Calavo Growers Inc. *2005 Annual Report*

A wide-ranging *View.*

Quite a *Sight* indeed.

Most know us only from row upon row of neatly stacked supermarket shelves of ripe avocados, golden papayas or bounty of other fresh produce items… from a slice of the knife through greenish-black, pebbly-finished skin to reach creamy, velvety-smooth fruit…or possibly a flavorful burst from our chunky, fresh-tasting guacamole products.

Unknown is that more than 80 years ago, a group of avocado-growing enthusiasts envisioned a broader market for their fruit. They foresaw a business—today called Calavo Growers, Inc.—where previously there was none.

Innovation and foresight long have been our company's hallmarks. Calavo is an enterprise of innumerable firsts, which helped pave the way to our industry leadership. We opened global markets, beginning with Japan, in the early 1960s. We bought manufacturing facilities, packaging frozen avocados and processed guacamole long before its time. Sensing the avocado industry turning borderless, we built packinghouses internationally. And to provide us with the capital structure to fuel 21st century growth, we converted from agricultural co-op to for-profit corporation, a first that since has been imitated by others numerous times over.

Call it anticipating the next move or seeing the whole playing field…

The First Name in Avocados™

Calavo is the world's top avocado brand because we never shied from being first. Today—with three seamless operating units and a sum exponentially greater than the parts—we lead through that same big-picture thinking dating from our roots. Taking in the wide-ranging view—at Calavo, we wouldn't do it any other way.

Looking out for each grower.

An exclusive society numbering some 2,300 strong, Calavo's growers occupy lofty status: they all share in the cache and resources that come from aligning with the avocado leader.

Our growers—large and small alike, many with ties to the company and predecessor cooperative dating back decades—benefit from Calavo's market knowledge, hands-on field management and, most notably, unsurpassed returns. Our approach is a grower's-eye view, starting with a president and majority of board members who are farmers themselves, which lends a unique industry perspective and understanding of specialized needs.

That, in part, is why last year Limoneira Company, the second-largest California grower, agreed to sell its crop to us. It joins the industry-leading Irvine Company, for whom we have packed fresh avocados for many years, to give Calavo an unprecedented one-two punch. But we give the same care and feeding to small growers, too. In fact, the majority of Calavo's growers farm 20 to 40 acres. At Calavo, being with the best doesn't mean being the biggest.

Taking it all in.

Three modern packinghouses—strategically located in Santa Paula and Temecula, California, and Uruapan, Michoacán, Mexico—teem with productivity and thrive on volume. Models of efficiency, Calavo's packing operations work with Swiss-watch-like precision to move our fresh-avocado crop from field to customer.

No small feat, Calavo fruit arrives from the groves in 1,000-pound bins to be washed, trimmed, sorted, culled, boxed and, often preripened, only to head right back out the door…bound for grocers, warehouse stores and foodservice providers en route to its ultimate destination, the dining table.

Through Calavo's California packinghouses, which alone are capable of handling some 200 million pounds of volume annually, pass approximately 35 percent of the domestic avocado harvest—nearly double the market share of our closest competitor. A wide-angle perspective of our packing operations translates to taking it all in quickly and nimbly, too.

Our *Vision* from the inside out.

The logic goes something like this: provide customers with value-added services that increase their business and you breed happy customers. Taking this thinking a step further, provide those same customers with preconditioned avocados, delivered to their stores meeting specifically selected criteria, and fruit consumption will jump.

Enter Calavo ProRipe,™ our company's proprietary value-added ripening program developed specifically with those ends in mind. ProRipe's™ been a resounding success since being introduced several years ago—resulting in higher fruit sales for grocers and immediate avocado gratification for consumers, who no longer have to wait days to dig in.

So how do we make a good innovation even better? Meet ProRipeVIP.™ That's short for verified internal pressure, which uses cutting-edge technology known as AFS—acoustic firmness sensing—to measure avocado firmness of the entire piece of fruit. ProRipeVIP™ is the most accurate method ever developed and enables Calavo to deliver avocados to customers that are meticulously and equally preconditioned to an exact degree of firmness. We took guess work out of firmness sorting and replaced it with scientific precision. It's another innovation that could come only from Calavo.

Seeing the entire process.

To churn out our great-tasting ultra-high-pressure guacamole and other products, like frozen avocado halves, we needed the perfect facility. So, determined to do it right, Calavo built from the ground up a state-of-the-art, 90,000-square-foot processing plant in Uruapan, Michoacán, Mexico.

The gleaming new facility puts us proximate to the fruit source, sharply reducing transportation costs. It enabled Calavo to consolidate operations in a single location, replacing a two-step manufacturing process that was cumbersome and inefficient. In doing so, Calavo eliminated duplicative overhead structures to further reduce expense.

Optimized in fiscal 2005, the new facility is really humming, capable of producing 24 million pounds per year of our guacamole, a best-in-class product that continues to gain acceptance and customers—such as Costco, Trader Joe's and Stater Bros. The formula is paying off: processed product sales and profits posted solid advances last year and are poised to rise further. And that's the whole avocado.

Our expanding world *View.*

When the U.S. Department of Agriculture formally lifted import limits on Mexican-grown avocados in February 2005, Calavo was already well-positioned and ready. You see, we've been sourcing fruit from our southern neighbor for nearly a decade and opened our own packing-house in Uruapan, Michoacán back in 1997. Market leaders at home and abroad, we pack one-third of all Mexican avocados for export.

Our sizable commitment in Mexico makes good business sense. It generates profit to reinvest here at home. Internationally sourced fruit also ensures a stable, year-round supply of avocados to the U.S. Most importantly, it provides us the avocados with which to tap into new global markets.

And new markets we have opened, indeed: Canada, Europe and Asia together consume tens of millions of pounds of Calavo fruit each year. Our company sells about 20 percent of all avocados consumed in Japan, where we have supplied Calavo fruit for more than 40 years. Last year, in another first, we began shipping avocados to China. With its population of one billion-plus, surging personal incomes and zest for all things Western, China represents a market of enormous potential. *All the avocados in China* has a nice ring to it, doesn't it?

The *Outlook* from our own front porch.

Our corporate headquarters in Santa Paula, California is new only to us. In fact, the landmark, rough-hewn timber and stone Craftsman-period lodge fittingly dates back about as far as Calavo. The move put the company, quite literally, in the heart of one of our principal growing regions—outside the front doors are groves stretching as far as the eye can see.

A return to our roots brings the Calavo "ear" closer to its growers, enabling greater responsiveness and the ability to adapt quickly to changing industry conditions and the marketplace. Further, our relocation provides us a showcase for visiting customers, who have overwhelmingly embraced the move. On field trips to us, customers now soak in an end-to-end experience: growing, packing, ripening, shipping, along with Maui Fresh operations and our new value-added depot all in one region.

The headquarters lodge, located on the Limoneira Company ranch, swung open the gates for our far-reaching alliance with that diversified agribusiness and land enterprise. We gained the packing volume of Limoneira, the industry's second-largest grower. An equity cross-investment makes us Limoneira's single-biggest shareholder. And, we create the possibility for future Limoneira-Calavo joint ventures. There's truly no place like home.

To our *Shareholders.*

Lee E. Cole
Chairman, President &
Chief Executive Officer

Our most recent fiscal year ended October 31, 2005 presented Calavo with some significant challenges; however, I am pleased to report that our talented and experienced management team responded with agility and expertise, capitalizing on the strengths that we have built over the past years. As a result, our company remained solidly profitable despite an off year in California avocado production, which constrained our largest business unit.

We held fast to our strategic vision and made heartening progress toward our key long-term objective of building a larger, stronger and more diversified world-class agribusiness with ample and attractive growth opportunities. I am confident that Calavo is on a very positive course and the best is yet to be. Setting the stage for a more prosperous future, highlights of an extremely active year included:

- Remaining solidly profitable as our strategy of balance and diversification paid off with strong performances from our International and Processed Product operations;
- Establishing a new strategic relationship with the Limoneira Company, one of California's top two avocado producers and a substantial land holder;
- Relocating successfully our corporate headquarters to historic offices located on the Limoneira ranch;
- Following the lifting of USDA restrictions on the importation of Mexican fruit, capitalizing on our 10 years of experience in Mexico to source substantial quantities of Mexican fruit to serve our global customers, thus offsetting the reduced supply from California;
- Improving capacity and operating efficiencies at our state-of-the-art processing plant located in Uruapan, Michoacán, Mexico;
- Driving sales growth in the Processed Products division through increased market penetration at the retail level for our ultra-high-pressure guacamole; and
- Expanding shareholder's equity by 47 percent, primarily as a result of a $22 million (pre-tax) unrealized gain on our investment in Limoneira.

FINANCIAL REVIEW

For fiscal 2005, we recorded net income of $3.3 million, equal to $0.24 per diluted share, on revenues of $258.8 million. This compares with net income of $6.2 million, equal to $0.46 per diluted share, on revenues of $274.2 million in the prior fiscal year.

Our lower level of revenues and earnings primarily resulted from cyclically smaller California avocado crop. As a result, we packed 54 million fewer pounds of avocados in 2005 than in 2004. Our packinghouse operations are volume driven, producing greater economies and efficiencies as volume rises. On an overall basis, according to the California Avocado Commission, the state produced approximately 300 million pounds of avocados in the past year, compared with 432 million in the preceding year. As an offset, our International and Processed operations showed robust strength with year-over-year revenue increases, respectively, of 37 percent and 6 percent, along with higher gross margins.

Our bottom line felt the impact of several unique items, most notably the high first-year costs of complying with Section 404 of the Sarbanes-Oxley Act, which aggregated $2.2 million. While these costs will normalize in the coming year, we remain convinced that the SOX requirements represent an unusual and excessive burden on small-cap companies, which Congress needs to address on an urgent basis. Corporate relocation and the balance of costs associated with restructuring processed operations accounted for an additional $800,000 in one-time operating expenses that further dragged down the bottom line.

VISION, CHANGE, INNOVATION

Over the years, we have nurtured our strategic vision, anticipating changing market conditions, innovating, diversifying, adding new partners and alliances, striving for greater balance, developing international markets and, in doing so, building greater value for our stakeholders.

In this respect, our successful transition from a mutually held grower cooperative to a publicly-held corporation with a national listing on NASDAQ represented a key step in allowing us to unlock shareholder values, as well as providing us with a new currency for acquisitions and greater flexibility to finance our growth initiatives. Shareholders have derived benefits as well with dividends up 60 percent since 2002, rising from 20 cents to 32 cents annually.

A SYNERGISTIC NEW RELATIONSHIP WITH ENORMOUS POTENTIAL

During the year, we established a key new strategic alliance with the Limoneira Company, one of California's top two avocado producers and a holder of some 7,000 acres of prime real estate. Through cross-equity investments, we became Limoneira's largest shareholder with approximately 15 percent of its shares, and conversely, Limoneira is now Calavo's second largest shareholder with a seven percent interest. We now serve the state's two largest producers (with the Irvine Company being the other) and expect to pack and distribute on average 10 to 14 million pounds of Limoneira avocados annually. This will provide a substantial benefit to incremental volume and further grow our leadership in the California market.

Limoneira is now focusing on beginning to develop its holdings, and as its largest shareholder, Calavo is well positioned to benefit from the potential monetization of these valuable land assets.

SUCCESSFUL CORPORATION RELOCATION—NEW PROXIMITY TO GROWERS

We have relocated our corporate headquarters to offices located on the Limoneira ranch. The transition places us in close proximity to growers and gives us a day-to-day sense "on the ground" of their needs and the operating environment. With our new value-added depot in our former Santa Paula processed-products plant, housing all aspects of Maui Fresh—sales, warehousing and distribution—in addition to our ripening programs, we now have a showcase for growers and customers, who with great ease can gain a sense of the quality of our operations from field to distribution. I can tell you that our new headquarters operations have been very well received and represent an important plus for the future.

DRIVING INTERNATIONAL GROWTH

We continue to expand our overseas customer base. Some forty years ago, Calavo was the first to introduce avocados to the Japanese market, which continues to grow and currently accounts for 75 million pounds of annual consumption, of which Calavo provides a large percentage. In 2005, Calavo notched another key milestone in the Asia Pacific market by being the first to supply avocados to China, obviously a huge potential market experiencing rapid economic growth and Westernization. In the coming year, we will witness the opening of a new European sales office in Paris to drive sales on the continent of our avocados and Maui Fresh lines.

PROCESSED OPERATIONS—MORE PROGRESS AHEAD

We have aggressively enhanced both operating efficiencies and capacity at our state-of-the-art processing operations in Mexico to support the ongoing roll-out of our ultra-high-pressure guacamole product. In the past year we continued the active expansion of our retail customer base. As a result, we have seen high pressure as a percentage of total of Processed Product net sales rise to 31 percent from 21 percent in the prior year—and we see more exciting gains ahead for this highly appealing product line.

A DYNAMIC MARKET

We are truly enthusiastic about the ongoing rise in demand for avocados, both in the U.S. and abroad. Domestically, strong currents are propelling growth including an expanding Hispanic population, greater acceptance of Hispanic foods nationally and growing recognition of the avocado's taste appeal and health benefits.

During the past year, we further expanded our ProRipe™ program in all our distribution centers through the creation of ProRipeVIP™—for verified internal pressure—utilizing acoustic freshness sorting (AFS) technology. Through our proprietary ripening and firmness sorting programs, we can provide the consumer with delicious, ready-to-eat product, thus spurring demand by shortening the consumption cycle.

BANNER YEAR AHEAD—ALL CYLINDERS FIRING

Looking ahead with enthusiasm, we are optimistic about Calavo's prospects, both in the coming year and the longer term. After a slack harvest last year, California is expected to be a formidable engine of growth in 2006 as the experts are forecasting the largest harvest since 1991, with a crop approximating 500 million pounds. Our company should be firing on all cylinders with the International and Processed Product divisions also poised for further gains. The investments we have made in our business, the acquisition of Maui Fresh, the new alliance with Limoneira, an expanded grower and customer base, a growing international presence and our solid infrastructure in terms of people and finances all auger well for the future.

In closing, I wish to express sincere thanks to our valued directors, as well as our dedicated management team and employees for their exemplary performance in a highly active and challenging year. As well, I express my gratitude to our growers, customers and shareholders for their confidence and support.

Sincerely,

Lee E. Cole
Chairman, President &
Chief Executive Officer
March 4, 2006

Board of *Directors.*

left to right

J. Link Leavens General Manager, Leavens Ranches, Ventura, California

John M. Hunt Manager, Embarcadero Ranch, Goleta, California

Egidio Carbone Retired Chief Financial Officer, Calavo Growers Incorporated

Mike Hause President/Chief Executive Officer, Santa Clara Valley Bank, Santa Paula, California

Donald M. Sanders President, S&S Grove Management, Escondido, California

Scott N. Van Der Kar General Manager, Van Der Kar Family Farms (Pinehill Ranch), Carpinteria, California

Dorcas H. Mc Farlane Owner & Operator, J.K. Thille Ranches, Santa Paula, California

Lecil E. Cole Chairman, President & Chief Executive Officer, Calavo Growers, Inc. Santa Paula, California

George H. "Bud" Barnes Avocado Grower, Valley Center, California

Alva V. Snider Avocado Grower, Fallbrook, California

Fred J. Ferrazzano President & Chief Executive Officer, Ferrazzano Farms, Escondido, California


Revenues
(dollars in millions)
$218
$243
$247
$274
$258
2001
2002
2003
2004
2005
Net Income
(dollars in millions)
$3.8
$6.9
$7.2
$6.2
$3.3
2001
2002
2003
2004
2005
Earning Per Share
(in dollars)
$0.37
$0.60
$0.55
$0.46
$0.24
2001
2002
2003
2004
2005
Shareholder's Equity
(dollars in millions)
$20
$31
$37
$44
$64
2001
2002
2003
2004
2005

The financial *Picture* of 2005.

This Annual Report on Form 10-K contains statements relating to future results of Calavo Growers, Inc. (including certain projections and business trends) that are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and are subject to the "safe harbor" created by those sections. Forward-looking statements frequently are identifiable by the use of words such as "believe," "anticipate," "expect," "intend," "will," and other similar expressions. Our actual results may differ materially from those projected as a result of certain risks and uncertainties. These risks and uncertainties include, but are not limited to: increased competition, general economic and business conditions, energy costs and availability, conducting substantial amounts of business internationally, pricing pressures on agricultural products, adverse weather and growing conditions confronting avocado growers, new governmental regulations, as well as other risks and uncertainties, including those set forth 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, 2005 are derived from the audited consolidated financial statements of Calavo Growers, Inc. and our predecessor, Calavo Growers of California.

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)	2005	2004	2003	2002	2001
Income Statement Data:[1]					
Net sales	$ 258,822	$ 274,218	$ 246,761	$ 242,671	$ 217,704
Gross margin	21,734	25,404	25,465	25,823	18,808
Net income	3,322	6,210	7,160	6,915	3,838
Basic and diluted net income per share[2]	$ 0.24	$ 0.46	$ 0.55	$ 0.60	$ 0.37
Balance Sheet Data as of End of Period:					
Working capital	$ 17,618	$ 20,353	$ 20,735	$ 18,833	$ 9,799
Total assets[5]	108,482	67,398	53,689	55,132	52,368
Short-term debt[5]	1,313	22	24	3,222	16,241
Long-term debt, less current portion[3][5]	11,719	34	61	3,180	3,429
Shareholders' equity	64,746	43,937	37,147	30,556	20,029
Cash Flows Provided by (Used In):					
Operations	$ 5,568	$ 4,460	$ 15,222	$ 8,135	$ 1,161
Investing[4][5]	(11,941)	(8,474)	(4,475)	(2,078)	(2,029)
Financing[5]	6,870	(725)	(6,293)	(7,193)	1,433
Other Data:					
Dividends per share[2]	$ 0.32	$ 0.30	$ 0.25	$ 0.20	$ 0.50
Net book value per share	$ 4.51	$ 3.25	$ 2.87	$ 2.38	$ 2.01
Pounds of California avocados sold	104,950	152,725	122,950	158,187	163,891
Pounds of international avocados sold	103,830	69,410	70,348	69,512	44,935
Pounds of processed avocados products sold	15,628	13,317	14,707	14,248	14,788

(1) Operating results for fiscal years 2005 and 2004 include the acquisition of Maui. For fiscal year 2005, Maui's net sales, gross margins, and net income were as follows: $21.7 million, $1.1 million, and $0.4 million. For fiscal year 2004, Maui's net sales, gross margins, and net income were as follows: $19.8 million, $1.4 million, and $0.5 million.

(2) Dividends per share for fiscal 2001 represent the payment of our dividend to shareholders for the results of our fiscal 2000 operations. We did not declare a cash dividend in connection with our fiscal 2001 operating results. In December 2001, we declared a 5% stock dividend payable February 15, 2002 for all shareholders of record as of February 1, 2002. Dividends per share and net book value per share are computed based on the actual shares outstanding.

(3) In July 2003, our Board of Directors approved the retirement of our Industrial Development Revenue Bond. The bonds were initially floated to provide the financing to construct our Temecula, California packinghouse. We repaid the final $2.8 million in principal under the indenture in September 2003.

(4) Cash flows used in investing activities for fiscal 2004 and 2003 include the effect of constructing a processing facility in Uruapan, Michoacán, Mexico. The Uruapan facility commenced operations in February 2004.

(5) Total assets, short-term debt, long-term debt, cash flows used in investing activities, and cash flows provided by financing activities for fiscal 2005 include the effect of the stock purchase agreement with Limoneira Company. See Note 12 to the consolidated financial statements.

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, processed avocado products, and other perishable food products throughout the United States and elsewhere in the world. 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 a competitive return to our growers. This reputation has enabled us to expand our product offering to include avocados sourced on an international basis, processed avocado products, and other perishable foods. We report these operations in three business segments: California avocados, international avocados and other perishable food products and processed products. We report our financial results on a November 1 to October 31 fiscal year basis to coincide with the California avocado harvest season.

On October 9, 2001, we completed a series of transactions whereby common and preferred shareholders of Calavo Growers of California, an agricultural marketing cooperative association, exchanged all of their outstanding shares for shares of our common stock. Concurrently with this transaction, the Cooperative was merged into us with Calavo emerging as the surviving entity. These transactions had the effect of converting the legal structure of the business from a non-profit cooperative to a for-profit corporation. The merger and the conversion were approved on an overwhelming basis by both the Cooperative's shareholders and our board of directors. Prior to the merger, the Cooperative reported results of operations as constituting either member (the packing and distribution of avocados procured from either members or associate members) or non-member business (non-member business included both the processed product business and the sourcing and distribution of all crops that were not procured from the Cooperative's members).

In June 2005, in order to increase our market share of California avocados and increase synergies within the marketplace, we entered into a stock purchase agreement with Limoneira Company (Limoneira). Pursuant to such agreement, we acquired approximately 15.1% of Limoneira's outstanding common stock for $23.45 million and Limoneira acquired approximately 6.9% of our outstanding common stock for $10 million. The transaction was settled by a net cash payment by us of $13.45 million. Additionally, such agreement also provided for: (1) Calavo to lease office space from Limoneira in Santa Paula, California for a period of 10 years at an initial annual gross rental of approximately $0.2 million (subject to annual CPI increases, as defined), (2) Calavo to market Limoneira's avocados and (3) Calavo and Limoneira to use good faith reasonable efforts to maximize avocado packing efficiencies for both parties by consolidating their fruit packing operations. Various opportunities are currently being considered, including the use of existing packing facilities, an investment in existing vacant facilities, and/or an investment in a new consolidated facility for both parties.

Limoneira, which generated total revenues of approximately $26 million during fiscal 2004, primarily engages in growing citrus and avocados, picking and hauling citrus, and packing lemons.

Our California avocado business grades, sizes, packs and cools avocados grown in California for delivery to our customers. We presently operate three packinghouses in Southern California. These packinghouses handled approximately 35% of the California avocado crop during the 2005 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 in retaining existing growers, aggressively recruiting new growers, and procuring a larger percentage of the California avocado crop to improve our results from operations.

Our international and perishable food products business procures avocados grown in Mexico, Chile, and the Dominican Republic, as well as other various commodities, including papayas, tomatoes, chili peppers, pineapples, and ginger. We operate a packinghouse in Mexico that handled approximately 21% of the Mexican avocado crop bound for the United States market during the 2004-2005 Mexican harvest season, based on our estimates. Additionally, during the 2004-2005 Chilean avocado harvest season, we handled approximately 10% of the Chilean avocado crop, based on our estimates. Our strategy is to procure and sell the internationally grown avocados to complement our distribution efforts of California grown avocados. We believe that the introduction of these avocados, although competitive at times with California grown avocados, 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. In February 2003, our Board of Directors approved a plan whereby the operations of our processed products business would be relocated. The plan called for the closing of our Santa Paula, California and Mexicali, Baja California Norte processing facilities and the relocation of these operations to a new facility in Uruapan, Michoacán, Mexico. This restructuring has provided for cost savings in the elimination of certain transportation costs, duplicative overhead structures, and savings in the overall cost of labor and services. The Uruapan facility commenced operations in February 2004 and the Santa Paula and Mexicali facilities were closed in February 2003 and August 2004. During fiscal 2005, we incurred costs related to this restructuring approximating $0.4 million, which are recorded in our income statement as both cost of sales ($0.3 million) and selling, general and administrative expenses ($0.1 million). All the above amounts have been paid and we do not expect any additional operating costs related to this restructuring.

Processed products customers include both food service industry and retail businesses. Our strategy calls for the development of new guacamole recipes and other processed avocado products that address the diverse taste of today's consumers. We also 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.

Our California avocado and international and perishable food product businesses are highly seasonal and are characterized by rapid 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 substantial 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.

RECENT DEVELOPMENTS

Dividend Payment

In January 2006, we paid a $0.32 per share dividend in the aggregate amount of $4,564,000 to shareholders of record on December 15, 2005.

Corporate headquarters building

In March 2005, we completed the sale of our old corporate headquarters building (located in Santa Ana) for $3.4 million. This transaction resulted in a pre-tax gain on sale of approximately $1.7 million. In conjunction with such sale, we relocated our corporate offices to Santa Paula, California in March 2005. Total expenses related to such relocation approximated $0.4 million.

Stock Option Grant

In August 2005, our Board of Directors approved the issuance of options to acquire a total of 400,000 shares of our common stock to various employees of the Company. The options vest if the closing price of our common stock is at least $11.00 per share at any time throughout the life of the option. At no time, however, may any options vest within one year from the date of grant. Additionally, such options have an exercise price of $9.10 per share and a term of 5 years from the grant date. The market price of our common stock at the grant date was $9.10.

Term loan agreement

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 begin July 2006 and continue through July 2015. Interest is to be paid monthly, in arrears, beginning August 2005 through the life of the loan. Such loan bears interest at a fixed rate of 5.70%.

Such loan contains various financial covenants, which are substantially identical to existing covenants, with which we were in compliance at October 31, 2005. The most significant financial covenants relate to working capital, tangible net worth (as defined), and Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) (as defined) requirements.

Useful lives of property, plant and equipment

Effective May 1, 2005, based on a review performed by us, we changed our estimate of useful lives of certain property, plant and equipment. The principal estimated useful lives were: buildings and improvements - 7 to 30 years; leasehold improvements - the lesser of the term of the lease or 7 years; equipment - 7 years; information systems hardware and software - 3 to 5 years. The revised estimated useful lives are: 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. The change in estimated useful lives increased our operating income by approximately $0.4 million during the six months ended October 31, 2005 when compared to the old useful lives.

Retirement of Common Stock

In August 2005, we repurchased 200,000 shares of our common stock at an average price per share of $10.00 from the estate of a deceased former member of our Board of Directors. In December 2005, we repurchased another 120,000 shares of our common stock at an average price per share of $10.00 from the same estate.

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.

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 average length of time between the product shipment date and the date on which we pay the customer the promotional allowance. The product of this lag factor and our historical promotional allowance payment rate is the basis for the promotional allowance included in accrued expenses on our balance sheet. Actual amounts may differ from these estimates and such differences are recognized as an adjustment to net sales in the period they are identified.

Goodwill and acquired intangible assets. The purchase method of accounting for business combinations requires us to make use of estimates and judgments to allocate the purchase price paid for acquisitions to the fair value of the net tangible and identifiable intangible assets. Goodwill is tested for impairment annually, or when a possible impairment is indicated, using the fair value based test prescribed by Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets. The impairment test requires us to compare the fair value of business reporting units to carrying value, including goodwill. We primarily use an "income approach" (which considers the present value of future cash flows) in combination with a "market approach" (which considers what other purchasers in the marketplace have paid for similar businesses) to determine fair value. Future cash flows typically include operating cash flows for the business for five years and an estimated terminal value. Management judgment is required in the estimation of future operating results and to determine the appropriate terminal values. Future operating results and terminal values could differ from the estimates and could require a provision for impairment in a future period.

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.

Revenue recognition. Sales of products and related costs of products sold are recognized when persuasive evidence of an arrangement exists, shipment has been made, title passes, the price is fixed or determinable and collectibility 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.

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, 2005	2005	2004	2003
Net sales	100.0%	100.0%	100.0%
Gross margins	8.4%	9.3%	10.3%
Selling, general and administrative	7.2%	5.8%	6.0%
Operating income	1.2%	3.4%	4.3%
Other income, net	0.9%	0.2%	0.4%
Net income	1.3%	2.3%	2.9%

Net Sales

We believe that the fundamentals for our products continue to be favorable. Government census studies continue to indicate a shift in the demographics of the U.S. population in which larger portions of the population descend from a Hispanic origin. Avocados are considered a staple item purchased by Hispanic consumers and their acceptance as part of American cuisine continues to spur demand for our products. We anticipate avocado products will further penetrate the United States marketplace driven by growth in the Hispanic community and general acceptance in American cuisine. 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.

Sales of products and related costs of products sold are recognized when persuasive evidence of an arrangement exists, shipment has been made, the price is fixed or determinable and collectibility 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)	2005	Change	2004	Change	2003
Net sales:					
California avocados	$116,308	(28.9)%	$163,486	9.3%	$149,635
International avocados and perishable food products	129,831	37.5%	94,423	25.3%	75,347
Processed products	34,699	6.0%	32,749	1.2%	32,360
Eliminations	(22,016)		(16,440)		(10,581)
Total net sales	$258,822	(5.6)%	$274,218	11.1%	$246,761
As a percentage of net sales:					
California avocados	43.3%		59.0%		60.6%
International avocados and perishable food products	45.7%		31.6%		28.0%
Processed products	11.0%		9.4%		11.4%
	100.0%		100.0%		100.0%

Net sales for the year ended October 31, 2005, when compared to 2004, decreased by approximately $15.4 million, or 5.6%, principally as a result of a decrease in our California avocados segment, partially offset by an increase in our International avocados and perishable food products segment. The decrease in sales related to our California avocados segment was primarily driven by a smaller overall harvest of the California avocado crop for the 2004/2005 season, while the increase in our international avocados and perishable food products segment was driven primarily by an increase in the volume of avocados being imported from Mexico.

Net sales generated by our International avocados and perishable food products business depend principally on the availability of Chilean and Mexican grown avocados in the U.S. markets. In November 2004, the USDA published a rule allowing Hass avocado imports from Mexico into all 50 states year round (up from 31 states for only a six month period), except for California, Florida, and Hawaii. We expect the restriction on such states to be lifted in February 2007. For the remaining 47 states, however, Mexico was able to deliver its fruit for all of fiscal 2005. The implementation of this rule resulted in a significant increase in the sale of Mexican sourced fruit during fiscal 2005.

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

	Year ended October 31, 2005				Year ended October 31, 2004			
	California avocados	International avocados and perishable food products	Processed products	Total	California avocados	International avocados and perishable food products	Processed products	Total
Third-party sales:								
California avocados	$ 104,481	$ —	$ —	$ 104,481	$ 150,159	$ —	$ —	$ 150,159
Imported avocados	—	81,756	—	81,756	—	54,589	—	54,589
Papayas	—	6,251	—	6,251	—	6,846	—	6,846
Specialities and tropicals	—	13,777	—	13,777	—	14,233	—	14,233
Processed - food service	—	—	28,307	28,307	—	—	27,352	27,352
Processed - retail and club	—	—	6,766	6,766	—	—	4,285	4,285
Total fruit and product sales to third-parties	104,481	101,784	35,073	241,338	150,159	75,668	31,637	257,464
Freight and other charges	7,699	16,430	258	24,387	11,946	10,968	534	23,448
Total gross sales to third-parties	112,180	118,214	35,331	265,725	162,105	86,636	32,171	280,912
Less sales incentives	(103)	(2)	(6,798)	(6,903)	(131)	(48)	(6,515)	(6,694)
Total net sales to third-parties	112,077	118,212	28,533	258,822	161,974	86,588	25,656	274,218
Intercompany sales	4,231	11,619	6,166	22,016	1,512	7,835	7,093	16,440
Net sales	$ 116,308	$ 129,831	$ 34,699	280,838	$ 163,486	$ 94,423	$ 32,749	290,658
Intercompany sales eliminations				(22,016)				(16,440)
Consolidated net sales				$ 258,822				$ 274,218

	Year ended October 31, 2004				Year ended October 31, 2003			
	California avocados	International avocados and perishable food products	Processed products	Total	California avocados	International avocados and perishable food products	Processed products	Total
Third-party sales:								
California avocados	$ 150,159	$ —	$ —	$ 150,159	$ 140,795	$ —	$ —	$ 140,795
Imported avocados	—	54,589	—	54,589	—	56,306	—	56,306
Papayas	—	6,846	—	6,846	—	2,920	—	2,920
Specialities and tropicals	—	14,233	—	14,233	—	30	—	30
Processed - food service	—	—	27,352	27,352	—	—	28,545	28,545
Processed - retail and club	—	—	4,285	4,285	—	—	5,165	5,165
Total fruit and product sales to third-parties	150,159	75,668	31,637	257,464	140,795	59,256	33,710	233,761
Freight and other charges	11,946	10,968	534	23,448	8,997	10,079	290	19,366
Total gross sales to third-parties	162,105	86,636	32,171	280,912	149,792	69,335	34,000	253,127
Less sales incentives	(131)	(48)	(6,515)	(6,694)	(157)	(251)	(5,958)	(6,366)
Total net sales to third-parties	161,974	86,588	25,656	274,218	149,635	69,084	28,042	246,761
Intercompany sales	1,512	7,835	7,093	16,440	—	6,263	4,318	10,581
Net sales	$ 163,486	$ 94,423	$ 32,749	290,658	$ 149,635	$ 75,347	$ 32,360	257,342
Intercompany sales eliminations				(16,440)				(10,581)
Consolidated net sales				$ 274,218				$ 246,761

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. All intercompany sales are eliminated in our consolidated results of operations.

California Avocados

Net sales delivered by the business decreased by approximately $49.9 million, or 30.8%, from fiscal 2004 to 2005. The decrease in sales primarily reflects a 31.3% decrease in pounds of avocados sold, partially offset by an increase in our average selling prices when compared to the same prior period. This decrease in pounds sold is consistent with the expected decrease in the overall harvest of the California avocado crop for the 2004/2005 season. Our market share of California avocados remained consistent at 34.4% for the year ended October 31, 2005, compared to 34.7% for the same period in the prior year. Based on estimates generated from the California Avocado Commission, we expect the California avocado crop for the 2005/2006 season to be substantially larger than the 2004/2005 crop.

For fiscal year 2005, average selling prices, on a per carton basis, for California avocados were 6.7% higher when compared to the same prior year period. This pricing structure primarily reflects the impact of a smaller California avocado harvest, partially offset by an increase in foreign-sourced fruit in the U.S. marketplace. For fiscal year 2006, we believe that the anticipated increase of avocados in the U.S. marketplace, primarily related to an expected larger California avocado crop discussed above, will put increasing pressure on sales prices.

Net sales delivered by the business increased by approximately $12.3 million, or 8.2%, from fiscal 2003 to 2004. This increase in sales reflects a 24.2% increase in pounds of avocados sold, partially offset by a decrease in our average selling prices when compared to the same prior year period. This increase in pounds sold was consistent with the increase in the overall harvest of the California avocado crop for the 2003/2004 season. Our market share of California avocados remained consistent at 34.7% for fiscal year 2004, compared to 34.2% for the same period in the prior year.

For fiscal year 2004, average selling prices, on a per carton basis, for California avocados were 18.0% lower when compared to the same prior year period. This pricing structure primarily reflects the impact of a larger California avocado harvest.

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, including imported and California grown fruit. 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 California avocado and international avocado businesses. During fiscal 2005, 2004 and 2003, we remitted approximately $2.4 million, $3.3 million and $2.4 million to the Hass Avocado Board representing our share of such marketing expenses.

International and Perishable Food Products

For fiscal year 2005, when compared to the same period in the prior year, sales to third-party customers increased by approximately $31.6 million, or 36.5%, from $86.6 million to $118.2 million. The increased sales to third-parties by our international and perishable food products business were primarily driven by the additional sales related to Mexican and Chilean grown avocados in the U.S., Japanese, and/or European marketplace. These increases, however, were partially offset by decreased sales of Dominican Republic grown avocados. While we believe that sales of Mexican grown avocados will continue to show a growing trend, we do not expect a trend as strong as we experienced in fiscal 2005, which was primarily related to the aforementioned USDA rule allowing Hass avocado imports from Mexico into 50 states year round (subject to certain restrictions—see comment above). We intend to leverage our position as the largest packer of Mexican grown avocados for export markets to improve the overall performance of this business.

Sales of Mexican and Chilean sourced fruit increased $24.7 million and $6.1 million for fiscal year 2005, when compared to the same prior year period, primarily as a result of a 62.8% and 65.7% increase in pounds of Mexican and Chilean fruit handled. Such increases, however, were partially offset by decreases in Dominican Republic fruit sales. For fiscal year 2005, sales of Dominican Republic sourced fruit decreased $4.3 million when compared to the same prior period. This was primarily the result of a 52.4% decrease in the volume of Dominican Republic fruit handled, when compared to the same prior year period. Pricing during fiscal year 2005 was stable when compared to fiscal 2004.

For fiscal year 2004, when compared to the same period in the prior year, sales to third-party customers increased by approximately $17.5 million, or 25.3%, from $69.1 million to $86.6 million. The increased sales to third-parties by our international and perishable food products business were primarily driven by the additional sales related to the acquisition of Maui in November 2003, as well as increased sales of Mexican and Dominican Republic grown avocados in the U.S., Japanese, and/or European marketplace. These increases, however, were partially offset by decreased sales of Chilean grown avocados.

For fiscal year 2004, the additional sales related to the acquisition of Maui totaled approximately $19.8 million (approximately $1.5 million of such sales were related to California avocados). Also, sales of Mexican and Dominican Republic sourced fruit increased $4.1 million and $6.9 million for fiscal year 2004, when compared to the same prior year period, primarily as a result of a 9.8% and 100% increase in pounds of Mexican and Dominican Republic fruit handled. Such increases, however, were partially offset by decreases in Chilean fruit sales. For fiscal year 2004, sales of Chilean sourced fruit decreased $12.3 million when compared to the same prior period. This was primarily the result of a 42.1% decrease in the volume of Chilean fruit handled, when compared to the same prior year period. Pricing during fiscal year 2004 was fairly stable as well, when compared to fiscal 2003.

Processed Products

Net sales to third-party customers increased by approximately $2.9 million, or 11.2%, from $25.7 million for fiscal year 2004 to $28.5 million for fiscal year 2005. The increase in net sales to third-party customers is primarily attributable to an increase of 2.3 million pounds of product sold, or 17.4%, net of a decrease in sales incentives and promotions paid, totaling $0.07 per pound of product sold, or 14.3%. Such increase, however, was partially offset by a decrease in the sales price per product pound sold of $0.09, or 4.7%. During fiscal year 2005, the increase in pounds sold primarily relates to an increase in the sale of our high-pressure guacamole product, which increased 56.2% when compared to the same prior year period. The decrease in our average selling price and sales incentives and promotional activities paid primarily relates to a change in our product mix.

Net sales to third-party customers decreased by approximately $2.3 million, or 8.5%, from $28.0 million for fiscal year 2003 to $25.7 million for fiscal year 2004. The decrease in net sales to third-party customers is primarily attributable to a decrease in 1.4 million pounds of product sold, or 9.5%, and an increase in sales incentives and promotional activities paid of $0.6 million, or 8.5%, partially offset by an increase in the sales price per product pound sold of $0.09, or 3.9%. During fiscal year 2004, the decrease in pounds sold primarily relates to a lack of inventory to meet customer demand. Such lack of inventory was primarily related to reduced production capabilities during construction of our new processed facility. As a result, and, in order to maintain good customer relationships, we increased our sales incentives and promotional activities paid.

During fiscal year 2005, we operated one high-pressure line designed to manufacture processed avocado products that are not frozen (guacamole) in Uruapan. This machine ran at about 60% capacity (with one shift) through October 2005. We anticipate that we will operate such high-pressure machine at a higher capacity during fiscal year 2006. We presently own another, much smaller, high-pressure machine, located in Uruapan, that is currently not in use. We are considering various alternatives with such machine, including trading such machine in for credit towards an other high-pressure machine with similar capacity as our high-pressure machine that is currently in use in Uruapan. Utilizing avocado pulp and chunks, these high-pressure machines allow us to deliver fresh guacamole to retail and food service customers. Sales of our high-pressure product totaled approximately $8.7 million and $5.5 million for fiscal years 2005 and 2004.

Gross Margins

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

(Dollars in thousands)	2005	Change	2004	Change	2003
Gross Margins:					
California avocados	$ 10,502	(38.6)%	$ 17,102	15.0%	$ 14,873
International avocados and perishable food products	6,569	32.5%	4,958	(9.1)%	5,457
Processed products	4,663	39.4%	3,344	(33.3)%	5,017
Total gross margins	$ 21,734	(14.4)%	$ 25,404	0.2%	$ 25,347
Gross profit percentages:					
California avocados	9.4%		10.6%		9.9%
International avocados and perishable food products	5.6%		5.7%		7.9%
Processed products	16.3%		13.0%		17.9%
Consolidated	8.4%		9.3%		10.3%

Our cost of goods sold 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, decreased 0.9% for fiscal year 2005 when compared to fiscal year 2004. This decrease was principally attributable to decreased profitability in our California avocado segment, partially offset by increased profitability in our international avocados and perishable food products and our processed product operating segments. Consolidated gross margin, as a percent of sales, decreased 1.0% for fiscal year 2004 when compared to fiscal year 2003. This decrease was principally attributable to decreased profitability in our international avocados and perishable food products operating segment and our processed product segment, partially offset by increased profitability in our California avocado segment.

Gross margins and gross profit percentages for our California avocado business are largely dependent on production yields achieved at our packinghouses, current market prices of avocados, and the volume of avocados packed. The decrease in our gross margin percentage during fiscal year 2005 was primarily related to a significant decrease in pounds of fruit sold. During fiscal year 2005, when compared to fiscal year 2004, we experienced a 31.3% decrease in pounds of avocados sold. This had the effect of increasing our per pound costs, which, as a result, negatively impacted gross margins. Such higher per pound cost was partially offset, however, by an increase in our packing and marketing fee (which is charged to cover our costs and a profit).

The increase in our gross margin percentage during fiscal year 2004 was primarily related to a significant increase in pounds of fruit handled. During fiscal year 2004, when compared to fiscal year 2003, fruit handled by our California packinghouses increased approximately 31.4%. This had the effect of reducing our per pound costs, which, as a result, positively impacted gross margins.

During fiscal 2005, freight and handling costs decreased by approximately $1.9 million, from $5.0 million in fiscal 2004 to $3.1 million during fiscal 2005, primarily related to volume fluctuations. During fiscal 2004, freight and handling costs increased by approximately $1.5 million, from $3.5 million in fiscal 2003 to $5.0 million during fiscal 2004. We continue to review our packinghouse processes for potential improvements in packing efficiencies and more favorable production yields.

The gross margin and gross profit percentage for our international avocado and perishable food products business are dependent on the volume of fruit we handle and the competitiveness of the returns that we provide to third-party domestic packers. For example, the gross margins we earn on avocados procured from Chile and the Dominican Republic, as well as papayas grown in Hawaii, are generally based on a commission agreed to with each packer that is subject to incentive provisions. These provisions provide for us to deliver returns to these packers that are competitive with those delivered by other handlers. Accordingly, the gross margin results for this business are a function of the volume handled and the competitiveness of the sales prices that we realize as compared to others. 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 year 2005, we generated gross margins of $1.4 million from the sale of fresh produce products that were packed by third parties, whereas gross margins for fiscal year 2004 were $1.5 million. For fiscal year 2004, we generated gross margins of $1.5 million from the sale of fresh produce products that were packed by third parties, whereas gross margins for fiscal year 2003 were $2.3 million.

Our business with Mexican growers differs in that we operate a packinghouse in Mexico and purchase avocados directly from the field. Consequently, the gross margin and gross profit percentages generated by our Mexican operations are significantly impacted by the volume of avocados handled by our packinghouse and the cost of the fruit. During fiscal year 2005, our gross margins generated from the sale of Mexican avocados increased from approximately $1.5 million in fiscal year 2004 to $3.8 million in fiscal year 2005. We did not experience a significant fluctuation in our gross margin percentage for fiscal 2005 as compared to fiscal 2004 related to our Mexican operations. During fiscal year 2004, our gross margins, and related gross margin percentages, generated from the sale of Mexican avocados deteriorated from approximately $2.2 million in fiscal year 2003 to $1.5 million in fiscal year 2004, principally as a result of an increase in fruit costs. This increase in fruit costs had the effect of increasing our per pound costs, which, as a result, adversely affected gross margins. Further, we experienced an increase in sales of non-exported fruit, which typically generate lower margins then exported fruit. These decreases, however, were partially offset by increases in fruit volume during fiscal year 2004, which had the effect of reducing our per pound costs.

Gross margins and gross profit 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. During fiscal year 2005, the processed products gross profit percentages increased primarily as a result of efficiencies related to the relocation of production from Santa Paula, California and Mexicali, Mexico to our newly acquired facility in Uruapan, Mexico. Such efficiencies include the elimination of duplicative overhead, as well as lower production costs. Additionally, our processed product segment experienced lower fruit costs. Such improvements, however, were partially offset by an increase in the sale of products that generate a lower gross margin then those sold in the prior year. During fiscal year 2004, the processed products gross profit percentages decreased primarily as a result of inefficiencies experienced in the start-up process of our newly constructed facility in Uruapan, Mexico and the winding down of the operations at our Mexicali, Mexico facility. Such inefficiencies primarily relate to subcontracting costs and duplicative overhead costs. Additionally, our processed product segment experienced higher fruit costs, as well as an increase in the sale of products that generate a lower gross margin than those sold in the prior year. We anticipate that the gross profit percentage for our processed product segment will continue to experience fluctuations primarily due to the uncertainty of fruit costs that will be used in the production process.

Selling, General and Administrative

(Dollars in thousands)	2005	Change	2004	Change	2003
Selling, general and administrative	$ 18,588	16.8%	$ 15,920	8.7%	$ 14,651
Percentage of net sales	7.2%		5.8%		5.9%

Selling, general and administrative expenses include costs of marketing and advertising, sales expenses, and other general and administrative costs. For fiscal year 2005, selling, general and administrative expenses increased by $2.7 million, or 16.8%, compared to the same period for fiscal 2004. This increase was primarily related to higher corporate costs, including, but not limited to, costs related to implementing provisions required under section 404 of the Sarbanes-Oxley Act (totaling approximately $2.2 million), an increase in bad debt expense (totaling approximately $0.5 million), and corporate moving expenses (totaling approximately $0.4 million). Such higher corporate costs were partially offset by a decrease in employee compensation costs (totaling approximately $0.7 million).

For fiscal year 2004, selling, general and administrative expenses increased by $1.3 million, or 8.7%, compared to fiscal year 2003. The increased general and administrative costs related principally to selling, general and administrative expenses incurred by Maui. Maui's selling, general and administrative expenses totaled approximately $0.7 million for fiscal year 2004. Additionally, we also experienced higher costs of corporate functions, such as accounting, information systems, and human resources (totaling approximately $0.8 million). These increased costs were partially offset by reduced employee compensation expenses of approximately $0.5 million, which was primarily related to a reduction in bonuses during fiscal year 2004 as compared to fiscal year 2003.

Other Income, Net

(Dollars in thousands)	2005	Change	2004	Change	2003
Other income, net	$ 2,357	393.1%	$ 478	(46.2)%	$ 889
Percentage of net sales	0.9%		0.2%		0.4%

Other income, net includes interest income and expense generated primarily in connection with our financing activities, as well as certain other transactions that are outside of the course of normal operations. During fiscal year 2005, other income, net includes the gain on the sale of our corporate facility totaling approximately $1.7 million. During fiscal years 2005, 2004 and 2003, other income, net includes interest accrued on notes receivable from directors and officers of approximately $0.2 million, $0.2 million and $0.3 million.

Provision for Income Taxes

(Dollars in thousands)	2005	Change	2004	Change	2003
Provision for income taxes	$ 2,181	(38.9)%	$ 3,567	(17.4)%	$ 4,319
Percentage of income before provision for income taxes	39.6%		36.5%		37.6%

The effective income tax rate for fiscal year 2005 and 2004 is higher than the federal statutory rate principally due to state taxes. Our effective income tax rate increased from 36.5% in fiscal year 2004 to 39.6% in fiscal year 2005 primarily as a result of an unfavorable increase in our foreign tax rates during fiscal year 2005 when compared to fiscal year 2004. Our effective income tax rate decreased from 37.6% in fiscal year 2003 to 36.5% in fiscal year 2004 primarily as a result of a favorable reduction in our foreign tax rates during fiscal year 2004 when compared to fiscal year 2003.

QUARTERLY RESULTS OF OPERATIONS

The following table presents our operating results for each of the eight fiscal quarters in the period ended October 31, 2005. 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.

	Three monts ended							
(in thousands, except per share amounts)	Oct. 31, 2005	July 31, 2005	Apr. 30, 2005	Jan. 31, 2005	Oct. 31, 2004	July 31, 2004	Apr. 30, 2004	Jan. 31, 2004
Statement of Operations Data								
Net sales	$ 62,246	$ 88,699	$ 60,206	$ 47,671	$ 65,436	$ 83,318	$ 76,421	$ 49,043
Cost of sales	58,013	79,505	53,851	45,719	59,425	74,833	68,625	45,931
Gross margin	4,233	9,194	6,355	1,952	6,011	8,485	7,796	3,112
Selling, general and administrative	4,943	4,825	4,307	4,513	4,416	3,777	4,012	3,715
Restructuring charge					185			
Operating income (loss)	(710)	4,369	2,048	(2,561)	1,410	4,708	3,784	(603)
Other income, net	213	153	1,909	82	167	91	106	114
Income before provision (benefit) for income taxes	(497)	4,522	3,957	(2,479)	1,577	4,799	3,890	(489)
Provision (benefit) for income taxes	20	1,603	1,490	(932)	467	1,739	1,556	(195)
Net income (loss)	$ (517)	$ 2,919	$ 2,467	$ (1,547)	$ 1,110	$ 3,060	$ 2,334	$ (294)
Net income (loss) per share:								
Basic	$ (0.04)	$ 0.21	$ 0.18	$ (0.11)	$ 0.08	$ 0.23	$ 0.17	$ (0.02)
Diluted	$ (0.04)	$ 0.21	$ 0.18	$ (0.11)	$ 0.08	$ 0.23	$ 0.17	$ (0.02)
Number of shares used in per share computation:								
Basic	14,371	14,171	13,507	13,507	13,507	13,507	13,507	13,469
Diluted	14,432	14,237	13,580	13,507	13,591	13,594	13,589	13,469

LIQUIDITY AND CAPITAL RESOURCES

Operating activities for fiscal 2005, 2004 and 2003 provided cash flows of $5.6 million, $4.5 million, and $15.2 million. Fiscal year 2005 operating cash flows reflect our net income of $3.3 million, net noncash charges (depreciation and amortization, gains, losses, and stock compensation expense) of $1.8 million and a net increase in the non-cash components of our working capital of approximately $0.5 million.

Fiscal year 2005 increases in operating cash flows, caused by working capital changes, include a increase in trade accounts payable and accrued expenses of $3.2 million, a decrease in accounts receivable of $1.4 million, a decrease in inventory of $1.3 million, and an increase in advance to suppliers of $1.3 million, partially offset by a net decrease in payable to growers of $4.0 million, a net decrease in deferred income taxes of $1.9 million, and an increase in prepaid expenses and other assets of $0.8 million.

Decreases in our accounts receivable balance as of October 31, 2005, when compared to October 31, 2004, primarily reflect a significantly lower volume of California avocado sales recorded in the month of October 2005, as compared to October 2004, partially offset by additional international avocados and perishable food product sales for the same period. Similarly, the amounts payable to our growers also reflects the decrease in the volume of California avocados marketed in the month of October 2005, as compared to October 2004. These volume level fluctuations are consistent with the harvests experienced in previous years. Additionally, decreases in our inventory balance as of October 31, 2005, when compared to October 31, 2004, primarily reflect a significant decrease in the manufacture of finished, non-high-pressure processed products. Such decrease was primarily related to higher fruit-prices near our fiscal year end, as well as a shift in manufacturing to our high-pressure products. Due to the high turnover rate of our high-pressure products, we do not accumulate such inventory on a basis consistent with that of other products.

Decreases in advances to suppliers as of October 31, 2005, when compared to October 31, 2004, primarily relates to an earlier start of the Chilean avocado harvest, which resulted in quicker collections on our advances. Increases in our trade accounts payable and accrued expenses as of October 31, 2005, when compared to October 31, 2004, primarily reflect additional accrual of expenses related to implementing certain provisions of the Sarbanes-Oxley Act, as well as accruals related to purchased fruit. The increase in prepaid expenses and other assets as of October 31, 2005, when compared to October 31, 2004, was primarily a result of additional miscellaneous receivables as of our fiscal year end.

Cash used in investing activities was $11.9 million, $8.5 million, and $4.5 million for fiscal years 2005, 2004, and 2003. Fiscal year 2005 cash flows used in investing activities include the acquisition of Limoneira common stock, net of our common stock issued, totaling $13.5 million and capital expenditures of $1.9 million, principally related to the construction of coolers for our ProRipeVIP™ avocado ripening program, partially offset by the proceeds related to the sale of our corporate facility located in Santa Ana, California totaling $3.4 million.

Cash provided by financing activities was $6.9 million for fiscal year 2005, while cash used in financing activities was $0.7 million, and $6.3 million for fiscal years 2004 and 2003. Cash provided during fiscal year 2005 primarily includes proceeds from the issuance of long-term debt to finance our purchase of Limoneira common stock, totaling $13.0 million. Such proceeds were partially offset, however, by the payment of a dividend totaling $4.1 million, as well as a $2.0 million payment to retire 200,000 shares of our common stock.

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, 2005 and 2004 totaled $1.1 million and $0.6 million. Our working capital at October 31, 2005 was $17.6 million compared to $20.4 million at October 31, 2004. The overall working capital decrease primarily reflects additional debt related to our Limoneira common stock purchase and additional accrued expenses, partially offset by a decrease in payable to growers and trade accounts payable.

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. During calendar year 2005, we renewed our two short-term, non-collateralized, revolving credit facilities. These credit facilities expire in February 2007 and April 2008 and are with separate banks. Under the terms of these agreements, we advanced funds for working capital purposes. Total credit available under the combined short-term borrowing agreements was $24 million, with a weighted-average interest rate of 4.8% and 2.9% at October 31, 2005 and 2004. Under these credit facilities, we had $1.4 million and $2.0 million outstanding as of October 31, 2005 and 2004. The credit facilities contain various financial covenants with which we were in compliance at October 31, 2005. The most significant financial covenants relate to working capital, tangible net worth (as defined), and Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) (as defined) requirements.

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, 2005:

	Payments due by period				
Contractual Obligations	Total	Less than 1 year	1-3 years	4-5 years	More than 5 years
Long-term debt obligations (including interest)	$ 13,782	$ 1,388	$ 4,149	$ 2,748	$ 5,497
Short-term borrowings	1,424	1,424	-	-	-
Defined benefit plan	510	55	165	110	180
Operating lease commitments	3,706	1,068	1,550	414	674
Total	$ 19,422	$ 3,935	$ 5,864	$ 3,272	$ 6,351

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.

We did not have any significant commitments for capital expenditures as of October 31, 2005.

IMPACT OF RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

See Note 2 of Notes to Consolidated Financial Statements.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our financial instruments include cash and cash equivalents, accounts receivable, notes receivable from shareholders, payable to growers, accounts payable, current 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, 2005.

Expected maturity date October 31, (All amounts in thousands)	2006	2007	2008	2009	2010	Thereafter	Total	Fair Value
Assets								
Cash and cash equivalents[1]	$ 1,133	$ —	$ —	$ —	$ —	$ —	$ 1,133	$ 1,133
Accounts receivable[1]	19,253	—	—	—	—	—	19,253	19,253
Notes receivable from shareholders[2]	175	2,461	—	—	—	—	2,636	2,529
Liabilities								
Payable to growers[1]	$ 1,753	$ —	$ —	$ —	$ —	$ —	$ 1,753	$ 1,753
Accounts payable[1]	1,892	—	—	—	—	—	1,892	1,892
Current borrowings pursuant to credit facilities[1]	1,424	—	—	—	—	—	1,424	1,424
Fixed-rate long-term obligations[3]	1,313	1,309	1,308	1,302	1,300	6,500	13,032	13,032

(1) We believe the carrying amounts of cash and cash equivalents, accounts receivable, 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) Notes receivable from shareholders bear interest at 7.0%. We believe that a portfolio of loans with a similar risk profile would currently yield a return of 9.25%. 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 $46,000.
(3) Fixed-rate long-term obligations bear interest rates ranging from 3.3% to 8.2% with a weighted-average interest rate of 6.5%. We believe that loans with a similar risk profile would currently yield a return of 6.5%. 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 $534,000.

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 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. Consequently, the spot rate for the Mexican peso has a moderate impact on our operating results. However, we do not believe that this impact is sufficient to warrant the use of derivative instruments to hedge the fluctuation in the Mexican peso. Total foreign currency gains and losses for each of the three years in the period ended October 31, 2005 do not exceed $0.1 million.

Consolidated Balance Sheets

October 31,	2005	2004
Assets		
Current assets:		
Cash and cash equivalents	$ 1,133	$ 636
Accounts receivable, net of allowances of $2,688 (2005) and $1,087 (2004)	19,253	21,131
Inventories, net	10,096	11,375
Prepaid expenses and other current assets	5,879	4,807
Advances to suppliers	1,141	2,413
Income taxes receivable	893	803
Deferred income taxes	2,651	1,775
Total current assets	41,046	42,940
Property, plant, and equipment, net	16,897	17,427
Building held for sale	—	1,658
Investment in Limoneira	45,634	—
Goodwill	3,591	3,591
Other assets	1,314	1,782
	$ 108,482	$ 67,398
Liabilities and shareholders' equity		
Current liabilities:		
Payable to growers	$ 1,753	$ 5,789
Trade accounts payable	1,892	2,490
Accrued expenses	12,482	8,234
Short-term borrowings	1,424	2,000
Dividend payable	4,564	4,052
Current portion of long-term obligations	1,313	22
Total current liabilities	23,428	22,587
Long-term liabilities:		
Long-term obligations, less current portion	11,719	34
Deferred income taxes	8,589	840
Total long-term liabilities	20,308	874
Commitments and contingencies (Note 8)		
Shareholders' equity:		
Common stock ($0.001 par value, 100,000 shares authorized; 14,362 and 13,507 shares outstanding at October 31, 2005 and 2004)	14	14
Additional paid-in capital	37,240	28,822
Notes receivable from shareholders	(2,636)	(2,883)
Accumulated other comprehensive income	13,386	—
Retained earnings	16,742	17,984
Total shareholders' equity	64,746	43,937
	$ 108,482	$ 67,398

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

Year Ended October 31,	2005	2004	2003
Net sales	$ 258,822	$ 274,218	$ 246,761
Cost of sales	237,088	248,814	221,414
Gross margin	21,734	25,404	25,347
Selling, general and administrative	18,588	15,920	14,651
Restructuring charge	-	185	106
Operating income	3,146	9,299	10,590
Other income, net	2,357	478	889
Income before provision for income taxes	5,503	9,777	11,479
Provision for income taxes	2,181	3,567	4,319
Net income	$ 3,322	$ 6,210	$ 7,160
Net income per share:			
Basic	$ 0.24	$ 0.46	$ 0.55
Diluted	$ 0.24	$ 0.46	$ 0.55
Number of shares used in per share computation:			
Basic	13,892	13,497	12,911
Diluted	13,985	13,582	12,944

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

Year ended October 31,	2005	2004	2003
Net income	$ 3,322	$ 6,210	$ 7,160
Other comprehensive income, before tax:			
Unrealized holding gains arising during period	22,184	—	—
Income tax expense related to items of other comprehensive income	(8,798)	—	—
Other comprehensive income, net of tax	13,386	—	—
Comprehensive income	$ 16,708	$ 6,210	$ 7,160

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

	Common Stock		Additional Paid-in Capital	Notes Receivable From Shareholders	Accumulated Other Comprehensive Income	Retained Earnings	Total
	Shares	Amount					
Balance, October 31, 2002	12,835	$ 13	$ 24,221	$ (5,720)	$ —	$ 12,042	$ 30,556
Exercise of stock options and income tax benefit of $72	95	—	547	—	—	—	547
Collections on shareholder notes receivable	—	—	—	2,157	—	—	2,157
Additional costs related to Rights Offering	—	—	(41)	—	—	—	(41)
Dividend declared to shareholders	—	—	—	—	—	(3,232)	(3,232)
Net income	—	—	—	—	—	7,160	7,160
Balance, October 31, 2003	12,930	13	24,727	(3,563)	—	15,970	37,147
Purchase acquisition	577	1	4,049	—	—	—	4,050
Stock compensation expense	—	—	46	—	—	—	46
Collections on shareholder notes receivable	—	—	—	680	—	—	680
Dividend declared to shareholders	—	—	—	—	—	(4,196)	(4,196)
Net income	—	—	—	—	—	6,210	6,210
Balance, October 31, 2004	13,507	14	28,822	(2,883)	—	17,984	43,937
Exercise of stock options and income tax benefit of $59	55	—	334	—	—	—	334
Stock compensation expense	—	—	84	—	—	—	84
Issuance of stock to Limoneira	1,000	1	9,999	—	—	—	10,000
Unrealized gain on Limoneira investment	—	—	—	—	13,386	—	13,386
Retirement of common stock	(200)	(1)	(1,999)	—	—	—	(2,000)
Collections on shareholder notes receivable	—	—	—	247	—	—	247
Dividend declared to shareholders	—	—	—	—	—	(4,564)	(4,564)
Net income	—	—	—	—	—	3,322	3,322
Balance, October 31, 2005	14,362	$ 14	$ 37,240	$ (2,636)	$ 13,386	$ 16,742	$ 64,746

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Year Ended October 31,	2005	2004	2003
Cash Flows from Operating Activities:			
Net income	$ 3,322	$ 6,210	$ 7,160
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	2,862	2,648	2,024
Provision for losses on accounts receivable	475	25	19
Stock compensation expense	84	46	—
(Gain)/loss on disposal of property, plant, and equipment	(1,668)	—	32
Gain on sale of investments held to maturity	—	—	(163)
Effect on cash of changes in operating assets and liabilities:			
Accounts receivable	1,403	(4,596)	1,328
Inventories, net	1,279	(3,354)	4,440
Prepaid expenses and other assets	(723)	2,798	620
Advances to suppliers	1,272	(1,789)	1,911
Income taxes receivable	(31)	(803)	360
Deferred income taxes	(1,925)	(320)	(226)
Payable to growers	(4,036)	2,343	(2,922)
Trade accounts payable and accrued expenses	3,254	1,303	588
Income tax payable	—	(51)	51
Net cash provided by operating activities	5,568	4,460	15,222
Cash Flows from Investing Activities:			
Proceeds from sale of investments held to maturity	—	—	2,060
Direct costs of acquisition of Maui Fresh International, Inc.	—	(65)	—
Acquisitions of property, plant, and equipment	(1,874)	(8,409)	(6,535)
Cash settlement of the acquisition of Limoneira stock, net of our common stock issued	(13,450)	—	—
Proceeds from sale of building	3,383	—	—
Proceeds from sale of short-term investments	—	—	2,223
Purchases of short-term investments	—	—	(2,223)
Net cash used in investing activities	(11,941)	(8,474)	(4,475)
Cash Flows from Financing Activities:			
Dividend paid to shareholders	(4,052)	(3,376)	(2,567)
Proceeds from (repayments of) short-term borrowings, net	(576)	2,000	(3,000)
Proceeds from issuance of long-term debt	13,000	—	—
Payments on long-term obligations	(24)	(29)	(3,317)
Retirement of common stock	(2,000)	—	—
Proceeds from stock option exercises	275	—	475
Proceeds from collection of shareholder notes receivable	247	680	2,157
Additional rights offering costs	—	—	(41)
Net cash provided by (used in) financing activities	6,870	(725)	(6,293)
Net increase (decrease) in cash and cash equivalents	497	(4,739)	4,454
Cash and cash equivalents, beginning of year	636	5,375	921
Cash and cash equivalents, end of year	$ 1,133	$ 636	$ 5,375
Supplemental Information -			
Cash paid during the year for:			
Interest	$ 399	$ 66	$ 179
Income taxes	$ 3,875	$ 4,899	$ 4,170
Noncash Investing and Financing Activities:			
Tax receivable increase related to stock option exercise	$ 59	$ —	$ 72
Declared dividends payable	$ 4,564	$ 4,052	$ 3,232
Issuance of our common stock in Limoneira transaction	$ 10,000	$ —	$ —
Construction in progress included in trade accounts payable and accrued expenses	$ 396	$ —	$ —
Unrealized holding gains	$ 22,184	$ —	$ —

In November 2003, the Company acquired all of the outstanding common shares of Maui Fresh International, Inc. for 576,924 shares of the Company's common stock, valued at $4.05 million, plus acquisition costs of $65,000. See Note 1 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)	2004
Fixed assets	$ 114
Goodwill	3,526
Intangible assets	867
Total non-cash assets acquired	4,507
Current liabilities	110
Deferred tax liabilities assumed	347
Net non-cash assets acquired	$ 4,050

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. DESCRIPTION OF THE BUSINESS

Business

Calavo Growers, Inc. (Calavo, the Company, we, us or our) procures and markets avocados and other perishable commodities and prepares and distributes processed avocado products. Our expertise in marketing and distributing avocados, processed avocados, and other perishable foods allows us to deliver a wide array of fresh and processed food products to food distributors, produce wholesalers, supermarkets, and restaurants on a worldwide basis. Through our three operating facilities in southern California and two facilities in Mexico, we sort, pack and/or ripen avocados procured in California and Mexico and prepare processed avocado products. Additionally, we procure avocados internationally, principally from Mexico, Chile, and the Dominican Republic, and distribute other perishable foods, such as Hawaiian grown papayas. We report these operations in three different business segments: (1) California avocados, (2) international avocados and perishable food products and (3) processed products.

In order to diversify our product lines and increase synergies within the marketplace, we acquired all the outstanding common shares of Maui Fresh International, Inc. (Maui) for 576,924 shares of our common stock valued at $4.05 million in November 2003, plus acquisition costs of $65,000. Maui is a specialty produce company servicing a wide array of retail, food service, and terminal market wholesale customers with over 20 different specialty commodities. The value of our common stock issued in conjunction with the acquisition was based on the average quoted market price of our common stock for three days before and after the announcement date.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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.; and Maui. All intercompany accounts and transactions have been eliminated.

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. Effective May 1, 2005, based on a review performed by us, we changed our estimate of useful lives of certain property, plant and equipment. The principal estimated useful lives were: buildings and improvements - 7 to 30 years; leasehold improvements - the lesser of the term of the lease or 7 years; equipment - 7 years; information systems hardware and software - 3 to 5 years. The revised estimated useful lives are: 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. The change in estimated useful lives increased our operating income by approximately $0.4 million during the six months ended October 31, 2005 when compared to the old useful lives. Significant renewals and betterments are capitalized and replaced units are written off. Maintenance and repairs are charged to expense.

We capitalize software development costs for internal use in accordance with Statement of Position 98-1, Accounting for Costs of Computer Software Developed or Obtained for Internal Use (SOP 98-1). Capitalization of software development costs begins in the application development stage and ends when the asset is placed into service. We amortize such costs using the straight-line basis over estimated useful lives. Pursuant to SOP 98-1, we capitalized approximately $30,000 and $254,000 of software development and acquisition costs in 2005 and 2004 relating to systems supporting our business infrastructure.

Goodwill and Acquired Intangible Assets

The purchase method of accounting for business combinations requires us to make use of estimates and judgments to allocate the purchase price paid for acquisitions to the fair value of the net tangible and identifiable intangible assets. Goodwill is tested for impairment annually, or when a possible impairment is indicated, using the fair value based test prescribed by Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets. The impairment test requires us to compare the fair value of business reporting units to carrying value, including goodwill. We primarily use an "income approach" (which considers the present value of future cash flows) in combination with a "market approach" (which considers what other purchasers in the marketplace have paid for similar businesses) to determine fair value. Future cash flows typically include operating cash flows for the business for five years and an estimated terminal value. Management judgment is required in the estimation of future operating results and to determine the appropriate terminal values. Future operating results and terminal values could differ from the estimates and could require a provision for impairment in a future period. We performed our annual assessment of goodwill and determined that no impairment existed as of October 31, 2005.

Included in other assets in the accompanying consolidated financial statements are the following intangible assets: customer-related intangibles of $590,000 (accumulated amortization of $207,000 at October 31, 2005), brand name intangibles of $275,000 and other identified intangibles totaling $2,000 (accumulated amortization of $2,000 at October 31, 2005). The customer-related intangibles and other identified intangibles are being amortized over five and two years. The intangible asset related to the brand name currently has an indefinite remaining useful life and, as a result, is not currently subject to amortization. We anticipate recording amortization expense of approximately $119,000 per annum from fiscal 2006 through fiscal 2008, with the remaining amortization expense of approximately $26,000 recorded in fiscal 2009.

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, 2005.

Long-lived assets held for sale are reported at the lower of carrying amount or fair value less cost to sell.

Advances to Suppliers

We advance funds to third-party growers primarily in Chile and Mexico for various farming needs. 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, 2005.

Revenue Recognition

Sales of products and related costs of products sold are recognized when persuasive evidence of an arrangement exists, shipment has been made, title passes, the price is fixed or determinable and collectibility 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.

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 average length of time between the product shipment date and the date on which we pay the customer the promotional allowance. The product of this lag factor and our historical promotional allowance payment rate is the basis for the promotional allowance included in accrued expenses on our balance sheet. 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 enter into consignment arrangements with avocado 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 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, 2005, 2004 and 2003 in the financial statements pursuant to consignment arrangements are as follows (in thousands):

	2005	2004	2003
Sales	$ 32,003	$ 26,878	$ 33,675
Cost of Sales	30,298	25,985	31,900
Gross Margin	$ 1,705	$ 893	$ 1,775

Advertising Expense

Advertising costs are expensed when incurred. Such costs in fiscal 2005, 2004, and 2003 were approximately $264,000, $213,000, and $223,000.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes.

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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, 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 income taxes under the provisions of SFAS No. 109, Accounting for Income Taxes. This statement requires the recognition of 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, SFAS No. 109 requires 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.

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 13,892,000, 13,497,000, and 12,911,000 for fiscal years 2005, 2004, and 2003. 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 93,000, 85,000 and 33,000 for fiscal years 2005, 2004 and 2003. There were no anti-dilutive options for fiscal years 2005, 2004 and 2003.

Stock-Based Compensation

As permitted by SFAS No. 123, Accounting for Stock-Based Compensation, which was amended by SFAS No. 148, Accounting for Stock-Based Compensation – Transition and Disclosure, the Company accounts for stock-based compensation under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25) and related interpretations.

Had stock-based compensation been determined based on the fair value at the grant date for awards consistent with the provisions of SFAS No. 123, the Company's pro forma income and pro forma income per share would have been the amounts indicated below (in thousands, except per share amounts):

Year ended October 31,	2005	2004	2003
Net Income:			
As reported	$ 3,322	$ 6,210	$ 7,160
Add: Total stock-based compensation expense determined under APB 25 and related interpretations, net of tax effects	51	28	—
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of tax effects	(54)	(28)	—
Pro forma	$ 3,319	$ 6,210	$ 7,160
Net income per share, as reported:			
Basic	$ 0.25	$ 0.46	$ 0.55
Diluted	$ 0.25	$ 0.46	$ 0.55
Net income per share, pro forma:			
Basic	$ 0.25	$ 0.46	$ 0.55
Diluted	$ 0.25	$ 0.46	$ 0.55

For purposes of pro forma disclosures under SFAS No. 123, the estimated fair value of the options is assumed to be amortized to compensation expense over the options' vesting period. The fair value of the options granted in fiscal year 2005 and 2004 has been estimated at the date of grant using the Black-Scholes and binomial option pricing model with the following assumptions:

	2005	2004
Risk-free interest rate	4.1%	3.3%
Expected volatility	27.6%	26.9%
Dividend yield	3.2%	20%
Expected life (years)	3	5
Weighted-average fair value of options granted	$ 1.65	$ 3.01

The Black-Scholes and binomial option valuation models were developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because options held by our directors and employees have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in our opinion, the existing models do not necessarily provide a reliable single measure of the fair value of these options.

In December 2004, the Financial Standards Accounting Board issued SFAS No. 123(R), Share-Based Payment. This pronouncement amends SFAS No. 123 and supercedes APB 25. SFAS 123(R) requires that companies account for awards of equity instruments issued to employees under the fair value method of accounting and recognize such amounts in the statement of operations. The implementation of this statement will be effective beginning with the Company's first quarter of fiscal 2006 and will be adopted using the modified prospective method.

Marketable Securities

We account for marketable securities in accordance with provisions of SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities (SFAS 115). SFAS 115 addresses the accounting and reporting for investments in fixed maturity securities and for equity securities with readily determinable fair values. Our marketable securities consist of our investment in Limoneira stock (see Note 12). 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 $45.6 million, $23.45 million and $22.2 million as of October 31, 2005.

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 and losses for each of the three years ended October 31, 2005 do not exceed $0.1 million.

Fair Value of Financial Instruments

We believe that the carrying amounts of cash and cash equivalents, accounts receivable, notes receivable from shareholders, accounts payable, and fixed-rate long-term obligations approximates fair value based on either their short-term nature or on terms currently available to the Company in financial markets.

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, 2005.

Recent Accounting Pronouncements

In November 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 151, Inventory Costs, an amendment of ARB No. 43, Chapter 4 (SFAS 151), to clarify that abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage) should be recognized as current period charges, and that fixed production overheads should be allocated to inventory based on normal capacity of production facilities. This statement is effective for the Company's fiscal year beginning November 1, 2005. We do not expect the adoption of this new pronouncement to be significant to our results of operations.

In December 2004, the FASB issued SFAS No. 123(R), Share-Based Payment (SFAS 123(R)). SFAS 123(R) amends FASB Statement No. 123, Accounting for Stock-Based Compensation, and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees. SFAS 123(R) requires that public companies account for awards of equity instruments issued to employees under the fair value method of accounting and recognize such amounts in the statement of operations. The implementation of this statement will be effective beginning with our first quarter of fiscal 2006. We expect the impact of this new pronouncement could be significant to our results of operations.

In May 2005, the FASB issued SFAS 154, Accounting changes and Error Corrections, which replaces APB Opinion No. 20, Accounting Changes, and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements. SFAS No. 154 applies to all voluntary changes in accounting principles and requires retrospective application (a term defined by the statement) to prior periods' financial statements, unless it is impracticable to determine the effect of a change. It also applies to changes required by an accounting pronouncement that does not include specific transition provisions. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. We will adopt SFAS No. 154 as of the beginning of fiscal 2007 and do not expect that the adoption of SFAS No. 154 will have a material impact on our financial condition of results of operations.

Comprehensive Income

Comprehensive income 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, 2005, other comprehensive income includes the unrealized gain on our Limoneira investment totaling $13.4 million, net of income taxes. There was no significant difference between comprehensive income and net income for the fiscal years ended October 31, 2004 and 2003.

Reclassifications

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

3. INVENTORIES

Inventories consist of the following (in thousands):

October 31,	2005	2004
Fresh fruit	$ 3,525	$ 3,424
Packing supplies and ingredients	2,015	2,081
Finished processed foods	4,556	5,870
	$ 10,096	$ 11,375

Cost of goods sold for fiscal year 2005, 2004 and 2003, include inventory write-downs of $0.1 million, $0.3 million and $0.1 million. Write-downs in fiscal 2005 primarily related to a reduction in the cost of pulp used in certain processed avocado products. Write-downs in fiscal year 2004 primarily related to improper handling of product, which we believe related to a subcontractor's error. Write-downs in fiscal 2003 primarily related to reduced customer demand and the discontinuance of various supplies for certain processed avocado products.

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.

4. PROPERTY, PLANT, AND EQUIPMENT

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

October 31,	2005	2004
Land	$ 952	$ 948
Buildings and improvements	13,611	13,342
Leasehold improvements	212	228
Equipment	28,889	28,387
Information systems - Hardware and software	3,997	3,927
Construction in progress	1,349	1,675
	49,010	48,507
Less accumulated depreciation and amortization	(32,113)	(31,080)
	$ 16,897	$ 17,427

The net book value of our old corporate headquarters building, located in Santa Ana, California, totaling approximately $1.7 million, is recorded as Building held for sale in the accompanying October 31, 2004 balance sheet. In March 2005, we completed the sale of such corporate headquarters building for $3.4 million. This transaction resulted in a pre-tax gain on sale of approximately $1.7 million. In conjunction with such sale, we relocated our corporate offices to Santa Paula, California in March 2005. Total expenses related to such relocation approximated $0.4 million. Depreciation expense was $2.7 million, $2.6 million and $2.0 million for fiscal years 2005, 2004, and 2003.

5. OTHER ASSETS

During 1999, we established a Grower Development Program whereby funds could be advanced to growers in exchange for their commitment to deliver a minimum volume of avocados on an annual basis. As of October 31, 2005 and 2004, no additional amounts have been advanced pursuant to this program. Subsequent to October 31, 2005, however, we advanced $0.7 million to certain growers and expect to advance significant additional funds pursuant to this program in fiscal 2006. Advances are not repaid and are amortized to cost of goods sold over the term of the related agreements. The financial statements for fiscal years 2005, 2004 and 2003 include a charge of approximately $322,000, $322,000 and $308,000 representing the amortization of these advances.

6. SHORT-TERM BORROWINGS

During calendar year 2005, we renewed our two short-term, non-collateralized, revolving credit facilities. These credit facilities expire in February 2007 and April 2008 and are with separate banks. Under the terms of these agreements, we advanced funds for working capital purposes. Total credit available under the combined short-term borrowing agreements was $24 million, with a weighted-average interest rate of 4.8% and 2.9% at October 31, 2005 and 2004. Under these credit facilities, we had $1.4 million and $2.0 million outstanding as of October 31, 2005 and 2004. The credit facilities contain various financial covenants with which we were in compliance at October 31, 2005. The most significant financial covenants relate to working capital, tangible net worth (as defined), and Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) (as defined) requirements.

7. EMPLOYEE BENEFIT PLANS

We sponsor two defined contribution retirement plans for salaried and hourly employees. Expenses for these plans approximated $399,000, $409,000, and $411,000 for fiscal years 2005, 2004 and 2003, 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 and actuarial losses approximated $65,000, $49,000, and $59,000 for the years ended October 31, 2005, 2004, and 2003, which 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):

	2005	2004
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	$ 500	$ 506
Interest cost	28	30
Actuarial loss	37	19
Benefits paid	(55)	(55)
Projected benefit obligation at end of year (unfunded)	$ 510	$ 500

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

	2005	2004
Projected benefit obligation	$ 510	$ 500
Unrecognized net (gain) loss	—	—
Recorded pension liabilities	$ 510	$ 500

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

	2005	2004
Discount rate on projected benefit obligation	6.00%	6.25%

8. Commitments and Contingencies

Commitments and Guarantees

We lease facilities and certain equipment under non cancelable operating leases expiring at various dates through 2009. We are committed to make minimum cash payments under these agreements as of October 31, 2005 as follows (in thousands):

2006	$ 1,068
2007	836
2008	493
2009	221
2010	207
Thereafter	881
	$ 3,706

Rental expenses amounted to approximately $1,158,000, $1,121,000, and $1,163,000 for the years ended October 31, 2005, 2004, and 2003.

We indemnify our directors and have the power to indemnify each of our officers, 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.

Litigation

We are currently under examination by the Mexican tax authorities (Hacienda) for the tax year ended December 31, 2000. During the first quarter of fiscal 2005, we received an assessment totaling approximately $2.0 million from Hacienda related to the amount of income at our Mexican subsidiary. Based primarily on discussions with legal counsel and the evaluation of our claim, we believe that Hacienda's position has no merit and that the Company will prevail. Accordingly, no amounts have been provided in the financial statements as of October 31, 2005. We pledged our processed products building located in Uruapan, Michoacán, Mexico as collateral to the Hacienda in regards to this assessment.

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

9. RELATED-PARTY TRANSACTIONS

We sell papayas procured from an entity owned by the Chairman of our Board of Directors and CEO. Sales of papayas amounted to approximately $6,251,000, $6,846,000, and $2,920,000 for the years ended October 31, 2005, 2004, and 2003, resulting in gross margins of approximately $510,000, $864,000 and $281,000. Net amounts due to this entity approximated $79,000, $113,000, and $278,000 at October 31, 2005, 2004, and 2003.

Certain members of our Board of Directors market avocados through Calavo pursuant to our customary marketing agreements. During the years ended October 31, 2005, 2004 and 2003, the aggregate amount of avocados procured from entities owned or controlled by members of our Board of Directors, was $5.2 million, $4.7 million and $4.5 million. Accounts payable to these Board members were $0.2 million and $0.3 million as of October 31, 2005 and 2004.

In August 2005, we repurchased 200,000 shares of our common stock at an average price per share of $10.00 from the estate of a deceased former member of our Board of Directors. In December 2005, we repurchased another 120,000 shares of our common stock at an average price per share of $10.00 from the same estate.

See Note 12 for discussion related to our investment in Limoneira.

10. INCOME TAXES

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

	2005	2004	2003
Current:			
Federal	$ 3,046	$ 3,018	$ 3,639
State	767	844	825
Foreign	293	25	81
Total current	4,106	3,887	4,545
Deferred	(1,925)	(320)	(226)
Total income tax provision	$ 2,181	$ 3,567	$ 4,319

At October 31, 2005 and 2004, gross deferred tax assets totaled approximately $3.1 million and $2.0 million, while gross deferred tax liabilities totaled approximately $9.1 million and $1.1 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 as of October 31, 2005 and 2004 are as follows:

	2005	2004
Allowances for accounts receivable	$ 2,065	$ 679
Inventories	325	647
State taxes	80	257
Accrued liabilities	181	192
Current deferred income taxes	2,651	1,775
Property, plant, and equipment	217	(739)
Intangible assets	(282)	(339)
Unrealized Gain, Limoneira investment	(8,798)	—
Retirement benefits	218	217
Other	56	21
Long-term deferred income taxes	$ (8,589)	$ (840)

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:

	2005	2004	2003
Federal statutory tax rate	35%	35%	35%
State taxes, net of federal effects	5	5	4
Foreign income taxes greater (less) than U.S.	1	(3)	(1)
Benefit of lower federal tax brackets	(1)	(1)	(1)
Other	—	—	1
	40%	36%	38%

We intend to reinvest our foreign earnings, which approximated $2.8 million at October 31, 2005, indefinitely. As a result, we have not provided any deferred income taxes on such unremitted earnings.

For fiscal years 2005, 2004 and 2003, income before income taxes related to domestic operations was approximately $4.8 million, $9.0 million, and $11.1 million. For fiscal years 2005, 2004 and 2003, income before income taxes related to foreign operations was approximately $0.7 million, $0.8 million and $0.4 million.

11. SEGMENT INFORMATION

We operate and track results in three reportable segments: California avocados, international avocados and perishable foods products, and processed products. These three business segments are presented based on our management structure and information used by our president to measure performance and allocate resources. The California avocados segment includes all operations that involve the distribution of avocados grown in California. The international avocados and perishable foods products segment includes both operations related to distribution of fresh avocados grown outside of California and distribution of other perishable food items. The processed products segment represents all operations related to the purchase, manufacturing, and distribution of processed avocado products. Those costs that can be specifically identified with a particular product line are charged directly to that product line. Costs that are not segment specific are generally allocated based on two-year average sales dollars. We do not allocate assets or specifically identify them to our operating segments.

(All amounts are presented in thousands)	California avocados	International avocados and perishable food products	Processed products	Inter-segment eliminations	Total
Year ended October 31, 2005					
Net sales	$ 116,308	$ 129,831	$ 34,699	$ (22,016)	$ 258,822
Cost of sales	105,806	123,262	30,036	(22,016)	237,088
Gross margin	10,502	6,569	4,663	—	21,734
Selling, general and administrative	7,641	5,889	5,058	—	18,588
Operating income (loss)	2,861	680	(395)	—	3,146
Other income, net	1,327	810	220	—	2,357
Income (loss) before provision (benefit) for income taxes	4,188	1,490	(175)	—	5,503
Provision (benefit) for income taxes	1,660	591	(70)	—	2,181
Net income (loss)	$ 2,528	$ 899	$ (105)	$ —	$ 3,322
Year ended October 31, 2004					
Net sales	$ 163,486	$ 94,423	$ 32,749	$ (16,440)	$ 274,218
Cost of sales	146,384	89,465	29,405	(16,440)	248,814
Gross margin	17,102	4,958	3,344	—	25,404
Selling, general and administrative	7,190	3,850	4,880	—	15,920
Restructuring charge	—	—	185	—	185
Operating income (loss)	9,912	1,108	(1,721)	—	9,299
Other income, net	334	125	19	—	478
Income (loss) before provision (benefit) for income taxes	10,246	1,233	(1,702)	—	9,777
Provision (benefit) for income taxes	3,738	450	(621)	—	3,567
Net income (loss)	$ 6,508	$ 783	$ (1,081)	$ —	$ 6,210

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	California avocados	International avocados and perishable food products	Processed products	Inter-segment eliminations	Total
Year ended October 31, 2003					
Net sales	$ 149,635	$ 75,347	$ 32,360	$ (10,581)	$ 246,761
Cost of sales	134,762	69,890	27,343	(10,581)	221,414
Gross margin	14,873	5,457	5,017	—	25,347
Selling, general and administrative	6,705	2,951	4,995	—	14,651
Restructuring charge	—	—	106	—	106
Operating income (loss)	8,168	2,506	(84)	—	10,590
Other income, net	714	162	13	—	889
Income (loss) before provision (benefit) for income taxes	8,882	2,668	(71)	—	11,479
Provision (benefit) for income taxes	3,341	1,004	(26)	—	4,319
Net income (loss)	$ 5,541	$ 1,664	$ (45)	$ —	$ 7,160

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

	Year ended October 31, 2005			
	California avocados	International avocados and perishable food products	Processed products	Total
Third-party sales:				
California avocados	$104,481	$ -	$ -	$104,481
Imported avocados	-	81,756	-	81,756
Papayas	-	6,251	-	6,251
Specialities and tropicals	-	13,777	-	13,777
Processed - food service	-	-	28,307	28,307
Processed - retail and club	-	-	6,766	6,766
Total fruit and product sales to third-parties	104,481	101,784	35,073	241,338
Freight and other charges	7,699	16,430	258	24,387
Total third-party sales	112,180	118,214	35,331	265,725
Less sales incentives	(103)	(2)	(6,798)	(6,903)
Total net sales to third-parties	112,077	118,212	28,533	258,822
Intercompany sales	4,231	11,619	6,166	22,016
Net sales before eliminations	$116,308	$129,831	$ 34,699	280,838
Intercompany sales eliminations				(22,016)
Consolidated net sales				$258,822

	Year ended October 31, 2004			
	California avocados	International avocados and perishable food products	Processed products	Total
Third-party sales:				
California avocados	$150,159	$ —	$ —	$150,159
Imported avocados	—	54,589	—	54,589
Papayas	—	6,846	—	6,846
Specialities and tropicals	—	14,233	—	14,233
Processed - food service	—	—	27,352	27,352
Processed - retail and club	—	—	4,285	4,285
Total fruit and product sales to third-parties	150,159	75,668	31,637	257,464
Freight and other charges	11,946	10,968	534	23,448
Total third-party sales	162,105	86,636	32,171	280,912
Less sales incentives	(131)	(48)	(6,515)	(6,694)
Total net sales to third-parties	161,974	86,588	25,656	274,218
Intercompany sales	1,512	7,835	7,093	16,440
Net sales before eliminations	$163,486	$ 94,423	$ 32,749	290,658
Intercompany sales eliminations				(16,440)
Consolidated net sales				$274,218

	Year ended October 31, 2003			
	California avocados	International avocados and perishable food products	Processed products	Total
Third-party sales:				
California avocados	$140,795	$ —	$ —	$140,795
Imported avocados	—	56,306	—	56,306
Papayas	—	2,920	—	2,920
Specialities and tropicals	—	30	—	30
Processed - food service	—	—	28,545	28,545
Processed - retail and club	—	—	5,165	5,165
Total fruit and product sales to third-parties	140,795	59,256	33,710	233,761
Freight and other charges	8,997	10,079	290	19,366
Total third-party sales	149,792	69,335	34,000	253,127
Less sales incentives	(157)	(251)	(5,958)	(6,366)
Total net sales to third-parties	149,635	69,084	28,042	246,761
Intercompany sales	—	6,263	4,318	10,581
Net sales before eliminations	$149,635	$ 75,347	$ 32,360	257,342
Intercompany sales eliminations				(10,581)
Consolidated net sales				$246,761

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

	United States	Mexico	Consolidated
2005	$ 55,587	$ 11,849	$ 67,436
2004	$ 11,761	$ 12,697	$ 24,458

Sales to customers outside the United States were approximately $15.9 million, $16.2 million and $15.7 million for the three years ended October 31, 2005.

12. INVESTMENT IN LIMONEIRA COMPANY

In order to increase our market share of California avocados and increase synergies within the marketplace, we entered into a stock purchase agreement with Limoneira Company (Limoneira) in June 2005. Pursuant to such agreement, we acquired approximately 15.1% of Limoneira's outstanding common stock for $23.45 million and Limoneira acquired approximately 6.9% of our outstanding common stock for $10 million. The transaction was settled by a net cash payment by us of $13.45 million. Additionally, such agreement also provided for: (1) Calavo to lease office space from Limoneira in Santa Paula, California for a period of 10 years at an initial annual gross rental of approximately $0.2 million (subject to annual CPI increases, as defined), (2) Calavo to market Limoneira's avocados and (3) Calavo and Limoneira to use good faith reasonable efforts to maximize avocado packing efficiencies for both parties by consolidating their fruit packing operations. Various opportunities are currently being considered, including the use of existing packing facilities, an investment in existing vacant facilities, and/or an investment in a new consolidated facility for both parties.

Limoneira, which generated total revenues of approximately $26 million during fiscal 2004, primarily engages in growing citrus and avocados, picking and hauling citrus, and packing lemons. The issuances of the shares discussed above are exempt from registration under federal and state securities laws.

As a result of the ownership percentage acquired in Limoneira, we recognize only dividends received from Limoneira as income. Such investment is reported at fair value at the balance sheet date. Fair value is determined based on quoted market prices. Unrealized gains and losses related to such investment are reported in other comprehensive income. Based on the overall state of the stock market, the availability of buyers for the shares when we want to sell, and other restrictions, at any point in time the amounts ultimately realized upon liquidation of these securities may be significantly different than the carrying value.

13. LONG-TERM OBLIGATIONS

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

	2005	2004
Farm Credit West, PCA	$ 13,000	$ —
Other	32	56
	13,032	56
Less current portion	(1,313)	(22)
	$ 11,719	$ 34

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 begin July 2006 and continue through July 2015. Interest is to be paid monthly, in arrears, beginning August 2005 through the life of the loan. Such loan bears interest at a fixed rate of 5.70%.

Such loan contains various financial covenants, which are substantially identical to existing covenants, with which we were in compliance at October 31, 2005. The most significant financial covenants relate to working capital, tangible net worth (as defined), and Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) (as defined) requirements.

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At October 31, 2005, annual debt payments are scheduled as follows (in thousands):

Year ending October 31:	Total
2006	$ 1,313
2007	1,309
2008	1,308
2009	1,302
2010	1,300
Thereafter	6,500
	$ 13,032

14. STOCK-BASED COMPENSATION

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

THE DIRECTORS STOCK OPTION PLAN

Participation in the directors stock option plan is limited to members of our Board of Directors. The plan makes available to the Board of Directors, or a plan administrator, 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. We anticipate terminating this plan during fiscal 2006. Outstanding options would not be impacted by such termination.

In January 2002, members of our Board of Directors elected to exercise options to purchase approximately 1,005,000 shares of common stock. The exercise price was paid by delivery of full-recourse promissory notes with a face value of $4,789,000 and by cash payments of approximately $236,000. These notes and the related security agreements provide, among other things, that each director pledge as collateral the shares acquired upon exercise of the stock option, as well as additional shares of common stock held by the directors with a value equal to 10% of the loan amount, if the exercise price was paid by means of a full-recourse note. The notes, which bear interest at 7% per annum, provide for annual interest payments with a final principal payment due March 1, 2007. Directors will be allowed to withdraw shares from the pledged pool of common stock prior to repayment of their notes, as long as the fair value of the remaining pledged shares is at least equal to 120% of the outstanding note balance. The notes have been presented as a reduction of shareholders' equity as of October 31, 2005 and 2004.

During fiscal 2005, directors did not make any principal payments related to these notes and we have recorded interest income of $175,000. During fiscal 2004, directors made principal payments of $416,000 related to these notes and we have recorded interest income of $189,000. As of October 31, 2005, we have accrued interest receivable of $112,000 related to these notes, which is included in prepaid expenses and other current assets.

In December 2003, our Board of Directors approved the issuance of options to acquire a total of 50,000 shares of our common stock to two members of our Board of Directors. Each option to acquire 25,000 shares vests in substantially equal installments over a three-year period, has an exercise price of $7.00 per share, and has a term of five years from the grant date. The market price of our common stock at the grant date was $10.01. In accordance with APB 25, we are recording compensation expense of approximately $151,000 over the vesting period of three years from the grant date. During fiscal years 2005 and 2004, we recognized $50,000 and $46,000 of compensation expense with respect to stock option awards pursuant to APB 25. In December 2005, the related stock option agreements were modified to shorten the option terms, as defined. Such modifications were contemplated primarily as a result of Section 409A of the tax code.

A summary of stock option activity follows (shares in thousands):

Year ended October 31, 2005	Number of Shares	Weighted-Average Exercise Price
Outstanding at beginning of period	155	$ 5.65
Exercised	(55)	$ 5.00
Outstanding at end of period	100	$ 6.00
Exercisable at end of period	67	$ 5.50

Year ended October 31, 2004	Number of Shares	Weighted-Average Exercise Price
Outstanding at beginning of period	105	$ 5.00
Granted	50	7.00
Outstanding at end of period	155	$ 5.65
Exercisable at end of period	105	$ 5.00
Weighted-average fair value of options granted during the year		$ 3.02

The following table summarizes stock options outstanding at October 31, 2005 (shares in thousands):

Range of Exercise Prices	Number of Shares	Outstanding Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price
$5.00 - $7.00	100	2.10	$ 6.00

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.

The purchase price was paid by delivery of full-recourse promissory notes with a face value of $1,352,000 and by cash payments of approximately $600,000. These notes and the related security agreements provide, among other things, that each employee pledge as collateral the shares acquired. The notes, which bear interest at 7% per annum, provide for annual interest and principal payments for a period of two to four years. The notes have been presented as a reduction of shareholders' equity as of October 31, 2005 and October 2004.

During fiscal 2005, employees made principal payments of $247,000 related to these notes, and we have recorded interest income of $20,000. During fiscal 2004, employees made principal payments of $263,000 related to these notes, and we have recorded interest income of $46,000. As of October 31, 2005, we have accrued interest receivable of $7,000 related to these notes, which is included in prepaid expenses and other current assets.

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 then 500,000 shares of common stock.

In August 2005, our Board of Directors approved the issuance of options to acquire a total of 400,000 shares of our common stock to various employees of the Company. The options vest if the closing price of our common stock is at least $11.00 per share at any time throughout the life of the option. At no time, however, may any options vest within one year from the date of grant. Additionally, such options have an exercise price of $9.10 per share and a term of 5 years from the grant date. The market price of our common stock at the grant date was $9.10.

In accordance with APB 25, a measurement date cannot occur related to such option grant until such market condition is satisfied. In such situations, APB 25 requires that estimates of compensation cost be recorded before the measurement date based on quoted market prices of the stock at intervening dates. At October 31, 2005, the market price of our common stock was $9.61. As such, we recognized $34,000 of compensation expense during fiscal 2005.

15. DIVIDENDS

In January 2006, we paid a $0.32 per share dividend in the aggregate amount of $4.6 million to shareholders of record on December 15, 2005. In January 2005, we paid a $0.30 per share dividend in the aggregate amount of $4.1 million to shareholders of record on November 15, 2004.

16. PROCESSED PRODUCT SEGMENT RESTRUCTURING

In February 2003, our Board of Directors approved a plan whereby the operations of our processed products business would be relocated. The plan called for the closing of our Santa Paula, California and Mexicali, Baja California Norte processing facilities and the relocation of these operations to a new facility in Uruapan, Michoacán, Mexico. This restructuring has provided for cost savings in the elimination of certain transportation costs, duplicative overhead structures, and savings in the overall cost of labor and services. The Uruapan facility commenced operations in February 2004 and the Santa Paula and Mexicali facilities were closed in February 2003 and August 2004. During fiscal 2005, we incurred costs related to this restructuring approximating $0.4 million, which are recorded in our income statement as both cost of sales ($0.3 million) and selling, general and administrative expenses ($0.1 million). All the above amounts have been paid and we do not expect any additional operating costs related to this restructuring.

Report of Independent Registered Public Accounting Firm

TO THE BOARD OF DIRECTORS
CALAVO GROWERS, INC.
SANTA PAULA, CA

We have audited the accompanying consolidated balance sheets of Calavo Growers, Inc. and subsidiaries (the "Company") as of October 31, 2005 and 2004, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended October 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries at October 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended October 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of October 31, 2005, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report (not presented herein) dated January 31, 2006 expressed an adverse opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting because of management's omission of a material weakness from its report and expressed an adverse opinion on the effectiveness of the Company's internal control over financial reporting because of a material weakness.

Deloitte & Touche LLP

Los Angeles, California
January 31, 2006

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 that are based on management's best estimates and judgments.

Our statements have been audited by Deloitte & Touche LLP,our independent registered public accounting firm, selected by the Audit Committee and approved by our shareholders. Management has made available to Deloitte & Touche 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, 2005.

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 the 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, 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."

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 National Market.

Fiscal 2004	High	Low
First Quarter	$ 11.60	$ 9.75
Second Quarter	$ 10.90	$ 9.80
Third Quarter	$ 13.00	$ 10.08
Fourth Quarter	$ 12.27	$ 10.50

Fiscal 2005	High	Low
First Quarter	$ 12.38	$ 10.10
Second Quarter	$ 11.81	$ 9.76
Third Quarter	$ 10.92	$ 10.00
Fourth Quarter	$ 10.25	$ 8.66

As of October 31, 2005, there were approximately 1,400 stockholders of record of our common stock.

During the year ended October 31, 2005, we did not issue any shares of common stock that were not registered under the Securities Act of 1933, save for the shares issued to Limoneira Company (see Note 12 in consolidated financial statements). The issuance of the shares discussed in the preceding sentence was exempt from registration by reason of the exemption provided by Section 4(2) of the Securities Act of 1933 for offers and sales of securities that do not involve a public offering.

ISSUER PURCHASES OF EQUITY SHARES

	Total Number Of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased under the Plans or Parograms
Month #1 (August 2005)	200,000	$ 10.00	—	$ —
Month #2 (September 2005)	—		—	—
Month #3 (October 2005)	—		—	—
Total	200,000	$ 10.00	—	$ —

From time to time, our Board of Directors will authorize the repurchase of shares opportunistically. Such repurchases may be in the open market or in private transactions. The repurchase shown above relates to a private transaction and is from a related party. See Note 9 in consolidated financial statements.

DIVIDEND POLICY

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

On January 3, 2005, we paid a $0.30 per share dividend in the aggregate amount of $4,052,000 to shareholders of record on November 15, 2004.

On January 3, 2006, we paid a $0.32 per share dividend in the aggregate amount of $4,564,000 to shareholders of record on December 15, 2005.

Senior *Management.*

left to right

Mike Browne Vice President, Fresh Operations

Rob Wedin Vice President, Fresh Sales & Marketing

Al Ahmer Vice President, Processed Sales

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

A Snapshot of Calavo Growers, Inc.

Calavo Growers, Inc. is the leading packer and marketer of avocados throughout the United States and in other countries globally. In addition to being the world's most recognized and respected avocado brand, the company packs and markets other perishable fruit and vegetables and manufactures processed-avocado products.

The company's three principal business units—California Avocados, International Avocados and Perishable Food Products and Processed Products—supply wholesale, retail and restaurant-institutional foodservice customers. Maui Fresh International, a wholly owned subsidiary of Calavo, markets tropical fruits and vegetables, chiles, hothouse and other commodity-produce items under its own well-recognized brand name.

Calavo packs and markets approximately 35 percent of the California avocado crop. Additionally the company sources fruit from Mexico, the Dominican Republic and Chile to satisfy year-round domestic avocado demand, for export and for use in processed products.

Founded in 1924 as a grower-owned cooperative, Calavo today is publicly traded on the Nasdaq National Market System under the ticker symbol CVGW and employs more than 500 people. The company relocated its corporate headquarters to Santa Paula, California, in 2005, where it operates one of three fresh-avocado packinghouses and its new value-added depot—housing Maui Fresh sales, distribution and warehousing, as well as ripening technologies. Another California packing facility is located in Temecula. Calavo also conducts avocado-packing operations and processed-product manufacturing in Uruapan, Michoacán, Mexico.

Officers

Lecil E. Cole
Chairman, President &
Chief Executive Officer

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

Mike Browne
Vice President, Fresh Operations

Rob Wedin
Vice President, Fresh Sales & Marketing

Al Ahmer
Vice President, Processed Sales & Operations

Scott H. Runge
Treasurer

James E. Snyder
Corporate Controller

Principal Board Committees

Executive Committee

Lecil E. Cole
Chairman

J. Link Leavens
First Vice Chairman

Scott N. Van Der Kar
Second Vice Chairman

Alva V. Snider

Micheal D. Hause

Audit Committee

Micheal D. Hause
Chairman

John M. Hunt

Alva V. Snider

Fred J. Ferrazzano

George H. Barnes

Nominating & Governance Committee

John M. Hunt
Chairman

George H. Barnes

Fred J. Ferrazzano

Micheal D. Hause

Alva V. Snider

Compensation Committee

Fred J. Ferrazzano
Chairman

George H. Barnes

John M. Hunt

Alva V. Snider

Operating Directors & Managers

Carlos T. Vasquez
Director, Field Operations

Robin Osterhues
Director, Corporate Marketing

Randy Rozzatti
Director, Systems Analysis & Planning

Bruce Spurrell
Director, Administrative Services & Purchasing

Francisco Orozco
Packinghouse Manager, Temecula

Michael F. Derr
Director, Packinghouse, Santa Paula

Dionisio Ortiz
Vice President, Calavo de Mexico Operations

Michael Angelo
Director, National Fresh Sales

Pat Vorhies
Director, Human Resources

Gary M. Gunther
Director, Fresh Operations, Special Projects

Corporate Information

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General Counsel
Troy & Gould, P.C.
Los Angeles, California

Independent Registered Public Accounting Firm
Deloitte & Touche LLP
Los Angeles, California

Investor & Corporate Relations Counsel
Foley/Freisleben 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
U.S. Stock Transfer Corporation
Glendale, California

Common Stock Listing
Shares of the company's common stock are listed on the Nasdaq National Market System under the symbol CVGW.

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