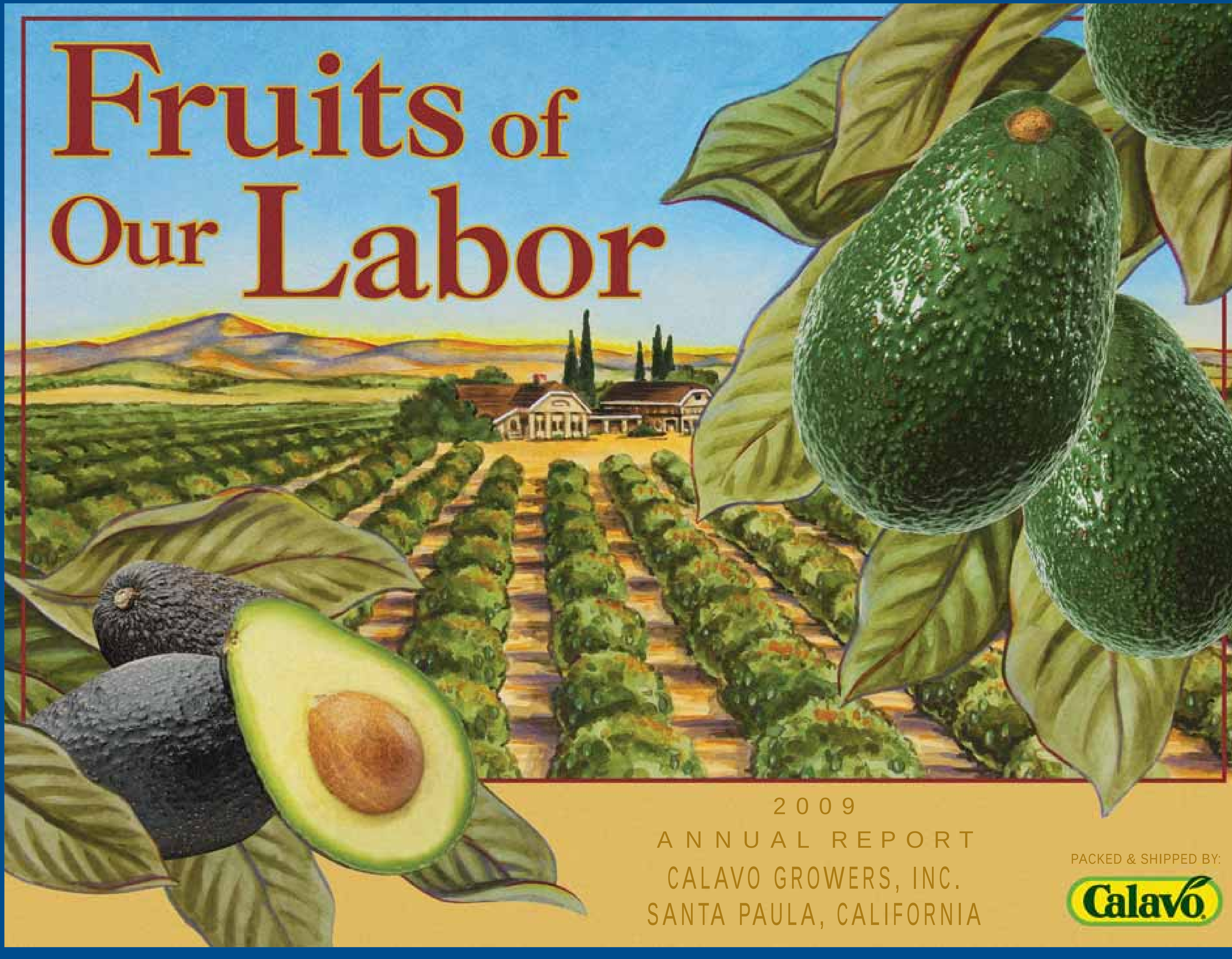
Fruits of Our Labor



2009

ANNUAL REPORT

CALAVO GROWERS, INC.

SANTA PAULA, CALIFORNIA

PACKED & SHIPPED BY:

Calavo

THE MOMENT HAS COME: A BURGEONING U.S. AVOCADO SUPPLY—EXPECTED TO REACH 1.5 BILLION POUNDS IN 2010. ALONG WITH IT, THERE'S COMMENSURATE DEMAND UNDERPINNED BY HEALTHY EATING, CHANGING DEMOGRAPHICS AND CONSUMER AWARENESS OF GREAT-TASTING USES FOR THE FRUIT. IT'S HERE AND, MORE IMPORTANTLY, CALAVO GROWERS, INC. ANTICIPATED ITS ARRIVAL. WE BUILT A BUSINESS MODEL NOT ONLY TO CAPTURE—BUT CONTINUE TO LEAD—THE MARKET CALAVO CREATED 85 YEARS AGO. OUR STRATEGIC PLAN ENABLED US TO PUT IN PLACE A SCALE-DRIVEN INFRASTRUCTURE, CAPITALIZE ON EXPANDING VOLUMES, SEEK GLOBAL SOURCES FOR AVOCADOS AND MOVE THEM THROUGH A ROBUST DISTRIBUTION SYSTEM. IN DOING SO, WE HAVE POSTED RECORD FINANCIAL RESULTS AND DELIVERED SIGNIFICANTLY HIGHER SHAREHOLDER RETURNS YEAR TO YEAR. OUR PROFITABILITY AND PROSPECTS AHEAD LOOK STILL BRIGHTER. IT'S A TIME-TESTED FORMULA AND STRATEGY—NOTHING LESS THAN THE FRUITS OF OUR LABOR.

SAVORING OUR RESULTS

CALAVO
POSTS RECORD
RESULTS

REVENUE

NET INCOME

EARNINGS PER SHARE

GROSS MARGIN

Message to Our Shareholders

I am pleased to report that Calavo Growers, Inc. completed its most successful year ever in fiscal 2009—a fitting tribute to cap the company's 85th anniversary. Our operating performance marks the third consecutive year of record results, eclipsing the prior all-time highs for net income and earnings per share by more than 75 percent.

Enormously gratifying, our accomplishments reflect the disciplined, focused execution of Calavo's three-pronged strategic business agenda that places precedence upon diversified fruit sourcing, product diversification and leveraging of a formidable infrastructure. The attendant achievements are, in every respect, The Fruits of Our Labor—the theme of this year's annual report. These include:

- Registering record gross profit margin owing to the aforementioned diversified sourcing of fresh avocados that propelled our unit-driven operating model, as well as efficient cost and production management in Processed Product operations;
- Building additional retail distribution for our best-in-category, ultra-high-pressure guacamole, which continues to account for an increasingly larger portion of total Processed Product business unit sales;
- Laying the foundation for exciting expansion and diversification of Processed Product offerings coming in fiscal 2010, which I discuss in more detail below;
- Setting the stage for the anticipated sharp upturn in available United States avocado supply this year—an occurrence that we believe foreshadows an upward trend line for the future and offers potential positive implications for Calavo; and,
- Placing this into context, accomplishing all of the above while navigating the most challenging economic environment since the Great Depression.

RECORD RESULTS...YEAR OVER YEAR OVER YEAR

For the fiscal year ended October 31, 2009, Calavo posted net income of $13.6 million, a 76 percent increase from $7.7 million in fiscal 2008. Diluted per share results rose 77

CVGW/2009

percent to $0.94 from $0.53 in the preceding fiscal year. Revenues for the most recent year dipped five percent to $344.8 million from the record $361.5 million one year earlier. The decline principally reflected market conditions related to commodity-produce pricing, as well as lower sales to restaurant and food-service customers due to the economic downturn.

Our net profit was fueled by strong improvement in total gross margin, which climbed 34 percent to $44.5 million, equal to 12.9 percent of revenues, from $33.2 million, or 9.2 percent of revenues, in fiscal 2008. The 370 basis point increase in total gross margin is directly attributable to our unit-driven business model supported by a multi-source global procurement strategy. In the most recent year, Calavo capitalized on favorable pricing and an abundant crop of Mexico-grown avocados that positively impacted our Fresh and Processed Product segment margins. Additionally, continued growth in value-added avocado programs for which our customers pay additional fees for premium services—discussed in detail in the feature sections that follow—are proving incremental contributors to gross margin improvements.

With respect to our financial condition, Calavo's balance sheet is strong and flexible with considerable capacity for leverage. Our outstanding financial results last year enabled the company to pare long-term debt by nearly half, decreasing borrowings to $13.9 million at fiscal-year end from $25.4 million 12 months earlier. The rock-solid balance sheet affords our company many unique opportunities, including opportunistic acquisitions which we pursue on a highly selective basis. Our criteria are judicious and rigorous—most notably, any potential transactions must fit the strategic blueprint we have drawn for Calavo. We have set our course and intend not to deviate from it.

In recognition of our exceptional performance and a steadfast commitment to shareholder returns, Calavo's board of directors increased the annual cash dividend on the company's common stock by a formidable 43 percent, boosting the payout to $0.50 per share from $0.35 per share the preceding year. As a point of note—and of considerable pride to me personally—since becoming publicly traded on the Nasdaq Market seven years ago, Calavo has increased its annual dividend 150 percent, up from $0.20 in 2002.

GO TO THE SOURCE

The single-most important factor driving our record-setting performance last year was, without question, our diversified avocado sourcing. It favorably influenced virtually all facets of our business and serves as compelling validation of Calavo strategy. Not only did the robust Mexican fruit harvest enable us to capitalize on an abundant crop for fresh and processed uses, it offset substantially smaller California volume that saw us pack approximately 42 percent fewer domestic pounds due to crop cycles in fiscal 2009.

Along with anticipated volume growth in avocados sourced from Chile, Peru and New Zealand to complement mainstay California and Mexico fruit supplies, the U.S. market will continue to expand—and we intend to keep pace if not increase our leadership share. The growing all-source supply, estimated to climb to 1.5 billion pounds in 2010 or 50 percent larger than in recent years, is a function of increased demand, new plantings and previously untapped reserves. This *rising green tide* offers vast potential benefits to us in the form of greater overhead utilization and further leveraging of our considerable resources across the board.

Last year, Calavo packed more than 210 million pounds of fresh avocados, or about 21 percent all fruit sold into the U.S. market. An available supply that rises again by half translates to an additional 100 million pounds, if not more, of fresh fruit coursing through our distribution system. We have in place considerable capabilities—packing, ripening, logistics, a top-flight sales force, not to mention financial strength—to build upon this market position and ably handle this additional volume. Reciprocally, Calavo expertise in establishing cross-border grower alliances to ensure an ample supply is widely admired in the industry. Our longstanding track record of avocado sourcing from Mexico and parts of Latin America provides the company with a distinct competitive advantage. The company devotes considerable resources to creating and maintaining solid bonds with sources capable of providing fruit that meets our exacting standards.

DIVERSIFY...AND DIVERSIFY SOME MORE

When Calavo began its drive more than two years ago into additional fresh commodity-produce classifications, we did so recognizing that our formidable avocado distribution platform—not to mention our customers—would gain from this complementary fold-in strategy. Tomatoes proved to be a good fit with our core fresh avocado business. Pineapples from Maui—and now Costa Rica, as well—expanded our footprint in the tropical fruit category where we have long held a leadership position in papaya marketing. It is not by accident that we are the largest distributor in North America of fresh fruit sourced from Hawaii. Our rationale, which I have written about previously, is well documented.

The strategy has been a game-changer in many respects. It provides our sales team with more products in the portfolio; our customers, in turn, can rely on a single supplier for more offerings. We leverage the platform and, not insignificantly, the respected Calavo brand, as well. The collective management eye is trained on other prospective fresh produce fold-in opportunities. We are resolute, however, that any additional expansion must offer substantial revenue and profit potential, allowing us to compete in any new categories in meaningful ways.

Given the promise that diversification holds, we are turning these same energies toward our Processed Product business unit, where we already have another tent-pole offering in our ultra-high-pressure guacamole. I never tire of referring to it as a best-in-category product—it truly is outstanding and another fruit resulting from laborious efforts.

Our guacamole has accounted for an increasing percentage of total Processed Product sales each year since its introduction. While the Processed segment contributed about 13 percent of total Calavo revenues last year, it supplied approximately 35 percent of the company's overall gross margin—indicative of the profit potential in this business unit versus fresh produce.

With that sort of profit potential, along with the considerable experience and vast financial resources we bring to bear, expansion into additional processed product categories is a natural extension. In fiscal 2010, Calavo will be entering the refrigerated fresh salsa category. By the time you read this letter, word about a new, majority-owned company subsidiary, Calavo Salsa Lisa, already may have reached you. Through the subsidiary's acquisition of Lisa's Salsa Company, an established, high-quality artisanal manufacturer based in St. Paul, Minnesota, where the new business will continue to operate, we have plans to create a national platform for what is currently a great regional product with a popular following.

Consider that salsa is the most popular condiment sold in the United States—outselling ketchup by nearly two to one, according to a grocery market-research firm. Owing to changing demographics, most notably a growing Hispanic population, that figure is sure to increase further. The refrigerated fresh category that we enter is currently a smaller portion of the overall salsa market, yet one that offers great growth potential and is notable for few large, national suppliers with Calavo's capabilities and reach.

Along with guacamole and the introduction of Calavo brand tortilla chips, salsa will round out a great lineup of processed offerings. Salsa is not the only new product coming along this year. We are at work perfecting another, distinctly Calavo offering: avocado hummus. This fresh, natural and healthy product brings together two popular foods and promises to be as delicious as it is unique. Salsa and hummus are going to be significant stories in fiscal 2010—and beyond—and I will undoubtedly be sharing more down the road, but did want to give an early glimpse into the future.

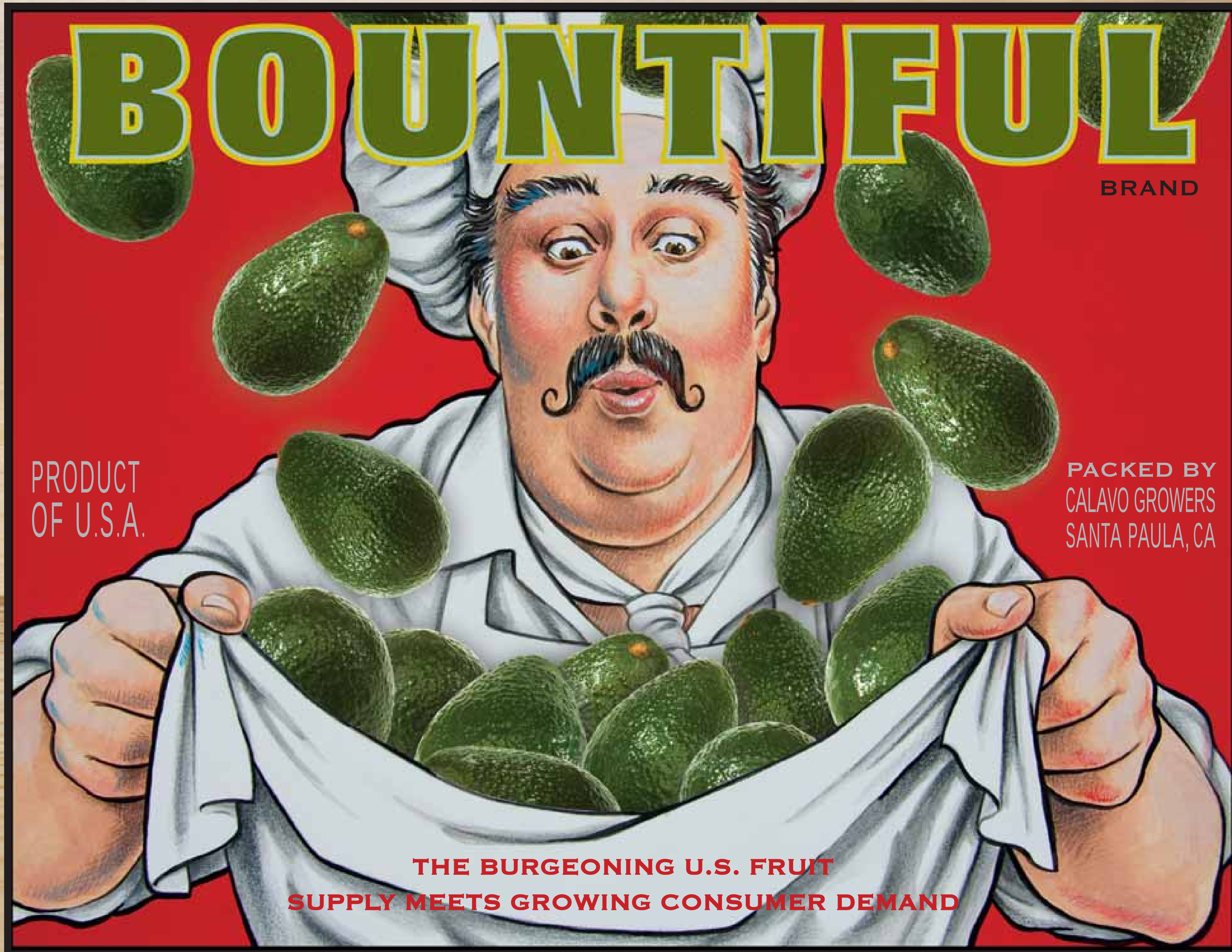
IT'S GREAT BEING GREEN—THE ROAD AHEAD

Calavo's future, simply put, has never looked brighter. There's the prospect of the burgeoning avocado crop—and expanding U.S. market—to drive our core business. An exciting portfolio of diversified product offerings will be even larger revenue and profit engines down the road. The diversified fresh-product category will see a snap back in market conditions that suppressed pricing last year—and we expect volume increases of tomatoes, papayas and pineapples, as well. With so much to build upon, I am inspired about leading Calavo to the next level of its development. At 85 years young, we are just beginning to unlock our full potential. Coming off three consecutive years of record profit, I am willing to venture a prediction: fiscal 2010 will surpass even the outstanding accomplishments of the recently concluded year. I have considerable confidence and optimism about our company and its prospects looking forward.

Our success is no accident. It is not a function of stars aligning or mere good fortune. There's an old adage that is apt here: luck favors those who plan for it. In Calavo's case, we have planned and worked tirelessly, with tremendous perseverance, to set the company on the current trajectory. I have immense gratitude for our dedicated workforce. Our senior management team is leadership personified. We are fortunate to have an engaged, enthusiastic board of directors. Their valued counsel and support make much of this success possible. To you, our valued stockholders, I extend sincere thanks for your commitment and confidence in Calavo.

Sincerely,

Lee E. Cole
Chairman, President and Chief Executive Officer
March 4, 2010


BOUNTIFUL
BRAND
PRODUCT OF U.S.A.
PACKED BY
CALAVO GROWERS
SANTA PAULA, CA
THE BURGEONING U.S. FRUIT
SUPPLY MEETS GROWING CONSUMER DEMAND

Let's put 1.5 billion pounds of avocados—the estimated 2009-10 available fresh supply to the United States—in perspective. Laid end to end, this fruit bounty would stretch nearly 850,000 miles or wrap around the Earth at its equator almost 35 times. Expressed in practical terms, the anticipated all-source crop represents a 50 percent increase from the one-billion-pound supply that has remained constant for the past five years. This volume jump is not expected to be a one-time *blip*, but instead the new normal. It reflects expanded avocado sourcing from California, Mexico, Chile and Peru; additional plantings; and strong growth in demand. For Calavo, even at present market-share levels, this fruit influx translates to more than 100 million additional pounds of fresh avocados pouring through our unit-driven infrastructure. Correctly anticipating this growth, we geared our business model and programs, many discussed in the subsequent pages, to filling hungry mouths with avocados that will drive consumption further upward.

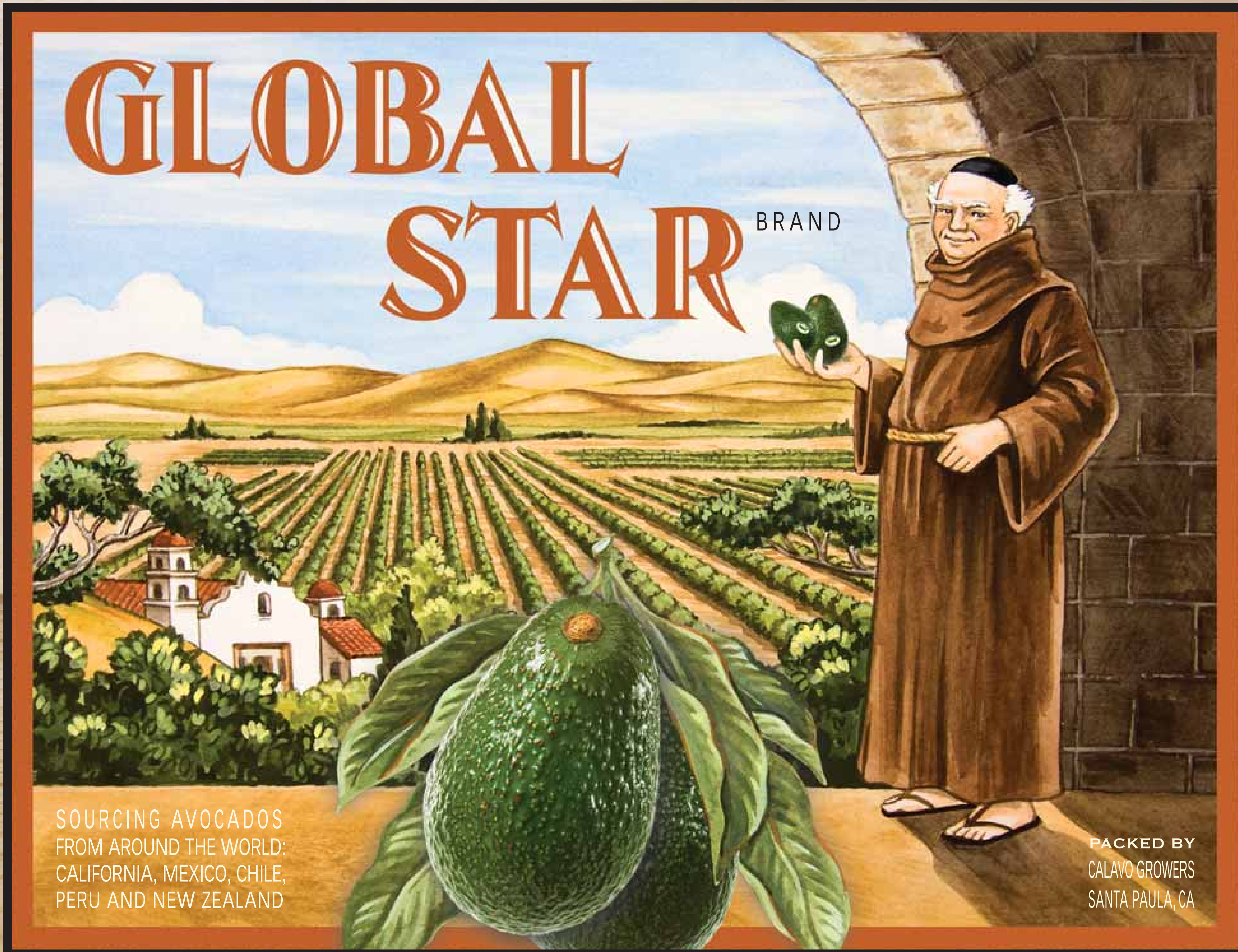
FLASHBACK...

Founded as the California Avocado Growers Exchange, and shortly after becoming simply Calavo, farmers originally delivered their own fruit to the marketplace in 40 pound cartons. Initial harvests in the mid-1920s yielded just several thousand pounds of avocados and a few hundred dollars in revenues.

Calavo Growers is widely recognized for taking avocados to the world; the company first shipped fruit to Japan in the early 1960s and, subsequently, to other parts of Asia, Europe, and far reaches of the globe. Yet it is our successful initiatives to bring avocados *here* to the United States, sourcing from beyond our historic California roots that have proven to be game changers for Calavo. Our Uruapan, Michoacán, Mexico packinghouse opened in 1997, presaging the removal of avocado import limits six years later and fully opening the American market in concert with a sharp uptick in demand. Diversifying sourcing is at the heart of a three-prong strategy—the other elements being product diversification and leveraging existing infrastructure—that propels the unit-based model in our core avocado business. In addition to California and Mexico avocados, we maintain sourcing programs for fruit from Chile, Peru and New Zealand. These multiple supply lines offset the cyclicality inherent to commodity produce. A seasonally low California harvest in 2009, for example, was counter-balanced by a large Mexico-grown avocado crop that buoyed unit volume and contributed to last year's record gross profit.

BLAST FROM THE PAST...

With roots as a grower-owned cooperative, Calavo expanded to approximately 2,200 California avocado-farming members before converting into a publicly traded corporation. Nearly all of those former members—many with links to the organization's humble beginnings—continue their association with Calavo and grow about 35 percent of the domestic crop.


GLOBAL
STAR
BRAND
SOURCING AVOCADOS
FROM AROUND THE WORLD:
CALIFORNIA, MEXICO, CHILE,
PERU AND NEW ZEALAND
PACKED BY
CALAVO GROWERS
SANTA PAULA, CA


Packers' Pride
BRAND
PACKED BY CALAVO GROWERS
SANTA PAULA, CALIFORNIA
CALAVO'S SCALE-DRIVEN INFRASTRUCTURE REPRESENTS BEST-IN-CLASS OPERATING EFFICIENCIES

Calavo's business possesses numerous, widely admired hallmarks: an expansive distribution system, a formidable commodity-produce and processed-products sales force, vast logistics expertise and rock-solid financial strength, to name but a few. These elements form the core of a highly scalable infrastructure central to the company's strategic growth agenda. Diversified fresh products—tomatoes, papayas, pineapples and mushrooms—were seamless additions to the sales, marketing and distribution engine of the fresh avocado category leader. This same blueprint is being aggressively applied in the processed products segment with new products to complement Calavo's best-in-category, fresh refrigerated guacamole. Trusted customer relationships, in turn, create expansion opportunities. Our three Value Added Depots, including an expanded Texas facility that came online last year, provide blanketed distribution across North America. We lever more products across our infrastructure at little capital cost and without a commensurate rise in sales, general and administrative (SG&A) expense—the prime beneficiary being Calavo's gross profit, which rose 34 percent to record levels in fiscal 2009.

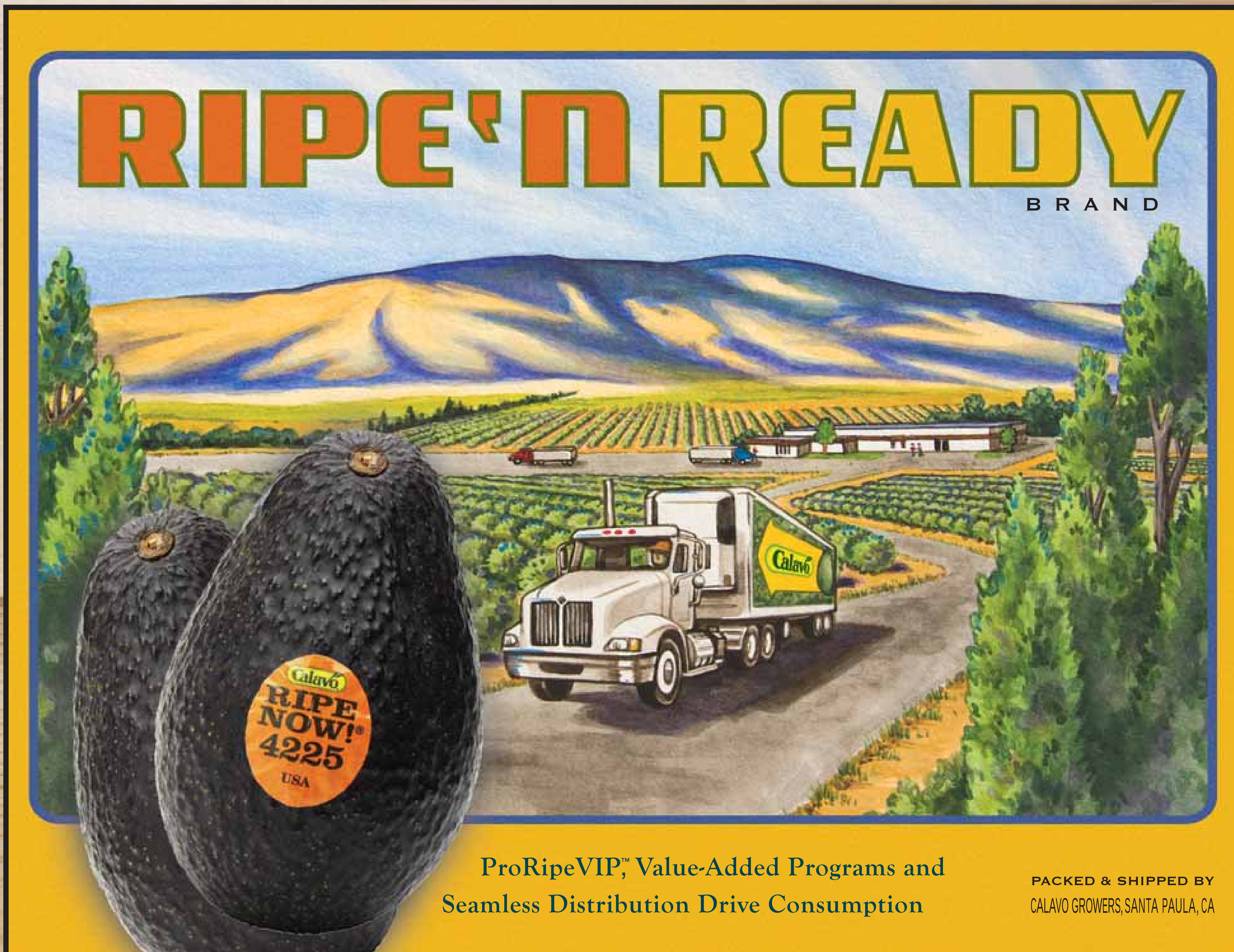
LOOKING BACK...

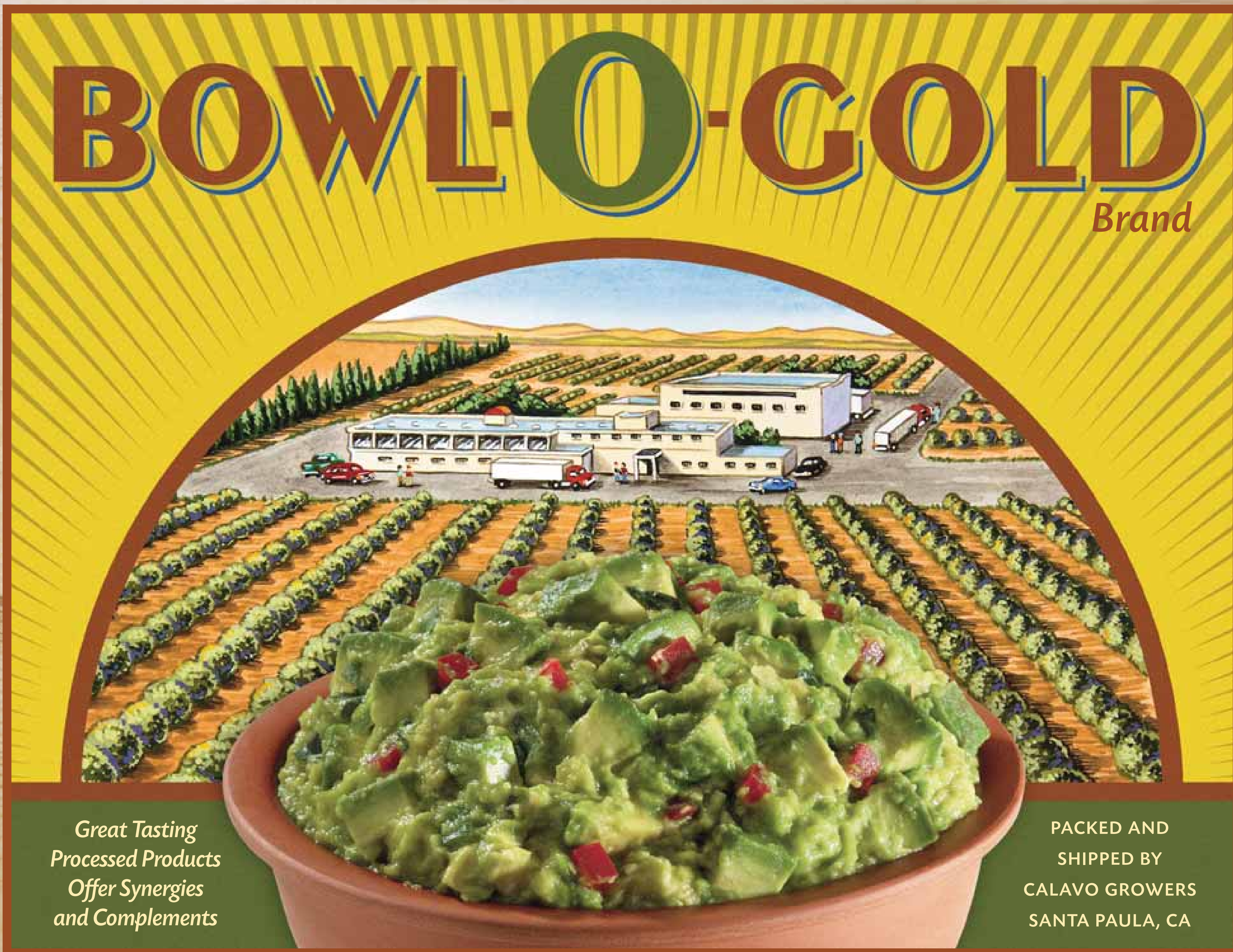
Calavo's first packing operations were in Vernon, CA. Over its history, the company operated packinghouses in the California cities of Vista, Escondido, Fullerton and Santa Barbara. The seat of its domestic packing since 1955 has been Santa Paula, CA, augmented by its first fully automated facility—Temecula, CA—opened in 1985. Foretelling global sourcing, a packinghouse was built in the Mexico avocado hub of Uruapan, Michoacán, in 1997.

What is the only thing better than a fresh Calavo avocado? From the standpoint of both taste *and* tasty profits, it is that same fruit already ripe and ready to eat. Using our national network of Value Added Depots as the springboard, we successfully introduced a range of programs—bagged and pre-conditioned fruit, as well as Calavo's renowned ProRipeVIP™ process—that are significantly reshaping the way fresh avocados are packed, marketed and distributed. Value-added sales are a central component to spurring U.S. per capita avocado consumption—which has expanded from two to more than three pounds in the past decade. Fact: pre-conditioned avocados outsell unripe fruit by a rate of six to one, meaning demand will come from moving more ready-to-eat fruit. Calavo is at the vanguard of this shift. In 2009, value-added programs accounted for more than 40 percent of total avocado carton sales; fees for these services contribute significant incremental profitability. We shipped approximately 12.75 million bags of avocados in fiscal 2009. Similarly, pre-conditioned and ProRipeVIP™ fruit volume expanded by more than 30 percent last year, accelerating from a 17 percent growth rate in fiscal 2008.

THAT WAS THEN...

Not so long ago were the days of buying a fresh avocado and waiting... waiting...waiting for it to ripen. Anticipation built. The earliest ripening rooms were nothing more than climate chambers to accelerate the process—lacking in both precision and control, and a far cry from the scientifically advanced pre-conditioning methods utilized by Calavo today.


RIPE 'N READY
BRAND
Calavo
Calavo
RIPE NOW!®
4225
USA
ProRipeVIP,™ Value-Added Programs and
Seamless Distribution Drive Consumption
PACKED & SHIPPED BY
CALAVO GROWERS, SANTA PAULA, CA


BOWL-O-GOLD
Brand
Great Tasting
Processed Products
Offer Synergies
and Complements
PACKED AND
SHIPPED BY
CALAVO GROWERS
SANTA PAULA, CA

When opportunity knocks, we move fast to capitalize upon it, as evidenced last year by performance in our Processed Products business unit. An abundant harvest benefited ultra-high pressure guacamole and frozen avocado manufacturing, along with efficient management of fruit and production costs. The result? Gross margins in the segment improved 108 basis points to 34.7 percent. Driven by expanding retail distribution for Calavo guacamole—as well as consumer acceptance—ultra-high-pressure sales accounted for a growing portion of the overall product mix, rising to 47.4 percent last year from 44.4 percent in fiscal 2008. The high promise is, in two words, mouth-watering. Processed products comprised 12.9 percent of Calavo net revenues last year, but accounted for a whopping 34.7 percent of gross profit. Little wonder that our strategic growth blueprint calls for diversifying through additional processed products—similar to the fold-in model successfully applied in our Fresh operations. Expect Calavo-brand fresh refrigerated salsa and tortilla chips that complement our best-in-category guacamole to be central to the strategy in the coming year. Additional offerings are in the product-development pipeline that we anticipate will extend the label.

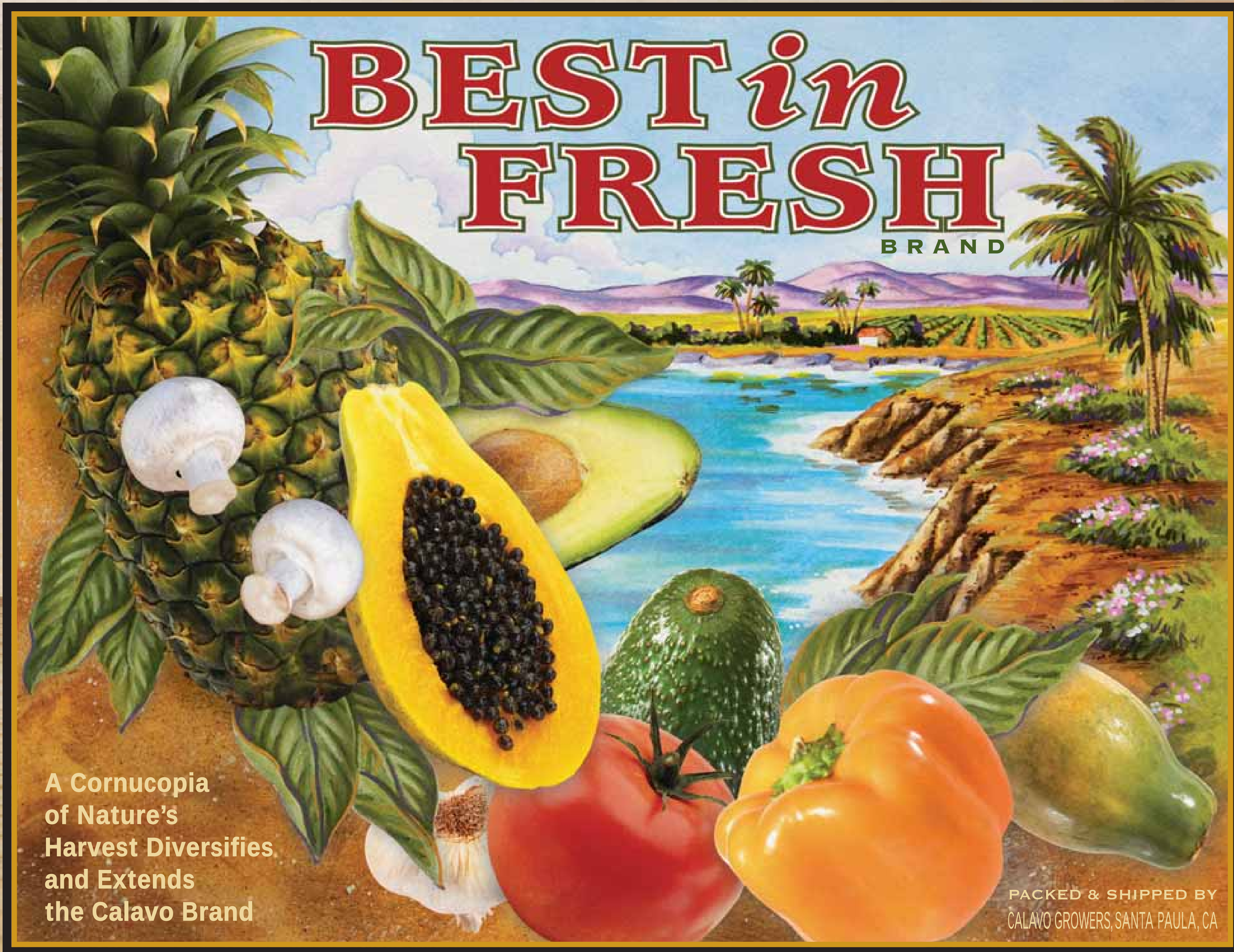
THOSE WERE THE DAYS...

Calavo's first foray into processed products came through its manufacture of frozen avocado dip beginning in 1962. This was long before guacamole became a household word, not to mention the centerpiece of every Super Bowl party. Processed avocado products generally all lacked in taste and quality until Calavo perfected its ultra-high-pressure guacamole recipe.

Our green grocery of diversified fresh products enables Calavo to leverage a great deal more than just its infrastructure. The company's 85-year leadership in the fresh avocado category provides unmatched commodity-produce brand equity. The Calavo name, synonymous with *quality*, enjoys considerable cache. Our cornucopia of product offerings makes us more valuable to our customers—and their customers, too—by expanding the range of items available from a single, trusted source. Tomatoes, papayas, pineapples and mushrooms are the cornerstones of this expanding portfolio, which also includes chilies and other Hispanic specialty produce that complement our core avocado business. Already the largest distributor of fresh produce grown in Hawaii, we are expanding pineapple marketing through fruit sourced from Costa Rica, as well as Maui, to ensure ample supply for customers across North America. In concert with anticipated growth in papaya sales volume, Calavo—*the first name in avocados*™—might just be able to apply a similar moniker to tropical fruit sales, as well.

TIME TRAVELS...

Last year marked the 60th anniversary of our company's marketing of papayas, which began all the way back in 1949. Through the years, Calavo has sold and distributed other diversified commodity products, including limes. These efforts served as early precursors of the focused fold-in strategy the company employs today.



A Cornucopia of Nature's Harvest Diversifies and Extends the Calavo Brand

Board of Directors

(from the left; top to bottom)

LECIL E. COLE
Chairman, President and CEO
Calavo Growers, Inc.
Santa Paula, California

JOHN M. HUNT
Manager
Embarcadero Ranch
Goleta, California

EGIDIO "GENE" CARBONE, JR.
Retired CFO
Calavo Growers, Inc.

GEORGE H. "BUD" BARNES
Avocado Grower
Valley Center, California

J. LINK LEAVENS
General Manager
Leavens Ranches
Ventura, California

HAROLD S. EDWARDS
President and CEO
Limoneria Company
Santa Paula, California

STEVEN W. HOLLISTER
Vice President
Sunrise Mortgage &
Investment Company
San Luis Obispo, California

DORCAS H. MCFARLANE
Owner and Operator
J.K. Thille Ranches
Santa Paula, California

SCOTT N. VAN DER KAR
General Manager
Van Der Kar Family Farms
Carpinteria, California

ALVA V. SNIDER
Avocado Grower
Fallbrook, California

FRED J. FERRAZZANO
President and CEO
Ferrazzano Farms
Escondido, California

DONALD "MIKE" SANDERS
President
S&S Grove Management
Escondido, California

MICHAEL D. HAUSE
President and CEO
Santa Clara Valley Bank
Santa Paula, California

Calavo Growers, Inc. is a leading packer and marketer of fresh and processed avocados throughout the United States and other countries globally, and a rapidly expanding distributor of other commodity-produce items sold under the company's well-respected brand name and its Maui Fresh label, a wholly owned subsidiary. Through two principal operating units—Fresh Avocados and Processed Products—the company supplies wholesale, retail and restaurant-institutional foodservice customers on a world-wide basis. Calavo packs and distributes approximately 35 percent of the California avocado crop, nearly twice the market share of its closest competitor. Additionally, the company sources fruit from Mexico and Chile to satisfy year-round domestic avocado demand, for export and for use in processed products. Calavo is also the leading marketer of fresh fruit grown in the Hawaiian Islands, including papayas, Maui Gold® pineapples and other tropical produce items. Other commodity-produce offerings include Calavo-brand tomatoes and mushrooms, as well as Hispanic specialties such as a wide range of chilies. Founded in 1924 as a grower-owned cooperative, Calavo today is publicly traded on the Nasdaq Global Select Market under the ticker symbol CVGW. Employing more than 1000 people, the company is headquartered in Santa Paula, California, where it also operates one of three fresh-avocado packinghouses and a Value Added Depot, housing sales, distribution and advanced-ripening technologies. Calavo's two additional packinghouses are located in Temecula, California and Uruapan, Michoacán, Mexico, where the company also operates its processed-products manufacturing facility. In late 2006, the company opened Value Added Depots equipped with the company's proprietary ProRipeVIP™ technology in Dallas, Texas and Swedesboro, New Jersey.

This Annual Report 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 below under the caption "Risks Related to Our Business" and elsewhere in our 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.

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.

Fiscal Year Ended October 31, (In thousands, except per share data)	2009	2008	2007	2006	2005
Income Statement Data:[1]					
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
Balance Sheet Data as of End of Period:					
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
Cash Flows Provided by (Used in):					
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
Other Data:					
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.

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 our annual report on Form 10-K.

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 have 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.

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.

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%

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.

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.

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:

(Dollars in thousands)	2009	Change	2008	Change	2007
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%

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 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 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.

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:

(Dollars in thousands)	2009	Change	2008	Change	2007
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.

Fresh Products

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 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 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

(Dollars in thousands)	2009	Change	2008	Change	2007
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

(Dollars in thousands)		2009	Change		2008	Change		2007
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

(Dollars in thousands)		2009	Change		2008	Change		2007
Interest expense	$	**(1,108)**	(25.4)%	$	(1,485)	10.3%	$	(1,346)
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.

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

(Dollars in thousands)		2009	Change		2008	Change		2007
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

(Dollars in thousands)	2009	Change	2008	Change	2007
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.

	Three months ended							
(in thousands, except per share amounts)	Oct. 31, 2009	July 31, 2009	Apr. 30, 2009	Jan. 31, 2009	Oct. 31, 2008	July 31, 2008	Apr. 30, 2008	Jan. 31, 2008
Statement of Operations Data								
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
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 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 reclassed 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				
Contractual Obligations	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
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
Total	$ 38,489	$ 9,316	$ 13,456	$ 6,315	$ 9,402

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.

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:

(All amounts are presented in thousands)	Level 1	Level 2	Level 3	Total
Assets at Fair Value:				
Investment in				
Limoneira Company[(1)]	$ 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.

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 (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.

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.

	Expected maturity date October 31,							
(All amounts in thousands)	2010	2011	2012	2013	2014	Thereafter	Total	Fair Value
Assets								
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
Liabilities								
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

(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.

CONSOLIDATED BALANCE SHEETS

October 31, (in thousands)	2009	2008
ASSETS		
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
	$ 123,216	$ 134,686
LIABILITIES AND SHAREHOLDERS' EQUITY		
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.

CONSOLIDATED STATEMENTS OF INCOME

Year Ended October 31, (in thousands, except per share amounts)	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.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Year ended October 31, (in thousands)	2009	2008	2007
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.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in thousands)	Common Stock Shares	Common Stock Amount	Paid-in Capital	Additional From Shareholders	Notes Receivable Comprehensive Income	Accumulated Other Retained Earnings	Total
Balance, October 31, 2006	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
Balance, October 31, 2007	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
Balance, October 31, 2008	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 investment, net	—	—	—	—	(3,477)	—	(3,477)
Dividend declared to shareholders	—	—	—	—	—	(7,252)	(7,252)
Net income	—	—	—	—	—	13,611	13,611
Balance, October 31, 2009	14,505	$ 14	$ 39,714	$ —	$ 466	$ 29,293	$ 69,487

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended October 31, (in thousands)	2009	2008	2007
Cash Flows from Operating Activities:			
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
Cash Flows from Investing Activities:			
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)
Cash Flows from Financing Activities:			
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
Income taxes	$ 8,803	$ 2,504	$ 3,100
Noncash Investing and Financing Activities:			
Tax receivable increase related to stock option exercise	$ 261	$ 147	$ 233
Declared dividends payable	$ 7,252	$ 5,047	$ 5,030
Construction in progress included in trade accounts payable and accrued expenses	$ 245	$ 259	$ –
Capital lease obligations	$ –	$ 1,125	$ –
Fixed asset acquired with long term debt	$ –	$ 4,000	$ –
Minimum earnout adjustment related to the acquisition of Hawaiian Sweet and Pride	$ 902	$ –	$ –
Unrealized holding gains (losses)	$ (5,704)	$ (19,058)	$ 15,083

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

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.

(in thousands)	2008
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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 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.

NOTE 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, 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 then 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-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):

	2009	2008	2007
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.

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:

	2009	2008	2007
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 of $6.6 million, with a corresponding carrying value of approximately $6.5 million.

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

(All amounts are presented in thousands)	Level 1	Level 2	Level 3	Total
Assets at Fair Value:				
Investment in				
Limoneira Company(1)	$ 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.

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.

NOTE 3

INVENTORIES

Inventories consist of the following (in thousands):

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

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.

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.

NOTE 4

PROPERTY, PLANT, AND EQUIPMENT

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

October 31,	2009	2008
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.

NOTE 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.

NOTE 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.

NOTE 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):

	2009	2008
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):

	2009	2008
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:

	2009	2008
Discount rate on projected benefit obligation	**5.25%**	7.00%

NOTE 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.

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.

NOTE 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.

NOTE 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.

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

	2009	2008
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:

	2009	2008	2007
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.

NOTE 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 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.

(All amounts are presented in thousands)	Fresh products	Processed products	Total
Year ended October 31, 2009			
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
Year ended October 31, 2008			
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
Year ended October 31, 2007			
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):

	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

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.

NOTE 12

LONG-TERM OBLIGATIONS

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

	2009	2008
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):

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

NOTE 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):

	Number of Shares	Weighted-Average Exercise Price
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.

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.

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.

NOTE 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.

NOTE 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.

NOTE 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 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.

NOTE 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 Pahoa, 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

NOTE 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.

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.

Ernst & Young LLP

Los Angeles, California
January 11, 2010

REPORT OF MANAGEMENT

Our management is responsible for preparing the accompanying financial statements and for ensuring their integrity and objectivity. The statements were prepared in accordance with accounting principles generally accepted in the United States of America and fairly represent the transactions and financial position of the company. The financial statements include amounts based on management's best estimate and judgments.

Our fiscal 2009 and 2008 financial statements have been audited by Ernst and Young LLP, our independent registered public accounting firm. They were selected by the Audit Committee and are expected to be approved by our shareholders for fiscal 2010. Management has made available to Ernst and Young LLP all of our financial records and related data, as well as minutes of stockholder and director meetings.

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.

The audit committee is composed of directors who are not officers or employees. It meets regularly with members of management and the independent registered public accounting firm to discuss the adequacy of our system of internal controls, financial statements, and the nature, extent and results of our audit effort. Furthermore, our independent registered public accounting firm has free and direct access to the Audit Committee without the presence of management.

Lecil E. Cole, Chairman of the Board of Directors,
President and Chief Executive Officer

Arthur J. Bruno, Chief Operating Officer,
Chief Financial Officer, and Corporate Secretary

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.

Fiscal 2009	High	Low
First Quarter	$ 13.34	$ 5.93
Second Quarter	$ 14.49	$ 10.22
Third Quarter	$ 20.01	$ 11.82
Fourth Quarter	$ 20.30	$ 16.29

Fiscal 2008	High	Low
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.

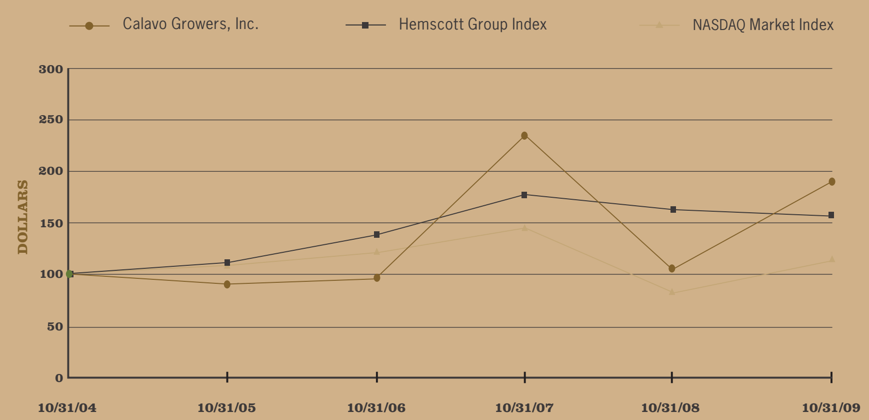
On December 11, 2009, we paid a $0.50 per share dividend in the aggregate amount of $7,252,000 to shareholders of record on December 1, 2009.

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.

SHAREOWNER RETURN PERFORMANCE GRAPH

The following graph compares the performance of our common stock with the performance of the Nasdaq Market Index and the Hemscott Group Index for approximately the 60-month period beginning on October 31, 2004 and ending October 31, 2009. In making this comparison, we have assumed an investment of $100 in Calavo Growers, Inc. common stock, the Nasdaq Market Index , and the Hemscott Group Index as of October 31, 2004. We have also assumed the reinvestment of all dividends. The Hemscott Group Index is a composition of major diversified food companies.

Comparison of 5-year cumulative total return among calavo growers, inc., nasdaq market index and hemscott group index



Assumes $100 Invested on Oct. 31, 2004
Assumes Dividend Reinvested
Fiscal Year Ending Oct. 31, 2008

CORPORATE INFORMATION

OFFICERS

Lecil E. Cole
Chairman, President and
Chief Executive Officer

Arthur J. Bruno
Chief Operating Officer
Chief Financial Officer
Corporate Secretary

Rob Wedin
Vice President
Fresh Sales and Marketing

Mike Browne
Vice President
Fresh Operations

Al Ahmer
Vice President
Processed Product Sales
and Operations

James E. Snyder
Corporate Controller

OFFICER—CALAVO DE MEXICO

Dionisio Ortiz
Vice President, Operations

PRINCIPAL BOARD COMMITTEES

EXECUTIVE COMMITTEE

Lecil E. Cole
Chairman

J. Link Leavens
First Vice Chairman

Scott N. Van Der Kar
Second Vice Chairman

Dorcas H. McFarlane

Donald "Mike" Sanders

Harold S. Edwards

AUDIT COMMITTEE

Michael D. Hause
Chairman

John M. Hunt

Egidio "Gene" Carbone, Jr.

George H. Barnes

Steven W. Hollister

NOMINATING AND GOVERNANCE COMMITTEE

John M. Hunt
Chairman

George H. Barnes

Fred J. Ferrazzano

Michael D. Hause

Alva V. Snider

COMPENSATION COMMITTEE

Egidio "Gene" Carbone, Jr.
Chairman

John M. Hunt

Alva V. Snider

Steven W. Hollister

OPERATING DIRECTORS AND MANAGERS

Carlos T. Vasquez
Director, Field Operations

John Agapin
Director, Systems Analysis
and Planning

Bruce Spurrell
Director, Purchasing
and Risk Management

Michael F. Derr
Director, Fresh Packing

Michael Angelo
Director, National Fresh Sales

Patricia D. Vorhies
Director, Human Resources

Gary M. Gunther
Director, Fresh Operations
Special Projects

Michael Lippold
Director, Strategic Development

Joseph Malagone
Packinghouse Manager
Santa Paula

Francisco Orozco
Packinghouse Manager
Temecula

HEADQUARTERS

Calavo Growers, Inc.
1141A Cummings Road
Santa Paula, Ca 93060
Telephone 805.525.1245
Fax 805.921.3219
www.calavo.com

GENERAL COUNSEL

Troy Gould PC
Los Angeles, California

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Ernst & Young LLP
Los Angeles, California

INVESTOR & CORPORATE RELATIONS COUNSEL

FoleyFreisleben LLC
Los Angeles, California

FORM 10-K

A copy of the company's annual report as filed upon Form 10-K is available upon request to the Corporate Controller or online from the Securities and Exchange Commission at www.sec.gov.

TRANSFER AGENT AND REGISTRAR

Computershare Trust
Company, N.A.
Canton, Massachusetts

COMMON STOCK LISTING

Shares of the company's common stock are listed on the Nasdaq Global Select Market under the symbol CVGW.

Creative Direction: Dan McNulty and Richard Huvard · Designed: MC BrandStudios www.mc-brandstudios.com · Editorial: FoleyFreisleben LLC www.folfry.com · Illustration by Liz Wheaton · Photography: Bruce Kurosaki and Dan McNulty · Printing: Primary Color

SENIOR MANAGEMENT

ARTHUR J. BRUNO
Chief Operating Officer,
Chief Financial Officer and
Corporate Secretary

ROB WEDIN
Vice President,
Fresh Sales and Marketing

AL AHMER
Vice President,
Processed Product Sales
and Operations

MIKE BROWNE
Vice President,
Fresh Operations

A SEASONED TEAM AVERAGING MORE THAN
30 YEARS EACH OF AGRIBUSINESS EXPEREINCE

PACKED BY
CALAVO GROWERS
SANTA PAULA, CA

CALAVO GROWERS, INC. • 1141A CUMMINGS ROAD • SANTA PAULA • CALIFORNIA 93060 • WWW.CALAVO.COM