UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended October 31, 2004

Commission file number: 000-33385

CALAVO GROWERS, INC.

(Exact name of registrant as specified in its charter)

California **(State of incorporation)**	**33-0945304** **(I.R.S. Employer Identification No.)**
2530 Red Hill Avenue, Santa Ana, California **(Address of principal executive offices)**	**92705-5542** **(Zip code)**

Registrant's telephone number, including area code: (949) 223-1111

Securities registered pursuant to Section 12(b) of the Act: NONE

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

Common Stock, $0.001 Par Value per Share

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

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

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2 of the Act). Yes ☑ No o

Based on the closing price as reported on the Nasdaq National Market, the aggregate market value of the Registrant's Common Stock held by non-affiliates on April 30, 2004 (the last business day of the Registrant's most recently completed second fiscal quarter) was approximately $104.4 million. Shares of Common Stock held by each executive officer and director and by each shareholder affiliated with a director or an executive officer have been excluded from this calculation because such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes. The number of outstanding shares of the Registrant's Common Stock as of November 30, 2004 was 13,506,833.

Documents Incorporated by Reference

Portions of the Registrant's Proxy Statement for the 2005 Annual Meeting of Shareholders, which we intend to hold on March 22, 2005, are incorporated by reference into Part III of this Form 10-K. The definitive Proxy Statement will be filed within 120 days after October 31, 2004.

CAUTIONARY STATEMENT

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

Risks Related to Our Business

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

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

- Our California avocado business is impacted by an increasing volume of foreign grown avocados being imported into the United States. Recently, there have been significant plantings of avocados in Mexico, Chile, New Zealand, the Dominican Republic, and other parts of the world, which have had, and will continue to have, the effect of increasing the volume of foreign grown avocados entering the United States market. Generally, an increase in foreign grown avocados in the United States market, up to and including the additional fruit expected related to the lifting of the import limitations on Hass avocados from Mexico (effective February 2005), has the effect of lowering prices for California grown avocados and adversely impacting our results from operations.

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

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

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

- Our processed products business is impacted by competitors operating exclusively in Mexico and in other areas of the world where lower product costs can be achieved. If we are unable to produce a sufficient volume of processed products at our existing facilities or successfully restructure our processed operations to take advantage of low product costs available in Mexico or elsewhere, our competitors may be able to offer processed products at a more competitive price to our customers.

- Our frozen guacamole products are also subject to increasing competition from ultra high pressure treated guacamole being marketed by a Mexican competitor. If we are unable to continue a similar offering of high pressure treated guacamole product, we may not be able to maintain or increase our existing market share of guacamole products.

We are subject to the risks of doing business internationally.

We conduct a substantial amount of business with growers and customers who are located outside the United States. We purchase avocados from foreign growers and packers, sell fresh avocados and processed avocado products to foreign customers, and operate a packinghouse and a processing plant in Mexico. For additional information about our international business operations, see the “Business” section included in this Annual Report.

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

- Local economic and political conditions, including disruptions in trading and capital markets;
- Restrictive foreign governmental actions, such as restrictions on transfers of funds and trade protection measures, including export duties and quotas and customs duties and tariffs;
- Changes in legal or regulatory requirements affecting foreign investment, loans, taxes, imports, and exports; and
- Currency exchange rate fluctuations which, depending upon the nature of the changes, may make our domestic-sourced products more expensive compared to foreign grown products or may increase our cost of obtaining foreign-sourced products.

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

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

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

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

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

Our business could be adversely affected if we lost key members of our management.

We are dependent on the efforts and performance of our current directors and officers. If we were to lose any key members of management, our business could be adversely affected. You should read the information under "Executive Officers" in this Annual Report for additional information about our management.

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

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

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

We use multiple forms of transportation to bring our products to market. They include ocean, truck, and air-cargo.

Disruption to the timely supply of these services or dramatic increases in the cost of these services for any reason including availability of fuel for such services, labor disputes, or governmental restrictions limiting specific forms of transportation could have an adverse effect on our ability to serve our customers and consumers and could have an adverse effect on our financial performance.

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PART I

Item 1. Business

General development of the business

We engage in the procurement and marketing of avocados and other perishable foods and the preparation and distribution of 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 two operating facilities in Southern California and two facilities in Mexico, we sort and pack avocados procured in California and Mexico and prepare processed avocado products. Additionally, we procure avocados internationally, principally from Chile and the Dominican Republic, and distribute other perishable foods, such as Hawaiian grown papayas. We report these operations in three different business segments: California avocados, international avocados and perishable food products, and processed products.

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

In 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, Michoacan, Mexico. We believe that this restructuring will provide 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.

In November 2003, we acquired all the outstanding common shares of Maui Fresh International, Inc. (“Maui”). Maui distributes a multi-product line of specialty produce through retail, food service and terminal market wholesale channels. Maui is currently based in Los Angeles, California, but maintains significant operations in Hawaii and Nogales, Arizona. Maui packs and distributes a diversified line comprised of more than 20 commodities, including tropical and exotic fruits, chilies and hothouse-grown items, as well as other conventional fruits and vegetables.

Our principal executive offices are located at 2530 Red Hill Avenue, Santa Ana, California 92705; telephone (949) 223-1111. We currently plan to relocate our principal executive offices, however, to Santa Paula, California in or around February 2005.

At October 31, 2004, we employed 674 employees worldwide.

Available information

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

California avocados

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

As of October 31, 2004, the Hass variety is the predominant avocado variety marketed on a worldwide basis. California grown Hass avocados are available year-round, with peak production periods occurring between February through September. Other varieties have a more limited picking season and command a lower price. Approximately 2,200 growers deliver avocados to us, generally pursuant to a standard marketing agreement. Over the past several years, our share of the California avocado crop has remained strong, with approximately 35% of the 2004 California avocado crop handled by us, based on data published by the California Avocado Commission. We attribute our solid foothold in the California industry principally to the competitiveness of the per pound returns we pay and the communication we maintain with our growers.

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

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

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

The California avocado market is highly competitive with 9 major avocado handlers. A marketing order enacted by the state legislature is in effect for California grown avocados and provides the financial resource to fund generic advertising and promotional programs. Although avocados handled by us are identifiable through packaging and the Calavo brand name sticker, we believe that consumers generally do not purchase avocados based on brand loyalty. We have, however, developed a series of marketing and sales initiatives aimed at our largest customers that are designed to differentiate our products and services from those offered by our competitors. Some of these key initiatives are as follows:

- We have established one of the industry’s largest proprietary marketing databases that facilitates a review of the performance of avocados in various grocery stores located across the nation. Based on this data, we are able to assist our customers in developing programs that will increase their sales. Generally, we review the performance of stores relative to others within the same geographic area and make recommendations designed to increase both the per unit and total dollar sales of avocados within the produce section.

- We have developed various display techniques and packages that appeal to consumers and, in particular, impulse buyers. Some of our techniques include the bagging of avocados and the strategic display of the bags within the produce section of retail stores. Our research has demonstrated that consumers generally purchase a larger quantity of avocados when presented in a bag as opposed to the conventional bulk displays. We also believe that the value proposition of avocados in a bag provides for a higher level of sales to grocery stores.

- We continue to have success with our ProRipe™ avocado ripening program. This proprietary program allows us to deliver avocados with varying degrees of ripeness to our customers. We believe that ripened avocados help our customers address the consumers’ immediate needs and accelerate the sale of avocados through their stores.

- From time to time, we market our avocados under joint promotion programs with other food manufacturers. Under these programs, we seek to increase the promotional exposure of our products by providing certain sales incentives. These incentives will be offered in conjunction with various promotional campaigns designed to advertise the products of all parties involved. We believe these programs will help us minimize our advertising costs, as they will be shared with other parties, while still achieving recognition in the marketplace.

We sell avocados to a diverse group of supermarket chains, wholesalers, food service and other distributors, under the Calavo and private labels. The recent consolidation in the supermarket industry has led to fewer, but bigger buyers. From time to time, sales are transacted via e-commerce. We believe that our largest customers will require us and our competitors to implement one or more e-commerce distribution solution to facilitate their procurement and inventory management programs. In our judgment, the shift to e-commerce by our largest customers will favorably impact larger handlers like us, which have the ability and financial resources to support these strategies. From time to time, some of our larger customers seek short-term sales contracts that formalize their pricing and volume requirements. Generally, these contracts contain provisions that establish a price floor and/or ceiling during the contract duration. Again, in our judgment, the shift by our customers to drafting sales contracts benefits large handlers like us, which have the ability to fulfill the terms of these contracts. During fiscal year 2004, our 5 and 25 largest customers represented approximately 17% and 44% of our total consolidated revenues. During fiscal years 2004, 2003 and 2002 none of our California avocado customers represented more than 10% of total consolidated revenues.

International avocados and perishable food products

Our international avocados and perishable food products segment leverages our expertise in the handling and marketing of California avocados. We believe that the sales generated by this segment complement our offering of California avocados to our customers and stabilize the supply of avocados during seasons of low California production. Sales generated by this segment include avocados grown outside of California and other perishable food products, such as papayas, tomatoes, ginger, and pineapple. We primarily market international avocados from Mexico, Chile, and the Dominican Republic. We handle some of these products on a consignment basis for the suppliers. Pursuant to these arrangements, from time to time, we make advances to Chilean handlers and Mexican growers. We primarily make such advances related to both pre-harvest and post-harvest activities. Our ability to recover pre-harvest advances is largely dependent on the growers' ability to deliver avocados to us and is subject to inherent risks of farming, such as weather and pests. Historical experience demonstrates that providing post-harvest advances results in our acquiring full market risk for the product, as it is possible that our resale proceeds may be less than the amounts we paid to the grower. This is a result of the high level of volatility inherent in the avocado and perishable food markets, which are subject to significant pricing declines based on the availability of fruit in the market.

Net sales generated by our International avocados and perishable food products business depends principally on the availability of Chilean and Mexican grown avocados in the U.S. markets. Historically, Mexican grown avocados have been significant during our first two fiscal quarters. In 1996, the United States Department of Agriculture ("USDA") established a protocol whereby Mexican Hass grown avocados were permitted to be imported, on a restricted basis, into the United States. Restrictions imposed on the marketing of the fruit, due to phytosanitary concerns, limited the marketing of Mexican Hass avocados to 31 states, from the middle of October to the middle of April. In November 2004, however, the USDA published a rule allowing Hass avocado imports from Mexico into all 50 states, with the exception of California, Florida, and Hawaii. The exception extends for two years. For the remaining 47 states, however, avocado exports are set to start February 1, 2005. While we believe that we are well positioned to respond to such legislation, we are unable to project the impact, if any, the adoption of this new rule will have on our financial condition and results of operations.

In 1998, we invested in the Mexican avocado market by building a packinghouse in Uruapan, Mexico. We believe that our continued success in marketing Mexican avocados is largely dependent upon securing a reliable, high-quality supply of avocados at reasonable prices. The Mexican avocado harvest is both complimentary and competitive with the California market, as the Mexican harvest typically runs from September to June. As a result, it is common for Mexican growers to monitor the supply of avocados for export to the United States in order to obtain higher field prices. During 2004, we packed and distributed approximately 31% of the avocados exported from Mexico into the United States and approximately 24% of the avocados exported from Mexico to countries other than the United States, based on our estimates.

In recent years, the volume of avocados exported by Chilean growers to the United States has continued to increase. Chilean growers continue to increase avocado plantings to capitalize on high returns available in the worldwide avocado markets. Chilean grown avocados have been significant during our 4th and 1st fiscal quarters. Additionally, with the Chilean harvesting season being complimentary to the California season (August through February), Chilean avocados are able to command competitive retail pricing in the market. During 2004, we distributed approximately 10% of the Chilean imports into the United States, based on our estimates.

The Dominican Republic also exports avocados into the United States. The harvest of Dominican Republic avocados (September to January) overlaps with the Chilean and Mexican avocado harvest periods. As a result, the introduction of avocados grown in the Dominican Republic has had the effect of increasing the volume of avocados in the marketplace and increasing pressure on sales prices. During 2004, we distributed substantially all of the Dominican Republic imports into the United States, based on our estimates.

In recent years, our distribution of other perishable food products has generally been limited to papayas procured from a Hawaiian packing operation, which is owned by the Chairman of our Board of Directors, Chief Executive Officer and President. The acquisition of Maui, however, expanded our perishable food products to include additional papayas, tomatoes, chili peppers, pineapples, and ginger. While Maui has numerous product offerings, the aforementioned commodities account for the majority of its sales.

Maui has operations in Arizona, California, and Hawaii. The primary focus of these operations is the growing, shipping and distribution of fresh produce. Maui primarily sources its products from the United States and Mexico. Sales for fiscal year 2004 were approximately $19.8 million. Maui has customers located primarily in the United States and Canada and these customers are principally in the retail, foodservice, and wholesale sectors. Maui does not experience significant fluctuations in sales related to seasonality.

Processed Products

In the 1960's and early 1970's, we pioneered the process of freezing avocado pulp and developed a wide variety of guacamole recipes to address the diverse tastes of consumers and buyers in the food service industry. Our customers include both companies in the food service industry and the retail business. Sales are made principally through a commissioned nationwide broker network, which is supported by our regional sales managers. We believe that our marketing strength is distinguished by providing quality products, innovation, year-round product availability, strategically located warehouses, and market relationships. During fiscal year 2004, our 5 and 25 largest customers represented approximately 6% and 9% of our total consolidated revenues. During fiscal years 2004, 2003 and 2002 none of our processed product customers represented more than 10% of total consolidated revenues.

The food service and retail industries have continued a trend of business consolidation resulting in larger customers, but a smaller number of customers for our processed products. From time to time, in order to secure the ongoing business of some of our largest customers, we enter into certain rebate programs and exclusivity agreements. While we made no such payments during fiscal 2004, we believe that the trend of requesting payments from producers to secure either exclusivity or preferred status as a provider of processed products will continue. During fiscal 2003 and 2002, we paid approximately $1.4 million, representing both exclusivity fees and prepaid rebates to a single major foodservice distribution customer.

The processed product segment was originally conceived as a mechanism to stabilize the price of California avocados by reducing the volume of avocados available to the marketplace. With the introduction of low cost processed products delivered from Mexican based processors, however, we realigned the segment's strategy by shifting the fruit procurement and pulp processing functions to Mexico. In 1995, we invested in a processing plant in Mexicali, Mexico to derive the benefit of competitive avocado prices available in Mexico.

In February 2003, our Board of Directors approved a plan whereby the operations of our processed products business would be relocated. The plan called for the closing of our Santa Paula, California and Mexicali, Baja California Norte ("Mexicali") processing facilities and relocating these operations to a new facility in Uruapan, Michoacan, Mexico ("Uruapan"). We believe that this restructuring will provide cost savings in the elimination of certain transportation costs, duplicative overhead structures, and savings in the overall cost of labor and services. The Uruapan facility commenced operations in February 2004 and the Santa Paula and Mexicali facilities ceased production in February 2003 and August 2004.

Special charges recorded during the year ended October 31, 2004 consist entirely of employee separation costs. All employee separation costs were paid in cash and represent final payments to 93 production and 8 managerial/administrative employees formerly working at our Mexicali processing facility. As of October 31, 2004, we have not recorded a significant charge relating to the write-down of production assets being held at our Mexicali production facility, as substantially all such assets were re-commissioned at our new facility in Uruapan or their carrying value was less than their fair value.

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

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

During fiscal year 2002, we purchased and commissioned new ultra high pressure treatment equipment designed to manufacture processed avocado products that are not frozen. During fiscal year 2004, we operated two separate high pressure lines, consisting of one ultra high pressure machine manufacturing guacamole in Mexicali and another in Uruapan. The machine in Mexicali was commissioned for operations in October 2002 and ran near capacity during fiscal year 2003 through the closure date of Mexicali, which was August 2004. The machine in Uruapan, which has a much larger capacity than the Mexicali machine, was commissioned for operations in July 2004 and ran at about 40% capacity through October 2004. We anticipate that we will operate such high pressure machine at or near full capacity during fiscal year 2005. We plan on re-commissioning the high pressure machine that was located in Mexicali to Uruapan during fiscal year 2005 as well. 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 $5.5 million for fiscal year 2004.

Although the additions of these product offerings are fairly recent, we believe that these high pressure machines will position our company to deliver the widest available array of processed avocado products to our customers. Consequently, we believe we are currently the only single source company supplying the complete range of processed avocado products, including frozen guacamole, ultra high pressure treated guacamole, and frozen avocado halves to foodservice and retail customers.

Sales and Other Financial Information by Business Segment and Product Category

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

Patents and Trademarks

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

Working Capital Requirements

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

Our international avocados and perishable food products business requires working capital to finance the payment of advances to suppliers, and collection of accounts receivable. These working capital needs are also financed through the use of operating cash flows and bank borrowings and are generally concentrated during the Chilean Hass avocado crop harvesting season.

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

Backlog

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

Research and Development

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

Compliance with Government Regulations

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

The USDA regulates and reviews imported food products. In particular, the USDA regulates the distribution of Mexican avocados within 31 states in the U.S. by requiring avocado importers and handlers to execute compliance agreements. These agreements represent an acknowledgment by handlers of the distribution restrictions placed on Mexican avocados and are used as a tool to ensure compliance with existing regulations. From time to time, we have been approached by USDA representatives in their oversight of the compliance agreement process. We continue to consult with USDA representatives to ensure that our systems of internal control provide a high level of reliability in securing compliance agreements on behalf of our customers. In November 2004, however, the USDA published a rule allowing Hass avocado imports from Mexico into all 50 states, with the exception of California, Florida, and Hawaii. The exception extends for two years. For the remaining 47 states, however, avocados exports are set to start February 1, 2005. We believe this new legislation will ease the compliance requirements that we have been subject to related to the importation of Mexican Hass avocados in prior years.

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

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

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

Employees

As of October 31, 2004, we had 674 employees, of which approximately 231 were located in the United States and 443 of whom were located in Mexico. None of Calavo's United States employees are covered by a collective bargaining agreement. Approximately 380 of Calavo's Mexican employees are represented by a union. We consider the relationship with our employees to be good and we have never experienced a significant work stoppage.

The following is a summary of the number of "salaried" and "hourly" employees as of October 31, 2004.

Location	Salaried	Hourly
United States	104	127
Mexico	63	380
TOTAL	167	507

Although agriculture is a seasonal industry, avocados have a wider window of production than most perishable commodities. Consequently, we employ hourly personnel more routinely throughout the year when compared to other agriculture-dependent companies.

Item 2. Properties

In addition to our corporate headquarters building, we own two packinghouses and one processing facility in California, lease one packinghouse in California, own one processing facility in Mexico, and lease one packinghouse and one processing facility in Mexico.

In August 2004, we entered into an agreement to sell our corporate headquarters building located in Santa Ana, California for $3.4 million. Such transaction, however, fell out of escrow in November 2004. Then, in December 2004, we re-entered escrow, with a different buyer, to sell our corporate headquarters building for the same sales price. Escrow related to such transaction is expected to close in the second quarter of fiscal 2005, which is when we expect to complete the move of our corporate headquarters. We estimate that this transaction will result in a pre-tax gain on sale of approximately $3.0 million, if such transaction is consummated according to terms. We currently plan to relocate our corporate offices to Santa Paula, California.

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

Our Santa Paula, California processing facility was built in 1975 and had a major expansion in 1988. In conjunction with our restructuring plan, which was approved in February 2003, this facility, which includes a storage freezer, has essentially been closed. Since February 2003, a portion of this building has continued to be used as a ripening and storage facility for our fresh avocado operation. We are currently reviewing options related to this facility, which include the possible assimilation of the operations of our Santa Paula packinghouse.

Our leased Vernon, California packinghouse primarily handles avocados and tropical commodities. We are committed to leasing the facility through 2006. We believe that the annual capacity of this facility will be sufficient to pack the expected annual volume of specialty commodities delivered to us.

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

Our Mexicali, Mexico processing plant was built in 1995 to our specifications. In conjunction with our restructuring plan, we ceased production at this facility in August 2004. As of October 31, 2004, we have not recorded any significant charges relating to the write-down of production assets being held at this facility, as substantially all such assets were re-commissioned at our new facility in Uruapan or their carrying value was less than their fair value. Our lease commitment for this facility ended in December 2004 and we do not have any plans of extending such lease.

Our Uruapan, Mexico packinghouse, owned by the same landlord as our Mexicali facility, was also built to our specifications. We are committed to leasing the facility through 2008. We believe that the annual capacity of this facility will be sufficient to process our budgeted annual production needs.

Item 3. Legal Proceedings

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

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

No matters were submitted to a vote of our shareholders during the quarter ended October 31, 2004.

Executive Officers

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

Name	Age	Position
Lecil E. Cole	64	Chairman of the Board, Chief Executive Officer and President
Arthur J. Bruno	54	Chief Operating Officer, Chief Financial Officer and Corporate Secretary
Robert J. Wedin	55	Vice President, Sales and Fresh Marketing
Alan C. Ahmer	56	Vice President, Processed Product Sales and Production
Albert E. Thorne III	63	Vice President, Fresh Operations

Lecil E. Cole has been a member of our board of directors since February 1982 and has served as Chairman of the Board since 1988. Mr. Cole has also served as our Chief Executive Officer and President since February 1999. He served as an executive of Safeway Stores from 1964 to 1976 and as Chairman of Central Coast Federal Land Bank from 1986 to 1996. Mr. Cole has served as Chairman and President of Hawaiian Sweet, Inc. and Tropical Hawaiian Products, Inc. since 1996. Mr. Cole farms a total of 4,430 acres in California and Hawaii on which avocados, papayas, and cattle are produced and raised.

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

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

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

Albert E. Thorne III has served as our Vice President since 2003. Mr. Thorne joined us in 1986 as a senior shipping and receiving supervisor at our Temecula packinghouse.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

In March 2002, our common stock began trading on the OTC Bulletin Board under the symbol “CVGW.” In July 2002, our common stock began trading on the Nasdaq National Market under the symbol “CVGW.”

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 2003	High	Low
First Quarter	$ 7.95	$ 6.60
Second Quarter	$ 7.27	$ 6.70
Third Quarter	$ 7.25	$ 6.69
Fourth Quarter	$ 11.04	$ 6.94

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

As of October 31, 2004, there were approximately 1,430 stockholders of record of our common stock.

During the year ended October 31, 2004, (i) we did not repurchase any shares of our common stock, and (ii) we did not issue any shares of common stock that were not registered under the Securities Act of 1933, except for our issuance of 576,924 shares in November 2003 in connection with our acquisition of Maui Fresh International as disclosed by us in our Annual Report on Form 10-K for the year ended October 31, 2003.

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 5, 2004, we paid a $0.25 per share dividend in the aggregate amount of $3,376,000 to shareholders of record on November 17, 2003.

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.

Item 6. Selected Financial Data

SELECTED CONSOLIDATED FINANCIAL DATA

The following summary consolidated financial data (other than pounds information) for each of the years in the five-year period ended October 31, 2004 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,				
	2004	2003	2002	2001	2000
	(In thousands, except per share data)				
Income Statement Data: (1)					
Net sales	$274,218	$246,761	$242,671	$217,704	$220,712
Gross margin	25,404	25,465	25,823	18,808	19,554
Net income	6,210	7,160	6,915	3,838	4,476
Basic and diluted net income per share(2)	$ 0.46	$ 0.55	$ 0.60	$ 0.37	$ 0.43
Balance Sheet Data as of End of Period:					
Working capital	20,353	20,735	18,833	9,799	12,559
Total assets	67,398	53,689	55,132	52,368	46,537
Short-term debt	22	24	3,222	16,241	9,486
Long-term debt, less current portion(3)	34	61	3,180	3,429	3,820
Shareholders' equity	43,937	37,147	30,556	20,029	21,066
Cash Flows Provided by (Used in):					
Operations	4,460	15,222	8,135	1,161	2,958
Investing(4)	(8,474)	(4,475)	(2,078)	(2,029)	(1,685)
Financing	(725)	(6,293)	(7,193)	1,433	(1,239)
Other Data:					
Dividends per share (2)	$ 0.30	$ 0.25	$ 0.20	$ 0.50	$ —
Net book value per share	$ 3.25	$ 2.87	$ 2.38	$ 2.01	$ 2.13
Pounds of California avocados sold	152,725	122,950	158,187	163,891	123,399
Pounds of international avocados sold	69,410	70,348	69,512	44,935	42,300
Pounds of processed avocados products sold	13,317	14,707	14,248	14,788	14,962

(1) Operating results for fiscal year 2004 include the acquisition of Maui. 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. Basic and diluted earnings per share for all periods presented have been restated to reflect the 5% stock dividend. 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, Michoacan, Mexico. The Uruapan facility commenced operations in February 2004.

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

You should read the following discussion and analysis of our financial condition and results of operations together with "Selected Consolidated Financial Data" and our consolidated financial statements and notes thereto that appear elsewhere in this Annual Report. This discussion and analysis contains forward-looking statements that involve risks, uncertainties, and assumptions. Actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including, but not limited to, those presented under "Risks related to our business" beginning on page 2 and elsewhere in this Annual Report.

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.

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.

As security for certain potential contingencies, such as unrecorded liabilities, we held approximately 58,000 shares issued in conjunction with such acquisition for one full year from the acquisition date. As no contingencies developed, which was in accordance with our expectations, we are in the process of releasing these shares to the original Maui shareholders.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition. The differences from the previously reported amounts of goodwill and intangible assets of $867,000 resulted from the finalization of our valuation information in the second quarter of fiscal 2004.

(in thousands)	2004
Fixed assets	$ 114
Goodwill	3,591
Intangible assets	867
Total assets acquired	4,572
Current liabilities	110
Deferred tax liabilities	347
Net assets acquired	$ 4,115

Our California avocado business grades, sizes, packs and cools avocados grown in California for delivery to our customers. We presently operate two packinghouses in Southern California. These packinghouses handled approximately 35% of the California avocado crop during the 2004 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 31% of the Mexican avocado crop bound for the United States market during the 2003-2004 Mexican harvest season, based on our estimates. Additionally, during the 2003-2004 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, Michoacan, Mexico. We believe that this restructuring will provide 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.

For Fiscal year 2004, we have incurred costs related to this restructuring approximating $1,013,000. Our income statement for the year ended October 31, 2004 includes $741,000 as cost of sales, $185,000 as special charges, and $87,000 as selling, general and administrative expenses. These costs are comprised of the following components as of and for the year ended October 31, 2004:

(in thousands)	Restructuring charges	Amounts paid	Non-cash charges	Reserves remaining to be utilized
Special charges - employee separation costs	$ 185	$ (185)	$ —	$ —
Selling, general and administrative – freight	87	(87)	—	—
Cost of sales - facility operating costs	741	(672)	(69)	—
	$ 1,013	$ (944)	$ (69)	$ —

Special charges recorded during the year ended October 31, 2004 consist entirely of employee separation costs. All employee separation costs were paid in cash and represent final payments to 93 production and 8 managerial/administrative employees formerly working at our Mexicali processing facility. We have not recorded a significant charge relating to the write-down of production assets being held at our Mexicali production facility, as substantially all such assets were re-commissioned at our new facility in Uruapan or their carrying value was less than their fair value.

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.

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). We have realigned our businesses to combine within our California avocado segment the results of operations of both the California avocados grown previously by members and those that were procured from non-members. We believe that this presentation provides an enhanced view of the results of our California operations and a better framework to evaluate the results of our various operations.

Recent Developments

Dividend Payment

In January 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.

Corporate headquarters building

In August 2004, we entered into an agreement to sell our corporate headquarters building located in Santa Ana, California for $3.4 million. Such transaction, however, fell out of escrow in November 2004. Then, in December 2004, we re-entered escrow, with a different buyer, to sell our corporate headquarters building for the same sales price. Escrow related to such transaction is expected to close in the second quarter of fiscal 2005, which is when we expect to complete the move of our corporate headquarters. We estimate that this transaction will result in a pre-tax gain on sale of approximately $3.0 million, if such transaction is consummated according to terms. We currently plan to relocate our corporate offices to Santa Paula, California.

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, 2004	2003	2002
Net sales	100.0%	100.0%	100.0%
Gross margins	9.3%	10.3%	10.6%
Selling, general and administrative	5.8%	6.0%	5.7%
Operating income	3.4%	4.3%	4.9%
Other income, net	0.2%	0.4%	0.3%
Net income	2.3%	2.9%	2.8%

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.

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. 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:

	2004	Change	2003	Change	2002
			(Dollars in thousands)		
Net sales:					
California avocados	$163,486	9.3%	$149,635	(9.4)%	$165,077
International avocados and perishable food products	94,423	25.3%	75,347	27.5%	59,083
Processed products	32,749	1.2%	32,360	8.0%	29,960
Eliminations	(16,440)		(10,581)		(11,449)
Total net sales	$274,218	11.1%	$246,761	1.7%	$242,671
As a percentage of net sales:					
California avocados	59.0%		60.6%		68.0%
International avocados and perishable food products	31.6%		28.0%		22.2%
Processed products	9.4%		11.4%		9.8%
	100.0%		100.0%		100.0%

Net sales for the year ended October 31, 2004, when compared to 2003, grew by approximately $27.5 million, or 11.1%, principally as a result of growth experienced by our California avocados and International avocados and perishable food products segments. In particular, growth in our net sales reflects an increasing percentage of our business being generated by our International avocados and perishable food product segments, which was driven primarily by additional sales related to the acquisition of Maui Fresh International, Inc. ("Maui").

Net sales generated by our International avocados and perishable food products business depends principally on the availability of Chilean and Mexican grown avocados in the U.S. markets. Currently, Mexican grown avocados are significant during our first two fiscal quarters. Chilean grown avocados are significant during our 1st and 4th fiscal quarters. In 1996, the United States Department of Agriculture ("USDA") established a protocol whereby Mexican grown Hass avocados were permitted to be imported, on a restricted basis, into the United States. Restrictions imposed on the marketing of the fruit, due to phytosanitary concerns, limited the marketing of Mexican Hass avocados to 31 states, from the middle of October to the middle of April. In November 2004, however, the USDA published a rule allowing Hass avocado imports from Mexico into all 50 states, with the exception of California, Florida, and Hawaii. The exception extends for two years. For the remaining 47 states, however, avocados exports are set to start February 1, 2005. While we believe that we are well positioned to respond to such legislation, we are unable to project the impact, if any, the adoption of this new rule would have on our financial condition and results of operations.

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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, 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

	Year ended October 31, 2003				Year ended October 31, 2002			
	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	$140,795	$ —	$ —	$140,795	$153,878	$ —	$ —	$153,878
Imported avocados	—	56,306	—	56,306	—	43,715	—	43,715
Papayas	—	2,920	—	2,920	—	2,658	—	2,658
Specialities and tropicals	—	30	—	30	—	42	—	42
Processed - food service	—	—	28,545	28,545	—	—	24,964	24,964
Processed - retail and club	—	—	5,165	5,165	—	—	5,141	5,141
Total fruit and product sales to third-parties	140,795	59,256	33,710	233,761	153,878	46,415	30,105	230,398
Freight and other charges	8,997	10,079	290	19,366	11,381	7,540	217	19,138
Total gross sales to third-parties	149,792	69,335	34,000	253,127	165,259	53,955	30,322	249,536
Less sales incentives	(157)	(251)	(5,958)	(6,366)	(182)	(150)	(6,533)	(6,865)
Total net sales to third-parties	149,635	69,084	28,042	246,761	165,077	53,805	23,789	242,671
Intercompany sales	—	6,263	4,318	10,581	—	5,278	6,171	11,449
Net sales	$149,635	$ 75,347	$ 32,360	257,342	$165,077	$ 59,083	$ 29,960	254,120
Intercompany sales eliminations				(10,581)				(11,449)
Consolidated net sales				$246,761				$242,671

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 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. For fiscal year 2005, we believe that the year-round introduction of imported avocados in the U.S. marketplace will put increasing pressure on sales prices, principally as a result of an increase in volume.

Net sales delivered by the business decreased by approximately $15.4 million, or 9.4%, from fiscal 2002 to 2003. This decrease in sales primarily reflects a 22.3% decrease in avocados sold, partially offset by a significant improvement in the average selling prices of avocados when compared to fiscal 2002. The decrease in pounds sold is consistent with the decrease in the overall harvest of the California avocado crop for the 2002/2003 season, as well as a shift in growing areas where we do not command as significant a market share. Despite this decrease in volume, we continued to maintain our leadership role in packing and marketing California grown avocados. Our market share of first grade Hass variety avocados was approximately 34% and 37% during fiscal 2003 and

2002. For the 2002/2003 season, we attribute such decrease in market share primarily to the aforementioned shift into growing areas where we do not command as significant a market share among growers.

For fiscal year 2003, average selling prices, on a per carton basis, for California avocados were 19.0% higher when compared to fiscal year 2002. We attribute some of the increase in these average selling prices to increasing demand for California grown avocados in the U.S. marketplace and a reduced volume of avocados. We believe that our investments in focused marketing activities, combined with promotional programs established by the California Avocado Commission, have generally had a positive effect on average sales prices. Our strategy is to continue to develop marketing opportunities that favorably position avocados packed by Calavo with our customers by emphasizing existing value-added services, such as fruit bagging and ripening. We believe that these and other value-added strategies are critical elements in sustaining competitive average selling prices.

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. The California Avocado Commission, which receives its funding from California avocado growers, has historically shouldered the promotional and advertising costs supporting avocado sales. The new Hass Avocado Board now 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. 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 2004 and 2003, we remitted approximately $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 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. We believe that sales of Mexican grown avocados will continue to show a growing trend. 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.

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.

For fiscal year 2003, when compared to fiscal year 2002, sales to third-party customers increased by approximately $15.3 million, or 28.4%, from $53.8 million to $69.1 million. The increased sales to third parties by our International and perishable foods products business were primarily driven by a greater volume of Chilean and Mexican grown avocados penetrating into the U.S., Japan and Europe marketplaces. The volume of fruit handled increased by 4.1 million pounds of Chilean grown avocados, or 16.3%, and 9.3 million pounds of Mexican grown avocados, or 30.3%, for fiscal 2003 when compared to fiscal 2002. Pricing during fiscal 2003 was fairly stable as well, when compared to fiscal 2002.

During fiscal year 2003, we sourced a significantly greater volume of Mexican grown avocados from our Uruapan, Mexico packinghouse. During fiscal 2003, the volume of fruit related to shipments to the U.S. marketplace increased by approximately 2.5 million pounds, or 13.8%, as compared to fiscal 2002. In addition, net sales resulting from the sale of Mexican grown avocados were also favorably impacted by increased demand from Japanese and European customers. During fiscal 2003, the volume of fruit related to shipments to Japan and Europe increased by approximately 6.7 million pounds, or 76.8%, as compared to fiscal 2002.

Processed Products

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.

Net sales to third-party customers increased by approximately $4.2 million, or 17.9%, from $23.8 million for fiscal 2002 to $28.0 million for fiscal 2003. The increase in fiscal 2003 net sales to third-party customers is primarily attributable to an increase in 0.5 million pounds of product sold, or 3.2%, an increase in the sales price per product pound sold of $0.18, and a decrease in sales incentives and paid promotional activities of $0.6 million or 8.8%. During fiscal 2003, we experienced an increase in demand for our frozen processed products as one of our competitors exited from the business. As a result of the increase in demand for our product, we decreased our sales incentives and promotional activities paid.

During fiscal year 2002, we purchased and commissioned new ultra high pressure treatment equipment designed to manufacture processed avocado products that are not frozen. During fiscal year 2004, we operated two separate high pressure lines, consisting of one ultra high pressure machine manufacturing guacamole in Mexicali and another in Uruapan. The machine in Mexicali was commissioned for operations in October 2002 and ran near capacity during fiscal 2003 through the closure date of Mexicali, which was August 2004. The machine in Uruapan, which has a much larger capacity than the Mexicali machine, was commissioned for operations in July 2004 and ran at about 40% capacity through October 2004. We anticipate that we will operate such high pressure machine at or near full capacity during fiscal year 2005. We plan to re-commissioning the high pressure machine that was located in Mexicali to Uruapan during fiscal 2005 as well. 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 $5.5 million for fiscal year 2004. We believe that the introduction of these fresh guacamole products will, in the long-term, successfully address a growing market segment.

Gross Margins

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

	2004	Change	2003	Change	2002
			(Dollars in thousands)		
Gross Margins:					
California avocados	$ 17,102	15.0%	$ 14,873	(13.9)%	$ 17,281
International avocados and perishable food products	4,958	(9.1)%	5,457	50.2%	3,711
Processed products	3,344	(33.3)%	5,017	3.9%	4,831
Total gross margins	$ 25,404	0.2%	$ 25,347	(1.4)%	$ 25,823
Gross profit percentages:					
California avocados	10.6%		9.9%		10.5%
International avocados and perishable food products	5.7%		7.9%		6.9%
Processed products	13.0%		17.9%		20.3%
Consolidated	9.3%		10.3%		10.6%

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 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. Consolidated gross margin, as a percent of sales, decreased 0.3% for fiscal year 2003 when compared to fiscal year 2002. This decrease was principally a result of decreases in the gross profit percentages realized by our California avocado and processed products segments, which were partially offset by increased gross profit percentages achieved by our international avocado and perishable food products 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 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. The decrease in our gross margin percentage during fiscal year 2003 was primarily related to a higher average return per pound paid to our growers. Our growers received an average return of $1.03 per pound, as compared to $0.86 per pound in fiscal 2002. The volume of avocados delivered by our growers decreased, however, by approximately 34.4 million pounds. 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. During fiscal 2003, freight and handling costs decreased by approximately $0.7 million, from $4.2 million in fiscal 2002 to $3.5 million. 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 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. For fiscal year 2003, we generated gross margins of $2.3 million from the sale of fresh produce products that were packed by third parties, whereas gross margins for fiscal year 2002 were only $1.4 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 2004, our gross margins 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. During fiscal year 2003, our gross margins generated from the sale of Mexican avocados improved from approximately $1.8 million in fiscal year 2002 to $2.2 million in fiscal year 2003, principally as a result of increases in the pounds packed at our facility. For fiscal year 2004, the additional gross margin related to the acquisition of Maui totaled approximately $1.4 million (approximately $0.2 million of such gross margin was related to California avocados).

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 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 then those sold in the prior year. During fiscal year 2003, the decrease in the gross margin percentage is primarily related to higher fruit costs, as well as inefficiencies related to the relocation of production from Santa Paula, California and Mexicali, Mexico to our newly constructed facility in Uruapan, Mexico. Additionally, as a result of the closure of our Santa Paula processed facility and greater then expected increase in demand for our products, we depleted our inventory at a rate greater than initially planned. Therefore, we entered into agreements and/or discussions with two processed avocado product suppliers to supplement our existing inventory levels. This had the effect of decreasing our gross margin percentage due to higher costs and inefficiencies related to sourcing this product from outside suppliers. 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

	2004	Change	2003	Change	2002
		(Dollars in thousands)			
Selling, general and administrative	$ 15,920	8.7%	$ 14,651	6.4%	$ 13,881
Percentage of net sales	5.8%		5.9%		5.7%

Selling, general and administrative expenses include costs of marketing and advertising, sales expenses, and other general and administrative costs. 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.

Selling, general and administrative expenses increased by approximately $0.9 million from fiscal 2002 to 2003. The increase is attributable principally to $0.4 million of additional marketing expenses, $0.3 million of transportation costs associated with the relocation of the processed product operations, and $0.2 million in incentives paid to employees.

Other Income, Net

	2004	Change	2003	Change	2002
			(Dollars in thousands)		
Other income, net	$ 478	(46.2)%	$ 889	27.0%	$ 700
Percentage of net sales	0.2%		0.4%		0.3%

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 2004, other income, net includes interest accrued on notes receivable from directors and officers of approximately $0.2 million. During fiscal year 2003, other income, net includes interest accrued on notes receivable from directors and officers of approximately $0.3 million.

Provision for Income Taxes

	2004	Change	2003	Change	2002
			(Dollars in thousands)		
Provision for income taxes	$ 3,567	(17.4)%	$ 4,319	(24.6)%	$ 5,727
Percentage of income before provision for income taxes	36.5%		37.6%		45.3%

The effective income tax rate for fiscal year 2004 and 2003 is higher than the federal statutory rate principally due to state taxes. 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. Our effective income tax rate decreased from 45.3% in fiscal year 2002 to 37.6% in fiscal year 2003 primarily as a result of a reduction in non-deductible transaction costs and a favorable reduction in our state and foreign tax rates during fiscal year 2003 when compared to fiscal year 2002. The effective income tax rate for fiscal year 2002 is higher than the federal statutory rate principally due to state and foreign taxes and certain non-recurring transaction costs related to our conversion from a cooperative to a for-profit corporation that were non-deductible for tax purposes.

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Quarterly Results of Operations

The following table presents our operating results for each of the eight fiscal quarters in the period ended October 31, 2004. 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. Our effective income tax rate decreased in our 4th fiscal quarter of 2003 primarily as a result of a favorable reduction in our foreign tax rate.

	Three months ended							
	Oct. 31, 2004	July 31, 2004	Apr. 30, 2004	Jan. 31, 2004	Oct. 31, 2003	July 31, 2003	Apr. 30, 2003	Jan. 31, 2003
	(in thousands, except per share amounts)							
Statement of Operations Data								
Net sales	$65,436	$83,318	$76,421	$49,043	$63,780	$81,359	$57,393	$44,229
Cost of sales	59,425	74,833	68,625	45,931	58,483	72,203	50,422	40,306
Gross margin	6,011	8,485	7,796	3,112	5,297	9,156	6,971	3,923
Selling, general and administrative	4,416	3,777	4,012	3,715	3,411	3,919	4,130	3,191
Restructuring charge	185				3	5	98	
Operating income (loss)	1,410	4,708	3,784	(603)	1,883	5,232	2,743	732
Other income, net	167	91	106	114	274	294	206	115
Income before provision (benefit) for income taxes	1,577	4,799	3,890	(489)	2,157	5,526	2,949	847
Provision (benefit) for income taxes	467	1,739	1,556	(195)	471	2,287	1,214	347
Net income (loss)	$ 1,110	$ 3,060	$ 2,334	$ (294)	$ 1,686	$ 3,239	$ 1,735	$ 500
Net income (loss) per share:								
Basic	$ 0.08	$ 0.23	$ 0.17	$ (0.02)	$ 0.13	$ 0.25	$ 0.13	$ 0.04
Diluted	$ 0.08	$ 0.23	$ 0.17	$ (0.02)	$ 0.13	$ 0.25	$ 0.13	$ 0.04
Number of shares used in per share computation:								
Basic	13,507	13,507	13,507	13,469	12,930	12,930	12,930	12,856
Diluted	13,591	13,594	13,589	13,469	12,970	12,960	12,960	12,887

Liquidity and Capital Resources

Operating activities for fiscal 2004, 2003 and 2002 provided cash flows of $4.5 million, $15.2 million, and $8.1 million. Fiscal year 2004 operating cash flows reflect our net income of $6.2 million, net noncash charges (depreciation and amortization, losses, and stock compensation expense) of $2.7 million and a net decrease in the non-cash components of our working capital of approximately $4.4 million.

Fiscal year 2004 decreases in operating cash flows, caused by working capital changes, include an increase in accounts receivable of $4.6 million, an increase in inventory of $3.4 million, an increase in advance to suppliers of $1.8 million, a net increase in income tax receivable of $0.9 million, and an increase in deferred income taxes of $0.3 million, partially offset by a decrease in prepaid expenses and other assets of $2.8 million, an increase in payable to growers of $2.4 million, an increase in trade accounts payable and accrued expenses of $1.3 million, and a decrease in loans to growers of $0.1 million.

Increases in our accounts receivable balance as of October 31, 2004, when compared to October 31, 2003, primarily reflect the additional receivables related to the acquisition of Maui, as well as a significantly higher volume of California avocado sales recorded in the month of October 2004, as compared to October 2003. Similarly, the amounts payable to our growers also reflects the increase in the volume of California avocados marketed in the month of October 2004, as compared to October 2003. These volume levels are consistent with the harvests experienced in previous years. Additionally, increases in our inventory balance as of October 31, 2004, when compared to October 31, 2003, primarily reflect a significantly higher amount of finished processed product, as we began building our inventories during fiscal year 2004 in conjunction with the completion of our processed product Uruapan facility.

Increase in advances to suppliers as of October 31, 2004, when compared to October 31, 2003, primarily relates to delays in the start of the Chilean avocado harvest, which resulted in slower collections on our advances. Increases in our trade accounts payable and accrued expenses as of October 31, 2004, when compared to October 31, 2003, primarily reflect the additional trade accounts payable and accrued expenses from the acquisition of Maui. The decrease in prepaid expenses and other assets as of October 31, 2004, when compared to October 31, 2003, was primarily a result of the capitalization of a deposit and progress payments related to our large high pressure machine in Uruapan, as such machine was placed into service during fiscal year 2004.

Cash used in investing activities was $8.5 million, $4.5 million, and $2.1 million for fiscal years 2004, 2003, and 2002. Fiscal year 2004 cash flows used in investing activities include capital expenditures of $8.4 million, principally related to the construction of our new processed operations facility in Uruapan, Michoacan, Mexico.

Cash used in financing activities was $0.7 million, $6.3 million, and $7.2 million for fiscal years 2004, 2003, and 2002. Cash used during fiscal year 2004 primarily included the payment of a dividend totaling $3.4 million, partially offset by additional short-term borrowings of $2.0 and collections on notes receivable of $0.7 million.

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, 2004 and 2003 totaled $0.6 million and $5.4 million. Our working capital at October 31, 2004 was $20.4 million compared to $20.7 million at October 31, 2003. The overall working capital decrease primarily reflects additional short-term borrowings and the decrease in our cash balance.

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. In January 2004, we renewed our two short-term, non-collateralized, revolving credit facilities. These credit facilities expire in January 2006 and April 2006 and are with separate banks. Under the terms of these agreements, we are 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 2.9% and 2.0% at October 31, 2004 and 2003. Under these credit facilities, we had $2 million and $0 outstanding as of October 31, 2004 and 2003. The credit facilities contain various financial covenants with which we were in compliance at October 31, 2004.

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, 2004:

	Payments due by period			
Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**4-5 years**
Long-term debt obligations (including interest)	$ 65	$ 24	$ 32	$ 9
Short-term borrowings	2,000	2,000	—	—
Defined benefit plan	330	55	165	110
Operating lease commitments	2,588	862	1,452	274
Total	$ 4,983	$ 2,941	$ 1,649	$ 393

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, 2004.

Impact of Recently Issued Accounting Pronouncements

See Note 2 of Notes to Consolidated Financial Statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Our financial instruments include cash and cash equivalents, accounts receivable, short and long-term loans to growers, notes receivable from shareholders, accounts payable, 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, 2004.

	Expected maturity date October 31,						
(All amounts in thousands)	2004	2005	2006	2007	2008	Total	Fair Value
Assets:							
Cash and cash equivalents (1)	$ 636	$ —	$ —	$ —	$ —	$ 636	$ 636
Accounts receivable, net (1)	21,131	—	—	—	—	21,131	21,131
Loans to growers (1)	209	—	—	—	—	209	209
Advances to suppliers (1)	2,413	—	—	—	—	2,413	2,413
Notes receivable from shareholders (2)	210	211	2,462	—	—	2,883	2,883
Liabilities:							
Payable to growers (1)	$ 5,789	$ —	$ —	$ —	$ —	$ 5,789	$ 5,789
Accounts payable (1)	2,490	—	—	—	—	2,490	2,490
Fixed-rate long-term obligations (3)	23	13	8	8	4	56	58

(1) We believe the carrying amounts of cash and cash equivalents, accounts receivable, loans to growers, advances to suppliers, payable to growers and accounts payable 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 7.0%. 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 $79,000.

(3) Fixed rate long-term obligations bear interest rates ranging from 3.3% to 8.2%, with a weighted-average interest rate of 4.9%. We believe that loans with a similar risk profile would currently yield a return of 4.2%. 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 $2,000.

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. Consequently, 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. We do not believe, however, 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 ended October 31, 2004 do not exceed $0.1 million.

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Item 8. Financial Statements and Supplementary Data

CALAVO GROWERS, INC.

CONSOLIDATED BALANCE SHEETS
(in thousands, except per share amounts)

	October 31, 2004	October 31, 2003
Assets		
Current assets:		
Cash and cash equivalents	$ 636	$ 5,375
Accounts receivable, net of allowances of $1,087 (2004) and $700 (2003)	21,131	16,560
Inventories, net	11,375	8,021
Prepaid expenses and other current assets	4,598	4,487
Loans to growers	209	353
Advances to suppliers	2,413	624
Income taxes receivable	803	—
Deferred income taxes	1,775	1,379
Total current assets	42,940	36,799
Property, plant, and equipment, net	17,427	13,121
Building held for sale	1,658	—
Goodwill	3,591	—
Other assets	1,782	3,769
	$ 67,398	$ 53,689
Liabilities and shareholders' equity		
Current liabilities:		
Payable to growers	$ 5,789	$ 3,446
Trade accounts payable	2,490	1,534
Accrued expenses	8,234	7,777
Income tax payable	—	51
Short-term borrowings	2,000	—
Dividend payable	4,052	3,232
Current portion of long-term obligations	22	24
Total current liabilities	22,587	16,064
Long-term liabilities:		
Long-term obligations, less current portion	34	61
Deferred income taxes	840	417
Total long-term liabilities	874	478
Commitments and contingencies (Note 8)		
Shareholders' equity:		
Common stock ($0.001 par value, 100,000 shares authorized; 13,507 and 12,930 shares outstanding at October 31, 2004 and 2003)	14	13
Additional paid-in capital	28,822	24,727
Notes receivable from shareholders	(2,883)	(3,563)
Retained earnings	17,984	15,970
Total shareholders' equity	43,937	37,147
	$ 67,398	$ 53,689

See accompanying notes to consolidated financial statements.

CALAVO GROWERS, INC.

CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share amounts)

	Year Ended October 31, 2004	2003	2002
Net sales	$274,218	$246,761	$242,671
Cost of sales	248,814	221,414	216,848
Gross margin	25,404	25,347	25,823
Selling, general and administrative	15,920	14,651	13,881
Restructuring charge	185	106	—
Operating income	9,299	10,590	11,942
Other income, net	478	889	700
Income before provision for income taxes	9,777	11,479	12,642
Provision for income taxes	3,567	4,319	5,727
Net income	$ 6,210	$ 7,160	$ 6,915
Net income per share:			
Basic	$ 0.46	$ 0.55	$ 0.60
Diluted	$ 0.46	$ 0.55	$ 0.60
Number of shares used in per share computation:			
Basic	13,497	12,911	11,562
Diluted	13,582	12,944	11,604

See accompanying notes to consolidated financial statements.

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CALAVO GROWERS, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in thousands)

	Common Stock		Additional Paid-in Capital	Notes Receivable From Shareholders	Retained Earnings	Total
	Shares	Amount				
Balance, October 31, 2001	9,967	$ 10	$ 10,158	$ —	$ 9,861	$ 20,029
Exercise of stock options, and income tax benefit of $36	1,040	1	5,236	(4,789)	—	448
Stock Dividend	549	1	2,166	—	(2,167)	—
Issuance of common stock in connection with Employee Stock Purchase Plan	279	—	1,952	(1,952)	—	—
Issuance of common stock in connection with Rights Offering, net of offering costs of $290	1,000	1	4,709	—	—	4,710
Collections on shareholder notes receivable	—	—	—	1,021	—	1,021
Dividend declared to shareholders	—	—	—	—	(2,567)	(2,567)
Net income	—	—	—	—	6,915	6,915
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

See accompanying notes to consolidated financial statements.

CALAVO GROWERS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended October 31, 2004	2003	2002
Cash Flows from Operating Activities:			
Net income	$ 6,210	$ 7,160	$ 6,915
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	2,648	2,024	1,957
Provision for losses on accounts receivable	25	19	35
Stock compensation expense	46	—	—
Loss on disposal of property, plant, and equipment	—	32	29
Gain on sale of investments held to maturity	—	(163)	—
Effect on cash of changes in operating assets and liabilities:			
Accounts receivable	(4,596)	1,328	1,855
Inventories, net	(3,354)	4,440	(3,386)
Prepaid expenses and other assets	2,654	506	(1,937)
Loans to growers	144	114	652
Advances to suppliers	(1,789)	1,911	(163)
Income taxes receivable	(803)	360	(60)
Deferred income taxes	(320)	(226)	(566)
Payable to growers	2,343	(2,922)	(555)
Trade accounts payable and accrued expenses	1,303	588	3,359
Income tax payable	(51)	51	—
Net cash provided by operating activities	4,460	15,222	8,135
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	(8,409)	(6,535)	(1,973)
Proceeds from sale of short-term investments	—	2,223	—
Purchases of short-term investments	—	(2,223)	(105)
Net cash used in investing activities	(8,474)	(4,475)	(2,078)
Cash Flows from Financing Activities:			
Dividend paid to shareholders	(3,376)	(2,567)	—
Proceeds from (repayments of) short-term borrowings, net	2,000	(3,000)	(12,800)
Proceeds from issuance of common stock	—	—	4,710
Payments on long-term obligations	(29)	(3,317)	(536)
Proceeds from stock option exercises	—	475	412
Proceeds from collection of shareholder notes receivable	680	2,157	1,021
Additional rights offering costs	—	(41)	—
Net cash used in financing activities	(725)	(6,293)	(7,193)
Net increase (decrease) in cash and cash equivalents	(4,739)	4,454	(1,136)
Cash and cash equivalents, beginning of year	5,375	921	2,057
Cash and cash equivalents, end of year	$ 636	$ 5,375	$ 921
Supplemental Information -			
Cash paid during the year for:			
Interest	$ 66	$ 179	$ 443
Income taxes	$ 4,899	$ 4,170	$ 6,362
Noncash Investing and Financing Activities:			
Exercise of stock options using shareholder notes receivable	$ —	$ —	$ 4,789
5% Stock dividend	$ —	$ —	$ 2,167
Tax receivable increase related to stock option exercise	$ —	$ 72	$ 36
Stock purchases using shareholder notes receivable	$ —	$ —	$ 1,952
Declared dividends payable	$ 4,052	$ 3,232	$ 2,567
Acquisition of property under capital lease	$ —	$ —	$ 68

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.

CALAVO GROWERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of the business

Business

Calavo Growers, Inc. (Calavo, the Company, we, us or our) procures and markets avocados and other perishable commodities and prepares and distributes processed avocado products. Our expertise in marketing and distributing avocados, processed avocados, and other perishable foods allows us to deliver a wide array of fresh and processed food products to food distributors, produce wholesalers, supermarkets, and restaurants on a worldwide basis. Through our two operating facilities in southern California and two facilities in Mexico, we sort and pack 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.

As security for certain potential contingencies, such as unrecorded liabilities, we held approximately 58,000 shares issued in conjunction with such acquisition for one full year from the acquisition date. As no contingencies developed, which was in accordance with our expectations, we are in the process of releasing these shares to the original Maui shareholders.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition. The differences from the previously reported amounts of goodwill and intangible assets of $867,000 resulted from the finalization of our valuation information in the second quarter of fiscal 2004.

(in thousands)	**2004**
Fixed assets	$ 114
Goodwill	3,591
Intangible assets	867
Total assets acquired	4,572
Current liabilities	110
Deferred tax liabilities	347
Net assets acquired	$ 4,115

Pro forma statement of operations information is not presented, as the acquisition was not deemed to be a material business combination.

Conversion to a For-Profit Corporation

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. Concurrent with this transaction, the Cooperative was merged into Calavo, with Calavo emerging as the surviving entity. These transactions had the effect of converting the legal structure of the business from a not-for-profit cooperative to a for-profit corporation. Accordingly, the accompanying consolidated financial statements give retroactive effect, for all periods presented, to the merger, as a combination of entities with common shareholders, accounted for in a manner similar to a pooling of interests.

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.; and Calavo Foods de Mexico S.A. de C.V. 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 on a weighted-average basis, which approximates the first-in, first-out method, or market. Costs included in inventory primarily include the following: fruit, picking and hauling, overhead, labor, materials and freight.

Loans to Growers

We sponsor a grower loan program. Pursuant to this program, we provide loans to growers, bearing interest at prevailing market rates and repayable generally within a 12-month period. These loans are secured by the growers' avocado crops. We periodically evaluate the ability of these growers to repay advances in order to evaluate the possible need to record an allowance. No significant allowance was required at October 31, 2004.

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. The principal estimated useful lives are: 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 — 36 to 60 months. 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 $254,000 and $88,000 of software development and acquisition costs in 2004 and 2003 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, 2004.

Included in other assets in the accompanying consolidated financial statements are the following intangible assets: customer-related intangibles of $590,000 (accumulated amortization of $88,000 at October 31, 2004), brand name intangibles of $275,000 and other identified intangibles totaling $2,000 (accumulated amortization of $1,000 at October 31, 2004). 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 2005 through fiscal 2008, with the remaining amortization expense of approximately $27,000 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 have not identified any significant impairment as of October 31, 2004.

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 California and Mexico for various farming needs. These advances are generally secured with a crop lien or other collateral owned by the grower. We continuously evaluate the ability of these growers to repay advances and the fair value of the collateral in order to evaluate the possible need to record an allowance. No such allowance was required at October 31, 2004.

Accrued Expenses

Included in accrued expenses at October 31, 2004 and 2003 are accrued management bonuses of approximately $0.7 million and $1.0 million.

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, 2004, 2003 and 2002 in the financial statements pursuant to consignment arrangements are as follows (in thousands):

	2004	2003	2002
Sales	$ 26,878	$ 33,675	$ 27,960
Cost of Sales	25,985	31,900	26,608
Gross Margin	$ 893	$ 1,775	$ 1,352

Advertising Expense

Advertising costs are expensed when incurred. Such costs in fiscal 2004, 2003, and 2002 were approximately $213,000, $223,000, and $245,000.

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. 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 13,497,000, 12,911,000, and 11,562,000 for fiscal years 2004, 2003, and 2002. 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 85,000, 33,000 and 42,000 for fiscal years 2004, 2003 and 2002. There were no anti-dilutive options for fiscal years 2004, 2003 and 2002.

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.

	Year ended October 31,		
	2004	**2003**	**2002**
Net Income:			
As reported	$ 6,210	$ 7,160	$ 6,915
Add: Total stock-based compensation expense determined under APB 25 and related interpretations, net of tax effects	28	—	—
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of tax effects	(28)	—	(703)
Pro forma	$ 6,210	$ 7,160	$ 6,212
Net income per share, as reported:			
Basic	$ 0.46	$ 0.55	$ 0.60
Diluted	$ 0.46	$ 0.55	$ 0.60
Net income per share, pro forma:			
Basic	$ 0.46	$ 0.55	$ 0.54
Diluted	$ 0.46	$ 0.55	$ 0.54

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 2004 and 2002 has been estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions:

	2004	2002
Risk-free interest rate	3.3%	2.0%
Expected volatility	26.9%	130%
Dividend yield	20%	—%
Expected life (years)	5	1.1
Weighted-average fair value of options granted	$ 3.01	$ 1.04

The Black-Scholes option valuation model was 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 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.

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, 2004 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 approximate fair value due to the short maturity of these financial instruments.

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, 2004.

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 are in the process of evaluating whether the adoption of SFAS 151 will have a significant impact on our overall results of operations or financial position.

In December 2004, the FASB issued SFAS No. 153, *Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions* (SFAS 153). The amendments made by SFAS 153 are based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. Further, the amendments eliminate the narrow exception for nonmonetary exchanges of similar productive assets and replace it with a broader exception for exchanges of nonmonetary assets that do not have commercial substance. The Statement is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Earlier application is permitted for nonmonetary asset exchanges occurring in fiscal periods beginning after the date of issuance. The provisions of this Statement shall be applied prospectively. We do not expect the adoption of SFAS 153 will have a significant impact on our overall results of operations or financial position.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS 123(R)). SFAS 123(R) requires the recognition of compensation cost relating to share-based payment transactions in financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued as of the grant date, based on the estimated number of awards that are expected to vest. SFAS 123(R) covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. Statement 123(R) replaces FASB Statement No. 123, *Accounting for Stock-Based Compensation* (SFAS 123), and supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees* (Opinion 25). Statement 123(R) is effective for the interim period that begins August 1, 2005. As a public company, we are allowed to select from three alternative transition methods—each having different reporting implications. We have not completed our evaluation or determined the impact of adopting SFAS 123(R).

Comprehensive Income

Comprehensive income is defined as all changes in a company's net assets, except changes resulting from transactions with shareholders. There was no significant difference between comprehensive income and net income for the fiscal years ended October 31, 2004, 2003, and 2002.

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,	
	2004	**2003**
Fresh fruit	$ 3,424	$ 2,918
Packing supplies and ingredients	2,081	1,974
Finished processed foods	5,870	3,129
	$ 11,375	$ 8,021

Cost of goods sold for fiscal year 2004, 2003, and 2002 includes inventory write-downs of $285,000, $82,000 and $63,000. Write-downs in fiscal year 2004 primarily related to improper handling of product, which we believe related to a subcontractor's error. We are currently in discussions with such subcontractor regarding the handling of our product and will recognize recoveries, if any, when realized. For fiscal years 2003 and 2002, our write-downs were 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 exceeds the foreseeable demand, the value of inventory that at the time of the review 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, 2004	October 31, 2003
Land	$ 948	$ 1,177
Buildings and improvements	13,342	9,800
Leasehold improvements	228	176
Equipment	28,387	23,680
Information systems - Hardware and software	3,927	3,001
Construction in progress	1,675	5,054
	48,507	42,888
Less accumulated depreciation and amortization	(31,080)	(29,767)
	$ 17,427	$ 13,121

The net book value of our corporate headquarters building, totaling approximately $1.7 million, is recorded as Building held for sale in the accompanying balance sheet. See note 15 for further discussion. Depreciation expense was $2.6 million, $2.0 million and $2.0 million for fiscal years 2004, 2003, and 2002.

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, 2004 and 2003, total cumulative advances made to growers subject to this program totaled approximately $2,113,000, and we advanced no additional amounts in fiscal year 2004 pursuant to this program. Advances are amortized, through fiscal year 2006, to cost of goods sold over the term of the related agreement. The financial statements for fiscal years 2004, 2003 and 2002 include a charge of approximately $322,000, $308,000 and $293,000 representing the amortization of these advances.

6. Short-Term Borrowings

In January 2004, we renewed our two short-term, non-collateralized, revolving credit facilities. These credit facilities expire in January 2006 and April 2006 and are with separate banks. Under the terms of these agreements, we are 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 2.9% and 2.0% at October 31, 2004 and 2003. Under these credit facilities, we had $2 million and $0 outstanding as of October 31, 2004 and 2003. The credit facilities contain various financial covenants with which we were in compliance at October 31, 2004.

7. Employee Benefit Plans

We sponsor two defined contribution retirement plans for salaried and hourly employees. Expenses for these plans approximated $409,000, $411,000, and $402,000 for fiscal years 2004, 2003 and 2002, 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 $49,000, $59,000, and $126,000 for the years ended October 31, 2004, 2003, and 2002, 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):

	2004	2003
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	$ 506	$ 502
Interest cost	30	32
Actuarial loss	19	27
Benefits paid	(55)	(55)
Projected benefit obligation at end of year (unfunded)	$ 500	$ 506

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

	2004	2003
Projected benefit obligation	$ 500	$ 506
Unrecognized net (gain) loss	—	(49)
Recorded pension liabilities	$ 500	$ 457

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

	2004	2003	2002
Discount rate on projected benefit obligation	6.25%	6.25%	6.75%

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, 2004 as follows (amounts in thousands):

2005	$ 862
2006	836
2007	616
2008	273
2009	1
	$ 2,588

Rental expenses amounted to approximately $1,121,000, $1,163,000, and $1,296,000 for the years ended October 31, 2004, 2003, and 2002.

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.

In June 2003, in order to facilitate the operations of one of our processed avocado product suppliers, we entered into a contract guaranteeing payment of certain invoices rendered to such supplier. The term of this guarantee is from June 2003 through December 2004, but can be cancelled at any time at our discretion. Additionally, the maximum amount subject to guarantee at any one time cannot exceed $90,000. As of October 31, 2004, no amounts or orders were outstanding and all amounts owed by such supplier related to this guarantee have been remitted. We did not record a liability at inception related to this guarantee contract as we do not believe that we will make any future payments under such guarantee and the fair value was insignificant.

Litigation

We are not involved in litigation which we 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 $6,846,000, $2,920,000, and $2,658,000 for the years ended October 31, 2004, 2003, and 2002, resulting in gross margins of approximately $864,000, $281,000 and $272,000. Net amounts due to this entity approximated $113,000, $278,000, and $119,000 at October 31, 2004, 2003, and 2002.

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

10. Income Taxes

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

	2004	2003	2002
Current:			
Federal	$ 3,018	$ 3,639	$ 4,540
State	844	825	1,181
Foreign	25	81	572
Total current	3,887	4,545	6,293
Deferred	(320)	(226)	(566)
Total income tax provision	$ 3,567	$ 4,319	$ 5,727

At October 31, 2004 and 2003, gross deferred tax assets totaled approximately $2,061,000 and $1,634,000, while gross deferred tax liabilities totaled approximately $1,126,000 and $672,000. 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, 2004 and 2003 are as follows:

	2004	2003
Allowances for accounts receivable	$ 679	$ 543
Inventories	647	273
State taxes	257	271
Accrued liabilities	192	292
Current deferred income taxes	1,775	1,379
Property, plant, and equipment	(739)	(614)
Intangible assets	(339)	—
Retirement benefits	217	197
Other	21	—
Long-term deferred income taxes	$ (840)	$ (417)

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:

	2004	2003	2002
Federal statutory tax rate	35%	35%	35%
State taxes, net of federal effects	5	4	6
Foreign income taxes greater (less) than U.S.	(3)	(1)	2
Benefit of lower federal tax brackets	(1)	(1)	(1)
Other	—	1	3
	36%	38%	45%

We intend to reinvest our foreign earnings, which approximated $2.4 million at October 31, 2004, indefinitely. As a result, we have not provided any deferred income taxes on such unremitted earnings.

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

We are currently under examination by the Internal Revenue Service for the years ended October 31, 2002 and October 31, 2003, as well as the Mexican tax authorities for the tax year ended December 31, 2002. We do not believe that the settlement of such examinations will have a material adverse impact on our financial statements.

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. Additionally, the results of operations related to Maui have also been included in international avocados and perishable foods products segment. 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 five-year average sales dollars. We do not allocate assets or specifically identify them to our operating segments.

	California avocados	International avocados and perishable food products	Processed products	Inter-segment eliminations	Total
		(All amounts are presented in thousands)			
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
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
Year ended October 31, 2002					
Net sales	$165,077	$ 59,083	$ 29,960	$ (11,449)	$242,671
Cost of sales	147,796	55,372	25,129	(11,449)	216,848
Gross margin	17,281	3,711	4,831	—	25,823
Selling, general and administrative	6,729	2,779	4,373	—	13,881
Operating income	10,552	932	458	—	11,942
Other income (expense), net	523	256	(79)	—	700
Income before provision for income taxes	11,075	1,188	379	—	12,642
Provision for income taxes	5,017	538	172	—	5,727
Net income	$ 6,058	$ 650	$ 207	$ —	$ 6,915

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

	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

	Year ended October 31, 2002			
	California Avocados	International Avocados and Perishable Food Products	Processed Products	Total
Third-party sales:				
California avocados	$153,878	$ —	$ —	$153,878
Imported avocados	—	43,715	—	43,715
Papayas	—	2,658	—	2,658
Specialities and tropicals	—	42	—	42
Processed - food service	—	—	24,964	24,964
Processed - retail and club	—	—	5,141	5,141
Total fruit and product sales to third-parties	153,878	46,415	30,105	230,398
Freight and other charges	11,381	7,540	217	19,138
Total third-party sales	165,259	53,955	30,322	249,536
Less sales incentives	(182)	(150)	(6,533)	(6,865)
Total net sales to third-parties	165,077	53,805	23,789	242,671
Intercompany sales	—	5,278	6,171	11,449
Net sales before eliminations	$165,077	$ 59,083	$ 29,960	254,120
Intercompany sales eliminations				(11,449)
Consolidated net sales				$242,671

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

	United States	Mexico	Consolidated
2004	$ 11,761	$ 12,697	$ 24,458
2003	$ 9,951	$ 6,939	$ 16,890

Sales to customers outside the United States were approximately $16.2 million, $15.7 million and $9.8 million for the three years ended October 31, 2004.

12. 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.

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, 2004 and 2003.

During fiscal 2004, directors made principal payments of $416,000 related to these notes and we have recorded interest income of $189,000. During fiscal 2003, directors made principal payments of $1,661,000 related to these notes and we have recorded interest income of $269,000. As of October 31, 2004, we have accrued interest receivable of $109,000 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 year 2004, we recognized $46,000 of compensation expense with respect to stock option awards pursuant to APB 25.

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

	Year ended October 31, 2003	
	Number of Shares	Weighted-Average Exercise Price
Outstanding at beginning of period	200	$ 5.00
Exercised	(95)	5.00
Outstanding at end of period	105	$ 5.00
Exercisable at end of period	105	$ 5.00

	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 and exercisable at October 31, 2004 (shares in thousands):

	Outstanding		
Range of Exercise Prices	Number of Shares	Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price
$ 5.00 — $7.00	155	2.73	$ 5.65

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. Accordingly, 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, 2004 and October 2003.

During fiscal 2003, employees made principal payments of $496,000 related to these notes, and we have recorded interest income of $97,000. 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, 2004, we have accrued interest receivable of $25,000 related to these notes, which is included in prepaid expenses and other current assets.

13. Dividends

In January 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. In January 2004, we paid a $0.25 per share dividend in the aggregate amount of $3,376,000 to shareholders of record on November 17, 2003.

14. 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, Michoacan, Mexico. We believe that this restructuring will provide 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.

For Fiscal year 2004, we have incurred costs related to this restructuring approximating $1,013,000. Our income statement for the year ended October 31, 2004 includes $741,000 as cost of sales, $185,000 as special charges, and $87,000 as selling, general and administrative expenses. These costs are comprised of the following components as of and for the year ended October 31, 2004:

(in thousands)	Restructuring charges	Amounts paid	Non-cash charges	Reserves remaining to be utilized
Special charges - employee separation costs	$ 185	$ (185)	$ —	$ —
Selling, general and administrative - freight	87	(87)	—	—
Cost of sales - facility operating costs	741	(672)	(69)	—
	$ 1,013	$ (944)	$ (69)	$ —

Special charges recorded during the year ended October 31, 2004 consist entirely of employee separation costs. All employee separation costs were paid in cash and represent final payments to 93 production and 8 managerial/administrative employees formerly working at our Mexicali processing facility. We have not recorded a significant charge relating to the write-down of production assets being held at our Mexicali production facility, as substantially all such assets were re-commissioned at our new facility in Uruapan or their carrying value was less than their fair value.

15. Corporate Headquarters Building

In August 2004, we entered into an agreement to sell our corporate headquarters building located in Santa Ana, California for $3.4 million. Such transaction, however, fell out of escrow in November 2004. Then, in December 2004, we re-entered escrow, with a different buyer, to sell our corporate headquarters building for the same sales price. Escrow related to such transaction is expected to close in the second quarter of fiscal 2005, which is when we expect to complete the move of our corporate headquarters. We estimate that this transaction will result in a pre-tax gain on sale of approximately $3.0 million, if such transaction is consummated according to terms. We currently plan to relocate our corporate offices to Santa Paula, California.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
Calavo Growers, Inc.
Santa Ana, CA

We have audited the accompanying consolidated balance sheets of Calavo Growers, Inc. and subsidiaries (the "Company") as of October 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended October 31, 2004. Our audits also included the financial statement schedules listed in the Index at Item 15 (a)(2). These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, such consolidated financial statements present fairly, in all material respects, the financial position of Calavo Growers, Inc. and subsidiaries as of October 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended October 31, 2004, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

/s/ DELOITTE & TOUCHE LLP

Costa Mesa, California

January 12, 2005

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

Not applicable.

Item 9A. Controls and Procedures

An evaluation as of the end of the period covered by this report was carried out under the supervision and with the participation of our management, including our Chairman and Chief Executive Officer and our Chief Financial Officer. This evaluation related to the effectiveness of the design and operation of our “disclosure controls and procedures,” which are defined under Securities and Exchange Commission rules as controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within required time periods. Based upon that evaluation, our Chairman and Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

There were no significant changes in our internal control over financial reporting during the fiscal quarter ended October 31, 2004 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None

PART III

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

Item 10. Directors and Executive Officers of the Registrant

Information regarding our executive officers is set forth under “Executive Officers” in Part I., Item 4 of this Annual Report.

The remaining information required by Item 401 of Regulation S-K is incorporated herein by reference to the sections of the Proxy Statement entitled “Election of Directors” and “Audit Committee.”

Information required by Item 405 of Regulation S-K is incorporated herein by reference to the section of the Proxy Statement entitled “Section 16(a) Beneficial Ownership Reporting Compliance.”

We have adopted a code of ethics that applies to all of our directors, officers and employees. A copy of the code of ethics is posted on our Internet site at *http://www.calavo.com*. In the event that we make any amendment to, or grant any waiver of, a provision of the code of ethics that applies to our principal executive officer or principal financial officer and that requires disclosure under applicable SEC rules, we intend to disclose such amendment or waiver and the reasons for the amendment or waiver on our Internet site.

Item 11. Executive Compensation

Information required by Item 402 of Regulation S-K is incorporated herein by reference to the sections of the Proxy Statement entitled “Executive Compensation” and “Directors’ Compensation.”

Item 12. Security Ownership of Certain Beneficial Owners and Management

Information required by Items 201(d) and 403 of Regulation S-K is incorporated herein by reference to the sections of the Proxy Statement entitled “Equity Compensation Plan Information” and “Security Ownership of Certain Beneficial Owners and Management.”

Item 13. Certain Relationships and Related 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 $6,846,000, $2,920,000, and $2,658,000 for the years ended October 31, 2004, 2003, and 2002, resulting in gross margins of approximately $864,000, $281,000 and $272,000. Net amounts due to this entity approximated $113,000, $278,000, and $119,000 at October 31, 2004, 2003, and 2002.

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

Additional information required by Item 404 of Regulation S-K is incorporated herein by reference to the section of the Proxy Statement entitled “Certain Relationships and Related Transactions.”

Item 14. Principal Accountant’s Fees and Services

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

Part IV

Item 15. Exhibits and Financial Statement Schedules

(a) (1) **Financial Statements**

The following consolidated financial statements as of October 31, 2004 and 2003 and for each of the three years in the period ended October 31, 2004 are included herewith:

Consolidated Balance Sheets, Consolidated Statements of Income, Consolidated Statements of Cash Flows, Consolidated Statements of Shareholders' Equity, Notes to Consolidated Financial Statements, and Report of Deloitte & Touche LLP, Independent Registered Public Accounting Firm.

(2) **Supplemental Schedules**

Schedule II — Valuation and Qualifying Accounts

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

(3) **Exhibits**

Exhibit Number	Description
2.1	Agreement and Plan of Merger and Reorganization dated as of February 20, 2001 between Calavo Growers, Inc. and Calavo Growers of California.*
2.2	Agreement and Plan of Merger dated as of November 7, 2003 Among Calavo Growers, Inc., Calavo Acquisition, Inc., Maui Fresh International, Inc. and Arthur J. Bruno, Robert J. Bruno and Javier J. Badillo
3.1	Articles of Incorporation of Calavo Growers, Inc.*
3.2	Amended and Restated Bylaws of Calavo Growers, Inc.****
10.1	Form of Marketing Agreement for Calavo Growers, Inc.
10.2	Marketing Agreement dated as of April 1, 1996 between Tropical Hawaiian Products, Inc., a Hawaiian corporation, and Calavo Growers of California.*
10.3	Lease Agreement (undated) between Tede S.A. de C.V., a Mexican corporation, and Calavo Foods de Mexico, S.A. de C.V., a Mexican corporation, including attached Guaranty of Calavo Growers of California dated October 25, 1994.*
10.4	Lease Agreement dated as of November 21, 1997, between Tede S.A. de C.V., a Mexican corporation, and Calavo de Mexico, S.A. de C.V., a Mexican corporation, including attached Guaranty of Calavo Growers of California dated December 16, 1996.*
10.5	Lease Intended as Security dated as of September 1, 2000 Between Banc of America Leasing & Capital, LLC, a Delaware limited liability company, and Calavo Growers of California.*
10.6	Business Loan Agreement dated as of April 20, 1999 between Bank of America National Trust and Savings Association and Calavo Growers of California.*
10.7	Amendment No. 2 to Business Loan Agreement (undated) Between Bank of America N.A. (formerly Bank of America National Trust and Savings Association) and Calavo Growers of California.*

Exhibit Number	Description
10.8	Reimbursement Agreement dated as of September 1, 1985 Between Security Pacific National Bank and Calavo Growers of California.*
10.9	Amendment No. Two to Reimbursement Agreement dated as of August 22, 1995 between Bank of America National Trust and Savings Association (as successor to Security Pacific National Bank) and Calavo Growers of California.*
10.10	Amendment No. Three to Reimbursement Agreement dated as of October 18, 2000 between Bank of America, N.A. (formerly Bank of America National Trust and Savings Association) and Calavo Growers of California.*
10.11	Master Loan Agreement dated as of June 15, 2000 between CoBank, ACB and Calavo Growers of California, including Attached Revolving Credit Supplement dated June 15, 2000 Between CoBank, ACB and Calavo Growers of California.*
10.12	Calavo Supplemental Executive Retirement Agreement dated March 11, 1989 between Egidio Carbone, Jr. and Calavo Growers of California.*
10.13	Amendment to the Calavo Growers of California Supplemental Executive Retirement Agreement dated November 9, 1993 Between Egidio Carbone, Jr. and Calavo Growers of California.*
10.14	2001 Stock Option Plan for Directors.**
10.15	2001 Stock Purchase Plan for Officers and Employees.**
10.16	Line of Credit Agreement between Farm Credit West, PCA and Calavo Growers, Inc., dated January 22, 2004
10.17	Business Loan Agreement between Bank of America, N.A. and Calavo Growers, Inc., dated January 30, 2004
21.1	Subsidiaries of Calavo Growers, Inc.*
23.1	Consent of Deloitte & Touche LLP.
31.1	Certification of Chief Executive Officer Pursuant to 15 U.S.C. § 7241, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to 15 U.S.C. § 7241, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. § 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. § 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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

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

*** Previously filed on August 15, 2001 as an exhibit to the Registrant's Registration Statement on Form S-4, File No. 333-59418, and incorporated herein by reference.

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

(b) **Exhibits**

See subsection (a) (3) above.

(c) **Financial Statement Schedules**

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on January 12, 2005.

CALAVO GROWERS, INC

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on January 12, 2005 by the following persons on behalf of the registrant and in the capacities indicated:

Signature	Title
/s/ Lecil E. Cole Lecil E. Cole	Chairman of the Board of Directors, Chief Executive Officer and President (Principal Executive Officer)
/s/ Arthur J. Bruno Arthur J. Bruno	Chief Operating Officer, Chief Financial Officer and Corporate Secretary (Principal Financial Officer)
/s/ Donald M. Sanders Donald M. Sanders	Director
/s/ Fred J. Ferrazzano Fred J. Ferrazzano	Director
/s/ John M. Hunt John M. Hunt	Director
/s/ George H. Barnes George H. Barnes	Director
/s/ J. Link Leavens J. Link Leavens	Director
/s/ Alva V. Snider Alva V. Snider	Director
/s/ Michael D. Hause Michael D. Hause	Director
/s/ Dorcas H. McFarlane Dorcas H. McFarlane	Director
/s/ Scott Van Der Kar Scott Van Der Kar	Director

SCHEDULE II

CALAVO GROWERS, INC.

VALUATION AND QUALIFYING ACCOUNTS (in thousands)

	Fiscal year ended October 31:	Balance at beginning of year	Additions(1)	Deductions(2)	Balance at end of year
Allowance for customer deductions	2002	515	4,885	5,139	261
	2003	261	4,108	3,710	659
	2004	659	7,698	7,335	1,022
Allowance for doubtful accounts	2002	9	35	19	25
	2003	25	19	3	41
	2004	41	25	1	65

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

(2) Write-off of assets

EXHIBIT INDEX

Exhibit Number	Description
2.1	Agreement and Plan of Merger and Reorganization dated as of February 20, 2001 between Calavo Growers, Inc. and Calavo Growers of California.*
2.2	Agreement and Plan of Merger dated as of November 7, 2003 Among Calavo Growers, Inc., Calavo Acquisition, Inc., Maui Fresh International, Inc. and Arthur J. Bruno, Robert J. Bruno and Javier J. Badillo
3.1	Articles of Incorporation of Calavo Growers, Inc.*
3.2	Amended and Restated Bylaws of Calavo Growers, Inc.****
10.1	Form of Marketing Agreement for Calavo Growers, Inc.
10.2	Marketing Agreement dated as of April 1, 1996 between Tropical Hawaiian Products, Inc., a Hawaiian corporation, and Calavo Growers of California.*
10.3	Lease Agreement (undated) between Tede S.A. de C.V., a Mexican corporation, and Calavo Foods de Mexico, S.A. de C.V., a Mexican corporation, including attached Guaranty of Calavo Growers of California dated October 25, 1994.*
10.4	Lease Agreement dated as of November 21, 1997, between Tede S.A. de C.V., a Mexican corporation, and Calavo de Mexico, S.A. de C.V., a Mexican corporation, including attached Guaranty of Calavo Growers of California dated December 16, 1996.*
10.5	Lease Intended as Security dated as of September 1, 2000 between Banc of America Leasing & Capital, LLC, a Delaware limited liability company, and Calavo Growers of California.*
10.6	Business Loan Agreement dated as of April 20, 1999 between Bank of America National Trust and Savings Association and Calavo Growers of California.*
10.7	Amendment No. 2 to Business Loan Agreement (undated) between Bank of America N.A. (formerly Bank of America National Trust and Savings Association) and Calavo Growers of California.*
10.8	Reimbursement Agreement dated as of September 1, 1985 between Security Pacific National Bank and Calavo Growers of California.*
10.9	Amendment No. Two to Reimbursement Agreement dated as of August 22, 1995 between Bank of America National Trust and Savings Association (as successor to Security Pacific National Bank) and Calavo Growers of California.*
10.10	Amendment No. Three to Reimbursement Agreement dated as of October 18, 2000 between Bank of America, N.A. (formerly Bank of America National Trust and Savings Association) and Calavo Growers of California.*
10.11	Master Loan Agreement dated as of June 15, 2000 between CoBank, ACB and Calavo Growers of California, including attached Revolving Credit Supplement dated June 15, 2000 between CoBank, ACB and Calavo Growers of California.*
10.12	Calavo Supplemental Executive Retirement Agreement dated March 11, 1989 between Egidio Carbone, Jr. and Calavo Growers of California.*

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Exhibit Number	Description
10.13	Amendment to the Calavo Growers of California Supplemental Executive Retirement Agreement dated November 9, 1993 between Egidio Carbone, Jr. and Calavo Growers of California.*
10.14	2001 Stock Option Plan for Directors.**
10.15	2001 Stock Purchase Plan for Officers and Employees.**
10.16	Line of Credit Agreement between Farm Credit West, PCA and Calavo Growers, Inc., dated January 22, 2004
10.17	Business Loan Agreement between Bank of America, N.A. and Calavo Growers, Inc., dated January 30, 2004
21.1	Subsidiaries of Calavo Growers, Inc.*
23.1	Consent of Deloitte & Touche LLP.
31.1	Certification of Chief Executive Officer Pursuant to 15 U.S.C. § 7241, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to 15 U.S.C. § 7241, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. § 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. § 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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EXHIBIT 10.16

Loan No. PRT0989

LINE OF CREDIT AGREEMENT

THIS LINE OF CREDIT AGREEMENT is entered into as of January 22, 2004, between FARM CREDIT WEST, PCA, Visalia, California ("FCW") and CALAVO GROWERS, INC., Santa Ana, California (the "Company").

SECTION 1. THE REVOLVING CREDIT FACILITY. On the terms and conditions set forth in this agreement, FCW agrees to make loans to the Company during the period set forth below in an aggregate principal amount not to exceed $12,000,000.00 (the "Commitment"). Within the limits of the Commitment, the Company may borrow, repay and reborrow.

SECTION 2. SALE OF INTEREST TO COBANK. The Company acknowledges that concurrent with the execution of this Line of Credit Agreement, FCW is selling a 100% participation interest in the Commitment to CoBank, ACB ("CoBank"). All funds to be advanced hereunder shall be made by CoBank, all repayments by the Company hereunder shall be made to CoBank, and all notices to be made to FCW shall be made to CoBank and to FCW. CoBank shall be solely responsible for the administration of this Line of Credit Agreement and the enforcement of all rights and remedies of FCW hereunder, including administration of so called "borrower rights" provisions of regulations of the Farm Credit Administration covering interest rate disclosures, restructuring for distressed loans, the right of first refusal with respect to acquired property, and other matters as set forth in the applicable regulations.

SECTION 3. PURPOSE. The purpose of the Commitment is to finance the operating needs of the Company and for the issuance of approved letters of credit.

SECTION 4. TERM. The term of the Commitment shall be from the date hereof, up to but not including January 22, 2006, or such later date as FCW may, with the consent of CoBank, authorize in writing.

SECTION 5. AVAILABILITY. Subject to the provisions of Section 26, loans will be made available on any day on which FCW and CoBank and the Federal Reserve Banks are open for business upon the telephonic or written request of the Company. Requests for loans must be received no later than 12:00 Noon Company's local time on the date the loan is desired. Loans will be made available by CoBank by wire transfer of immediately available funds to such account or accounts as may be authorized by the Company. The Company shall furnish to CoBank a duly completed and executed copy of a CoBank Delegation and Wire and Electronic Transfer Authorization Form, and FCW and CoBank shall be entitled to rely on (and shall incur no liability to the Company in acting on) any request or direction furnished in accordance with the terms thereof.

SECTION 6. INTEREST AND FEES.

(A) INTEREST. The Company agrees to pay interest on the unpaid balance of the loans in accordance with one of more of the following interest rate options, as selected by the Company:

(1) WEEKLY QUOTED VARIABLE RATE. At a rate per annum equal at all times to the rate of interest established by CoBank on the first Business Day of each week. The rate established by CoBank shall be effective until the first Business Day of the next week. Each change in the rate shall be applicable to all balances subject to this option and information about the then current rate shall be made available upon telephonic request.

(2) LIBOR. At a fixed rate per annum equal to "LIBOR" (as hereinafter defined) plus 100 basis points (1%). Under this option: (1) rates may be fixed for "Interest Periods" (as hereinafter defined) of 1,2,3,6,9 or 12 months as selected by the Company; (2) amounts may be fixed in increments of $100,000.00 or multiples thereof; (3) the maximum number of fixes in place at any one time shall be 10; and (4) rates may only be fixed on a "Banking Day" (as hereinafter defined) on 3 Banking Days' prior written notice. For purposes hereof: (a) "LIBOR" shall mean the rate (rounded upward to the nearest sixteenth) and adjusted for reserves required on "Eurocurrency Liabilities" (as hereinafter defined) for banks subject to "FRB Regulation D" (as herein defined) or required by any other federal law or regulation) quoted by the British Bankers Association (the "BBA") at 11:00 a.m. London time 2 Banking Days before the commencement of the Interest Period for the offering of U.S. dollar deposits in the London interbank market for the Interest Period designated by the Company; as published by Bloomberg or another major information vendor listed on BBA's official website; (b) "Banking Day" shall mean a day on which CoBank is open for business, dealings in U.S. dollar deposits are being carried out in the London interbank market, and banks are open for business in New York City and London, England; (c) "Interest Period" shall mean a period commencing on the date this option is to take effect and ending on the numerically corresponding day in the next calendar month or the month that is 2, 3, 6, 9 or 12 months thereafter, as the case may be; provided, however, that: (i) in the event such ending day is not a Banking Day, such period shall be extended to the next Banking Day unless such next Banking Day falls in the next calendar month, in which case it shall end on the preceding Banking Day; and (ii) if there is no numerically corresponding day in the month, then such period shall end on the last Banking Day in the relevant month; (d) "Eurocurrency Liabilities" shall have meaning as set forth in "FRB Regulation D"; and (e) "FRB Regulation D" shall mean Regulation D as promulgated by the Board of Governors of the Federal Reserve System, 12 CFR Part 204, as amende.

(3) QUOTED RATE. At a fixed rate per annum to be quoted by CoBank in its sole discretion in each instance. Under this option, rates may be fixed on such balances and for such periods, as may be agreeable to CoBank in its sole discretion in each instance, provided that: (1) the minimum fixed period shall be 30 days; (2) amounts may be fixed in increments of $500,000.00 or multiples thereof; and (3) the maximum number of fixes in place at any one time shall be 10.

The Company shall select the applicable rate option at the time it requests a loan hereunder and may, subject to the limitations set forth above, elect to convert balances bearing interest at the variable rate option to one of the fixed rate options. Upon the expiration of any fixed rate period, interest shall automatically accrue at the variable rate option provided for above unless the amount fixed is repaid or fixed for an additional period in accordance with the terms hereof. Notwithstanding the foregoing, rates may not be fixed in such a manner as to cause the Company to have to break any fixed rate balance in order to pay any installment of principal. All elections provided for herein shall be made telephonically or in writing and must be received by 12:00 Noon Company's local time. Interest shall be calculated on the actual number of days each loan is outstanding on the basis of a year consisting of 360 days and shall be payable monthly in arrears by the 20th day of the following month or on such other day in such month as CoBank shall require in a written notice to the Company.

(B) COMMITMENT FEE. In consideration of the Commitment, the Company agrees to pay to CoBank a commitment fee on the average daily unused portion of the Commitment at the rate of 0.15% per annum (calculated on a 360 day basis based on utilization, which is defined as outstanding advances plus issued and outstanding letters of credit divided by the total available amount of the Commitment), payable quarterly in arrears by the 20th day following each quarter. Such fee shall be payable for each quarter (or portion thereof) occurring during the original or any extended term of the Commitment.

SECTION 7. REPAYMENT AND MATURITY. The unpaid principal balance of the loans shall mature and be due and payable on January 22, 2006, or such later date as CoBank may in its sole discretion authorize in writing (the "Maturity Date").

SECTION 8. PROMISSORY NOTE. The Company's obligation to repay the loans shall be evidenced by a promissory note in the form attached hereto as Exhibit A ("Note").

SECTION 9. MANNER AND TIME OF PAYMENT. CoBank shall maintain a record of all loans, the interest accrued thereon, and all payments made with respect thereto, and such record shall, absent proof of manifest error, be conclusive evidence of the outstanding principal and interest on the loans. All payments shall be made by wire transfer of immediately available funds, by check, or by automated clearing house or other similar cash handling processes as specified by separate agreement between the Company and CoBank. Wire transfers shall be made to ABA No. 307088754 for advice to and credit of CoBank (or to such other account as CoBank may direct by notice). The Company shall give CoBank telephonic notice no later than 12:00 Noon Company's local time of its intent to pay by wire and funds received after 3:00 p.m. Company's local time shall be credited on the next business day. Checks shall be mailed to CoBank, Department 167, Denver, Colorado 80291-0167 (or to such other place as CoBank may direct by notice). Credit for payment by check will not be given until the later of: (a) the day on which CoBank receives immediately available funds; or (b) the next business day after receipt of the check.

SECTION 10. CAPITALIZATION. The participation interest in the Loans held by CoBank shall be on a patronage basis; provided, however, that pursuant to Section 27 hereunder, any subparticipation interest sold by CoBank subsequent to its initial purchase of the 100% participation interest from FCW shall not be on a patronage basis. The Company will initially purchase a $1,000.00 stock investment under FCW capitalization plan. The Company understands that in light of the sale of 100% of the Commitment to CoBank, the Company has a right as set forth in the Regulations of the Farm Credit Administration (see Section 614.4335) to elect to invest in equities of either FCW or CoBank. Subject to the provisions of Section 28 below, the Company hereby elects to purchase such equity in CoBank as CoBank may from time to time require in accordance with its Bylaws. However, the maximum amount of equity which the Company shall be obligated to purchase in connection with any loan may not exceed the maximum amount permitted by the Bylaws as of the date hereof or at the time this loan is renewed or refinanced under an arrangement where some or all of the loan is participated in by CoBank.

SECTION 11. SECURITY. The Company's obligations under this agreement and the Note shall be secured by a statutory first lien on all equity which the Company may now own or hereafter acquire in FCW or CoBank. With the exception of the security referenced in the preceding sentence, the Company's obligations under this agreement and the Note shall be unsecured.

SECTION 12. LETTERS OF CREDIT. If agreeable to CoBank in its sole discretion in each instance, in addition to loans, the Company may utilize up to $2,500,000.00 of the Commitment to open irrevocable letters of credit for its account. Each letter of credit will be issued within a reasonable period of time after receipt of a duly completed and executed copy of CoBank's then current form of application or, if applicable, in accordance with the terms of any CoTrade Agreement between the parties, and shall reduce the amount available under the Commitment by the maximum amount capable of being drawn thereunder. Any draw under any letter of credit issued hereunder shall be deemed an advance under the Commitment. Each letter of credit must be in form and content acceptable to CoBank and must expire no later than the maturity date of the loan.

SECTION 13. CONDITIONS PRECEDENT. CoBank's obligation to make loans hereunder is subject to the condition precedent that CoBank receive, in form and content satisfactory to CoBank, each of the following:

(A) THIS AGREEMENT, ETC. A duly executed copy of this agreement and all instruments and documents contemplated hereby.

(B) EVIDENCE OF AUTHORITY. Such certified board resolutions, evidence of incumbency, and other evidence that CoBank may require that this agreement and the Note have been duly authorized and executed.

(C) FEES AND OTHER CHARGES. All fees and other charges provided for herein.

(D) EVIDENCE OF INSURANCE. Such evidence as CoBank may require that the Company is in compliance with Section 15(C) hereof.

(E) EVENT OF DEFAULT. That no "Event of Default" (as defined in Section 18 hereof) or event which with the giving of notice and/or the passage of time would become an Event of Default hereunder (a "Potential Default"), shall have occurred and be continuing.

(F) PARTICIPATION CERTIFICATE. That CoBank and FCW shall have entered into a Participation Certificate covering the loan hereunder to be dated as of the date hereof.

SECTION 14. REPRESENTATIONS AND WARRANTIES.

(A) THIS AGREEMENT. The Company represents and warrants to FCW and CoBank that as of the date of this Agreement:

(1) COMPLIANCE. The Company and, to the extent contemplated hereunder, each "Subsidiary" (as defined below), is in compliance with all of the terms of this agreement, and no Event of Default or Potential Default exists hereunder.

(2) SUBSIDIARIES. The Company has the following Subsidiaries: Calavo Foods, Inc. (CFI); Maui Fresh International, Inc.; Calavo de Mexico S.A. de C.V.; and Calavo Foods de Mexico S.A. de C.V. . For purposes hereof, a "Subsidiary" shall mean a corporation of which shares of stock having ordinary voting power to elect a majority of the board of directors or other managers of such corporation are owned, directly or indirectly, by the Company.

(3) CONFLICTING AGREEMENTS, Etc. This agreement and the Note (collectively, at any time, the "Loan Documents"), do not conflict with, or require the consent of any party to, any other agreement to which the Company is a party or by which it or its property may be bound or affected, and do not conflict with any provision of the Company's bylaws, articles of incorporation, or other organizational documents.

(4) COMPLIANCE. The Company and, to the extent contemplated hereunder, each Subsidiary, if any, is in compliance with all of the terms of the Loan Documents.

(5) BINDING AGREEMENT. The Loan Documents create legal, valid, and binding obligations of the Company which are enforceable in accordance with their terms, except to the extent that enforcement may be limited by applicable bankruptcy, insolvency, or similar laws affecting creditors' rights generally.

SECTION 15. AFFIRMATIVE COVENANTS. Unless otherwise agreed to in writing by CoBank, while this agreement is in effect, the Company agrees to and with respect to Subsections 15(A) through 15(F) hereof, agrees to cause each Subsidiary, if any, to:

(A) CORPORATE EXISTENCE, LICENSES. ETC. (i) Preserve and keep in full force and effect its existence and good standing in the jurisdiction of its incorporation or formation; (ii) qualify and remain qualified to transact business in all jurisdictions where such qualification is required; and (iii) obtain and maintain all licenses, certificates, permits, authorizations, approvals, and the like which are material to the conduct of its business or required by law, rule, regulation, ordinance, code, order, and the like (collectively, "Laws").

(B) COMPLIANCE WITH LAWS. Comply in all material respects with all applicable Laws, including, without limitation, all Laws relating to environmental protection. In addition, the Company agrees to cause all persons occupying or present on any of its properties, and to cause each Subsidiary, if any, to cause all persons occupying or present on any of its properties, to comply in all material respects with all environmental protection Laws.

(C) INSURANCE. Maintain insurance with insurance companies or associations acceptable to CoBank in such amounts and covering such risks as are usually carried by companies engaged in the same or similar business and similarly situated, and make such increases in the type or amount of coverage as CoBank may request. At CoBank's request, all policies (or such other proof of compliance with this Subsection as may be satisfactory to CoBank) shall be delivered to CoBank.

(D) PROPERTY MAINTENANCE. Maintain all of its property that is necessary to or useful in the proper conduct of its business in good working condition, ordinary wear and tear excepted.

(E) BOOKS AND RECORDS. Keep adequate records and books of account in which complete entries will be made in accordance with generally accepted accounting principles ("GAAP") consistently applied.

(F) INSPECTION. Permit CoBank or its agents, upon reasonable notice and during normal business hours or at such other times as the parties may agree, to examine its properties, books, and records, and to discuss its affairs, finances, and accounts, with its respective officers, directors, employees, and independent certified public accountants.

(G) REPORTS AND NOTICES. Furnish to CoBank:

(1) ANNUAL FINANCIAL STATEMENTS. As soon as available, but in no event more than 90 days after the end of each fiscal year of the Company occurring during the term hereof, annual consolidated and consolidating financial statements of the Company and its consolidated Subsidiaries, if any, prepared in accordance with GAAP consistently applied. Such financial statements shall: (a) be audited by independent certified public accountants selected by the

Company and acceptable to CoBank; (b) be accompanied by a report of such accountants containing an opinion thereon acceptable to CoBank; (c) be prepared in reasonable detail and in comparative form; and (d) include a balance sheet, a statement of income, a statement of retained earnings, a statement of cash flows, and all notes and schedules relating thereto.

(2) INTERIM FINANCIAL STATEMENTS. As soon as available, but in no event more than 30 days after the end of each fiscal quarter, a consolidated balance sheet of the Company and its consolidated Subsidiaries, if any, as of the end of such quarter, a consolidated statement of income for the Company and its consolidated Subsidiaries, if any, for such period and for the period year to date, and such other interim statements as CoBank may specifically request, all prepared in reasonable detail and in comparative form in accordance with GAAP consistently applied and certified by an authorized officer or employee of the Company acceptable to CoBank.

(3) NOTICE OF DEFAULT. Promptly after becoming aware thereof, notice of the occurrence of an Event of Default or a Potential Default.

(4) NOTICE OF NON-ENVIRONMENTAL LITIGATION. Promptly after the commencement thereof, notice of the commencement of all actions, suits, or proceedings before any court, arbitrator, or governmental department, commission, board, bureau, agency, or instrumentality affecting the Company or any Subsidiary which, if determined adversely to the Company or any such Subsidiary, could have a material adverse effect on the financial condition, properties, profits, or operations of the Company or any such Subsidiary.

(5) NOTICE OF ENVIRONMENTAL LITIGATION, ETC. Promptly after receipt thereof, notice of the receipt of all pleadings, orders, complaints, indictments, or any other communication alleging a condition that may require the Company or any Subsidiary to undertake or to contribute to a cleanup or other response under environmental Laws, or which seek penalties, damages, injunctive relief, or criminal sanctions related to alleged violations of such Laws, or which claim personal injury or property damage to any person as a result of environmental factors or conditions.

(6) BYLAWS AND ARTICLES. Promptly after any change in the Company's bylaws or articles of incorporation (or like documents), copies of all such changes, certified by the Company's Secretary.

(7) OTHER INFORMATION. Such other information regarding the condition or operations, financial or otherwise, of the Company or any Subsidiary as CoBank may from time to time reasonably request, including but not limited to copies of all pleadings, notices, and communications referred to in Subsections 15(G)(4) and (5) above.

(8) FINANCIAL CERTIFICATE. Together with each set of financial statements furnished to CoBank pursuant to Section 15(G)(1), and each quarterly statement submitted

pursuant to Section 15(G)(2) for a period corresponding to a period for which one or more of the financial covenants set forth in Section 17 hereof are required to be tested, a certificate of an officer or employee of the Company acceptable to CoBank setting forth calculations showing compliance with each of the financial covenants that require compliance at the end of the period for which the statements are being furnished.

(H) CERTAIN ORGANIZATIONAL CHANGES. Provide CoBank with prior notice (and as early as practicable) of any merger, consolidation reorganization under a different provision of law, acquisition of all or a material part of the assets of another organization change of name, adoption of any trade name, or creation of any Subsidiary, affiliate or material joint venture(s). For purposes of this covenant, joint venture transaction(s), which alone or in the aggregate exceed $1,000,000, are considered material.

SECTION 16. NEGATIVE COVENANTS. Unless otherwise agreed to in writing by CoBank, which agreement will not be unreasonably withheld, while this agreement is in effect, the Company will not:

(A) BORROWINGS. Create, incur, assume, or allow to exist, directly or indirectly, any indebtedness or liability for borrowed money (including trade or bankers' acceptances), letters of credit, or the deferred purchase price of property or services (including capitalized leases), except for: (i) debt to CoBank; (ii) accounts payable to trade creditors incurred in the ordinary course of business; and (iii) current operating liabilities (other than for borrowed money) incurred in the ordinary course of business; (iv) debt of the Company to Bank of America in an amount not to exceed $12,000,000.00 and all extensions, renewals, and refinancings thereof; (v) (vi) letters of credit issued by any bank for the account of the Company in an aggregate face amount not to exceed $5,000,000.00 at any one time outstanding; and (vii) capitalized leases existing on the date hereof existing from time to time.

(B) LIENS. Create, incur, assume, or allow to exist any mortgage, deed of trust, pledge, lien (including the lien of an attachment, judgment, or execution), security interest, or other encumbrance of any kind upon any of its property, real or personal (collectively, "Liens"). The foregoing restrictions shall not apply to: (i) Liens in favor of FCW or CoBank; (ii) Liens for taxes, assessments, or governmental charges that are not past due; (iii) Liens and deposits under workers' compensation, unemployment insurance, and social security Laws; (iv) Liens and deposits to secure the performance of bids, tenders, contracts (other than contracts for the payment of money), and like obligations arising in the ordinary course of business as conducted on the date hereof; (v) Liens imposed by Law in favor of mechanics, materialmen, warehousemen, and like persons that secure obligations that are not past due; and (vi) easements, rights-of-way, restrictions, and other similar encumbrances which, in the aggregate, do not materially interfere with the occupation, use, and enjoyment of the property or assets encumbered thereby in the normal course of its business or materially impair the value of the property subject theretor.

(C) [INTENTIONALLY OMITTED]

(D) TRANSFER OF ASSETS. Sell, transfer, lease, or otherwise dispose of any of its assets, except in the ordinary course of business.

(E) LOANS. Lend or advance money, credit, or property to any person or entity, except for: (i) loans made to U.S. growers under Calavo's grower development loan program not to exceed $4,000,000.00 outstanding at any one time; (ii) existing advances and loans to Sierra Pacific; (iii) loans to Mexican growers not to exceed $1,500,000.00 outstanding at any one time; (iv) Chilean pre-season grower advances made under existing program not to exceed a gross amount of $4,000,000.00 outstanding at any one time; and (v) trade credit extended in the ordinary course of business.

(F) CONTINGENT LIABILITIES. Assume, guarantee, become liable as a surety, endorse, contingently agree to purchase, or otherwise be or become liable, directly or indirectly (including, but not limited to, by means of a maintenance agreement, an asset or stock purchase agreement, or any other agreement designed to ensure any creditor against loss), for or on account of the obligation of any person or entity, except by the endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of the Company's business.

(G) CHANGE IN BUSINESS. Engage in any business activities or operations substantially different from or unrelated to the Company's present business activities or operations.

SECTION 17. FINANCIAL COVENANTS. Unless otherwise agreed to in writing, while this agreement is in effect:

(A) CURRENT RATIO. The Company and its consolidated Subsidiaries, if any, will have at all times and tested at the end of each fiscal quarter of the Company, a ratio of consolidated current assets to consolidated current liabilities (both as determined in accordance with GAAP, adjusted on a specific unit cost basis, consistently applied) of not less than 1.35 to 1.

(B) INTEREST COVERAGE RATIO. The Company and its consolidated Subsidiaries will have at all times and tested at the end of each fiscal quarter of the Company, a "Interest Coverage Ratio" (as defined below) for that year of not less than 5.0:1. For purposes hereof, the term "Debt Service Coverage Ratio" shall mean EBITDA divided by interest expense, both determined in accordance with GAAP on a moving four-quarter basis.

(C) TOTAL LEVERAGE RATIO. The Company and its consolidated Subsidiaries will have at all times and tested at the end of each fiscal quarter of the Company, a ratio of Funded Debt to EBITDA of not more than 3.5 to 1. For purposes hereof, the term "Funded Debt" shall mean the total outstanding balance of all borrowed monies, including letter of credit liability, from all lending sources. EBITDA shall be determined in accordance with GAAP and computed on a moving four-quarter basis.

SECTION 18. EVENTS OF DEFAULT. Each of the following shall constitute an "Event of Default" under this agreement:

(A) PAYMENT DEFAULT. The Company should fail to make any payment to CoBank when due.

(B) REPRESENTATIONS AND WARRANTIES. Any representation or warranty made or deemed made by the Company herein or in the Note, application, agreement, certificate, or other document related to or furnished in connection with this agreement or the Note, shall prove to have been false or misleading in any material respect on or as of the date made or deemed made.

(C) CERTAIN AFFIRMATIVE COVENANTS. The Company or, to the extent required hereunder, any Subsidiary should fail to perform or comply with Sections 15(A) through 15(G)(2), and 15(G)(6) and such failure continues for 15 days after written notice thereof shall have been delivered by CoBank to the Company.

(D) OTHER COVENANTS AND AGREEMENTS. The Company or, to the extent required hereunder, any Subsidiary should fail to perform or comply with any other covenant or agreement contained herein or in any other Loan Document or shall use the proceeds of any loan for an unauthorized purpose.

(E) CROSS-DEFAULT. The Company should, after any applicable grace period, breach or be in default under the terms of any other agreement between the Company and CoBank.

(F) OTHER INDEBTEDNESS. The Company or any Subsidiary should fail to pay when due any indebtedness to any other person or entity for borrowed money or any long-term obligation for the deferred purchase price of property (including any capitalized lease), or any other event occurs which, under any agreement or instrument relating to such indebtedness or obligation, has the effect of accelerating or permitting the acceleration of such indebtedness or obligation, whether or not such indebtedness or obligation is actually accelerated or the right to accelerate is conditioned on the giving of notice, the passage of time, or otherwise.

(G) JUDGMENTS. A judgment, decree, or order for the payment of money shall be rendered against the Company or any Subsidiary and either: (i) enforcement proceedings shall have been commenced; (ii) a Lien prohibited under Section 10(B) hereof shall have been obtained; or (iii) such judgment, decree, or order shall continue unsatisfied and in effect for a period of 20 consecutive days without being vacated, discharged, satisfied, or stayed pending appeal.

(H) INSOLVENCY, ETC. The Company or any Subsidiary shall: (i) become insolvent or shall generally not, or shall be unable to, or shall admit in writing its inability to, pay its debts as they come due; or (ii) suspend its business operations or a material part thereof or make an assignment for the benefit of creditors; or (iii) apply for, consent to, or acquiesce in the appointment of a trustee, receiver, or other custodian for it or any of its property or, in the absence of such application, consent, or acquiescence, a trustee, receiver, or other custodian is so appointed; or (iv) commence or have commenced against it any proceeding under any bankruptcy, reorganization, arrangement, readjustment of debt, dissolution, or liquidation Law of any jurisdiction.

(I) MATERIAL ADVERSE CHANGE. Any material adverse change occurs, as reasonably determined by CoBank, in the Company's financial condition, results of operation, or ability to perform its obligations hereunder or under any instrument or document contemplated hereby.

SECTION 19. REMEDIES. Upon the occurrence and during the continuance of an Event of Default or any Potential Default, CoBank shall have no obligation to continue to extend credit to the Company and may discontinue doing so at any time without prior notice. For all purposes hereof, the term "Potential Default" means the occurrence of any event which, with the passage of time or the giving of notice or both would become an Event of Default. In addition, upon the occurrence and during the continuance of any Event of Default, CoBank may, upon notice to the Company, terminate any commitment and declare the entire unpaid principal balance of the loans, all accrued interest thereon, and all other amounts payable under this agreement, all Supplements, and the other Loan Documents to be immediately due and payable. Upon such a declaration, the unpaid principal balance of the loans and all such other amounts shall become immediately due and payable, without protest, presentment, demand, or further notice of any kind, all of which are hereby expressly waived by the Company. In addition, upon such an acceleration:

(A) ENFORCEMENT. CoBank may proceed to protect, exercise, and enforce such rights and remedies as may be provided by this agreement, any other Loan Document or under Law. Each and every one of such rights and remedies shall be cumulative and may be exercised from time to time, and no failure on the part of CoBank to exercise, and no delay in exercising, any right or remedy shall operate as a waiver thereof, and no single or partial exercise of any right or remedy shall preclude any other or future exercise thereof, or the exercise of any other right. Without limiting the foregoing, CoBank may hold and/or set off and apply against the Company's obligations to CoBank any cash collateral held by CoBank, or any balances held by CoBank for the Company's account (whether or not such balances are men due).

(B) APPLICATION OF FUNDS. CoBank may apply all payments received by it to the Company's obligations to CoBank in such order and manner as CoBank may elect in its sole discretion.

In addition to the rights and remedies set forth above: (i) if the Company fails to make any payment to CoBank when due, then at CoBank's option in each instance, such payment shall bear interest from the date due to the date paid at 4% per annum in excess of the rate(s) of interest that would otherwise be in effect on that loan; and (ii) after the maturity of any loan (whether as a result of acceleration or otherwise), the unpaid principal balance of such loan (including without limitation, principal, interest, fees and expenses) shall automatically bear interest at 4% per annum in excess of the rate(s) of interest that would otherwise be in effect on that loan. All interest provided for herein shall be payable on demand and shall be calculated on the basis of a year consisting of 360 days.

SECTION 20. BROKEN FUNDING SURCHARGE. Notwithstanding any provision contained in any Supplement giving the Company the right to repay any loan prior to the date it would otherwise be due and payable, the Company agrees to provide three Business Days' prior written notice for any prepayment of a fixed rate balance and that in the event it repays any fixed rate balance prior to its scheduled due date or prior to the last day of the fixed rate period applicable thereto (whether such payment is made voluntarily, as a result of an acceleration, or otherwise), the Company will pay to CoBank a surcharge in an amount equal to the greater of: (i) an amount which would result in CoBank being made whole (on a present value basis) for the actual or imputed funding losses incurred by CoBank as a result thereof; or (ii) $300.00. Notwithstanding the foregoing, in the event any fixed rate balance is repaid as a result of the Company refinancing the loan with another lender or by other means, then in lieu of the foregoing, the Company shall pay to CoBank a surcharge in an amount sufficient (on a present value basis) to enable CoBank to maintain the yield it would have earned during the fixed rate period on the amount repaid. Such surcharges will be calculated in accordance with methodology established by CoBank (a copy of which will be made available to the Company upon request).

SECTION 21. COMPLETE AGREEMENT, AMENDMENTS. This agreement, the Note, and all other instruments and documents contemplated hereby and thereby, are intended by the parties to be a complete and final expression of their agreement. No amendment, modification, or waiver of any provision hereof or thereof, and no consent to any departure by the Company herefrom or therefrom, shall be effective unless approved by CoBank and contained in a writing signed by or on behalf of CoBank, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

SECTION 22. APPLICABLE LAW. Except to the extent governed by applicable federal law, this agreement and the Note shall be governed by and construed in accordance with the laws of the State of Colorado, without reference to choice of law doctrine.

SECTION 23. NOTICES. All notices hereunder shall be in writing and shall be deemed to be duly given upon delivery if personally delivered or sent by telegram or facsimile transmission, or 3 days after mailing if sent by express, certified or registered mail, to the parties at the following addresses (or such other address for a party as shall be specified by like notice):

If to FCW, as follows:

Farm Credit West, PCA
2929 W. Main Street, Suite A
Visalia, CA 93291-5700

Attention: Mark Littlefield
Fax No.: 559-627-4728

If to the Company, as follows:

Calavo Growers, Inc.
Attn: Vice President-Finance
P.O. Box 26081
Santa Ana, California 92799-6081
Fax No: (949)223-1112

If to CoBank, as follows:

For general correspondence purposes:
P.O. Box 5110
Denver, Colorado 80217-5110

For direct delivery purposes, when desired:
5500 South Quebec Street
Greenwood Village, Colorado 80111-1914

Attention: Credit Information Services
Fax No.: (303)-224-6101

SECTION 24. TAXES AND EXPENSES. To the extent allowed by law, the Company agrees to pay all reasonable out-of-pocket costs and expenses (including the fees and expenses of counsel retained by CoBank) incurred by CoBank and any participants from CoBank in connection with the origination, administration, collection, and enforcement of this agreement and the other Loan Documents, including, without limitation, all costs and expenses incurred in perfecting, maintaining, determining the priority of, and releasing any security for the Company's obligations to CoBank, and any stamp, intangible, transfer, or like tax payable in connection with this agreement or any other Loan Document.

SECTION 25. EFFECTIVENESS AND SEVERABILITY. This agreement shall continue in effect until: (i) all indebtedness and obligations of the Company under this agreement, the Note, and all other Loan Documents shall have been paid or satisfied; and (ii) CoBank has no commitment to extend credit to or for the account of the Company hereunder. Any provision of this agreement or any other Loan Document which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof or thereof.

SECTION 26. SUCCESSORS AND ASSIGNS. This agreement, the Note, and the other Loan Documents shall be binding upon and inure to the benefit of the Company and CoBank and their respective successors and assigns, except that the Company may not assign or transfer its rights or obligations under this agreement, the Note or any other Loan Document without the prior written consent of CoBank.

SECTION 27. PARTICIPATIONS, ETC. From time to time, CoBank may sell to one or more banks, financial institutions or other lenders a subparticipation in one or more of the loans or other extensions of credit made pursuant to this agreement. However, no such subparticipation shall relieve FCW or CoBank of any commitment made to the Company hereunder. In connection with the foregoing, CoBank may disclose information concerning the Company and its Subsidiaries to any subparticipant or prospective subparticipant, provided that such subparticipant or prospective subparticipant agrees to keep such information confidential. CoBank agrees that all participation interests held by CoBank and that are retained for its own account and are not included in a sale of subparticipation interest shall be entitled to patronage distributions in accordance with the bylaws of CoBank and its practices and procedures related to patronage distribution. Accordingly, all interests in the Loans that are included in a sale of subparticipation interests shall not be entitled to patronage distributions. A sale of subparticipation interest may include certain voting rights of the subparticipants regarding the loans hereunder (including without limitation the administration, servicing and enforcement thereof). CoBank agrees to give written notification to the Company of any sale of subparticipation interests.

IN WITNESS WHEREOF, the parties have caused this agreement to be executed by their duly authorized officers as of the date shown above.

FARM CREDIT WEST, PCA

By: /s/ Mark Littlefield

Title: Sr. Vice President

CALAVO GROWERS, INC.

By: /s/ Arthur J. Bruno

Title: Chief Financial Officer

By: /s/ Scott H. Runge

Title: Treasurer

EXHIBIT A

PROMISSORY NOTE

$12,000,000.00

January 22, 2004

FOR VALUE RECEIVED, on the Maturity Date as set forth in that certain Line of Credit Agreement dated January 22, 2004 or in any amendments thereto (the "Loan Agreement") the undersigned promises to pay to the order of Farm Credit West, PCA (the "Payee"), or order, at the place and in the manner set forth in the Loan Agreement, the principal amount of TWELVE MILLION DOLLARS ($12,000,000.00). The undersigned promises to pay interest on the principal amount hereof remaining unpaid from time to time from the date hereon until the date of payment in full, payable as provided in the Loan Agreement.

This note is given for advances to be made by Payee to the undersigned from time to time in accordance with the terms and conditions of the Loan Agreement, all the terms and conditions of which are incorporated herein by reference. Advances, accrued interest, and payments shall be posted by the Payee upon an appropriate accounting record, shall be prima facie evidence as to all such amounts and shall be binding on the undersigned absent manifest error. The total of such advances may exceed the face amount of this note but the unpaid principal balance shall not at any time exceed such face amount. Any amount of principal hereof which is not paid when due, whether at stated maturity, by acceleration or otherwise, shall bear interest from the date when due until said principal is paid in full, payable on demand, at a rate per annum set forth in the Loan Agreement.

The makers or endorsers hereof hereby waive presentment for payment, demand, protest, and notice of dishonor and nonpayment of this note, and all defenses on the ground of delay or of any extension of time for the payment hereof which may be hereafter given by the holder or holders hereof to them or either of them or to anyone who has assumed the payment of this note, and it is specifically agreed that the obligations of said makers or endorsers shall not be in anyway affected or altered to the prejudice of the holder or holders hereof by reason of the assumption of payment of the same by any other person or entity.

The undersigned hereby promises to pay all costs and expenses of any rightful holder hereof incurred in collecting the undersigned's obligations hereunder or in enforcing or attempting to enforce any of such holder's rights hereunder, including reasonable attorneys' fees and disbursements, whether or not an action is filed in connection therewith.

THIS NOTE SHALL BE GOVERNED BY, AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF COLORADO.

CALAVO GROWERS,INC.

By: /s/ Arthur J. Bruno

Arthur J. Bruno

Title: Chief Financial Officer

By: /s/ Scott H. Runge

Scott H. Runge

Title: Treasurer

EXHIBIT 10.17

BUSINESS LOAN AGREEMENT

This Agreement dated as of January 30, 2004 is between Bank of America, N.A. (the "Bank") and Calavo Growers, Inc. (the "Borrower").

1. LINE OF CREDIT AMOUNT AND TERMS

1.1 Line of Credit Amount.

(a) During the availability period described below, the Bank will provide a line of credit to the Borrower. The amount of the line of credit (the "Commitment") is Twelve Million Dollars ($12,000,000).

(b) This is a revolving line of credit. During the availability period, the Borrower may repay principal amounts and reborrow them.

(c) The Borrower agrees not to permit the principal balance outstanding to exceed the Commitment. If the Borrower exceeds this limit, the Borrower will immediately pay the excess to the Bank upon the Bank's demand.

1.2 Availability Period. The line of credit is available between the date of this Agreement and April 1, 2006 or such earlier date as the availability may terminate as provided in this Agreement (the "Expiration Date").

The availability period for this line of credit will be considered renewed if and only if the Bank has sent to the Borrower a written notice of renewal effective as of the Expiration Date for the line of credit (the "Renewal Notice"). If this line of credit is renewed, it will continue to be subject to all the terms and conditions set forth in this Agreement except as modified by the Renewal Notice. The Borrower specifically understands and agrees that the interest rate applicable to this line of credit may be increased upon renewal and that the new interest rate will apply to the entire outstanding principal balance of the line of credit. If this line of credit is renewed, the term "Expiration Date" shall mean the date set forth in the Renewal Notice as the Expiration Date and the same process for renewal will apply to any subsequent renewal of this line of credit. A renewal fee may be charged at the Bank's option. If so, the amount will be specified in the Renewal Notice.

1.3 Repayment Terms.

(a) The Borrower will pay interest on February 1, 2004 and then monthly thereafter until payment in full of any principal outstanding under this line of credit.

Any interest period for an optional interest rate (as described below) shall expire no later than the Expiration Date.

(b) The Borrower will repay in full all principal and any unpaid interest or other charges outstanding under this line of credit no later than the Expiration Date.

1.4 Interest Rate.

(a) The interest rate is a rate per year equal to the Bank's Prime Rate.

(b) The Prime Rate is the rate of interest publicly announced from time to time by the Bank as its Prime Rate. The Prime Rate is set by the Bank based on various factors, including the Bank's costs and desired return, general economic conditions and other factors, and is used as a reference point for pricing some loans. The Bank may price loans to its customers at, above, or below the Prime Rate. Any change in the Prime Rate shall take effect at the opening of business on the day specified in the public announcement of a change in the Bank's Prime Rate.

1.5 Optional Interest Rates. Instead of the interest rate based on the rate stated in the paragraph entitled "Interest Rate" above, the Borrower may elect the optional interest rates listed below for this Commitment during interest periods agreed to by the Bank and the Borrower. The optional interest rates shall be subject to the terms and conditions described later in this Agreement. Any principal amount bearing interest at an optional rate under this Agreement is referred to as a "Portion." The following optional interest rates are available:

(a) The LIBOR Rate plus one (1) percentage point(s).

(b) Short Term Fixed Rates.

1.6 The Overdraft Limit. The line of credit provided under the Commitment may be used to pay overdrafts in the Borrower's checking accounts. The total amount of all unreimbursed overdrafts outstanding at any one time may not exceed Five Million Dollars ($5,000,000) (the "Overdraft Limit"). This portion of the Commitment may only be accessed through this overdraft facility. The total amount of all other credit outstanding at any time may not exceed the Commitment, minus the Overdraft Limit.

(a) The Covered Accounts. The checking account (collectively referred to as the "Account") which the Borrower may overdraw is 03724-02990.

(b) The Overdraft Interest Charge. As part of the monthly calculation of service charges to be assessed against the Borrower's Account, the Bank will include an interest charge calculated on the amount of unreimbursed overdrafts outstanding in the Account. The interest will be computed on the basis of a 360-day year and the actual number of days the overdrafts have been outstanding. The Bank may, in its discretion, calculate the amount of overdrafts and the interest rate on a daily basis, or, alternatively, use the average monthly amount of overdrafts and use an interest rate based on the weighted average during the calculation period of the interest rate described below. The interest rate will be a rate per year equal to the LIBOR Daily Floating Rate plus the Applicable Margin for the LIBOR Rate as defined below. The LIBOR Daily Floating Rate is a fluctuating rate of interest equal to the average per annum interest rate (rounded upwards to the nearest 1/100 of one percent) at which U.S. dollar deposits would be offered for one month by major banks in the London inter-bank market, as shown on Telerate Page 3750 (or any successor page) as determined for each banking day at approximately 11:00 a.m. London time two (2) London Banking Days prior to the date in question, as adjusted from time to time in the Bank's sole discretion for reserve requirements, deposit insurance assessment rates and other regulatory costs. If such rate does not appear on Telerate Page 3750 (or any successor page), the rate will be determined by such alternate method as reasonably selected by the Bank. A "London Banking Day" is a day on which the Bank's London Banking Center is open for business and dealing in offshore dollars. Interest will accrue on any non-banking day at the rate in effect on the immediately preceding banking day.

(c) Other Terms and Conditions.

(i) If items are presented against an Account covered by this overdraft facility which, if paid, would exceed the allocated Overdraft Limit for that Account, the Bank will have no obligation to pay those items, but may at its discretion pay any or all of the items.

(ii) The Bank may, at its discretion, at any time upon ten (10) days written notice to the Borrower, terminate this overdraft facility and require repayment of all outstanding overdrafts. The Borrower will in any event repay all outstanding overdrafts no later than the Expiration Date.

(iii) For the purposes of this Agreement, the amount of unreimbursed overdrafts outstanding on any day will equal the daily net collected balance of the Account on any day when such balance is negative. In calculating the amount of interest accruing under this facility, the daily net collected balance will not include provisional credits for items in the process of collection ("Uncollected Items") as determined under the Bank's normal practices for the Borrower's Account. However, in determining whether the Borrower has exceeded the Overdraft Limit, the Commitment, or any other dollar limits on borrowing established in this Agreement, the Borrower shall be given credit for such Uncollected Items. The negative daily net collected balance may include fees and charges that have been posted to the Borrower's Account, including overdraft interest charges. This may result in compounding of interest.

(iv) The Borrower agrees that overdraft interest charges and other fees and charges relating to its Accounts may be directly debited from its Account.

(v) The Bank may terminate this overdraft facility if a levy is imposed on any Account covered by this facility.

2. OPTIONAL INTEREST RATES

2.1 Optional Rates. Each optional interest rate is a rate per year. Interest will be paid on the first day of each month during the interest period. At the end of any interest period, the interest rate will revert to the rate stated in the paragraph(s) entitled "Interest Rate" above, unless the Borrower has designated another optional interest rate for the Portion. No Portion will be converted to a different interest rate during the applicable interest period. Upon the occurrence of an event of default under this Agreement, the Bank may terminate the availability of optional interest rates for interest periods commencing after the default occurs.

2.2 LIBOR Rate. The election of LIBOR Rates shall be subject to the following terms and requirements:

(a) The interest period during which the LIBOR Rate will be in effect will be one or two weeks, or one, two, three, four, five, six, seven, eight, nine, ten, eleven, or twelve months. The first day of the interest period must be a day other than a Saturday or a Sunday on which the Bank is open for business in New York and London and dealing in offshore dollars (a "LIBOR Banking Day"). The last day of the interest period and the actual number of days during the interest period will be determined by the Bank using the practices of the London inter-bank market.

(b) Each LIBOR Rate Portion will be for an amount not less than One Hundred Thousand Dollars ($100,000).

(c) The "LIBOR Rate" means the interest rate determined by the following formula, rounded upward to the nearest 1/100 of one percent. (All amounts in the calculation will be determined by the Bank as of the first day of the interest period.)

$$\text{LIBOR Rate} = \frac{\text{London Inter-Bank Offered Rate}}{(1.00 - \text{Reserve Percentage})}$$

Where,

(i) "London Inter-Bank Offered Rate" means the average per annum interest rate at which U.S. dollar deposits would be offered for the applicable interest period by major banks in the London inter-bank market, as shown on the Telerate Page 3750 (or any successor page) at approximately 11:00 a.m. London time two (2) London Banking Days before the commencement of the interest period. If such rate does not appear on the Telerate Page 3750 (or any successor page), the rate for that interest period will be determined by such alternate method as reasonably selected by the Bank. A "London Banking Day" is a day on which the Bank's London Banking Center is open for business and dealing in offshore dollars.

(ii) "Reserve Percentage" means the total of the maximum reserve percentages for determining the reserves to be maintained by member banks of the Federal Reserve System for Eurocurrency Liabilities, as defined in Federal Reserve Board Regulation D, rounded upward to the nearest 1/100 of one percent. The percentage will be expressed as a decimal, and will include, but not be limited to, marginal, emergency, supplemental, special, and other reserve percentages.

(d) The Borrower shall irrevocably request a LIBOR Rate Portion no later than 12:00 noon California time on the LIBOR Banking Day preceding the day on which the London Inter-Bank Offered Rate will be set, as specified above. For example, if there are no intervening holidays or weekend days in any of the relevant locations, the request must be made at least three days before the LIBOR Rate takes effect.

(e) The Bank will have no obligation to accept an election for a LIBOR Rate Portion if any of the following described events has occurred and is continuing:

(i) Dollar deposits in the principal amount, and for periods equal to the interest period, of a LIBOR Rate Portion are not available in the London inter-bank market; or

(ii) the LIBOR Rate does not accurately reflect the cost of a LIBOR Rate Portion.

(f) Each prepayment of a LIBOR Rate Portion, whether voluntary, by reason of acceleration or otherwise, will be accompanied by the amount of accrued interest on the amount prepaid and a prepayment fee as described below. A "prepayment" is a payment of an amount on a date earlier than the scheduled payment date for such amount as required by this Agreement.

(g) The prepayment fee shall be in an amount sufficient to compensate the Bank for any loss, cost or expense incurred by it as a result of the prepayment, including any loss of anticipated profits and any loss or expense arising from the liquidation or reemployment of funds obtained by it to maintain such Portion or from fees payable to terminate the deposits from which such funds were obtained. The Borrower shall also pay any customary administrative fees charged by the Bank in connection with the foregoing. For purposes of this paragraph, the Bank shall be deemed to have funded each Portion by a matching deposit or other borrowing in the applicable interbank market, whether or not such Portion was in fact so funded.

2.3 Short Term Fixed Rate. The election of Short Term Fixed Rates shall be subject to the following terms and requirements:

(a) The "Short Term Fixed Rate" means the fixed interest rate the Bank and the Borrower agree will apply during the applicable interest period.

(b) The interest period during which the Short Term Fixed Rate will be in effect will be no shorter than 30 days and no longer than one year.

(c) Each Short Term Fixed Rate Portion will be for an amount not less than One Hundred Thousand Dollars ($100,000).

(d) Each prepayment of a Short Term Fixed Rate Portion, whether voluntary, by reason of acceleration or otherwise, will be accompanied by the amount of accrued interest on the amount prepaid, and a prepayment fee as described below. A "prepayment" is a payment of an amount on a date earlier than the scheduled payment date for such amount as required by this Agreement.

(e) The prepayment fee shall be in an amount sufficient to compensate the Bank for any loss, cost or expense incurred by it as a result of the prepayment, including any loss of anticipated profits and any loss or expense arising from the liquidation or reemployment of funds obtained by it to maintain such Portion or from fees payable to terminate the deposits from which such funds were obtained. The Borrower shall also pay any customary administrative fees charged by the Bank in connection with the foregoing. For purposes of this paragraph, the Bank shall be deemed to have funded each Portion by a matching deposit or other borrowing in the applicable interbank market, whether or not such Portion was in fact so funded.

3. FEES AND EXPENSES

3.1 Fees.

(a) Unused Commitment Fee. The Borrower agrees to pay a fee on any difference between the Commitment and the amount of credit it actually uses, determined by the average of the daily amount of credit outstanding during the specified period. The fee will be calculated at 0.25% per year if Borrower uses less than or equal to fifty percent (50%) of the Commitment, calculated quarterly in arrears. The fee will be calculated at 0.15% per year if Borrower uses more than fifty percent (50%) of the Commitment, calculated quarterly in arrears.

This fee is due on the first day of the second month following each calendar quarter commencing on March 1, 2004 and continuing until the Expiration Date and on the Expiration Date.

(b) Waiver Fee. If the Bank, at its discretion, agrees to waive or amend any terms of this Agreement, the Borrower will, at the Bank's option, pay the Bank a fee for each waiver or amendment in an amount advised by the Bank at the time the Borrower requests the waiver or amendment. Nothing in this paragraph shall imply that the Bank is obligated to agree to any waiver or amendment requested by the Borrower. The Bank may impose additional requirements as a condition to any waiver or amendment.

(c) Late Fee. To the extent permitted by law, the Borrower agrees to pay a late fee in an amount not to exceed four percent (4%) of any payment that is more than fifteen (15) days late. The imposition and payment of a late fee shall not constitute a waiver of the Bank's rights with respect to the default.

3.2 Expenses. The Borrower agrees to immediately repay the Bank for expenses that include, but are not limited to, filing, recording and search fees, appraisal fees, title report fees, and documentation fees.

3.3 Reimbursement Costs. The Borrower agrees to reimburse the Bank for any expenses it incurs in the preparation of this Agreement and any agreement or instrument required by this Agreement. Expenses include, but are not limited to, reasonable attorneys' fees, including any allocated costs of the Bank's in-house counsel to the extent permitted by applicable law.

4. DISBURSEMENTS, PAYMENTS AND COSTS

4.1 Disbursements and Payments.

(a) Each payment by the Borrower will be made in immediately available funds by direct debit to a deposit account as specified below or by mail to the address shown on the Borrower's statement or at one of the Bank's banking centers in the United States.

(b) Each disbursement by the Bank and each payment by the Borrower will be evidenced by records kept by the Bank. In addition, the Bank may, at its discretion, require the Borrower to sign one or more promissory notes.

4.2 Telephone and Telefax Authorization.

(a) The Bank may honor telephone or telefax instructions for advances or repayments given, or purported to be given, by any one of the individuals authorized to sign loan agreements on behalf of the Borrower, or any other individual designated by any one of such authorized signers.

(b) Advances will be deposited in and repayments will be withdrawn from account number 03724-02990 owned by the Borrower or such other of the Borrower's accounts with the Bank as designated in writing by the Borrower.

(c) The Borrower will indemnify and hold the Bank harmless from all liability, loss, and costs in connection with any act resulting from telephone or telefax instructions the Bank reasonably believes are made by any individual authorized by the Borrower to give such instructions. This paragraph will survive this Agreement's termination, and will benefit the Bank and its officers, employees, and agents.

4.3 Direct Debit.

(a) The Borrower agrees that interest and principal payments and any fees will be deducted automatically on the due date from account number 03724-02990 owned by Borrower, or such other of the Borrower's accounts with the Bank as designated in writing by the Borrower.

(b) The Borrower will maintain sufficient funds in the account on the dates the Bank enters debits authorized by this Agreement. If there are insufficient funds in the account on the date the Bank enters any debit authorized by this Agreement, the Bank may reverse the debit.

4.4 Banking Days. Unless otherwise provided in this Agreement, a banking day is a day other than a Saturday, Sunday or other day on which commercial banks are authorized to close, or are in fact closed, in the state where the Bank's lending office is located, and, if such day relates to amounts bearing interest at an offshore rate (if any), means any such day on which dealings in dollar deposits are conducted among banks in the offshore dollar interbank market. All payments and disbursements which would be due on a day which is not a banking day will be due on the next banking day. All payments received on a day which is not a banking day will be applied to the credit on the next banking day.

4.5 Interest Calculation. Except as otherwise stated in this Agreement, all interest and fees, if any, will be computed on the basis of a 360-day year and the actual number of days elapsed. This results in more interest or a higher fee than if a 365-day year is used. Installments of principal which are not paid when due under this Agreement shall continue to bear interest until paid.

4.6 Default Rate. Upon the occurrence of any default under this Agreement, all amounts outstanding under this Agreement, including any interest, fees, or costs which are not paid when due, will at the option of the Bank bear interest at a rate which is 2.0 percentage point(s) higher than the rate of interest otherwise provided under this Agreement. This may result in compounding of interest. This will not constitute a waiver of any default.

5. CONDITIONS

The Bank must receive the following items, in form and content acceptable to the Bank, before it is required to extend any credit to the Borrower under this Agreement:

5.1 Conditions to First Extension of Credit. Before the first extension of credit:

(a) Authorizations. If the Borrower or any guarantor is anything other than a natural person, evidence that the execution, delivery and performance by such Borrower and/or such guarantor of this Agreement and any instrument or agreement required under this Agreement have been duly authorized.

(b) Governing Documents. If required by the Bank, a copy of the Borrower's organizational documents.

(c) Payment of Fees. Payment of all accrued and unpaid expenses incurred by the Bank as required by the paragraph entitled "Reimbursement Costs."

6. REPRESENTATIONS AND WARRANTIES

When the Borrower signs this Agreement, and until the Bank is repaid in full, the Borrower makes the following representations and warranties. Each request for an extension of credit constitutes a renewal of these representations and warranties as of the date of the request:

6.1 Formation. If the Borrower is anything other than a natural person, it is duly formed and existing under the laws of the state where organized.

6.2 Authorization. This Agreement, and any instrument or agreement required hereunder, are within the Borrower's powers, have been duly authorized, and do not conflict with any of its organizational papers.

6.3 Enforceable Agreement. This Agreement is a legal, valid and binding agreement of the Borrower, enforceable against the Borrower in accordance with its terms, and any instrument or agreement required hereunder, when executed and delivered, will be similarly legal, valid, binding and enforceable.

6.4 Good Standing. In each state in which the Borrower does business, it is properly licensed, in good standing, and, where required, in compliance with fictitious name statutes.

6.5 No Conflicts. This Agreement does not conflict with any law, agreement, or obligation by which the Borrower is bound.

6.6 Financial Information. All financial and other information that has been or will be supplied to the Bank is sufficiently complete to give the Bank accurate knowledge of the Borrower's (and any guarantor's) financial condition, including all material contingent liabilities. Since the date of the most recent financial statement provided to the Bank, there has been no material adverse change in the business condition (financial or otherwise), operations, properties or prospects of the Borrower (or any guarantor).

6.7 Permits, Franchises. The Borrower possesses all permits, memberships, franchises, contracts and licenses required and all trademark rights, trade name rights, patent rights and fictitious name rights necessary to enable it to conduct the business in which it is now engaged.

6.8 Other Obligations. The Borrower is not in default on any obligation for borrowed money, any purchase money obligation or any other material lease, commitment, contract, instrument or obligation, except as have been disclosed in writing to the Bank.

6.9 Tax Matters. The Borrower has no knowledge of any pending assessments or adjustments of its income tax for any year and all taxes due have been paid, except as have been disclosed in writing to the Bank.

6.10 No Event of Default. There is no event which is, or with notice or lapse of time or both would be, a default under this Agreement.

6.11 Insurance. The Borrower has obtained, and maintained in effect, the insurance coverage required in the "Covenants" section of this Agreement.

6.12 Location of Borrower. The Borrower's place of business (or, if the Borrower has more than one place of business, its chief executive office) is located at the address listed under the Borrower's signature on this Agreement.

7. COVENANTS

The Borrower agrees, so long as credit is available under this Agreement and until the Bank is repaid in full:

7.1 Use of Proceeds. To use the proceeds of the Commitment only for general corporate purposes.

7.2 Financial Information. To provide the following financial information and statements in form and content acceptable to the Bank, and such additional information as requested by the Bank from time to time:

(a) Within 90 days of the fiscal year end, the annual financial statements of the Borrower, certified and dated by an authorized financial officer. These financial statements must be audited (with an opinion satisfactory to the Bank) by a Certified Public Accountant acceptable to the Bank. The statements shall be prepared on a consolidating and consolidated basis.

(b) Within 45 days of the period's end (including the last period in each fiscal year), quarterly financial statements of the Borrower, certified and dated by an authorized financial officer. These financial statements may be company-prepared. The statements shall be prepared on a consolidated basis.

7.3 Other Debts. Not to have outstanding or incur any direct or contingent liabilities or capital lease obligations (other than those to the Bank), or become liable for the liabilities of others, without the Bank's written consent. This does not prohibit:

(a) Acquiring goods, supplies, or merchandise on normal trade credit.

(b) Endorsing negotiable instruments received in the usual course of business.

(c) Obtaining surety bonds in the usual course of business.

(d) Liabilities, lines of credit and leases in existence on the date of this Agreement disclosed in writing to the Bank, including that certain Twelve Million Dollar ($12,000,000) line of credit with Cooperative Bank, which line of credit shall be on terms no more restrictive than the terms of this Agreement.

(e) Additional debts for the acquisition of assets, to the extent permitted elsewhere in this Agreement.

7.4 Other Liens. Not to create, assume, or allow any security interest or lien (including judicial liens) on property the Borrower now or later owns, except:

(a) Liens and security interests in favor of the Bank.

(b) Liens for taxes not yet due.

(c) Liens outstanding on the date of this Agreement disclosed in writing to the Bank.

(d) Additional purchase money security interests in assets acquired after the date of this Agreement, if the total principal amount of debts secured by such liens does not exceed Five Hundred Thousand Dollars ($500,000).

(e) Liens arising by operation of law and in the ordinary course of the Borrower's business securing amounts the Borrower owes to growers of agricultural products purchased by the Borrower for resale, processing, or use in producing the Borrower's inventory, provided such obligations are not past due.

7.5 Maintenance of Assets.

(a) Not to sell, assign, lease, transfer or otherwise dispose of any part of the Borrower's business or the Borrower's assets except in the ordinary course of the Borrower's business.

(b) Not to sell, assign, lease, transfer or otherwise dispose of any assets for less than fair market value, or enter into any agreement to do so.

(c) Not to enter into any sale and leaseback agreement covering any of its fixed assets.

(d) To maintain and preserve all rights, privileges, and franchises the Borrower now has.

(e) To make any repairs, renewals, or replacements to keep the Borrower's properties in good working condition.

7.6 Investments. Not to have any existing, or make any new, investments in any individual or entity, or make any capital contributions or other transfers of assets to any individual or entity, except for:

(a) Existing investments disclosed to the Bank in writing.

(b) Investments in the Borrower's current subsidiaries.

(c) Investments in any of the following:

(i) certificates of deposit;

(ii) U.S. treasury bills and other obligations of the federal government; and

(iii) readily marketable securities (including commercial paper, but excluding restricted stock and stock subject to the provisions of Rule 144 of the Securities and Exchange Commission).

7.7 Loans. Not to make any loans, advances or other extensions of credit to any individual or entity, except for:

(a) Existing extensions of credit disclosed to the Bank in writing.

(b) Extensions of credit to the Borrower's current subsidiaries.

(c) Extensions of credit in the nature of accounts receivable or notes receivable arising from the sale or lease of goods or services in the ordinary course of business to non-affiliated entities.

(d) Extensions of credit to the Borrower's officers, employees and directors under the terms and conditions of the Borrower's Stock Purchase Award Plan and Director's Stock Option Plan, as each is in effect as of the date of this Agreement.

(e) Extensions of credit to growers of agricultural products in an aggregate amount not to exceed Seven Million Dollars ($7,000,000).

7.8 [Intentionally left blank.]

7.9 [Intentionally left blank.]

7.10 Additional Negative Covenants. Not to, without the Bank's written consent:

(a) (i) Enter into any consolidation, merger, or other combination, or (ii) become a partner in a partnership, a member of a joint venture, or a member of a limited liability company where the aggregate amount invested exceeds One Million Dollars ($1,000,000).

(b) Acquire or purchase a business or its assets.

(c) Engage in any business activities substantially different from the Borrower's present business.

(d) Liquidate or dissolve the Borrower's business.

7.11 Notices to Bank. To promptly notify the Bank in writing of:

(a) Any lawsuit over One Million Dollars ($1,000,000) against the Borrower (or any guarantor).

(b) Any substantial dispute between any governmental authority and the Borrower (or any guarantor).

(c) Any event of default under this Agreement, or any event which, with notice or lapse of time or both, would constitute an event of default.

(d) Any material adverse change in the Borrower's (or any guarantor's) business condition (financial or otherwise), operations, properties or prospects, or ability to repay the credit.

(e) Any change in the Borrower's name, legal structure, place of business, or chief executive office if the Borrower has more than one place of business.

(f) Any actual contingent liabilities of the Borrower (or any guarantor), and any such contingent liabilities which are reasonably foreseeable, in each case in excess of One Million Dollars ($1,000,000).

7.12 Insurance.

(a) General Business Insurance. To maintain insurance as is usual for the business it is in.

(b) Evidence of Insurance. Upon the request of the Bank, to deliver to the Bank a copy of each insurance policy, or, if permitted by the Bank, a certificate of insurance listing all insurance in force.

7.13 Compliance with Laws. To comply with the laws (including any fictitious name statute), regulations, and orders of any government body with authority over the Borrower's business.

7.14 ERISA Plans. Promptly during each year, to pay and cause any subsidiaries to pay contributions adequate to meet at least the minimum funding standards under ERISA with respect to each and every Plan; file each annual report required to be filed pursuant to ERISA in connection with each Plan for each year; and notify the Bank within ten (10) days of the occurrence of any Reportable Event that might constitute grounds for termination of any capital Plan by the Pension Benefit Guaranty Corporation or for the appointment by the appropriate United States District Court of a trustee to administer any Plan. "ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time. Capitalized terms in this paragraph shall have the meanings defined within ERISA.

7.15 Books and Records. To maintain adequate books and records.

7.16 Audits. To allow the Bank and its agents to inspect the Borrower's properties and examine, audit, and make copies of books and records at any reasonable time. If any of the Borrower's properties, books or records are in the possession of a third party, the Borrower authorizes that third party to permit the Bank or its agents to have access to perform inspections or audits and to respond to the Bank's requests for information concerning such properties, books and records.

7.17 Cooperation. To take any action reasonably requested by the Bank to carry out the intent of this Agreement.

7.18 Working Capital. To maintain on a consolidated basis current assets in excess of current liabilities of at least Fifteen Million Dollars ($15,000,000), measured on a quarterly basis.

7.19 Tangible Net Worth. To maintain on a consolidated basis Tangible Net Worth equal to at least Thirty-Two Million Five Hundred Thousand Dollars ($32,500,000), measured on a quarterly basis.

"Tangible Net Worth" means the value of total assets (including leaseholds and leasehold improvements and reserves against assets but excluding goodwill, patents, trademarks, trade names, organization expense, unamortized debt discount and expense, capitalized or deferred research and development costs, deferred marketing expenses, and other like intangibles, and monies due from affiliates, officers, directors, employees, shareholders, members or managers) less total liabilities, including but not limited to accrued and deferred income taxes, but excluding the non-current portion of Subordinated Liabilities.

"Subordinated Liabilities" means liabilities subordinated to the Borrower's obligations to the Bank in a manner acceptable to the Bank in its sole discretion.

7.20 Out of Debt Period. To reduce the amount of advances outstanding under this any and all revolving lines of credit between Borrower and any third party to not more than Five Million Dollars ($5,000,000) for a period of at least thirty (30) consecutive days in each Line-Year. "Line-Year" means the period between the date of this Agreement and January __, 2005, and each subsequent one-year period (if any).

7.21 EBITDA. To maintain EBITDA of at least Seven Million Five Hundred Thousand Dollars ($7,500,000). "EBITDA" means net income, less income or plus loss from discontinued operations and extraordinary items, plus income taxes, plus interest expense, plus depreciation, depletion, and amortization. This covenant will be calculated at the end of each reporting period for which the Bank requires financial statements, using the results of the twelve-month period ending with that reporting period. The current portion of long-term liabilities will be measured as of the last day of the calculation period.

7.22 Other Agreements. Borrower shall not enter into any agreement (other than this Agreement) that contains terms more restrictive than those contained herein.

8. DEFAULT AND REMEDIES

If any of the following events of default occurs, the Bank may do one or more of the following: declare the Borrower in default, stop making any additional credit available to the Borrower, and require the Borrower to repay its entire debt immediately and without prior notice. In addition, if any event of default occurs, the Bank shall have all rights, powers and remedies available under any instruments and agreements required by or executed in connection with this Agreement, as well as all rights and remedies available at law or in equity. If an event of default occurs under the paragraph entitled "Bankruptcy," below, with respect to the Borrower, then the entire debt outstanding under this Agreement will automatically be due immediately.

8.1 Failure to Pay. The Borrower fails to make a payment under this Agreement when due.

8.2 Other Bank Agreements. The Borrower (or any Obligor) or any of the Borrower's related entities or affiliates fails to meet the conditions of, or fails to perform any obligation under any other agreement the Borrower (or any Obligor) or any of the Borrower's related entities or affiliates has with the Bank or any affiliate of the Bank. For purposes of this Agreement, "Obligor" shall mean any guarantor, any party pledging collateral to the Bank.

8.3 Cross-default. Any default occurs under any agreement in connection with any credit the Borrower (or any Obligor) or any of the Borrower's related entities or affiliates has obtained from anyone else or which the Borrower (or any Obligor) or any of the Borrower's related entities or affiliates has guaranteed.

8.4 False Information. The Borrower or any Obligor has given the Bank false or misleading information or representations.

8.5 Bankruptcy. The Borrower, any Obligor, or any general partner of the Borrower or of any Obligor files a bankruptcy petition, a bankruptcy petition is filed against any of the foregoing parties, or the Borrower, any Obligor, or any general partner of the Borrower or of any Obligor makes a general assignment for the benefit of creditors.

8.6 Receivers. A receiver or similar official is appointed for a substantial portion of the Borrower's or any Obligor's business, or the business is terminated, or, if any Obligor is anything other than a natural person, such Obligor is liquidated or dissolved.

8.7 Lawsuits. Any lawsuit or lawsuits are filed on behalf of one or more trade creditors against the Borrower or any Obligor in an aggregate amount of One Million Dollars ($1,000,000) or more in excess of any insurance coverage.

8.8 Judgments. Any judgments or arbitration awards are entered against the Borrower or any Obligor, or the Borrower or any Obligor enters into any settlement agreements with respect to any litigation or arbitration, in an aggregate amount of One Million Dollars ($1,000,000) or more in excess of any insurance coverage.

8.9 Material Adverse Change. A material adverse change occurs, or is reasonably likely to occur, in the Borrower's (or any Obligor's) business condition (financial or otherwise), operations, properties or prospects, or ability to repay the credit.

8.10 Government Action. Any government authority takes action that the Bank believes materially adversely affects the Borrower's or any Obligor's financial condition or ability to repay.

8.11 Default under Related Documents. Any default occurs under any guaranty, subordination agreement, security agreement, deed of trust, mortgage, or other document required by or delivered in connection with this Agreement or any such document is no longer in effect, or any guarantor purports to revoke or disavow the guaranty.

8.12 ERISA Plans. Any one or more of the following events occurs with respect to a Plan of the Borrower subject to Title IV of ERISA, provided such event or events could reasonably be expected, in the judgment of the Bank, to subject the Borrower to any tax, penalty or liability (or any combination of the foregoing) which, in the aggregate, could have a material adverse effect on the financial condition of the Borrower:

(a) A reportable event shall occur under Section 4043(c) of ERISA with respect to a Plan.

(b) Any Plan termination (or commencement of proceedings to terminate a Plan) or the full or partial withdrawal from a Plan by the Borrower or any ERISA Affiliate.

8.13 Other Breach Under Agreement. The Borrower fails to meet the conditions of, or fails to perform any obligation under, any term of this Agreement not specifically referred to in this Article. This includes any failure or anticipated failure by the Borrower to comply with any financial covenants set forth in this Agreement, whether such failure is evidenced by financial statements delivered to the Bank or is otherwise known to the Borrower or the Bank.

8.14 Breach Under Other Agreements. The Borrower fails to meet the conditions of, or fails to perform any obligation under, any terms of any agreement between the Borrower and any third party.

9. ENFORCING THIS AGREEMENT; MISCELLANEOUS

9.1 GAAP. Except as otherwise stated in this Agreement, all financial information provided to the Bank and all financial covenants will be made under generally accepted accounting principles, consistently applied.

9.2 California Law. This Agreement is governed by California law.

9.3 Successors and Assigns. This Agreement is binding on the Borrower's and the Bank's successors and assignees. The Borrower agrees that it may not assign this Agreement without the Bank's prior consent. The Bank may sell participations in or assign this loan, and may exchange financial information about the Borrower with actual or potential participants or assignees. If a participation is sold or the loan is assigned, the purchaser will have the right of set-off against the Borrower.

9.4 Arbitration and Waiver of Jury Trial.

(a) This paragraph concerns the resolution of any controversies or claims between the parties, whether arising in contract, tort or by statute, including but not limited to controversies or claims that arise out of or relate to: (i) this agreement (including any renewals, extensions or modifications); or (ii) any document related to this agreement (collectively a "Claim"). For the purposes of this arbitration provision only, the term "parties" shall include any parent corporation, subsidiary or affiliate of the Bank involved in the servicing, management or administration of any obligation described or evidenced by this agreement.

(b) At the request of any party to this agreement, any Claim shall be resolved by binding arbitration in accordance with the Federal Arbitration Act (Title 9, U.S. Code) (the "Act"). The Act will apply even though this agreement provides that it is governed by the law of a specified state.

(c) Arbitration proceedings will be determined in accordance with the Act, the applicable rules and procedures for the arbitration of disputes of JAMS or any successor thereof ("JAMS"), and the terms of this paragraph. In the event of any inconsistency, the terms of this paragraph shall control.

(d) The arbitration shall be administered by JAMS and conducted, unless otherwise required by law, in any U.S. state where real or tangible personal property collateral for this credit is located or if there is no such collateral, in the state specified in the governing law section of this agreement. All Claims shall be determined by one arbitrator; however, if Claims exceed Five Million Dollars ($5,000,000), upon the request of any party, the Claims shall be decided by three arbitrators. All arbitration hearings shall commence within ninety (90) days of the demand for arbitration and close within ninety (90) days of commencement and the award of the arbitrator(s) shall be issued within thirty (30) days of the close of the hearing. However, the arbitrator(s), upon a showing of good cause, may extend the commencement of the hearing for up to an additional sixty (60) days. The arbitrator(s) shall provide a concise written statement of reasons for the award. The arbitration award may be submitted to any court having jurisdiction to be confirmed and enforced.

(e) The arbitrator(s) will have the authority to decide whether any Claim is barred by the statute of limitations and, if so, to dismiss the arbitration on that basis. For purposes of the application of the statute of limitations, the service on JAMS under applicable JAMS rules of a notice of Claim is the equivalent of the filing of a lawsuit. Any dispute concerning this arbitration provision or whether a Claim is arbitrable shall be determined by the arbitrator(s). The arbitrator(s) shall have the power to award legal fees pursuant to the terms of this agreement.

(f) This paragraph does not limit the right of any party to: (i) exercise self-help remedies, such as but not limited to, setoff; (ii) initiate judicial or non-judicial foreclosure against any real or personal property collateral; (iii) exercise any judicial or power of sale rights, or (iv) act in a court of law to obtain an interim remedy, such as but not limited to, injunctive relief, writ of possession or appointment of a receiver, or additional or supplementary remedies.

(g) The procedure described above will not apply if the Claim, at the time of the proposed submission to arbitration, arises from or relates to an obligation to the Bank secured by real property. In this case, all of the parties to this agreement must consent to submission of the Claim to arbitration. If both parties do not consent to arbitration, the Claim will be resolved as follows: The parties will designate a referee (or a panel of referees) selected under the auspices of JAMS in the same manner as arbitrators are selected in JAMS administered proceedings. The designated referee(s) will be appointed by a court as provided in California Code of Civil Procedure Section 638 and the following related sections. The referee (or presiding referee of the panel) will be an active attorney or a retired judge. The award that results from the decision of the referee(s) will be entered as a judgment in the court that appointed the referee, in accordance with the provisions of California Code of Civil Procedure Sections 644 and 645.

(h) The filing of a court action is not intended to constitute a waiver of the right of any party, including the suing party, thereafter to require submittal of the Claim to arbitration.

(i) By agreeing to binding arbitration, the parties irrevocably and voluntarily waive any right they may have to a trial by jury in respect of any Claim. Furthermore, without intending in any way to limit this agreement to arbitrate, to the extent any Claim is not arbitrated, the parties irrevocably and voluntarily waive any right they may have to a trial by jury in respect of such Claim. This provision is a material inducement for the parties entering into this agreement.

9.5 Severability; Waivers. If any part of this Agreement is not enforceable, the rest of the Agreement may be enforced. The Bank retains all rights, even if it makes a loan after default. If the Bank waives a default, it may enforce a later default. Any consent or waiver under this Agreement must be in writing.

9.6 Attorneys' Fees. The Borrower shall reimburse the Bank for any reasonable costs and attorneys' fees incurred by the Bank in connection with the enforcement or preservation of any rights or remedies under this Agreement and any other documents executed in connection with this Agreement, and in connection with any amendment, waiver, "workout" or restructuring under this Agreement. In the event of a lawsuit or arbitration proceeding, the prevailing party is entitled to recover costs and reasonable attorneys' fees incurred in connection with the lawsuit or arbitration proceeding, as determined by the court or arbitrator. In the event that any case is commenced by or against the Borrower under the Bankruptcy Code (Title 11, United States Code) or any similar or successor statute, the Bank is entitled to recover costs and reasonable attorneys' fees incurred by the Bank related to the preservation, protection, or enforcement of any rights of the Bank in such a case. As used in this paragraph, "attorneys' fees" includes the allocated costs of the Bank's in-house counsel.

9.7 One Agreement. This Agreement and any related security or other agreements required by this Agreement, collectively:

(a) represent the sum of the understandings and agreements between the Bank and the Borrower concerning this credit;

(b) replace any prior oral or written agreements between the Bank and the Borrower concerning this credit; and

(c) are intended by the Bank and the Borrower as the final, complete and exclusive statement of the terms agreed to by them.

In the event of any conflict between this Agreement and any other agreements required by this Agreement, this Agreement will prevail. Any reference in any related document to a "promissory note" or a "note" executed by the Borrower and dated as of the date of this Agreement shall be deemed to refer to this Agreement, as now in effect or as hereafter amended, renewed, or restated.

9.8 Indemnification. The Borrower will indemnify and hold the Bank harmless from any loss, liability, damages, judgments, and costs of any kind relating to or arising directly or indirectly out of (a) this Agreement or any document required hereunder, (b) any credit extended or committed by the Bank to the Borrower hereunder, and (c) any litigation or proceeding related to or arising out of this Agreement, any such document, or any such credit. This indemnity includes but is not limited to attorneys' fees (including the allocated cost of in-house counsel). This indemnity extends to the Bank, its parent, subsidiaries and all of their directors, officers, employees, agents, successors, attorneys, and assigns. This indemnity will survive repayment of the Borrower's obligations to the Bank. All sums due to the Bank hereunder shall be obligations of the Borrower, due and payable immediately without demand.

9.9 Notices. Unless otherwise provided in this Agreement or in another agreement between the Bank and the Borrower, all notices required under this Agreement shall be personally delivered or sent by first class mail, postage prepaid, or by overnight courier, to the addresses on the signature page of this Agreement, or sent by facsimile to the fax numbers listed on the signature page, or to such other addresses as the Bank and the Borrower may specify from time to time in writing. Notices and other communications shall be effective (i) if mailed, upon the earlier of receipt or five (5) days after deposit in the U.S. mail, first class, postage prepaid, (ii) if telecopied, when transmitted, or (iii) if hand-delivered, by courier or otherwise (including telegram, lettergram or mailgram), when delivered.

9.10 Headings. Article and paragraph headings are for reference only and shall not affect the interpretation or meaning of any provisions of this Agreement.

9.11 Counterparts. This Agreement may be executed in as many counterparts as necessary or convenient, and by the different parties on separate counterparts each of which, when so executed, shall be deemed an original but all such counterparts shall constitute but one and the same agreement.

This Agreement is executed as of the date stated at the top of the first page.

Bank of America, N.A. Calavo Growers, Inc.

By /s/ Robert L. Munn, Jr. By /s/ Arthur J. Bruno

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Robert L. Munn, Jr., Senior Vice President Typed Name Arthur J. Bruno
Title Chief Financial Officer

Typed Name Arthur J. Bruno
Title Chief Financial Officer

Address where notices to the Bank are to be sent:
555 Capitol Mall, Suite 150
Sacramento, CA 95814
Facsimile: 916.321.4632

Address where notices to the Borrower are to be sent:
2530 Red Hill Avenue
Santa Ana, CA 92705
Telephone:_______________________

Facsimile:_______________________

Borrower's place of business (or chief executive office, if more than one place of business), if different from address listed above:
____
____

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-75378 of Calavo Growers, Inc. on Form S-8 of our report dated January 12, 2005 appearing in this Annual Report on Form 10-K of Calavo Growers, Inc. for the year ended October 31, 2004.

/s/ Deloitte & Touche LLP

Costa Mesa, California
January 12, 2005

Exhibit 31.1

CERTIFICATION PURSUANT TO

15 U.S.C. § 7241
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Lecil E. Cole, certify that:

1. I have reviewed this annual report on Form 10-K of Calavo Growers, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present, in all material respects, the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors:

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 12, 2005

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

Exhibit 31.2

CERTIFICATION PURSUANT TO
15 U.S.C. § 7241
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Arthur J. Bruno, certify that:

1. I have reviewed this annual report on Form 10-K of Calavo Growers, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present, in all material respects, the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors:

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 12, 2005

/s/ Arthur J. Bruno
Arthur J. Bruno
Vice President, Finance and Corporate Secretary
(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. § 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Calavo Growers, Inc. (the "Company") on Form 10-K for the year ended October 31, 2004, as filed with the Securities and Exchange Commission (the "Report"), I, Lecil E. Cole, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Lecil E. Cole
Lecil E. Cole
Chief Executive Officer
January 12, 2005

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. § 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Calavo Growers, Inc. (the “Company”) on Form 10-K for the year ended October 31, 2004, as filed with the Securities and Exchange Commission (the “Report”), I, Arthur J. Bruno, the Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Arthur J. Bruno
Arthur J. Bruno
Vice President, Finance and Corporate Secretary (Principal Financial Officer)
January 12, 2005