

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the fiscal year ended October 31, 2003

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 [X] No []

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

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

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, 2003 (the last business day of the Registrant's most recently completed second fiscal quarter) was approximately \$65.1 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 December 31, 2003 was 13,506,833.

Documents Incorporated by Reference

Portions of the Registrant's Proxy Statement for the 2004 Annual Meeting of Shareholders, which we intend to hold on March 15, 2004, 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, 2003.

CAUTIONARY STATEMENT

This Annual Report on Form 10-K contains statements relating to future results of Calavo Growers, Inc. (including certain projections and business trends) that are “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and are subject to the “safe harbor” created by those sections. Forward-looking statements frequently are identifiable by the use of words such as “believe,” “anticipate,” “expect,” “intend,” “will,” and other similar expressions. Our actual results may differ materially from those projected as a result of certain risks and uncertainties. These risks and uncertainties include, but are not limited to: increased competition, general economic and business conditions, energy costs and availability, conducting substantial amounts of business internationally, pricing pressures on agricultural products, adverse weather and growing conditions confronting avocado growers, new governmental regulations, as well as other risks and uncertainties, including those set forth in Part I, Item 1 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.

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PART I

Item 1. Business

Overview

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 world-wide 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, the Dominican Republic and New Zealand, 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 calls 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. We anticipate that the facility will be completed near the end of our first fiscal quarter 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 grocery, 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. At October 31, 2003, we employed 522 employees world-wide.

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, 2003, the Hass variety is the predominant avocado variety marketed on a world-wide basis. California grown Hass avocados are available year-round, with peak production periods occurring between February through September. Other

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varieties have a more limited picking season and command a lower price. Approximately 2,000 growers deliver avocados to us, generally pursuant to a standard marketing agreement. Over the past several years, the share of avocados handled by us has remained strong, with approximately 34% of the 2003 California Hass 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 establish sales prices 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 provided to cover our costs and a profit, are paid back to the growers once each month with all of the fruit received in a given week receiving the same return by variety, grade, and size. 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 and retain both new and 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. 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 have expanded our ProRipe™ avocado ripening program with select customers during fiscal 2003. 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.
 - We plan to start marketing our avocados under joint promotion programs with other food manufacturers in fiscal 2004. 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.
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We sell avocados to a diverse group of supermarket chains, wholesalers, foodservice and other distributors, as well as under private labels. The recent consolidation in the supermarket industry has led to fewer, but bigger buyers. In addition, limited sales are currently being made via e-commerce. We believe that our largest customers will require us and our competitors to implement one or more e-commerce distribution solutions 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. An increasing number of our customers are seeking 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 2003, our 5 largest customers represented approximately 23% of our sales, and our largest 25 customers represented approximately 61% of all fresh avocado sales.

International Avocados and Perishable Food Products

Our international avocados and perishable food products segment leverages on 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. We experienced significant revenue growth in this segment in fiscal 2003. Sales generated by this segment include avocados grown outside of California and other perishable food products, such as papayas. We market avocados from Mexico, Chile, New Zealand and, new for fiscal 2003, the Dominican Republic. We handle some of these products on a consignment basis for the suppliers. The agreements may require us to pay advances to growers for the fruit they have delivered. Historical experience demonstrates that providing such 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.

In 1996, the United States Department of Agriculture (“USDA”) established a protocol whereby Mexican grown avocados are permitted to be imported, on a restricted basis, into the United States. Restrictions imposed on the marketing of the fruit, due to phytosanitary concerns, have limited the marketing of Mexican avocados to 31 states, from the middle of October to the middle of April. In 1998, we invested in this 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. Typically, Mexican growers restrict the supply of avocados for export to the United States in order to obtain higher field prices. Our continued profitability is subject to our ability to secure a sufficient volume of avocados at reasonable prices to recover our investment in the Mexican packing operations. We have also enjoyed increased sales of Mexican avocados to Japan, Canada, and Europe. During 2003, we packed and distributed approximately 31% of the avocados exported from Mexico into the United States and approximately 13% of the avocados exported from Mexico to countries other than the United States, based on our estimates.

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 4th and 1st fiscal quarters. We are presently reviewing the impact, if any, of the pest risk assessment issued by the USDA during fiscal 2003, which, if adopted as drafted, would lift current import limitations on Hass avocados from Mexico. The marketing of the Mexican avocados is presently limited to 31 states, from the middle of October to the middle of April. This directive is intended to analyze the risks associated with expanding the importation of Mexican avocados to all U.S. states for the entire year. We believe that this assessment will be adopted, in a form substantially similar to its draft form, during our fiscal 2004. We are unable to project the impact, if any, the adoption of this proposed assessment will have on our financial condition and results of operations.

From time to time, we will make various advances to Mexican growers to secure their avocado harvests (principally September to June). Our ability to recover these 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. As of October 31, 2003, advances outstanding to Mexican growers were approximately \$0.5 million in order to secure the delivery of their avocado crops.

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 world-wide avocado markets. 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 2003, we distributed 15% of the Chilean imports into the United States, based on our estimates.

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New Zealand also exports avocados into the United States. The harvest of New Zealand avocados (September to December) overlaps with the Chilean and Mexican avocado harvest periods. Consequently, the introduction of avocados grown in New Zealand has had the effect of increasing the volume of avocados in the marketplace and increasing pressure on sales prices. During 2003, we distributed 43% of the New Zealand imports into the United States, based on our estimates.

The Dominican Republic also exports avocados into the United States. Similar to the harvest of New Zealand avocados, the harvest of Dominican Republic avocados (August 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 2003, we distributed 7% of the Dominican Republic imports into the United States based on our estimates. We anticipate distributing substantially all (90% - 100%) of the Dominican Republic imports into the United States for fiscal 2004.

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. During 2003, we distributed approximately half of the papayas sold in the continental United States, based on our estimates.

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. While Maui has numerous commodities, Hawaiian papayas, tomatoes, bell peppers, and chili peppers account for the majority of its sales. Sales for the most recently completed fiscal year ended December 31, 2002 were approximately \$20 million. Maui does not experience significant fluctuations in sales related to seasonality.

Maui has customers located primarily in the United States and Canada and these customers are principally in both the retail, foodservice, and wholesalers sectors. We plan to leverage our existing customer relationships with Maui's current product offerings to stimulate sales growth.

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. The 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, however, our Board of Directors approved a plan whereby the operations of our processed products business would be relocated. The plan calls 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. We anticipate that the facility will be completed near the end of our first fiscal quarter 2004. The Santa Paula facility closed in February 2003. We plan to close the Mexicali facility during calendar year 2004, but no firm closing date has been determined.

Special charges recorded through October 31, 2003 consist entirely of employee separation costs and write-downs of fixed assets. All employee separation costs were paid in cash and represent final payments to 26 production and 4 managerial employees formerly working at our Santa Paula, California processing facility. We expect to pay additional employee separation costs in connection with our planned future closure of our Mexicali, Baja California Norte production facility, which will be recognized when incurred. Those costs have not yet been quantified and are expected to be accrued for and paid during calendar year 2004. Costs related to the write-down of fixed assets represent a non-cash charge to reduce the carrying value of production assets located at our Santa Paula, California processed facility to their fair value. As of October 31, 2003, we have not accrued for any charges relating to the write-down of production assets being held at our Mexicali, Baja California Norte production facility as it is anticipated that all such assets will be re-commissioned at our new facility in Uruapan, Michoacan or their carrying value is 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 then 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.

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Subsequent to January 2003, however, our Mexicali processed operations became primarily focused on our individually quick frozen (IQF) avocado half product line and our high-pressure line.

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

During fiscal 2002, we purchased and commissioned new ultra high pressure treatment equipment designed to manufacture processed avocado products that are not frozen. Through October 31, 2003, our high pressure line consisted of one ultra high pressure machine manufacturing guacamole in Mexicali. This machine was commissioned for operations in October 2002 and ran near capacity during fiscal 2003. Utilizing avocado pulp and chunks, this high pressure equipment allows us to deliver fresh guacamole to retail and food service customers. Sales of our high pressure product totaled approximately \$3.2 million for fiscal year 2003.

We are presently installing a second, much larger, high pressure machine in our new facility being built in Uruapan, Michoacan, Mexico. We anticipate commissioning this second machine for operations during our second fiscal quarter of 2004, but we do not believe this machine will operate near capacity until the end of fiscal 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.

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 2003, our largest 5 customers represented approximately 54% of all processed sales, and our largest 25 customers represented approximately 76% of processed sales.

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. To secure the ongoing business of some of our largest customers, we have entered into certain rebate programs and exclusivity agreements. During fiscal 2003 and 2002, we paid \$0.4 million and \$1.0 million, representing both exclusivity fees and prepaid rebates to a major foodservice distribution customer. 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.

Sales and Other Financial Information by Business Segment and Product Category

Sales and other financial information by business segment is provided in Note 12 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, and Triggered Avocados.

Working Capital Requirements

Generally, we make payments to our California avocado growers and other suppliers in advance of collecting our 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 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.

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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.

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, 2003, we had 522 employees, of whom approximately 162 were located in the United States and 360 of whom were located in Mexico. None of Calavo’s United States employees are covered by a collective bargaining agreement. Approximately 120 of Calavo’s Mexican employees are represented by a union. No significant work stoppages have occurred since commencing operations in Mexico.

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The following is a summary of the number of “salaried” and “hourly” employees as of October 31, 2003.

Location	Salaried	Hourly
United States	91	71
Mexico	50	310
TOTAL	141	381

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.

Risks Related to Our Business

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

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

- 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 possible related to the proposed lifting of the import limitations on Hass avocados from Mexico, 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 introduce a similar offering of high pressure treated guacamole product, we may not be able to maintain 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.

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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 profitability.

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 results.

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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We have invested significant resources in optimally equipping our Uruapan, Mexico packinghouse facility. A recently filed lawsuit against the USDA may further restrict access or eliminate entirely the availability of Mexican grown avocados in the U.S. marketplace thereby impairing the value of our investment in our Uruapan packinghouse.

During 2001, the California Avocado Commission and various other plaintiffs filed a lawsuit against the USDA alleging that the scientific basis used to expand the Mexican avocado import program was flawed. Further restrictions placed on importing Mexican grown avocados into the U.S. marketplace originating from this, or any other lawsuit, would have the effect of significantly impacting the volume of avocados packed at our facility. Absent optimal packing volumes, we may be unable to recover our fixed costs and be forced to close our facility. Closure of our Uruapan packinghouse may result in significant equipment impairment charges and additional charges associated with exiting these operations.

Item 2. Properties

In addition to our corporate headquarters building, we own two packinghouses and one processing facility in California and lease one packinghouse and one processing facility in Mexico. Additionally, we are currently constructing a processing facility in Uruapan, Michoacan, Mexico.

Our two California packinghouses handle all avocados delivered to us by California 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 includes the possible integration of corporate offices, as well as the assimilation of the operations of our Santa Paula packinghouse.

Our Mexicali, Mexico processing plant was built in 1995 to our specifications. Our lease commitment for this facility extends through 2004. In conjunction with our restructuring plan, we plan on closing this facility during calendar 2004. We have not accrued for any charges relating to the write-down of production assets being held at our Mexicali, Baja California Norte production facility, as it is anticipated that all such assets will be re-commissioned at our new facility in Uruapan, Michoacan or their carrying value is less than their fair value.

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. This packinghouse enables us to handle in excess of 50 million pounds per year of Mexican grown avocados.

We are currently constructing a processing facility in Uruapan, Michoacan, Mexico. The completion of this processed facility is projected to be near the end of our first fiscal quarter 2004. 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, 2003.

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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.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Lecil E. Cole	63	Chairman of the Board, Chief Executive Officer and President
Arthur J. Bruno	53	Vice President, Finance and Corporate Secretary
Robert J. Wedin	54	Vice President, Sales & Fresh Marketing
Alan C. Ahmer	55	Vice President, Processed Product Sales and Production
Avi Crane	50	Vice President, International

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 Vice President and Corporate Secretary since October 2003. 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 this 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 Product Sales and Production.

Avi Crane has served as our Vice President since 1999. From 1993 to 1999, Mr. Crane was employed as a General Manager by a competitor, Chiquita Brands, Inc., and from 1985 to 1993, he was employed as a Vice President by the California Avocado Commission.

PART II**Item 5. Market for Registrant's Common Equity and Related Stockholder Matters**

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."

Prior to March 2002, a public trading market did not exist for our common stock. The stock was not listed on a securities exchange or on Nasdaq, and shares were transferred only if federal and state securities registration exemptions were satisfied. From time to time, we distributed to our shareholders lists of shareholders who had indicated an interest in purchasing or selling shares of stock, and the purchasing and selling shareholders then privately negotiated the terms of such transactions.

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 OTC Bulletin Board and the Nasdaq National Market.

Fiscal 2002	High	Low
Second Quarter (from March 2002)	\$12.00	\$6.00
Third Quarter	\$ 8.60	\$7.00
Fourth Quarter	\$ 8.40	\$6.85

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

As of October 31, 2003, there were 1,500 stockholders of record of our common stock.

In November 2003, we acquired all the outstanding common stock of Maui Fresh International, Inc. in exchange for 576,924 shares of our common stock valued at \$4.05 million that we issued to the three shareholders of Maui Fresh International, Inc. See Note 16 to our consolidated financial statements, which are included in this Annual Report, for more information about this acquisition. Our issuance of these 576,924 shares was exempt from registration under the Securities Act of 1933 pursuant to Section 4(2) of the Securities Act and Regulation D thereunder as a transaction by an issuer not involving a public offering of securities.

Dividend Policy

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

During the year ended October 31, 2001, we paid dividends of approximately \$4,973,000, or \$0.50 per share, to our shareholders. For additional information pertaining to the Cooperative's historical cash dividend payments, see "Selected Consolidated Financial Data" elsewhere in this Annual Report.

On February 15, 2002, we paid a 5% stock dividend to shareholders of record on February 1, 2002.

On January 2, 2003, we paid a \$0.20 per share dividend in the aggregate amount of \$2,567,000 to shareholders of record on November 15, 2002.

On January 5, 2004, we paid a \$0.25 per share dividend in the aggregate amount of \$3,232,000 to shareholders of record on November 17, 2003.

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, 2003 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,				
	2003	2002	2001	2000	1999
(In thousands, except per share data)					
Income Statement Data:					
Net sales	\$246,761	\$242,671	\$217,704	\$220,712	\$177,853
Gross margin	25,465	25,823	18,808	19,554	14,302
Provision for income taxes	4,319	5,727	2,744	2,430	229
Net income	7,160	6,915	3,838	4,476	244
Basic and diluted net income per share(1)	\$ 0.55	\$ 0.60	\$ 0.37	\$ 0.43	\$ 0.02
Balance Sheet Data as of End of Period:					
Working capital	20,735	18,833	9,799	12,559	8,824
Total assets	53,689	55,132	52,368	46,537	43,295
Short-term debt	24	3,222	16,241	9,486	9,148
Long-term debt, less current position(2)	61	3,180	3,429	3,820	4,331
Shareholders' equity	37,147	30,556	20,029	21,066	16,477
Cash Flows Provided by (Used in):					
Operations	15,222	8,135	1,161	2,958	(6,624)(3)
Investing(4)	(4,475)	(2,078)	(2,029)	(1,685)	(1,171)
Financing	(6,293)	(7,193)	1,433	(1,239)	6,920(3)
Other Data:					
Dividends per share(2)	\$ 0.25	\$ 0.20	\$ 0.50(2)	\$ —	\$ 0.12
Net book value per share	\$ 2.87	\$ 2.38	\$ 2.01	\$ 2.13	\$ 1.67
Pounds of California avocados delivered	114,844	149,217	158,449	119,247	82,227
Pounds of international avocados sold	70,348	69,512	44,935	42,300	32,630
Pounds of processed avocados sold	14,707	14,248	14,788	14,962	9,815

- (1) 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.
- (2) 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 \$2.8 million in principal under the indenture in September 2003.
- (3) Cash flows used in operations for fiscal 1999 include the effect of higher accounts receivable balances as of October 31, 1999 when compared to October 31, 1998. The increase in accounts receivable during the year is a result principally of higher California and imported avocado sales. Cash flows from financing activities for fiscal 1999 relate principally to amounts borrowed under short-term borrowing agreements to finance our increased operating cash flow needs and fund our fiscal 1998 investing activities.
- (4) Cash flows used in investing activities for fiscal 2003 include the effect of constructing a processing facility in Uruapan, Michoacan, Mexico. The completion of this processed facility is projected to be near the end of our first fiscal quarter 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 9 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.

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 34% of the California Hass avocado crop during the 2003 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 aggressively recruiting new growers, retaining existing 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, New Zealand, and the Dominican Republic, as well as papayas grown in Hawaii. We operate a packinghouse in Mexico that handled approximately 31% of the Mexican avocado crop bound for the United States market during the 2002-2003 Mexican harvest season, based on our estimates. Additionally, during the 2002-2003 Chilean avocado harvest season, we handled approximately 15% 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 in support 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 papayas grown in Hawaii 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. During fiscal 2003, we operated a processing plant in Mexico and a second facility in Southern California. The second facility, however, was closed in February 2003 in conjunction with the relocation of our processed business to our new, under construction, facility in Uruapan, Michoacan, Mexico. We anticipate this facility will be completed near the end of our first fiscal quarter in 2004. Our 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 product 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 and our customers' products, our ability to develop, introduce, and market new products on a timely basis, availability and cost of avocados and supplies from growers and vendors, new product introductions by our competitors, change in the mix of avocados and processed products we sell, and general economic conditions. We believe, however, that we are currently positioned to address these risks and deliver favorable operating results for the foreseeable future.

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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 2004, we paid a \$0.25 per share dividend in the aggregate amount of \$3,232,000 to shareholders of record in November 2003.

Stock options

During the year ended October 31, 2003, 95,000 stock options were exercised for proceeds totaling \$475,000.

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 3-year period, has an exercise price of \$7.00 per share and has a term of 5 years from the grant date. The market price of our common stock at the grant date was \$10.01. In accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," we will record compensation expense of approximately \$151,000 over the vesting period of three years from the grant date.

Purchase commitment

In May 2003, we entered into a commitment to purchase approximately 1.3 million pounds of processed avocado products from a supplier for a cost of approximately \$1.5 million over a 12-month period. Through December 2003, we have received substantially all products subject to this commitment.

Acquisition

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. Maui, which generated approximately \$20 million in revenues during its fiscal year ended December 31, 2002, is a specialty produce company servicing a wide array of retail, food service, and terminal market wholesale customers with over 25 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 3 days before and after the announcement date.

As security for certain potential contingencies, such as unrecorded liabilities, we are entitled to hold approximately 58,000 shares issued in conjunction with such acquisition for one full year from the acquisition date. In the event that these contingencies resolve as we expect them to, we will be obligated to return these shares.

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The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition. Such estimates are preliminary and are subject to change upon receipt of valuation information:

(in thousands)	November 7 2003
	(Preliminary)
Fixed assets	\$ 114
Goodwill and intangible assets	4,046

Total assets acquired	4,160
Current liabilities	110

Net assets acquired	\$4,050

Goodwill is not subject to amortization and is generally not expected to be deductible for tax purposes.

Processed product segment restructuring

In February 2003, our Board of Directors approved a plan whereby the operations of our processed products business will be relocated. The plan calls 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. We anticipate that the facility will be completed near the end of our first fiscal quarter 2004. The Santa Paula facility closed in February 2003. We plan to close the Mexicali facility during calendar year 2004, but no firm closing date has yet been determined.

Through October 31, 2003, we have incurred costs related to this restructuring approximating \$1,304,000. Our income statement for the year ended October 31, 2003 includes \$890,000 as cost of sales, \$106,000 as special charges, and \$308,000 as selling, general and administrative expenses. These costs are comprised of the following components as of and for the year ended October 31, 2003:

(in thousands)	Special charges	Amounts paid	Non-cash charges	Reserves remaining to be utilized
Employee separation costs	\$ 74	\$ (74)	\$ —	\$ —
Write-down of fixed assets (net book value of \$32)	32	—	(32)	—
	-----	-----	-----	-----
Total special charges	106	(74)	(32)	—
Selling, general and administrative – freight	308	(308)	—	—
Cost of sales - facility operating costs	890	(693)	(197)	—
	-----	-----	-----	-----
	\$1,304	\$(1,075)	\$(229)	\$ —
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Special charges recorded through October 31, 2003 consist entirely of employee separation costs and write-downs of fixed assets. All employee separation costs were paid in cash and represent final payments to 26 production and 4 managerial employees formerly working at our Santa Paula, California processing facility. We expect to pay additional employee separation costs in connection with our planned future closure of our Mexicali, Baja California Norte production facility, which will be recognized when incurred, in accordance with SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." Those costs have not yet been quantified and are expected to be accrued for and paid during fiscal year 2004. Costs related to the write-down of fixed assets represent a non-cash charge to reduce the carrying value of production assets located at our Santa Paula, California processed facility to their fair value. These write-downs were primarily the result of fixed assets no longer being used in the production process. As of October 31, 2003, we have not accrued for any charges relating to the write-down of production assets being held at our Mexicali, Baja California Norte production facility as it is anticipated that all such assets will be re-commissioned at our new facility in Uruapan, Michoacan or their carrying value is less than their net realizable value.

Critical Accounting Policies

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,

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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 policies and estimates with the Audit Committee of the Board of Directors and the Audit Committee has reviewed our disclosure relating to critical accounting policies and 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.

Advances to Suppliers. We advance funds to third-party growers primarily in California, Chile 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.

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.

Cash rebates are generally earned by our customers upon achievement of volume purchases or by corporate customers for purchases made by their affiliated subsidiaries. Cash rebates, as well as all other sales incentives that result in a reduction in, or refund of, the selling price at the time of sale, have been classified as a reduction of sales.

Net Sales. We recognize sales once they are realizable and earned. 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. Perishable product sales are recorded when the product is shipped, title passes, and the sales price is known. Sales from processed products are recorded when the product is shipped and title and risk passes. Service revenue, including freight, ripening, storage, bagging and palletization charges, is recorded when services are performed and sales of the related products are delivered.

Allowance for customer deductions. We provide an allowance for customer deductions and receivable balances remaining, after partial invoice payments, based on historical experience and the aging of the related accounts receivable.

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,		
	2003	2002	2001
Net Sales	100.0%	100.0%	100.0%
Gross margins	10.3%	10.6%	8.6%
Selling, general and administrative	6.0%	5.7%	5.8%
Operating income	4.3%	4.9%	2.9%
Other expense (income), net	(0.4)%	(0.3)%	(0.2)%
Net income	2.9%	2.8%	1.8%

[Table of Contents](#)**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.

We recognize sales of perishable products when the product is shipped, title and risk passes, and the market price is known. Service revenue, including freight, ripening, and palletization charges, are recorded when services are performed and/or the product is shipped. We generally recognize sales from processed product sales directly to our customers upon shipment and transfer of title and risk. We provide for sales returns and other allowances at the time of shipment, based on our experience. The following table summarizes our net sales by business segment:

	2003	Change	2002	Change	2001
	(Dollars in thousands)				
Net sales:					
California avocados	\$149,635	(9.4)%	\$165,077	10.7%	\$149,158
International avocados and perishable food products	75,347	27.5%	59,083	25.6%	47,048
Processed products	32,360	8.0%	29,960	(0.5)%	30,107
Eliminations	(10,581)		(11,449)		(8,609)
Total net sales	\$246,761	1.7%	\$242,671	11.5%	\$217,704
As a percentage of net sales:					
California avocados	60.6%		68.0%		68.1%
International avocados and perishable food products	28.0%		22.2%		19.9%
Processed products	11.4%		9.8%		12.0%
	100.0%		100.0%		100.0%

Net sales for the year ended October 31, 2003, when compared to 2002, grew by approximately \$4.1 million, or 1.7%, principally as a result of growth experienced by our International avocados and perishable food products and our processed products segments, partially offset by a decrease in our California avocados segment. 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.

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. We are presently reviewing the impact, if any, of the pest risk assessment issued by the USDA during fiscal 2003, which, if adopted as drafted, would lift current import limitations on Hass avocados from Mexico. The marketing of the Mexican avocados is presently limited to 31 states, from the middle of October to the middle of April. This directive is intended to analyze the risks associated with expanding the importation of Mexican avocados to all U.S. states for the entire year. We believe that this assessment will be adopted, in a form substantially similar to its draft form, during our fiscal 2004. We are unable to project the impact, if any, the adoption of this proposed assessment will have on our financial condition and results of operations.

Notwithstanding the aforementioned pest risk assessment, we anticipate the continuation of growth in our International avocados and perishable food product segment for fiscal 2004. Additionally, we anticipate slightly increasing sales in our processed products business and also anticipate continued growth in net sales generated from value-added bagging and ripening services, as well as the need to promote our products with additional sales incentives. We also anticipate that sales generated from our California avocados and International avocados and perishable food products segments will continue to represent the majority of total net sales and the percentage of total net sales generated from these segments may increase in the future.

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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, 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
Miscellaneous	—	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 fruit and product 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
	Year ended October 31, 2002				Year ended October 31, 2001			
	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	\$153,878	\$ —	\$ —	\$153,878	\$137,166	\$ —	\$ —	\$137,166
Imported avocados	—	43,715	—	43,715	—	34,566	—	34,566
Papayas	—	2,658	—	2,658	—	3,378	—	3,378
Miscellaneous	—	42	—	42	—	41	—	41
Processed - food service	—	—	24,964	24,964	—	—	25,912	25,912
Processed - retail and club	—	—	5,141	5,141	—	—	5,625	5,625
Total fruit and product sales to third-parties	153,878	46,415	30,105	230,398	137,166	37,985	31,537	206,688
Freight and other charges	11,381	7,540	217	19,138	11,304	5,256	59	16,619
Total fruit and product sales to third-parties	165,259	53,955	30,322	249,536	148,470	43,241	31,596	223,307
Less sales incentives	(182)	(150)	(6,533)	(6,865)	(276)	(14)	(5,313)	(5,603)
Total net sales to third-parties	165,077	53,805	23,789	242,671	148,194	43,227	26,283	217,704
Intercompany sales	—	5,278	6,171	11,449	964	3,821	3,824	8,609
Net sales	\$165,077	\$59,083	\$29,960	254,120	\$149,158	\$47,048	\$30,107	226,313
Intercompany sales eliminations				(11,449)				(8,609)
Consolidated net sales				\$242,671				\$217,704

Net sales by segment includes intercompany activity consisting of value-added services billed by our Calavo de Mexico subsidiary to its parent for receiving and packaging avocados for sale outside of Mexico, as well as value-added services billed by our Calavo Foods de Mexico subsidiary to its parent for processing fresh avocados in avocado pulp, which was then made into finished product at our Santa Paula processing facility, which is now closed. All intercompany sales are eliminated in our consolidated results of operations.

Net sales delivered by the business decreased by approximately \$15.4 million, or 9.4%, from fiscal 2002 to 2003. The decrease in fiscal 2003 sales primarily reflects a decrease in avocados delivered by our growers of 23%, or 34.4 million pounds, partially offset by a significant improvement in the average selling prices of avocados when compared to fiscal 2002. The decrease in delivered pounds 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 have 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.

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Average selling prices, on a per carton basis, for first grade Hass variety avocados for fiscal 2003 were \$4.59 higher when compared to fiscal 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.

Net sales delivered by the business increased by approximately \$15.9 million, or 10.7%, from fiscal 2001 to 2002. The increase in fiscal 2002 sales reflects a significant improvement in the average selling prices of avocados when compared to fiscal 2001, partially offset by a decrease in avocados delivered by our growers of 5.8%, or 9.2 million pounds. The decrease in delivered pounds was consistent with the expected decrease in the overall harvest of the California avocado crop for the 2001/2002 season. Despite this decrease in volume, we continued to build on our leadership role in packing and marketing California grown avocados and maintained a strong market share of first grade Hass variety avocados during fiscal 2002. Our market share of first grade Hass variety avocados was approximately 37% and 36% during fiscal 2002 and 2001.

Average selling prices, on a per carton basis, for first grade Hass variety avocados for fiscal 2002 were \$3.88 higher when compared to fiscal 2001. 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 slightly reduced volume of avocados.

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 2003, we remitted approximately \$2.4 million to the Hass Avocado Board.

International and Perishable Food Products

For fiscal 2003, net sales include approximately \$6.3 million of value-added services billed by our Mexican subsidiaries to the parent company, which are eliminated from our consolidated financial results. For fiscal 2003, when compared to fiscal 2002, net sales to third-party customers increased by approximately \$15.2 million, or 28.4%, from \$53.8 million to \$69.0 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 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. 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 2002 and 2001, net sales include approximately \$5.3 million and \$3.8 million of value-added services billed by our Mexican subsidiaries to the parent company, which are eliminated from our consolidated financial results. For fiscal 2002, when compared to fiscal 2001, net sales to third party customers increased by approximately \$10.6 million, or 24.5%, from \$43.2 million to \$53.8 million. The increased sales to third parties were primarily driven by a greater volume of Chilean and Mexican grown avocados in the U.S. marketplace. The volume of fruit handled increased by 2.4 million pounds of Chilean grown avocados, or 10.2%, and 22.6 million pounds of Mexican grown avocados, or 113.6%, for fiscal 2002 when compared to fiscal 2001.

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Processed Products

For fiscal 2003, net sales include approximately \$4.3 million of value-added services billed by our Mexican subsidiaries to the parent company, which are eliminated from our consolidated financial results. 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 promotional activities paid 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 2002, we purchased and commissioned new ultra high pressure treatment equipment designed to manufacture processed avocado products that are not frozen. Through October 31, 2003, our high pressure line consisted of one ultra high pressure machine manufacturing guacamole in Mexicali. This machine was commissioned for operations in October 2002 and ran near capacity during fiscal 2003. Utilizing avocado pulp and chunks, this high pressure equipment allows us to deliver fresh guacamole to retail and food service customers. Sales of our high pressure product totaled approximately \$3.2 million for fiscal year 2003. We did not have significant sales of our high pressure product during fiscal 2002.

We are presently installing a second, much larger, high pressure machine in our new facility being built in Uruapan, Michoacan, Mexico. We anticipate commissioning this second machine for operations during our second fiscal quarter of 2004, but we do not believe this machine will operate near capacity until near the end of fiscal 2004. We believe that the introduction of these fresh guacamole products will, in the long-term, successfully address a growing market segment.

For fiscal 2002 and 2001, net sales include approximately \$6.2 million and \$3.8 million of value-added services billed by our Mexican subsidiaries to the parent company, which are eliminated from our consolidated financial results. Net sales to third-party customers decreased by approximately \$2.5 million, or 9.5%, from \$26.3 million for fiscal 2002 to \$23.8 million for fiscal 2001. The decrease in fiscal 2002 net sales to third-party customers is attributable to a decrease in 0.5 million pounds of product sold, or 3.7%, and an increase in sales incentives and promotional activities paid of \$1.2 million or 23.0%.

Gross Margins

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

	2003	Change	2002	Change	2001
	(Dollars in thousands)				
Gross Margins:					
California avocados	\$14,873	(13.9)%	\$17,281	44.9%	\$11,926
International avocados and perishable food products	5,575	50.2%	3,711	404.2%	736
Processed products	5,017	3.9%	4,831	(21.4)%	6,146
Total gross margins	\$25,465	(1.4)%	\$25,823	37.3%	\$18,808
Gross profit percentages:					
California avocados	9.9%		10.5%		8.0%
International avocados and perishable food products	8.1%		6.9%		1.7%
Processed products	17.9%		20.3%		23.4%
Consolidated	10.3%		10.6%		8.6%

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. Gross margins decreased by approximately \$0.4 million, or 1.4%, from fiscal 2002 to 2003, principally as 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 increased by approximately \$7.0 million, or 37.3%, from fiscal 2001 to 2002, principally as a result of increases in the gross profit percentages realized by our California avocado and international avocado and perishable food products segments, which were partially offset by decreased gross profit percentages achieved by our processed products segment.

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Gross margins and gross profit percentages for our California avocado business are largely dependent on production yields achieved at our packinghouses, current market prices of avocados, and the volume of avocados packed. The decrease in our gross margin percentage during fiscal 2003 is 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 2002, our growers received an average return of \$0.86 per pound, as compared to \$0.74 per pound in fiscal 2001, whereas the volume of avocados delivered decreased by approximately 9.2 million pounds. During fiscal 2003, freight and handling costs decreased by approximately \$0.7 million, from \$4.2 million in fiscal 2002 to \$3.5 million during fiscal 2003. During fiscal 2002, freight and handling costs decreased by approximately \$0.2 million, from \$3.0 million in fiscal 2001 to \$2.8 million during fiscal 2002. 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, New Zealand, 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 domestic 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. For fiscal 2003, we generated gross margins of \$2.3 million from the sale of fresh produce products that were domestically packed by third parties, whereas gross margins for fiscal 2002 were only \$1.4 million. For fiscal 2002, we generated gross margins of \$1.4 million from the sale of fresh produce products that were domestically packed by third parties, whereas gross margins for fiscal 2001 were only \$1.2 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. During fiscal 2003, our gross margins generated from the sale of Mexican avocados improved from approximately \$1.8 million in fiscal 2002 to \$2.2 million in fiscal 2003, principally as a result of increases in the pounds packed at our facility. These efficiencies, however, were adversely affected via the introduction of the new \$0.025 per pound marketing assessment imposed on avocados imported into the United States. During fiscal 2002, our gross margins generated from the sale of Mexican avocados improved from a negative margin of approximately \$0.7 million in fiscal 2001 to a positive margin of \$1.8 million in fiscal 2002 principally as a result of increases in the pounds packed at our facility.

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 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 than expected increase in demand for our products, we have been depleting 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. During fiscal 2001 to 2002, the cost of avocados used in the preparation of our processed products decreased by 36.9%, principally due to lower prices for avocados having the necessary quality for preparing our processed products.

Selling, General and Administrative

	2003	Change	2002	Change	2001
			(Dollars in thousands)		
Selling, general and administrative	\$14,769	6.4%	\$13,881	10.4%	\$12,568
Percentage of net sales	6.0%		5.7%		5.8%

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

Selling, general and administrative expenses increased by approximately \$1.3 million from fiscal 2001 to 2002. The increase is attributable principally to \$0.6 million of additional administrative expenses, \$0.6 million in incentives paid to employees, and miscellaneous other net increases of \$0.1 million.

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	<u>2003</u>	<u>Change</u>	<u>2002</u>	<u>Change</u>	<u>2001</u>
Other income, net	\$(889)	27.0%	(Dollars in thousands) \$(700)	104.7%	\$(342)
Percentage of net sales	(0.4)%		(0.3)%		(0.2)%

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 2003, other income, net includes interest accrued on notes receivable from directors and officers of approximately \$0.3 million. During fiscal 2002, other income includes interest accrued on notes receivable from directors and officers of approximately \$0.2 million.

Provision for Income Taxes

	<u>2003</u>	<u>Change</u>	<u>2002</u>	<u>Change</u>	<u>2001</u>
Provision for income taxes	\$4,319	(24.6)%	(Dollars in thousands) \$5,727	108.7%	\$2,744
Percentage of income before provision for income taxes	37.6%		45.3%		41.7%

The effective income tax rate for fiscal 2003 is higher than the federal statutory rate principally due to state taxes. The effective income tax rate for fiscal 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. Our effective income tax rate decreased from 45.3% in fiscal 2002 to 37.6% in fiscal 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 2003 when compared to fiscal 2002. We anticipate that our effective tax rate for fiscal 2004 will be approximately 40.0%.

[Table of Contents](#)**Quarterly Results of Operations**

The following table presents our operating results for each of the eight fiscal quarters in the period ended October 31, 2003. 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, 2003	July 31, 2003	Apr. 30, 2003	Jan. 31, 2003	Oct. 31, 2002	July 31, 2002	Apr. 30, 2002	Jan. 31, 2002
(in thousands, except per share amounts)								
Statement of Operations Data								
Net sales	\$63,780	\$81,359	\$57,393	\$44,229	\$64,384	\$76,420	\$56,144	\$45,723
Cost of sales	58,450	72,118	50,422	40,306	58,202	67,498	49,006	42,142
Gross margin	5,330	9,241	6,971	3,923	6,182	8,922	7,138	3,581
Selling, general and administrative	3,444	4,004	4,130	3,191	4,278	3,325	3,254	3,024
Restructuring charge	3	5	98	—	—	—	—	—
Operating income	1,883	5,232	2,743	732	1,904	5,597	3,884	557
Other expense (income), net	(274)	(294)	(206)	(115)	(363)	(184)	(145)	(8)
Income before provision (benefit) for income taxes	2,157	5,526	2,949	847	2,267	5,781	4,029	565
Provision (benefit) for income taxes	471	2,287	1,214	347	1,059	2,657	1,758	253
Net income	\$ 1,686	\$ 3,239	\$ 1,735	\$ 500	\$ 1,208	\$ 3,124	\$ 2,271	\$ 312
Net income per share:								
Basic	\$ 0.13	\$ 0.25	\$ 0.13	\$ 0.04	\$ 0.10	\$ 0.26	\$ 0.20	\$ 0.03
Diluted	\$ 0.13	\$ 0.25	\$ 0.13	\$ 0.04	\$ 0.10	\$ 0.26	\$ 0.19	\$ 0.03
Number of shares used in per share computation:								
Basic	12,930	12,930	12,930	12,856	12,307	11,836	11,637	10,466
Diluted	12,970	12,960	12,960	12,887	12,377	11,906	11,670	10,466

Liquidity and Capital Resources

Operating activities for fiscal 2003, 2002 and 2001 provided cash flows of \$15.2 million, \$8.1 million, and \$1.2 million. Fiscal 2003 operating cash flows reflect our net income of \$7.2 million, net noncash charges (depreciation and amortization, gains and losses) of \$1.9 million and a net increase in the non-cash components of our working capital of approximately \$6.1 million.

The fiscal 2003 working capital increases include a decrease in inventories of \$4.4 million, principally due the relocation of our processed operations to Uruapan, Michoacan, Mexico, a decrease in accounts receivable of \$1.3 million, a decrease in advances to suppliers of \$1.9 million, an increase in trade accounts payable and accrued expenses of \$0.6 million, an increase in prepaid expenses and other assets of \$0.5 million, and other miscellaneous net increases of \$0.5 million, partially offset by a decrease in payable to growers of \$2.9 million and an increase in deferred income taxes of \$0.2 million.

Cash used in investing activities was \$4.5 million, \$2.1 million, and \$2.0 million for fiscal years 2003, 2002, and 2001. Fiscal 2003 cash flows used in investing activities include capital expenditures of \$6.5 million, principally related to the construction of our new processed operations facility in Uruapan, Michoacan, Mexico, partially offset by the \$2.1 million proceeds received related to the sale of our investments held-to-maturity.

Cash flows used in financing activities were \$6.3 million and \$7.2 million for fiscal years 2003 and 2002, compared to cash from financing of \$1.4 million in fiscal 2001. Cash flows from financing activities used during fiscal 2003 include repayments of borrowings of \$6.3 million, the payment of a dividend totaling \$2.6 million, and other miscellaneous payments totaling \$0.1 million, partially offset by proceeds of \$2.2 million from collection of notes receivable from shareholders and proceeds received of \$0.5 million from the exercise of stock options.

Our principal sources of liquidity are our existing cash reserves, cash generated from operations and amounts available for borrowing under our existing credit facilities. Cash and cash equivalents as of October 31, 2003 and 2002 totaled \$5.4 million and \$0.9 million. Our working capital at October 31, 2003 was \$20.7 million compared to \$19.1 million at October 31, 2002. The overall working capital increase reflects our repayment of short-term borrowings and the increase 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 currently maintain two short-term,

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non-collateralized, revolving credit facilities with separate banks, which expire through April 2004. We have received commitments from both banks, however, for new credit facilities, maturing in December 2005, totaling \$24,000,000. We are in the process of finalizing both note agreements. 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 order to finance such growth, we may seek to obtain additional borrowings or issue shares of our common stock.

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, 2003:

Contractual Obligations	Payments due by period				
	Total	Less than 1 year	1-3 years	4-5 years	More than 5 years
Long-term debt obligations	\$ 85	\$ 24	\$ 36	\$ 16	\$ 9
Operating lease commitments	3,021	993	1,239	845	4
Total	\$3,106	\$1,017	\$1,275	\$861	\$13

Impact of Recently Issued Accounting Pronouncements

See Note 2 of Notes to Consolidated Financial Statements.

[Table of Contents](#)**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, 2003.

(All amounts in thousands)	Expected maturity date October 31,						Total	Fair Value
	2004	2005	2006	2007	2008	Thereafter		
Assets								
Cash and cash equivalents (1)	\$ 5,375	\$ —	\$ —	\$ —	\$ —	\$—	\$ 5,375	\$ 5,375
Accounts receivable (1)	16,560	—	—	—	—	—	16,560	16,560
Short-term loans to growers (1)	353	—	—	—	—	—	353	353
Loans to growers (2)	200	—	338	—	370	—	908	952
Notes receivable from shareholders (3)	263	211	211	2,878	—	—	3,563	3,691
Liabilities								
Accounts payable (1)	\$ 1,534	\$ —	\$ —	\$ —	\$ —	\$—	\$ 1,534	\$ 1,534
Fixed-rate long-term obligations (4)	23	23	13	8	8	10	85	91

- (1) We believe the carrying amounts of cash and cash equivalents, accounts receivable, short-term advances to growers, and accounts payable approximate their fair value due to the short maturity of these financial instruments.
- (2) Loans to growers bear fixed interest rates ranging from 5.0% to 10.0% with a weighted-average interest rate of 7.7%. We believe that a portfolio of loans with a similar risk profile would currently yield a return of 5.1%. 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 \$29,000.
- (3) 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 6.25%. We project the impact of an increase or decrease in interest rates of 100 basis points would result in a change of fair value of approximately \$169,000.
- (4) Fixed rate long-term obligations bear interest rates ranging from 3.3% to 8.2%, with a weighted-average interest rate of 5.3%. We believe that loans with a similar risk profile would currently yield a return of 3.5%. We project the impact of an increase or decrease in interest rates of 100 basis points would result in a change of fair value of approximately \$3,000. We retired long-term fixed-rate obligations, with a principal amount of \$517,000, during fiscal 2003.

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, 2003 do not exceed \$0.1 million.

Item 8. Financial Statements and Supplementary Data

CALAVO GROWERS, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except per share amounts)

	October 31,	
	2003	2002
Assets		
Current assets:		
Cash and cash equivalents	\$ 5,375	\$ 921
Accounts receivable, net of allowances of \$1,219 (2003) and \$286 (2002)	16,560	17,907
Inventories, net	8,021	12,461
Prepaid expenses and other current assets	4,487	4,175
Loans to growers	353	467
Advances to suppliers	624	2,535
Income taxes receivable	—	288
Deferred income taxes	1,379	1,252
	<u>36,799</u>	<u>40,006</u>
Total current assets	36,799	40,006
Property, plant, and equipment, net	13,121	9,497
Investments held to maturity	—	1,979
Other assets	3,769	3,650
	<u>\$53,689</u>	<u>\$55,132</u>
Liabilities and shareholders' equity		
Current liabilities:		
Payable to growers	\$ 3,446	\$ 6,368
Trade accounts payable	1,534	1,708
Accrued expenses	7,777	7,015
Income tax payable	51	—
Short-term borrowings	—	3,000
Dividend payable	3,232	2,567
Current portion of long-term obligations	24	222
	<u>16,064</u>	<u>20,880</u>
Total current liabilities	16,064	20,880
Long-term liabilities:		
Long-term obligations, less current portion	61	3,180
Deferred income taxes	417	516
	<u>478</u>	<u>3,696</u>
Total long-term liabilities	478	3,696
Commitments and contingencies (Note 9)		
Shareholders' equity:		
Common stock (\$0.001 par value, 100,000 shares authorized; 12,930 and 12,835 shares outstanding at October 31, 2003 and 2002)	13	13
Additional paid-in capital	24,727	24,221
Notes receivable from shareholders	(3,563)	(5,720)
Retained earnings	15,970	12,042
	<u>37,147</u>	<u>30,556</u>
Total shareholders' equity	37,147	30,556
	<u>\$53,689</u>	<u>\$55,132</u>

See accompanying notes to consolidated financial statements.

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

	Year Ended October 31,		
	2003	2002	2001
Net sales	\$246,761	\$242,671	\$217,704
Cost of sales	221,296	216,848	198,896
Gross margin	25,465	25,823	18,808
Selling, general and administrative	14,769	13,881	12,568
Restructuring charge	106	—	—
Operating income	10,590	11,942	6,240
Other income, net	(889)	(700)	(342)
Income before provision for income taxes	11,479	12,642	6,582
Provision for income taxes	4,319	5,727	2,744
Net income	\$ 7,160	\$ 6,915	\$ 3,838
Net income per share:			
Basic	\$ 0.55	\$ 0.60	\$ 0.37
Diluted	\$ 0.55	\$ 0.60	\$ 0.37
Number of shares used in per share computation:			
Basic	12,911	11,562	10,454
Diluted	12,944	11,604	10,454

See accompanying notes to consolidated financial statements.

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, November 1, 2000	9,914	\$10	\$10,060	\$ —	\$10,996	\$21,066
Issuance of common stock	53	—	98	—	—	98
Dividend declared to shareholders	—	—	—	—	(4,973)	(4,973)
Net income	—	—	—	—	3,838	3,838
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

See accompanying notes to consolidated financial statements.

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

	Year Ended October 31,		
	2003	2002	2001
Cash Flows from Operating Activities:			
Net income	\$ 7,160	\$ 6,915	\$ 3,838
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	2,024	1,957	1,988
Provision for losses on accounts receivable	19	35	87
Loss on disposal of property, plant, and equipment	32	29	—
Gain on sale of investments held to maturity	(163)	—	—
Gain on settlement of insurance claim	—	—	(585)
Effect on cash of changes in operating assets and liabilities:			
Accounts receivable	1,328	1,855	(1,540)
Inventories, net	4,440	(3,386)	(1,349)
Prepaid expenses and other assets	506	(1,937)	(1,637)
Loans to growers	114	652	(33)
Advances to suppliers	1,911	(163)	53
Income taxes receivable	360	(60)	(149)
Deferred income taxes	(226)	(566)	7
Payable to growers	(2,922)	(555)	1,984
Trade accounts payable and accrued expenses	588	3,359	(1,503)
Income tax payable	51	—	—
	<u>15,222</u>	<u>8,135</u>	<u>1,161</u>
Net cash provided by operating activities			
Cash Flows from Investing Activities:			
Proceeds from sale of investments held to maturity	2,060	—	—
Proceeds from insurance settlement on facility damage	—	—	585
Acquisitions of property, plant, and equipment	(6,535)	(1,973)	(2,330)
Proceeds from sale of short-term investments	2,223	—	—
Purchases of short-term investments	(2,223)	(105)	(284)
	<u>(4,475)</u>	<u>(2,078)</u>	<u>(2,029)</u>
Net cash used in investing activities			
Cash Flows from Financing Activities:			
Dividend paid to shareholders	(2,567)	—	(4,973)
Proceeds from (repayments of) short-term borrowings, net	(3,000)	(12,800)	6,815
Proceeds from issuance of common stock	—	4,710	98
Payments on long-term obligations	(3,317)	(536)	(507)
Proceeds from stock option exercises	475	412	—
Proceeds from collection of shareholder notes receivable	2,157	1,021	—
Additional rights offering costs	(41)	—	—
	<u>(6,293)</u>	<u>(7,193)</u>	<u>1,433</u>
Net cash provided by (used in) financing activities			
Net increase (decrease) in cash and cash equivalents	4,454	(1,136)	565
Cash and cash equivalents, beginning of year	921	2,057	1,492
	<u>\$ 5,375</u>	<u>\$ 921</u>	<u>\$ 2,057</u>
Cash and cash equivalents, end of year			
Supplemental Information -			
Cash paid during the year for:			
Interest	\$ 179	\$ 443	\$ 821
	<u> </u>	<u> </u>	<u> </u>
Income taxes	\$ 4,170	\$ 6,362	\$ 4,291
	<u> </u>	<u> </u>	<u> </u>
Noncash Investing and Financing Activities:			
Exercise of stock options using shareholder notes receivable	\$ —	\$ 4,789	\$ —
	<u> </u>	<u> </u>	<u> </u>
5% Stock dividend	\$ —	\$ 2,167	\$ —
	<u> </u>	<u> </u>	<u> </u>
Tax receivable increase related to stock option exercise	\$ 72	\$ 36	\$ —
	<u> </u>	<u> </u>	<u> </u>
Stock purchases using shareholder notes receivable	\$ —	\$ 1,952	\$ —
	<u> </u>	<u> </u>	<u> </u>
Declared dividends payable	\$ 3,232	\$ 2,567	\$ —
	<u> </u>	<u> </u>	<u> </u>
Acquisition of property under capital lease	\$ —	\$ 68	\$ 56
	<u> </u>	<u> </u>	<u> </u>



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 world-wide 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, the Dominican Republic, and New Zealand, 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.

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 us, with our company 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 or market.

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.

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. Maintenance and repairs are charged to expense.

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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. Under SOP 98-1, we capitalized \$88,000 and \$108,000 of software development costs in 2003 and 2002 relating to systems supporting our business infrastructure.

Impairment of Long-lived Assets

Long-lived assets, including fixed assets, are continually monitored and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of any such asset may not be recoverable. The determination of recoverability is based on an estimate of undiscounted cash flows expected to result from the use of an asset and its eventual disposition. The estimate of undiscounted cash flows is based upon, among other things, certain assumptions about future operating performance, growth rates and other factors. Estimates of undiscounted cash flows may differ from actual cash flows due to, among other things, technological changes, economic conditions, changes to the business model or changes in operating performance. If the sum of the undiscounted cash flows (excluding interest) is less than the carrying value, an impairment loss will be recognized, measured as the amount by which the carrying value exceeds the fair value of the asset. We have evaluated our long-lived assets and have not identified any impairment as of October 31, 2003, except as disclosed in footnote 15.

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.

Investments

We account for our investments in debt securities in accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. See Note 7 related to the sale of our held to maturity investments in fiscal 2003.

Accrued Expenses

Included in accrued expenses at October 31, 2003 and 2002 are accrued management bonuses of approximately \$1.0 million and \$1.2 million.

Net Sales

We recognize sales once they are realizable and earned. 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. Perishable product sales are recorded when the product is shipped, title passes, and the sales price is known. Sales from processed products are recorded when the product is shipped and title and risk passes. Service revenue, including freight, ripening, storage, bagging and palletization charges, is recorded when services are performed and 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.

Cash rebates are generally earned by our customers upon achievement of volume purchases or by corporate customers for purchases made by their affiliated subsidiaries. Cash rebates, as well as all other sales incentives that result in a reduction in, or refund of, the selling price at the time of sale, have been classified as a reduction of sales.

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Allowance for customer deductions

We provide an allowance for customer deductions and receivable balances remaining, after partial invoice payments, 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, 2003, 2002 and 2001 in the financial statements pursuant to consignment arrangements are as follows (in thousands):

	2003	2002	2001
Sales	\$33,325	\$27,960	\$26,005
Cost of Sales	31,782	26,442	24,888
Gross Margin	\$ 1,543	\$ 1,518	\$ 1,117

Advertising Expense

Advertising costs are expensed when incurred. Such costs in fiscal 2003, 2002, and 2001 were approximately \$223,000, \$245,000, and \$326,000.

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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting periods. Estimates are used principally in determining valuation allowances related to accounts receivable, grower advances, inventories, long-lived assets, promotional allowances and income taxes. On an ongoing basis, management reviews its estimates based on 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 12,911,000, 11,562,000, and 10,454,000 for fiscal years 2003, 2002, and 2001. 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 was 33,000 and 42,000 for fiscal years 2003 and 2002. There were no dilutive instruments for fiscal year 2001.

[Table of Contents](#)**Stock-Based Compensation**

As permitted by SFAS No. 123, "Accounting for Stock-Based Compensation," ("SFAS No. 123"), 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. Under APB 25, the Company has recognized no compensation expense with respect to stock option awards. Had compensation cost for stock option awards been determined based on the fair value of each award at its grant date, consistent with the provisions of SFAS No. 123, the Company's pro forma net income and net income per share would have been as follows (dollars in thousands, except per share amounts):

	Year ended October 31, 2003	Year ended October 31, 2002
Net Income:		
As reported	\$7,160	\$6,915
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of tax effects	—	(703)
Pro forma	\$7,160	\$6,212
Net income per share, as reported:		
Basic and diluted	\$ 0.55	\$ 0.60
Net income per share, pro forma:		
Basic and diluted	\$ 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 2002 has been estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	2.0%
Expected volatility	130%
Dividend yield	—
Expected life (years)	1.1
Weighted-average fair value of options granted	\$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.

Fair Value of Financial Instruments

We believe that the carrying amounts of cash and cash equivalents, accounts receivable, and accounts payable approximate fair value due to the short maturity of these financial instruments.

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The following table illustrates long-term financial instruments, their fair value and their carrying value on our balance sheet as of October 31, 2003:

<u>Financial Instrument</u>	<u>Fair Value</u>	<u>Carrying Value</u>
Loans to growers	\$ 952	\$ 908
Notes receivable from shareholders	3,691	3,563
Fixed-rate long-term obligations	91	85

Derivative Financial Instruments

We do not presently engage in 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, 2003.

Recent Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. (FIN) 46, "Consolidation of Variable Interest Entities." We will adopt FIN 46 in the first quarter of fiscal 2004 and we do not expect such adoption to have a significant impact on our financial position or results of operations.

During fiscal 2003, we adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," SFAS 145, "Rescission of FASB Statements No. 4, 44, 64, Amendment of FASB Statement No. 13, and Technical Corrections," SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities", SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure," and FIN 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," with no material impact to our consolidated financial statements. See Note 15 for additional disclosures related to accounting for exit activities under SFAS No. 146.

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, 2003, 2002, and 2001.

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):

	<u>October 31,</u>	
	<u>2003</u>	<u>2002</u>
Fresh fruit	\$2,918	\$ 1,397
Packing supplies and ingredients	1,974	2,095
Finished processed foods	3,129	8,969
	<u>\$8,021</u>	<u>\$12,461</u>

Cost of goods sold for fiscal 2003, 2002, and 2001 includes inventory write-downs of \$82,000, \$63,000 and \$35,000. These write-downs resulted from 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

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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,	
	2003	2002
Land	\$ 1,177	\$ 1,177
Buildings and improvements	9,800	9,800
Leasehold improvements	176	176
Equipment	23,680	23,316
Information systems - Hardware and software	3,001	2,792
Construction in progress	5,054	70
	<u>42,888</u>	<u>37,331</u>
Less accumulated depreciation and amortization	(29,767)	(27,834)
	<u>\$ 13,121</u>	<u>\$ 9,497</u>

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, 2003 and 2002, total cumulative advances made to growers subject to this program totaled approximately \$2,113,000 and \$2,000,000. Each advance made is amortized to cost of goods sold over the term of the agreement. The financial statements for fiscal years 2003, 2002 and 2001 include a charge of approximately \$308,000, \$293,000 and \$293,000 for each year representing the amortization of these advances.

6. Short-Term Borrowings

We maintain two short-term, non-collateralized, revolving credit facilities with separate banks, which expire through April 2004. 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 \$26,500,000 at October 31, 2003 and 2002, with interest at a weighted-average rate of 2.00% and 2.84% at October 31, 2003 and 2002. Under these credit facilities, we had no outstanding borrowings as of October 31, 2003 and \$3,000,000 outstanding as of October 31, 2002. The credit facilities contain various financial covenants with which we were in compliance at October 31, 2003 and 2002. We have received commitments from both banks for new credit facilities, maturing in December 2005, totaling \$24,000,000. We are in the process of finalizing both note agreements.

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7. Long-Term Obligations

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

	2003	2002
Riverside County Variable Rate Demand Industrial Development Revenue Bond	\$ —	\$2,800
Non-collateralized term loans	—	471
Other	85	131
	—	—
	85	3,402
Less current portion	(24)	(222)
	—	—
	\$ 61	\$3,180

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 \$2.8 million in principal under the indenture in September 2003.

In July 2003, in connection with the retirement of the bonds, we received proceeds of \$1.9 million from the sale of our investments held to maturity, with a carrying value of \$1.8 million, held in a sinking fund restricted for the purpose of retiring the bonds. The liquidation of these investments resulted in a gain of \$163,000, which is included in other income, net in the accompanying consolidated statements of income.

At October 31, 2003, annual debt payments are scheduled as follows (in thousands):

	Total
Year ending October 31:	
2004	\$24
2005	23
2006	13
2007	8
2008	8
Thereafter	9
	—
	\$85

8. Employee Benefit Plans

We sponsor a defined contribution retirement plan for salaried employees and make contributions to a pension plan for hourly employees. Expenses for these plans approximated \$411,000, \$402,000, and \$399,000 for each of the three years in the period ended October 31, 2003, which are included in selling, general and administrative expenses in the accompanying financial statements.

We also sponsor a non-qualified defined benefit plan for two retired executives. Pension expenses approximated \$32,000, \$39,000, and \$29,000 for the years ended October 31, 2003, 2002, and 2001, 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):

	2003	2002
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$502	\$428
Interest cost	32	39
Actuarial loss	27	87
Benefits paid	(55)	(52)
	—	—
Projected benefit obligation at end of year (unfunded)	\$506	\$502

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

	<u>2003</u>	<u>2002</u>
Projected benefit obligation	\$506	\$502
Unrecognized net (gain) loss	(49)	(22)
	<u> </u>	<u> </u>
Recorded pension liabilities	\$457	\$480
	<u> </u>	<u> </u>

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

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Discount rate on projected benefit obligation	6.25%	6.75%	8.00%
Rate of future salary increases	5.00%	5.00%	5.00%

9. 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, 2003 as follows (amounts in thousands):

2004	\$ 993
2005	641
2006	598
2007	575
2008	270
Thereafter	4
	<u> </u>
	\$3,021
	<u> </u>

Rental expenses amounted to approximately \$1,163,000, \$1,296,000, and \$1,223,000 for the years ended October 31, 2003, 2002, and 2001.

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.

In May 2003, we entered into a commitment to purchase approximately 1.3 million pounds of processed avocado products from a supplier for a cost of approximately \$1.5 million over a 12-month period. Through December 2003, we have received substantially all products subject to this commitment.

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, 2003, 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.

10. 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 \$2,920,000, \$2,658,000, and \$3,378,000 for the years ended October 31, 2003, 2002, and 2001, resulting in gross margins of approximately \$281,000, \$272,000 and \$340,000. Included in trade accounts payable and accrued liabilities are approximately \$296,000, \$119,000, and \$317,000 at October 31, 2003, 2002, and 2001, due to this entity.

Certain members of our Board of Directors market avocados through Calavo pursuant to our customary marketing agreements. During the years ended October 31, 2003 and 2002, the aggregate amount of avocados procured from entities owned or controlled by members of our Board of Directors, was \$5.4 million and \$10.3 million. Accounts payable to these Board members were \$0.3 million and \$0.8 million as of October 31, 2003 and 2002.

11. Income Taxes

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

	2003	2002	2001
Current:			
Federal	\$3,639	\$4,540	\$2,019
State	825	1,181	586
Foreign	81	572	132
	-----	-----	-----
Total current	4,545	6,293	2,737
Deferred	(226)	(566)	7
	-----	-----	-----
Total income tax provision	\$4,319	\$5,727	\$2,744
	=====	=====	=====

At October 31, 2003 and 2002, gross deferred tax assets totaled approximately \$1,634,000 and \$1,489,000, while gross deferred tax liabilities totaled approximately \$672,000 and \$753,000. 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, 2003 and 2002 are as follows:

	2003	2002
Allowance for doubtful accounts	\$ 543	\$ 126
Inventories	273	772
State taxes	271	354
Accrued liabilities	292	—
	-----	-----
Current deferred income taxes	\$1,379	\$1,252
	=====	=====
Property, plant, and equipment	\$ (614)	\$ (726)
Retirement benefits	197	210
	-----	-----
Long-term deferred income taxes	\$ (417)	\$ (516)
	=====	=====

Prior to our conversion to a for-profit corporation, the Cooperative was subject to income taxes on all business activities other than the marketing and distribution of member products. The exemption from taxation for the member business was contingent on the distribution of all available proceeds to the Cooperative's members. Absent the distribution of all proceeds, the Cooperative was subject to income taxes for the portion of proceeds available that exceeded the actual amounts distributed.

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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:

	2003	2002	2001
Federal statutory tax rate	35%	35%	35%
State taxes, net of federal effects	4	6	6
Foreign income taxes greater (less) than U.S	(1)	2	—
Benefit of lower federal tax brackets	(1)	(1)	(1)
Other	1	3	2
	—	—	—
	38%	45%	42%

12. Segment Information

We operate and track results in three reportable segments - California avocados, international avocados and perishable foods products, and processed products. These three business segments are presented based on our management structure and information used by our president to measure performance and allocate resources. The California avocados segment includes all operations that involve the distribution of avocados grown in California. The international avocados and perishable foods products segment includes both operations related to distribution of fresh avocados grown outside of California and distribution of other perishable food items. The processed products segment represents all operations related to the purchase, manufacturing, and distribution of processed avocado products. Those costs that can be specifically identified with a particular product line are charged directly to that product line. Costs that are not segment specific are generally allocated based on 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, 2003					
Net sales	\$149,635	\$75,347	\$32,360	\$(10,581)	\$246,761
Cost of sales	134,762	69,772	27,343	(10,581)	221,296
Gross margin	14,873	5,575	5,017	—	25,465
Selling, general and administrative	6,705	3,069	4,995	—	14,769
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 (loss)	10,552	932	458	—	11,942
Other expense (income), net	(523)	(256)	79	—	(700)
Income (loss) before provision (benefit) for income taxes	11,075	1,188	379	—	12,642
Provision (benefit) for income taxes	5,017	538	172	—	5,727
Net income (loss)	\$ 6,058	\$ 650	\$ 207	\$ —	\$ 6,915
Year ended October 31, 2001					
Net sales	\$149,158	\$47,048	\$30,107	\$ (8,609)	\$217,704
Cost of sales	137,232	46,312	23,961	(8,609)	198,896
Gross margin	11,926	736	6,146	—	18,808
Selling, general and administrative	5,758	2,471	4,339	—	12,568
Operating income (loss)	6,168	(1,735)	1,807	—	6,240
Other expense (income), net	(168)	30	(204)	—	(342)
Income (loss) before provision (benefit) for income taxes	6,336	(1,765)	2,011	—	6,582

Provision (benefit) for income taxes	<u>2,642</u>	<u>(736)</u>	<u>838</u>	<u>—</u>	<u>2,744</u>
Net income (loss)	<u>\$ 3,694</u>	<u>\$ (1,029)</u>	<u>\$ 1,173</u>	<u>\$ —</u>	<u>\$ 3,838</u>

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

	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
Miscellaneous	—	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 gross sales to third-parties	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	\$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
Miscellaneous	—	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 gross sales to third-parties	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	\$165,077	\$59,083	\$29,960	254,120
Intercompany sales eliminations				(11,449)
Consolidated net sales				\$242,671

Year ended October 31, 2001

	California Avocados	International Avocados and Perishable Food Products	Processed Products	Total
Third-party sales:				
California avocados	\$137,166	\$ —	\$ —	\$137,166
Imported avocados	—	34,566	—	34,566
Papayas	—	3,378	—	3,378
Miscellaneous	—	41	—	41
Processed - food service	—	—	25,912	25,912
Processed - retail and club	—	—	5,625	5,625
Total fruit and product sales to third-parties	137,166	37,985	31,537	206,688
Freight and other charges	11,304	5,256	59	16,619
Total gross sales to third-parties	148,470	43,241	31,596	223,307
Less sales incentives	(276)	(14)	(5,313)	(5,603)
Total net sales to third-parties	148,194	43,227	26,283	217,704
Intercompany sales	964	3,821	3,824	8,609
Net sales	\$149,158	\$47,048	\$30,107	226,313
Intercompany sales eliminations				(8,609)
Consolidated net sales				\$217,704

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

	United States	Mexico	Consolidated
2003	\$ 9,951	\$6,939	\$16,890
2002	\$12,361	\$2,765	\$15,126

13. Stock-Based Compensation

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

The Directors Stock Option Plan

Participation in the 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.

Prior to the listing of our common stock on a national market, the plan stipulated that the fair value of common stock be determined by our Board of Directors based on current trading patterns in the common stock and other analyses of fair value. Based on a review of such data, our Board of Directors determined that the fair value of the common stock subject to the above awards at the date of grant was \$3.95 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, 2003 and 2002.

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Additionally, in April 2002, 35,000 options were exercised pursuant to our director stock option plan via cash payments of approximately \$175,000.

During fiscal 2003, directors made principal payments of \$1,661,000 related to these notes and we have recorded interest income of \$269,000. During fiscal 2002, directors made principal payments of \$250,000 related to these notes and we have accrued interest income of \$245,000. As of October 31, 2003, we have recorded interest receivable of \$109,000 related to these notes, which is included in prepaid expenses and other current assets.

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

	Year ended October 31, 2002	
	Number of Shares	Weighted-Average Exercise Price
Outstanding at beginning of period	—	\$ —
Granted	1,240	5.00
Exercised	(1,040)	5.00
Outstanding at end of period	200	\$5.00

	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

The following table summarizes stock options outstanding and exercisable at October 31, 2003 (shares in thousands):

Exercise Price	Outstanding and Exercisable		
	Number of Shares	Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price
\$5.00	105	3.05	\$5.00

The Employee Stock Purchase Plan

The employee stock purchase plan was approved by our Board of Directors and shareholders. Participation in the employee stock purchase plan is limited to employees. The plan provides the Board of Directors, or a plan administrator, the right to make available up to 2,000,000 shares of common stock at a price not less than fair market value. In March 2002, the Board of Directors awarded selected employees the opportunity to purchase up to 474,000 shares of common stock at \$7.00 per share, the closing price of our common stock on the date prior to the grant. The plan also permits us to advance all or some of the purchase price of the purchased stock to the employee upon the execution of a full-recourse note at prevailing interest rates. 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, 2003 and October 2002.

During fiscal 2002, employees made principal payments of \$771,000 related to these notes, and we recorded interest income of \$52,000. During fiscal 2003, employees made principal payments of \$496,000 related to these notes and, we have recorded interest income of \$97,000. As of October 31, 2003, we have recorded interest receivable of \$30,000 related to these notes, which is included in prepaid expenses and other current assets.

14. Stock and Cash Dividends

In February 2002, we issued a 5% stock dividend to all shareholders of record in February 2002. Basic and diluted earnings per share for all periods presented have been restated to reflect the 5% stock dividend effected in February 2002.

In January 2003, we paid a \$0.20 per share dividend in the aggregate amount of \$2,567,000 to shareholders of record in November 2002. In January 2004, we paid a \$0.25 per share dividend in the aggregate amount of \$3,232,000 to shareholders of record in November 2003.

15. Processed Product Segment Restructuring

In February 2003, our Board of Directors approved a plan whereby the operations of our processed products business will be relocated. The plan calls 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. We anticipate that the facility will be completed near the end of our first fiscal quarter in 2004. The Santa Paula facility closed in February 2003. We plan to close the Mexicali facility during calendar year 2004, but no firm closing date has yet been determined.

Through October 31, 2003, we have incurred costs related to this restructuring approximating \$1,304,000. Our income statement for the year ended October 31, 2003 includes \$890,000 as cost of sales, \$106,000 as special charges, and \$308,000 as selling, general and administrative expenses. These costs are comprised of the following components as of and for the year ended October 31, 2003:

(in thousands)	Special charges	Amounts paid	Non-cash charges	Reserves remaining to be utilized
Employee separation costs	\$ 74	\$ (74)	\$ —	\$ —
Write-down of fixed assets (net book value of \$32)	32	—	(32)	—
	—	—	—	—
Total special charges	106	(74)	(32)	—
Selling, general and administrative – freight	308	(308)	—	—
Cost of sales - facility operating costs	890	(693)	(197)	—
	—	—	—	—
	\$1,304	\$(1,075)	\$(229)	\$ —

Special charges recorded through October 31, 2003 consist entirely of employee separation costs and write-downs of fixed assets. All employee separation costs were paid in cash and represent final payments to 26 production and 4 managerial employees formerly working at our Santa Paula, California processing facility. We expect to pay additional employee separation costs in connection with our planned future closure of our Mexicali, Baja California Norte production facility, which will be recognized when incurred, in accordance with SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." Those costs have not yet been quantified and are expected to be accrued for and paid during fiscal year 2004. Costs related to the write-down of fixed assets represent a non-cash charge to reduce the carrying value of production assets located at our Santa Paula, California processed facility to their fair value. These write-downs were primarily the result of fixed assets no longer being used in the production process. As of October 31, 2003, we have not accrued for any charges relating to the write-down of production assets being held at our Mexicali, Baja California Norte production facility as it is anticipated that all such assets will be re-commissioned at our new facility in Uruapan, Michoacan or their carrying value is less than their net realizable value.

16. Subsequent Events

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. Maui, which generated approximately \$20 million in revenues during its fiscal year ended December 31, 2002, is a specialty produce company servicing a wide array of retail, food service, and terminal market wholesale customers with over 25 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 3 days before and after the announcement date.

As security for certain potential contingencies, such as unrecorded liabilities, we are entitled to hold approximately 58,000 shares issued in conjunction with such acquisition for one full year from the acquisition date. In the event that these contingencies resolve as we expect them to, we will be obligated to return these shares.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition. Such estimates are preliminary and are subject to change upon receipt of valuation information:

	November 7 2003
	(Preliminary)
(in thousands)	
Fixed assets	\$ 114
Goodwill and intangible assets	4,046
Total assets acquired	4,160
Current liabilities	110
Net assets acquired	\$4,050

Goodwill is not subject to amortization and is generally not expected to be deductible for tax purposes.

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 3-year period, has an exercise price of \$7.00 per share and has a term of 5 years from the grant date. The market price of our common stock at the grant date was \$10.01. In accordance with Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees,” we will record compensation expense of approximately \$151,000 over the vesting period of three years from the grant date.

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Calavo Growers, Inc.
Santa Ana, California

We have audited the accompanying consolidated balance sheets of Calavo Growers, Inc. and subsidiaries (the Company) as of October 31, 2003 and 2002, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended October 31, 2003. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These consolidated financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and the financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Calavo Growers, Inc. and subsidiaries as of October 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended October 31, 2003, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ DELOITTE & TOUCHE LLP

Costa Mesa, California
January 22, 2004

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

Not applicable.

Item 9A. Controls and Procedures

Pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934 (the “Exchange Act”), our management, with the participation of the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in ensuring that information required to be disclosed in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms. No change in our internal control over financial reporting occurred during our most recent fiscal quarter that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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.”

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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 \$2,920,000, \$2,658,000, and \$3,378,000 for the years ended October 31, 2003, 2002, and 2001, resulting in gross margins of approximately \$281,000, \$272,000 and \$340,000. Included in trade accounts payable and accrued liabilities are approximately \$296,000, \$119,000, and \$317,000 at October 31, 2003, 2002, and 2001, due to this entity.

Certain members of our Board of Directors market avocados through Calavo pursuant to our customary marketing agreements. During the years ended October 31, 2003 and 2002, the aggregate amount of avocados procured from entities owned or controlled by members of our Board of Directors, was \$5.4 million and \$10.3 million. Accounts payable to these Board members were \$0.3 million and \$0.8 million as of October 31, 2003 and 2002.

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's Fees and Services."

Part IV

Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K

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

The following consolidated financial statements as of October 31, 2003 and 2002 and for each of the three years in the period ended October 31, 2003 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 Independent Auditors' Report.

(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**

<u>Exhibit Number</u>	<u>Description</u>
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.*
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10.11	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.*
10.12	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.*
10.13	Calavo Supplemental Executive Retirement Agreement dated March 11, 1989 between Egidio Carbone, Jr. and Calavo Growers of California.*
10.14	Amendment to the Calavo Growers of California Supplemental Executive Retirement Agreement dated November 9, 1993 Between Egidio Carbone, Jr. and Calavo Growers of California.*
10.15	2001 Stock Option Plan for Directors.**
10.16	2001 Stock Purchase Plan for Officers and Employees.**
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 our 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 our 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 our 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 our Report on Form 8-K, and incorporated herein by reference.

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(b) Reports on Form 8-K

On September 12, 2003, we filed a report on Form 8-K announcing the signing of a letter of intent to acquire Maui Fresh International, Inc. for \$4.5 million in stock. The letter of intent was subject to the execution of a definitive agreement and the satisfaction of customary closing conditions. Additionally, Wolfgang Hombrecher resigned as our Chief Financial Officer to pursue other business opportunities and was succeeded by Maui Fresh's president and co-founder, Art Bruno.

(c) Exhibits

See subsection (a) (3) above.

(d) 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 20, 2004.

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 20, 2004 by the following persons on behalf of the registrant and in the capacities indicated:

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

SCHEDULE II

CALAVO GROWERS, INC.

VALUATION AND QUALIFYING ACCOUNTS (in thousands)

	<u>Fiscal year ended October 31:</u>	<u>Balance at beginning of year</u>	<u>Additions(1)</u>	<u>Deductions(2)</u>	<u>Balance at end of year</u>
Allowance for customer deductions	2001	394	3,047	2,926	515
	2002	515	4,885	5,139	261
	2003	261	4,627	3,710	1,178
Allowance for doubtful accounts	2001	49	87	127	9
	2002	9	35	19	25
	2003	25	19	3	41

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

(2) Write-off of assets

EXHIBIT INDEX

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AGREEMENT AND PLAN OF MERGER

DATED AS OF NOVEMBER 6, 2003

AMONG

CALAVO GROWERS, INC.,

CALAVO ACQUISITION, INC.,

MAUI FRESH INTERNATIONAL, INC.

AND

ARTHUR J. BRUNO, ROBERT J. BRUNO AND JAVIER M. BADILLO

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AGREEMENT AND PLAN OF MERGER

This Agreement and Plan of Merger (the "AGREEMENT") is entered into as of November 6, 2003 among Calavo Growers, Inc., a California corporation ("CALAVO"), Calavo Acquisition, Inc., a Nevada corporation and wholly owned subsidiary of Calavo ("NEWCO"), Maui Fresh International, Inc., a Nevada corporation ("MAUI FRESH"), and Arthur J. Bruno, Robert J. Bruno and Javier M. Badillo (the "SHAREHOLDERS" or, individually, a "SHAREHOLDER").

RECITALS

A. Calavo owns all of the outstanding shares of the capital stock of Newco. Each of the three Shareholders owns one-third of the outstanding shares of the capital stock of Maui Fresh. Maui Fresh is the sole owner and member of Maui Fresh International, LLC, a Nevada limited liability company (the "LLC").

B. The Shareholders and the Boards of Directors of Calavo, Newco and Maui Fresh have determined that it is in the best interests of Calavo, Newco and Maui Fresh and their respective shareholders for Newco to be merged with and into Maui Fresh upon the terms and conditions set forth in this Agreement. The merger of Newco with and into Maui Fresh is referred to in this Agreement as the "MERGER."

C. Pursuant to the Merger:

(i) The shares of Maui Fresh capital stock that are owned by the Shareholders immediately prior to the consummation of the Merger will be converted into and exchanged for newly issued, unregistered shares of Calavo common stock;

(ii) The shares of Newco capital stock that are owned by Calavo immediately prior to the consummation of the Merger will be converted into and exchanged for newly issued, unregistered shares of Maui Fresh common stock;

(iii) The separate existence of Newco will cease, and Maui Fresh will be the surviving corporation in the Merger; and

(iv) Maui Fresh will become a wholly owned subsidiary of Calavo as a result of the Merger, and the LLC will remain a wholly owned subsidiary of Maui Fresh.

D. It is the intention of the parties to this Agreement that the Merger will be treated as a tax-free reorganization pursuant to Section 368(a) of the Internal Revenue Code of 1986, as amended (the "CODE").

NOW, THEREFORE, in consideration of the foregoing and other good and valuable consideration, the receipt of which hereby is acknowledged, Calavo, Newco, Maui Fresh and the Shareholders hereby agree as follows:

ARTICLE 1
THE MERGER; CLOSING DATE BALANCE SHEET

1.1 THE MERGER. Subject to the terms and conditions of this Agreement, at the closing of the transactions contemplated by this Agreement (the "CLOSING"), Newco shall merge with and into Maui Fresh. The Closing shall occur, and the Merger shall become effective on, the date that Articles of Merger ("ARTICLES OF MERGER") are filed with the Nevada Secretary of State pursuant to Chapter 92A of the Nevada Revised Statutes (the "NEVADA STATUTES"). The date on which the Closing occurs is referred to in this Agreement as the "CLOSING DATE."

1.2 ARTICLES OF MERGER. Calavo shall prepare Articles of Merger that contain the statements required by the Nevada Statutes. The parties to this Agreement shall cooperate in connection with executing and filing the Articles of Merger with the Nevada Secretary of State on a timely basis.

1.3 THE CLOSING. Article 5 of this Agreement describes the documents that the parties shall deliver to each other at the Closing. As described in Article 5, the parties intend for the Closing to occur on November 7, 2003.

1.4 EFFECT OF THE MERGER. At the Closing, the separate existence of Newco shall terminate, and Maui Fresh shall continue as the surviving corporation. The Merger shall have the effect specified in the Nevada Statutes.

1.5 ARTICLES OF INCORPORATION, BYLAWS AND OFFICERS AND DIRECTORS OF MAUI FRESH AFTER THE MERGER. Unless and until they are amended after the Closing in accordance with applicable law, the Articles of Incorporation and Bylaws of Maui Fresh that are in effect immediately prior to the Closing shall remain in effect after the Closing. Calavo shall designate the persons who shall serve as the directors and officers of Maui Fresh and the LLC after the Closing.

1.6 CONVERSION OF SHARES. At the Closing, as a result of the Merger and without any action on the part of any shareholder:

(a) Each share of the capital stock of Newco that is outstanding immediately prior to the Closing automatically shall be converted into one share of the capital stock of Maui Fresh, and Calavo shall receive a duly executed stock certificate evidencing the shares of Maui Fresh capital stock that it has acquired as a result of the Merger; and

(b) All shares of the capital stock of Maui Fresh that are outstanding immediately prior to the Closing automatically shall be converted into a total of 576,924 shares of Calavo common stock, which is equal to the aggregate purchase price for Maui Fresh of \$4,050,000 divided by the Calavo Merger Price. The "CALAVO MERGER PRICE" of \$7.02 is equal to the average closing price per share of Calavo common stock on the Nasdaq National Market for the ten trading days immediately preceding September 4, 2003, which is the date on which Calavo made a public announcement regarding the proposed Merger. The shares of Calavo common stock that are issued pursuant to the provisions of this paragraph are referred to in this Agreement as the "CALAVO MERGER SHARES." The issuance of the Calavo Merger Shares shall

not be registered under the Securities Act of 1933, as amended (the "SECURITIES ACT"), or under any state securities law or regulation.

1.7 DISSENTING SHARES. Because each shareholder of Maui Fresh has consented in writing to the Merger, no shareholder of Maui Fresh shall be entitled to exercise dissenter's rights or appraisal rights under the Nevada Statutes.

1.8 DISTRIBUTION OF STOCK CERTIFICATES EVIDENCING THE CALAVO MERGER SHARES.

(a) Each Shareholder owns an equal number of Maui Fresh shares. Accordingly, each Shareholder shall receive 192,308 Calavo Merger Shares at the Closing. After the Closing, no Shareholder shall be entitled to sell or otherwise transfer any Maui Fresh shares that he held prior to the Closing.

(b) As security for the Closing Date Balance Sheet obligations of the Shareholders described in Section 1.10 and as security for the indemnification obligations of the Shareholders described in Article 7, Calavo shall be entitled to hold for one year after the Closing an aggregate of 57,693 Calavo Merger Shares, which is equal to ten percent of the aggregate of 576,924 Calavo Merger Shares that will be issued to the Shareholders at the Closing. Accordingly, each Shareholder shall deliver to Calavo a stock certificate for 19,231 Calavo Merger Shares, which is equal to ten percent of the Calavo Merger Shares that will be issued to him at the Closing.

(c) As promptly as possible after the Closing, Calavo shall cause its transfer agent to issue two stock certificates in the name of each Shareholder to evidence the Calavo Merger Shares that are allocable to each Shareholder. The first stock certificate shall be delivered to the Shareholder and shall evidence 173,077 Calavo Merger Shares. The second stock certificate shall be delivered to Calavo and shall evidence the 19,231 Calavo Merger Shares that the Shareholder has agreed to allow Calavo to hold as security for the Shareholder's obligations.

1.9 CALAVO MERGER SHARES HELD BY CALAVO.

(a) During the period in which Calavo holds as security ten percent of all Calavo Merger Shares, each Shareholder shall be treated as the record owner of the shares that he has delivered to Calavo and shall have voting rights and dividend rights with respect to the shares. Any and all cash dividends that are paid on the deposited Calavo Merger Shares shall be delivered directly to the Shareholders, and the Shareholders shall be responsible for the payment of all taxes on such distributions. However, the Shareholder shall not be entitled to sell, assign, pledge or otherwise transfer (except to Calavo) any of the shares during the period that they are held by Calavo. Any stock dividends or stock split shares that are distributed by Calavo on the Calavo Merger Shares that it holds shall be retained by Calavo subject to the terms of this Section 1.9. Also, the Calavo Merger Price that is used in calculating the number of shares to which Calavo is entitled under this Section 1.9 shall be adjusted on a proportionate basis to take into account the changed number of Calavo shares that are outstanding as a result of any stock dividend, stock split or reverse stock split.

(b) The deposit of a portion of the Calavo Merger Shares with Calavo is not intended to limit the amount or duration of the Shareholders' indemnification obligations under

Article 7 or other obligations under this Agreement. However, if a Shareholder becomes obligated under Section 1.10, Article 7 or any other provision of this Agreement to make a payment to Calavo, the Shareholder's obligation shall first be satisfied by transferring Calavo Merger Shares to Calavo to the extent that the shares deposited by the Shareholder with Calavo are sufficient to satisfy the Shareholder's obligation to Calavo. If and to the extent that the deposited shares are not sufficient to satisfy the Shareholder's monetary obligation or if the deposited shares have been returned to the Shareholder following the expiration of the one-year period described below, then the Shareholder shall be personally liable for delivering to Calavo a cash payment in the amount of the unsatisfied obligation and Calavo shall be entitled to enforce the payment obligation against the Shareholder.

(c) The number of Calavo Merger Shares that must be transferred to Calavo in satisfaction of an amount owed to it by a Shareholder shall be determined by dividing the amount of the Shareholder's obligation by the Calavo Merger Price. For example, if a Shareholder owes \$100,000, 14,245 shares shall be transferred to Calavo (\$100,000 divided by \$7.02), and the Shareholder shall cease to be treated as the owner of those shares. If and to the extent that Calavo does not hold 14,245 shares on behalf the Shareholder, then the Shareholder shall be personally obligated to make a payment to Calavo for the deficit. In order to allow Calavo to instruct its transfer agent to transfer shares to Calavo in satisfaction of a claim, each Shareholder shall deliver two duly executed stock assignments in blank to Calavo at the Closing. Calavo is authorized to complete such assignments and deliver them to its transfer agent if a Shareholder becomes liable to make a payment to Calavo under this Agreement.

(d) On the first anniversary of the Closing, Calavo shall deliver to each Shareholder a stock certificate evidencing the number of deposited Calavo Merger Shares (if any) that have not been applied to the satisfaction of the Shareholder's obligations under this Agreement and that are not the subject of a Pending Claim by Calavo. A "PENDING CLAIM" means a claim (i) that is asserted in good faith and on a reasonable basis by Calavo, (ii) for which written notice of the specific claim is given to the Shareholders within the one-year holding period for deposited Calavo Merger Shares, and (iii) which is based on a Shareholder's obligation under this Agreement. If and to the extent that Calavo Merger Shares are subject to a Pending Claim, Calavo shall deliver the stock certificate evidencing such shares only if and when it is determined that such shares are not required to be transferred to Calavo. After the return of the deposited Calavo Merger Shares to the Shareholders, they shall remain personally obligated to satisfy their obligations under this Agreement to the extent that they have obligations that may continue after the first anniversary of the Closing.

1.10 CLOSING DATE BALANCE SHEET.

(a) Schedule 2.10 attached hereto is an unaudited consolidated balance sheet of Maui Fresh as of October 15, 2003 (the "OCTOBER 15 BALANCE SHEET") showing total assets that exceed total liabilities by less than \$5,000. On or before November 15, 2003, the Shareholders shall deliver to Calavo an unaudited consolidated balance sheet of Maui Fresh updated as of October 31, 2003 (the "CLOSING DATE BALANCE SHEET") showing total assets that exceed total liabilities by less than \$5,000 and that is prepared in accordance with the same principles used in preparing the October 15 Balance Sheet.

(b) As promptly as practicable following the 120th day after the Closing, Calavo and the Shareholders shall examine the resolution during the 120-day post-Closing period of each current asset and current liability (other than the current portion of long-term debt, deferred tax assets and deferred tax liabilities) that is shown on the Closing Date Balance Sheet. For example, the parties shall examine the status of accounts receivable collections and the payment of accounts payable.

(c) On an aggregate basis after taking into account the resolution of all current assets and current liabilities (excluding the current portion of long-term debt, deferred tax assets and deferred tax liabilities), to the extent that Calavo was unable during the 120-day post-Closing period to collect accounts receivable or to realize the value of prepaid assets, inventory, employee advances or other current assets and/or to the extent that Calavo was required during the 120-day period to pay current liabilities in excess of the current liabilities disclosed on the Closing Date Balance Sheet, the Shareholders shall be required to reimburse Calavo for the total net deficit, but only if the total net deficit exceeds \$50,000. As provided in Section 1.9, Calavo shall reacquire Calavo Merger Shares that it holds in satisfaction of this obligation.

(d) On an aggregate basis after taking into account the resolution of all current assets and current liabilities (excluding the current portion of long-term debt, deferred tax assets and deferred tax liabilities), to the extent that Calavo was able in the normal course of business during the 120-day post-Closing period to settle all such current assets and current liabilities in a manner that results in actual working capital exceeding the working capital shown on the Closing Date Balance Sheet, Calavo shall make a payment to the Shareholders in the amount of the excess over the Closing Date Balance Sheet working capital amount, but only if the surplus exceeds \$50,000. Calavo shall make the payment on a pro rata basis to each Shareholder within ten days after the parties have agreed upon the amount of the surplus. Calavo shall have the option (but not the obligation) to satisfy this obligation by issuing to the Shareholders additional shares of unregistered common stock valued at the Calavo Merger Price.

(e) To the extent that the Shareholders make a payment to Calavo pursuant to the preceding provisions of this Section 1.10 with respect to accounts receivable or other current assets that are not collected or otherwise realized by Calavo during the 120-day post-Closing period, the Shareholders shall be entitled to require Calavo to assign to them such accounts receivable and other current assets.

ARTICLE 2
REPRESENTATIONS AND WARRANTIES OF
THE SHAREHOLDERS

The Shareholders jointly and severally represent and warrant to Calavo that the following representations and warranties (in addition to any representations and warranties made by any of them elsewhere in this Agreement) are true, correct and complete as of the date of this Agreement, and that such representations and representations will be true, correct and complete as of the Closing Date as though remade on the Closing Date with references to the Closing Date substituted for references to the date of this Agreement:

2.1 ORGANIZATION AND GOOD STANDING OF MAUI FRESH AND THE LLC. Maui Fresh is a corporation duly incorporated and organized, validly existing and in good standing under the laws of the State of Nevada. The LLC is a limited liability company duly formed and organized, validly existing and in good standing under the laws of the State of Nevada. Each of Maui Fresh and the LLC is duly qualified and licensed to do its business and is in good standing in each jurisdiction in which the business transacted by it or the nature or location of its assets makes such qualification or licensing necessary. Schedule 2.1 attached to this Agreement is a true, correct and complete copy of the Articles of Incorporation and Bylaws of Maui Fresh and of the Operating Agreement of the LLC.

2.2 CAPITALIZATION OF MAUI FRESH AND THE LLC.

(a) Maui Fresh is the sole owner and member of the LLC.

(b) Schedule 2.2 attached hereto is a true, correct and complete list of the record and beneficial owners of all of the issued and outstanding capital stock of Maui Fresh and of the number and class of shares owned by each such person. Except with respect to the rights granted to Calavo pursuant to this Agreement, there are no outstanding options, warrants, contracts, subscriptions, commitments or other rights of any character which may entitle any person to acquire (i) any of the issued or unissued capital stock of Maui Fresh or (ii) any membership interest or economic interest in the LLC.

(c) The Shareholders have good, lawful and marketable title to, and record and beneficial ownership of, all of the issued and outstanding shares of the outstanding capital stock of Maui Fresh. All such outstanding shares have been duly authorized, are fully paid and nonassessable and were validly issued in compliance with all applicable statutes, regulations and other laws. Each Shareholder owns his shares of the outstanding capital stock of Maui Fresh free and clear of all liens, security agreements, shareholders' agreements, voting trust agreements and other claims and encumbrances, and Maui Fresh owns all of the membership and economic interests of the LLC free and clear of all liens, security agreements, and other claims and encumbrances.

(d) The shares of Maui Fresh capital stock to be issued to Calavo at the Closing will be duly authorized and fully paid and nonassessable, and Calavo will own all of the issued and outstanding capital stock of Maui Fresh free and clear of all liens, security agreements, shareholders' agreements, voting trust agreements and other claims and encumbrances except those that may result from the actions of Calavo.

2.3 CORPORATE POWERS. Each of Maui Fresh and the LLC has and holds the right and power, and all licenses, permits, authorizations and approvals (governmental or otherwise), necessary to entitle it to use its corporate name, to own and operate its properties and assets and to carry on its business.

2.4 AUTHORITY. Each Shareholder and Maui Fresh has the full right, power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby. All acts and other proceedings required to be taken by each Shareholder

and Maui Fresh in order to enable such person to carry out this Agreement and the transactions contemplated hereby have been taken.

2.5 BINDING EFFECT. This Agreement has been duly executed and delivered by the Shareholders and Maui Fresh and (together with any agreements or instruments to be executed and delivered at the Closing by any such person) constitutes a legal, valid and binding obligation of each such person, enforceable in accordance with its terms.

2.6 NO BREACH. Neither the execution and delivery of this Agreement nor the consummation of any transaction contemplated hereby will, with or without notice or the passage of time, (i) violate any statute, rule, regulation, law or judicial or administrative order, judgment or decree applicable to any Shareholder, Maui Fresh or the LLC, (ii) result in the breach of, cause an acceleration of the obligations under, permit the termination of, or otherwise constitute a default under, any corporate charter, bylaw, lease, license, loan agreement, promissory note, deed of trust or other instrument, undertaking, commitment or agreement to which any Shareholder, Maui Fresh or the LLC is a party or is otherwise subject, or (iii) result in the creation of any lien or other encumbrance upon any of Maui Fresh's or the LLC's assets.

2.7 CONSENTS. Except for filing the Articles of Merger with the Nevada Secretary of State, neither the execution and delivery of this Agreement nor the consummation of any transaction contemplated hereby requires any Shareholder, Maui Fresh or the LLC to obtain any consent, permit or approval, or to make any filing or registration, under any statute, rule, regulation, law or judicial or administrative order, judgment or decree applicable to any Shareholder, Maui Fresh or the LLC or under any corporate charter, bylaw, lease, license, loan agreement, promissory note, deed of trust or other instrument, undertaking, commitment or agreement to which any Shareholder, Maui Fresh or the LLC is a party or is otherwise subject.

2.8 SUBSIDIARIES AND OTHER EQUITY INVESTMENTS. Except for Maui Fresh's ownership of the LLC, Maui Fresh and the LLC do not, directly or indirectly, own any stock or other equity interest in any corporation, partnership, joint venture, trust, association or other entity or business venture, and neither Maui Fresh nor the LLC has any agreement or commitment to acquire any such equity interest.

2.9 INTERESTS OF SHAREHOLDERS. Except as described in Schedule 2.9 attached hereto, no Shareholder (i) has any direct or indirect ownership interest in any supplier, customer, lessor, sublessor or other person or entity which does business with Maui Fresh or the LLC or (ii) has any direct or indirect ownership interest in any assets or properties of Maui Fresh or the LLC (other than solely by reason of such Shareholder's ownership of Maui Fresh shares). The business of Maui Fresh and the LLC has been conducted only through Maui Fresh and the LLC.

2.10 FINANCIAL STATEMENTS. Schedule 2.10 attached hereto contains a true, correct and complete copy of (i) the October 15 Balance Sheet and (ii) the consolidated balance sheets of Maui Fresh and the LLC as of December 31, 2002 and March 31, 2003 and the related consolidated statements of income for the specified periods then ended (collectively with the October 15 Balance Sheet, the "FINANCIAL STATEMENTS"). Except as otherwise expressly described in Schedule 2.10, the Financial Statements were prepared, and the Closing Date Balance Sheet will be prepared, in accordance with generally accepted accounting principles

applied on a basis consistent with Maui Fresh's past practices. The Financial Statements fairly present the consolidated financial position of Maui Fresh as of the respective dates of the balance sheets included in the Financial Statements and the consolidated results of Maui Fresh's operations for the specified periods indicated therein. The Closing Date Balance Sheet will fairly present the consolidated financial position of Maui Fresh as of October 31, 2003.

2.11 LIABILITIES. As of the respective dates of the balance sheets that are contained in the Financial Statements, neither Maui Fresh nor the LLC had any liability of any nature (whether accrued, contingent or otherwise) that was not fully reflected and reserved against in the Financial Statements. As of the Closing Date, neither Maui Fresh nor the LLC will have any liability of any nature (whether accrued, contingent or otherwise) that is not fully reflected and reserved against in the Closing Date Balance Sheet.

2.12 ABSENCE OF CHANGES. Since March 31, 2003:

(a) Neither Maui Fresh nor the LLC has incurred any liabilities of any nature (whether accrued, contingent or otherwise), except liabilities incurred in the ordinary course of business;

(b) There has been no material adverse change in the assets, liabilities or financial condition of Maui Fresh or the LLC;

(c) There has been no material adverse change in the business prospects of Maui Fresh or the LLC;

(d) Neither Maui Fresh nor the LLC has entered into (or agreed to enter into) any leases, loan agreements or other agreements, except in the ordinary course of business;

(e) Neither Maui Fresh nor the LLC has purchased or otherwise acquired or sold, mortgaged, pledged, leased or otherwise disposed of any of its assets (or agreed to take any of such actions), except in the ordinary course of business;

(f) There has been no material damage, destruction or other casualty loss with respect to property owned or leased by Maui Fresh or the LLC (whether or not covered by insurance); and

(g) The business of Maui Fresh and the LLC in all other respects has been conducted only in its ordinary course, except for any actions of Maui Fresh and the LLC taken in contemplation of the Merger and expressly described in an Agreement dated October 1, 2003 among Maui Fresh and the Shareholders (the "MAUI FRESH SHAREHOLDERS' AGREEMENT"), a copy of which is attached hereto as Schedule 2.12.

2.13 ACCOUNTING PRACTICES. Maui Fresh and the LLC make and keep books, records and accounts that, in reasonable detail, accurately and fairly reflect their transactions and dispositions of assets. Except as otherwise expressly described in Schedule 2.13 attached hereto, the present system of internal accounting controls of Maui Fresh and the LLC, which will be maintained pending the Closing Date, reasonably assures that transactions are recorded as necessary (i) to permit the preparation of financial statements in conformity with generally

accepted accounting principles applied on a basis consistent with past practices, (ii) to fairly present the financial condition and results of operations of Maui Fresh and the LLC, and (iii) to maintain accountability for assets. Neither Maui Fresh nor the LLC has used any improper accounting practices to incorrectly reflect or not reflect any of its assets, liabilities, revenues or expenses.

2.14 RECEIVABLES. The receivables of Maui Fresh and the LLC are reflected properly on their books and records and are valid receivables subject to no setoffs or counterclaims, and all such receivables that exist as of the Closing Date will be reflected properly on each such entity's books and records and will constitute valid receivables subject to no setoffs or counterclaims. All such receivables described in the preceding sentence have been or will be collected in the ordinary course of business at their recorded amounts, subject only to the applicable reserve for doubtful accounts (if any) that is shown on the books and records of Maui Fresh and the LLC (which reserve represents a reasonable estimate of the uncollectible portion of the receivables).

2.15 LEASES OF REAL PROPERTY. Neither Maui Fresh nor the LLC owns, directly or indirectly, any real property, and neither Maui Fresh nor the LLC occupies any real property other than as the lessee thereof. Schedule 2.15 attached hereto describes each lease of real property to which Maui Fresh or the LLC is a party or is otherwise bound. With respect to each such lease: (i) the lease is in full force and effect; (ii) all rent and all other amounts owing under the lease are fully paid; (iii) neither Maui Fresh nor the LLC has assigned to any other person any of its right, title and interest in and to the lease; and (iv) neither Maui Fresh nor the LLC has violated any applicable statutes, rules or regulations (including, without limitation, zoning, land use and environmental statutes, rules and regulations) in connection with its use of the property covered by the lease.

2.16 LEASES OF PERSONAL PROPERTY. Neither Maui Fresh nor the LLC leases or subleases any personal property to any other person, and neither Maui Fresh nor the LLC licenses or sublicenses any personal property to or from any other person. Schedule 2.16 describes each lease or sublease by which Maui Fresh or the LLC leases or subleases personal property from another person. With respect to each such lease or sublease: (i) the lease or sublease is in full force and effect; (ii) all lease payments and all other amounts owing under the lease or sublease are fully paid; (iii) neither Maui Fresh nor the LLC has assigned to any other person any of its right, title and interest in and to the lease or sublease; and (iv) neither Maui Fresh nor the LLC has violated any applicable statutes, rules or regulations in connection with its use of the property covered by the lease or sublease.

2.17 OWNERSHIP AND USE OF ASSETS. Except as set forth in Schedule 2.17 attached hereto: (i) each of Maui Fresh and the LLC is the lawful owner or lessee of each of the assets that is used in its business; (ii) each of Maui Fresh and the LLC owns or leases such assets free and clear of all liens, security interests or other claims or encumbrances; and (iii) such assets that consist of machinery, equipment, motor vehicles or other tangible personal property or fixtures are free of material defects, are commercially usable and are in good operating condition and repair, ordinary wear and tear excepted.

2.18 BANK ACCOUNTS. Schedule 2.18 attached hereto identifies all checking accounts, deposit accounts, securities accounts, safety deposit boxes and other accounts and safekeeping arrangements constituting assets of Maui Fresh and the LLC, together with the authorized signatories on each such account or arrangement.

2.19 INSURANCE. Schedule 2.19 attached hereto describes all insurance policies that are currently maintained by each of Maui Fresh and the LLC, listing the insurer, the type and period of coverage, the scope and amount of coverage and deductible amounts.

2.20 GUARANTEES. Neither Maui Fresh nor the LLC has guaranteed the liabilities or obligations of any other person.

2.21 LOAN AGREEMENTS. Schedule 2.21 attached hereto describes each loan or credit agreement, promissory note, letter of credit or other borrowing arrangement under which Maui Fresh or the LLC currently has borrowed any money, or is entitled to borrow, and lists the persons authorized to borrow thereunder on behalf of each entity.

2.22 OTHER AGREEMENTS. Except for any agreements that are identified in any other schedule that is attached to this Agreement, Schedule 2.22 attached hereto identifies each of the following agreements (written or oral) to which Maui Fresh or the LLC is a party or is otherwise bound: (i) each agreement involving total payments by Maui Fresh or the LLC over its term of more than \$50,000; (ii) each agreement under which the consequences of a default would have a material adverse effect on Maui Fresh or the LLC; (iii) each agreement with a term of over one year, unless such agreement is terminable without penalty by Maui Fresh or the LLC on no more than thirty days' notice; and (iv) each agreement not entered into by Maui Fresh or the LLC in the ordinary course of business.

2.23 ABSENCE OF DEFAULTS. With respect to each agreement to which Maui Fresh or the LLC is a party or is otherwise subject: (i) neither Maui Fresh nor the LLC is in default or breach of its obligations thereunder; and (ii) no claim of default or breach has been made against Maui Fresh or the LLC thereunder, and no event has occurred which, with the passage of time or the giving of notice, will result in the occurrence of a default or breach by Maui Fresh or the LLC.

2.24 LITIGATION. There is no litigation, arbitration, investigation, tax audit or other claim or proceeding pending or, to the knowledge of the Shareholders, threatened against Maui Fresh or the LLC. Neither Maui Fresh nor the LLC is in default under any judgment, order, writ, injunction or decree of any court or administrative agency or body to which it is bound or otherwise subject. The Shareholders are not aware of any audit, investigation, review or other inquiry (or proposed audit, investigation, review or inquiry) by any governmental agency regarding any assets or business of Maui Fresh or the LLC, and the Shareholders are not aware of the existence of any dispute or potential dispute with any governmental agency regarding any aspect of the assets or business of Maui Fresh or the LLC.

2.25 COMPLIANCE WITH LAWS. Each of Maui Fresh and the LLC is in compliance with all applicable statutes, rules, regulations and other laws pertaining to its assets or the operation of its business. No claim has been made to any Shareholder, Maui Fresh or the LLC by any governmental authority (and no such claim is anticipated) to the effect that the business

conducted by Maui Fresh or the LLC fails to comply with any statute, rule, regulation or other law or that a license, permit, certificate or authorization (which has not promptly thereafter been obtained) is required with respect to the operation of such business.

2.26 ENVIRONMENTAL MATTERS. Each of Maui Fresh and the LLC is conducting and has at all times conducted its business and operations (including, without limitation, its use and occupancy of the real property that it owns or leases) in full compliance with all applicable statutes, rules, regulations, laws, permits, orders and decrees pertaining to the protection of the environment, the treatment, emission and discharge of pollutants and the use, handling, generation, storage, treatment, removal, transport, spillage, clean up, decontamination, discharge or disposal (whether accidental or intentional) of any hazardous or toxic substances, materials or wastes (collectively, "ENVIRONMENTAL LAWS"). Neither Maui Fresh nor the LLC has received any written notice of claims or actions pending or threatened against it by any governmental agency or any other person relating to a violation or an alleged violation of any Environmental Laws, and the Shareholders know of no basis for any such claim or action.

2.27 PROPRIETARY INFORMATION. Schedule 2.27 attached hereto sets forth a list of and all copyrights, service marks, trademarks, trade names, logos, patents, licenses and royalty rights, and registrations and applications for the foregoing items, under which the business of Maui Fresh and the LLC is operated or in which either Maui Fresh or the LLC possesses an interest (collectively, the "PROPRIETARY RIGHTS"). Except as described in Schedule 2.27: (i) there are no assignments, licenses or sublicenses with respect to any of the Proprietary Rights; (ii) there are no pending or, to the knowledge of the Shareholders, threatened claims by any person with respect to the use by Maui Fresh or the LLC of the Proprietary Rights; (iii) no Shareholder or employee of Maui Fresh or the LLC has an ownership interest in any of the Proprietary Rights; and (iv) to the knowledge of the Shareholders, the Proprietary Rights do not infringe on the rights of any other person.

2.28 TAX RETURNS AND LIABILITIES.

(a) Maui Fresh and the LLC have filed, on a timely basis, all tax returns and estimates for all years and periods for which such tax returns and estimates were due, and all such returns and estimates were prepared in the manner required by applicable law. Each such tax return properly reflected, and did not understate, the income, the taxable income and the liability for taxes of Maui Fresh or the LLC in the relevant taxation period covered by the tax return. Maui Fresh and the LLC have paid in full all taxes that are (or were) due and payable by them, and Maui Fresh and the LLC have properly accrued all taxes payable by them and reflected such accrued taxes on the appropriate balance sheets. Neither Maui Fresh nor the LLC has ever received written notice from any authority in a jurisdiction where it does not currently file tax returns to the effect that it is or may be subject to taxation by that jurisdiction.

(b) Each of Maui Fresh and the LLC has withheld amounts from its employees in compliance with the tax withholding provisions of applicable law. Each of Maui Fresh and the LLC has filed all tax returns and reports for all years and periods for which any such tax returns and reports were due with respect to employee income tax withholding and social security and unemployment taxes, and all such tax returns and reports were prepared in the manner required by applicable law. All payments due from each of Maui Fresh and the LLC as

shown on such tax returns and reports on account of employee income tax withholding or social security and unemployment taxes have been paid.

(c) In this Agreement, (i) "TAX" means any federal, state, local or foreign income, gross receipts, license, payroll, unemployment, excise, severance, stamp, occupation, premium, windfall profits, environmental (including, without limitation, taxes under Code Section 59A), customs duties, capital stock, franchise, profits, withholding, social security (or similar), employment, disability, real property, personal property, sales, use, transfer, registration, value added, alternative, add-on minimum or estimated tax or other tax, assessment or charge of any kind whatsoever, including, without limitation, any interest, fine, penalty or addition thereto, whether or not disputed, and (ii) "TAX RETURN" means any return, declaration, report, claim for refund or information or statement relating to taxes and any exhibit, schedule, attachment or amendment thereto.

2.29 EMPLOYEES.

(a) None of the employees of Maui Fresh or the LLC is represented by a labor union or is covered by a collective bargaining, union or similar agreement. There are no material controversies, grievances or complaints pending or threatened between Maui Fresh or the LLC and any of its employees or current or threatened work stoppages, strikes or other labor actions.

(b) Each of Maui Fresh and the LLC is in compliance with all applicable statutes, rules, regulations, laws and judicial and administrative orders, judgments and decrees respecting employment and employment practices and the terms and conditions of employment and wages and hours.

(c) Except as described in Schedule 2.29 attached hereto: (i) neither Maui Fresh nor the LLC has entered into any employment or severance agreement with any of its officers or employees; (ii) neither Maui Fresh nor the LLC has entered into any agreement with any officer or employee prohibiting or inhibiting the termination of his or her employment provided that at least thirty days' notice of termination is given; (iii) neither Maui Fresh nor the LLC is subject to any pension plan, retirement plan, profit sharing plan, stock option plan, deferred compensation plan or other employee benefit plan; and (iv) no current officer or employee of Maui Fresh or the LLC will be entitled to any severance payments upon his or her termination of employment, and no such former officer or employee currently is receiving such severance payments.

(d) With respect to each pension plan, retirement plan, profit sharing plan, deferred compensation plan or other employee benefit plan maintained by Maui Fresh or the LLC, all contributions or other payments required by such plan or by applicable statutes, rules, regulations and laws to have been made have in fact been made, and no funding deficiency exists with respect to any such plan. Each such plan has been maintained, operated and administered in accordance with all applicable statutes, rules, regulations and laws.

2.30 FINDERS AND BROKERS. No person has acted as a finder, broker or other intermediary on behalf of any Shareholder or Maui Fresh in connection with this Agreement or the transactions contemplated hereby, and no person is entitled to any broker's or finder's fee or

similar fee with respect to this Agreement or such transactions as a result of actions taken by any Shareholder or Maui Fresh.

2.31 ACCURACY AND COMPLETENESS. No representation or warranty of any Shareholder contained in this Agreement or in any schedule, exhibit, agreement or document delivered pursuant hereto contains, or will contain, any untrue statement of a material fact or omits, or will omit, to state a material fact necessary to make the statements contained therein, in light of the circumstances under which they are made, not misleading. The Shareholders have delivered to Calavo a true, correct and complete copy of each agreement and other document (as fully amended) that is described in or referred to in any schedule that is attached to this Agreement.

2.32 INVESTMENT REPRESENTATIONS. Each Shareholder represents and warrants to, and agrees with, Calavo with respect to himself (and not as to the other two Shareholders) as follows:

(a) The Calavo Merger Shares that are allocable to the Shareholder are being acquired for the Shareholder's own account and not with a view to the public distribution of any of the Calavo Merger Shares. The Shareholder will not sell, hypothecate or otherwise transfer any of the Calavo Merger Shares except in accordance with applicable federal and state securities laws.

(b) The Shareholder understands that the offering and sale of the Calavo Merger Shares in the Merger is intended to be exempt from registration under the Securities Act by virtue of Section 4(2) of the Securities Act and Regulation D under the Securities Act.

(c) The Shareholder understands that: (i) the Calavo Merger Shares have not been registered or qualified under the Securities Act or the securities laws of California or any other state, and neither the Securities and Exchange Commission nor any state or other regulatory authority has made any recommendation or finding concerning the value of the Calavo Merger Shares; (ii) there is no assurance that the Shareholder will be able to sell the Calavo Merger Shares at a purchase price that the Shareholder deems reasonable; (iii) the Calavo Merger Shares may be offered, sold or otherwise transferred by the Shareholder only if the transaction is registered and qualified under the applicable provisions of federal and state securities laws or if exemptions from such registration and qualification are available; (iv) the satisfaction of these securities registration exemptions is the Shareholder's responsibility; and (v) Calavo is under no obligation to assist the Shareholder in satisfying these exemptions, and Calavo does not intend to register any subsequent transaction by the Shareholder under applicable federal and state securities laws.

(d) The Shareholder understands that the Calavo Merger Shares are and will remain "restricted securities" under the federal securities laws because they will be acquired from Calavo in a transaction not involving a public offering. The Shareholder understands the resale limitations imposed by the Securities Act and is familiar with Rule 144 under the Securities Act and the conditions which must be met in order for Rule 144 to be available for the public resale of "restricted securities."

(e) The Shareholder agrees not to sell, assign, pledge or otherwise transfer any of his Calavo Merger Shares (except to Calavo under Section 1.9) during the two-year period after the Closing Date.

(f) The Shareholder understands that legends to the following effect will be placed on the certificates evidencing the Calavo Merger Shares:

"The shares that are represented by this certificate have not been registered or qualified under the Securities Act of 1933, as amended (the "Act"), or applicable state securities laws. The shares may not be sold, offered for sale, assigned, pledged or otherwise transferred unless such transfer is registered or qualified under the Act and applicable state securities laws covering such shares or unless the corporation receives an opinion of counsel or other evidence satisfactory to the corporation to the effect that such registration and qualification are not required."

"The shares that are represented by this certificate are subject to restrictions on transfer that are described in an Agreement and Plan of Merger dated November 6, 2003 among the holder of this certificate, Calavo Growers, Inc. and certain other parties."

(g) The Shareholder was given an adequate opportunity to review (i) Calavo's Annual Report on Form 10-K for the fiscal year ended October 31, 2002, (ii) Calavo's Annual Report to Shareholders for the fiscal year ended October 31, 2002, (iii) all Proxy Statements and Reports on Form 10-Q and 8-K that Calavo has filed with the Securities and Exchange Commission subsequent to January 31, 2003, and (iv) all exhibits to the foregoing documents that Calavo has filed with the Securities and Exchange Commission.

(h) In evaluating the suitability of an investment in Calavo, the Shareholder has not relied upon any representation or other information (whether oral or written) from Calavo or any of its agents that is inconsistent with the information contained in the documents described in the immediately preceding paragraph. No oral or written representations or recommendations have been made, and no oral or written information has been furnished, to the Shareholder regarding the advisability of acquiring the Calavo Merger Shares. Calavo has provided the Shareholder (including his or her professional advisors, if any) with a sufficient opportunity to ask questions and receive answers concerning the terms and conditions of the issuance of the Calavo Merger Shares and to obtain any additional information which Calavo possesses or can acquire without unreasonable effort or expense that is necessary to verify the accuracy of the information that is contained in the documents described in the immediately preceding paragraph.

(i) The Shareholder has such knowledge and experience in financial and business matters that the Shareholder is capable of evaluating the merits and risks of an investment in Calavo and of making an informed investment decision.

(j) The principal residence of Arthur J. Bruno and Robert J. Bruno is the State of California, and the principal residence of Javier M. Badillo is the State of Arizona.

(k) The Shareholder's individual net worth, or joint net worth with the Shareholder's spouse, exceeds One Million Dollars (\$1,000,000). "Net worth" means the excess of total assets at fair market value, including home and personal property, over total liabilities, including mortgages and income taxes on unrealized appreciation of assets.

ARTICLE 3
REPRESENTATIONS AND WARRANTIES OF CALAVO

Calavo represents and warrants to the Shareholders that the following representations and warranties (in addition to any representations and warranties made by Calavo elsewhere in this Agreement) are true, correct and complete as of the date of this Agreement, and that such representations and warranties will be true, correct and complete as of the Closing Date as though remade on the Closing Date with references to the Closing Date substituted for references to the date of this Agreement throughout this Article 3:

3.1 ORGANIZATION AND GOOD STANDING. Calavo is a corporation duly incorporated and organized, validly existing and in good standing under the laws of the State of California. Newco is a corporation duly incorporated and organized, validly existing and in good standing under the laws of the State of Nevada. Newco is a wholly owned subsidiary of Calavo.

3.2 CORPORATE POWERS. Each of Calavo and Newco has and holds the corporate right and power, and all licenses, permits, authorizations and approvals (governmental or otherwise), necessary to entitle it to use its corporate name, to own and operate its properties and to carry on its business as such business exists as of the date hereof.

3.3 AUTHORITY. Each of Calavo and Newco has the full right, power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby. All acts and other proceedings required to be taken by Calavo and Newco in order to enable them to carry out this Agreement and the transactions contemplated hereby have been taken.

3.4 BINDING EFFECT. This Agreement has been duly executed and delivered by Calavo and Newco and (together with any agreements and instruments to be executed and delivered by Calavo and Newco at the Closing) constitutes their legal, valid and binding obligation, enforceable in accordance with its terms.

3.5 ISSUANCE OF SHARES TO THE SHAREHOLDERS. The Calavo Merger Shares to be issued by Calavo to the Shareholders at the Closing will be duly authorized, fully paid and nonassessable.

3.6 NO BREACH. Neither the execution and delivery of this Agreement nor the consummation of any transaction contemplated hereby will, with or without notice or the passage of time, (i) violate any United States statute, rule, regulation, law or judicial or administrative order, judgment or decree applicable to Calavo or Newco, (ii) result in the breach of, cause an acceleration of the obligations under, permit the termination of, or otherwise constitute a default under, any corporate charter, bylaw, lease, license, loan agreement, promissory note, deed of trust or other instrument, undertaking, commitment or agreement to which Calavo or Newco currently is subject, or (iii) result in the creation of any lien or other encumbrance upon any of Calavo's or Newco's assets.

3.7 CONSENTS. Except for filing the Articles of Merger with the Nevada Secretary of State and except for filings by Calavo with the Securities and Exchange Commission and state securities authorities that are required under applicable federal and state securities laws and regulations, neither the execution and delivery of this Agreement nor the consummation of any transaction contemplated hereby requires Calavo or Newco to obtain any consent, permit or approval, or to make any filing or registration, under any United States statute, rule, regulation, law or judicial or administrative order, judgment or decree applicable to Calavo or Newco or under any corporate charter, bylaw, lease, license, loan agreement, promissory note, deed of trust or other instrument, undertaking, commitment or agreement to which Calavo or Newco currently is a party or is otherwise subject.

3.8 FINDERS AND BROKERS. No person has acted as a finder, broker or other intermediary on behalf of Calavo or Newco in connection with this Agreement or the transactions contemplated hereby, and no person is entitled to any broker's or finder's fee or similar fee with respect to this Agreement or such transactions as a result of actions taken by Calavo.

3.9 LITIGATION. There is no litigation, arbitration, investigation, tax audit or other claim or proceeding pending or, to the knowledge of Calavo, threatened against Calavo that could have a material adverse effect on Calavo's results of operations or financial condition. Calavo is not in default under any judgment, order, writ, injunction or decree of any court or administrative agency or body to which it is bound or otherwise subject. Calavo is not aware of any audit, investigation, review or other inquiry (or proposed audit, investigation, review or inquiry) by any governmental agency regarding any assets or business of Calavo, and Calavo is not aware of the existence of any dispute or potential dispute with any governmental agency regarding any aspect of the assets or business of Calavo.

3.10 RULE 144 REPORTING. With a view to making available the benefits of certain rules and regulations of the Securities and Exchange Commission that may at any time permit the sale of the Calavo Merger Shares to the public without registration, and for so long as any Shareholder holds unregistered Calavo Merger Shares, Calavo shall use its reasonable efforts to: (i) make and keep public information available, as those terms are understood and defined in Rule 144 under the Securities Act, at all times that Calavo is subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (the "EXCHANGE ACT"); (ii) file with the Securities and Exchange Commission in a timely manner all reports and other documents required of Calavo under the Exchange Act; and (iii) so long as a Shareholder owns any Calavo Merger Shares, furnish to such Shareholder promptly upon request a written statement by Calavo as to its compliance with the reporting requirements of said Rule 144 and of the Exchange Act, a copy of Calavo's most recent annual or quarterly report and such other publicly available reports and documents of Calavo and other publicly available information in the possession of Calavo as the Shareholder may reasonably request in availing itself of any rule or regulation of the Securities and Exchange Commission allowing the Shareholder to sell any such securities without registration.

3.11 ACCURACY AND COMPLETENESS. No representation or warranty of Calavo contained in this Agreement or in any schedule, exhibit, agreement or document delivered pursuant hereto contains, or will contain, any untrue statement of a material fact or omits, or will

omit, to state a material fact necessary to make the statements contained therein, in light of the circumstances under which they are made, not misleading.

ARTICLE 4
MISCELLANEOUS AGREEMENTS OF THE PARTIES

In addition to their agreements contained in other sections of this Agreement, Calavo, Maui Fresh and the Shareholders agree as follows:

4.1 ACCESS AND CONFIDENTIALITY.

(a) Prior to the Closing, Calavo and its authorized representatives shall have full access to the premises and the books, records, agreements and other documents of Maui Fresh and the LLC during all reasonable hours, and Calavo shall be furnished with copies of all such books, records, agreements and other documents as may be reasonably requested by it. Prior to the Closing, the Shareholders and their authorized representatives shall have full access to the premises and the books, records, agreements and other documents of Calavo during all reasonable hours, and the Shareholders shall be furnished with copies of all such books, records, agreements and other documents as may be reasonably requested by them; provided, however, that the Shareholders shall not be entitled to receive any confidential information that Calavo is prohibited by applicable securities laws and regulations from disclosing to third parties on a selective basis without full disclosure to the public.

(b) Prior to the Closing, Calavo shall maintain the confidentiality of all confidential information about Maui Fresh or the LLC that it acquires in connection with its investigation, except to the extent that disclosure thereof is required by a court of competent jurisdiction or by an arbitrator pursuant to Section 8.13. Prior to the Closing, the Shareholders shall maintain the confidentiality of all confidential information about Calavo that they acquire in connection with their investigation, except to the extent that disclosure thereof is required by a court of competent jurisdiction or by an arbitrator pursuant to Section 8.13.

(c) Calavo's investigation of Maui Fresh and the LLC and their business, assets and liabilities shall in no manner be construed as relieving any Shareholder from liability hereunder for a breach of any representation or warranty of any Shareholder made in this Agreement, and the Shareholders' investigation of Calavo and its business, assets and liabilities shall in no manner be construed as relieving Calavo from liability hereunder for a breach of any representation or warranty of Calavo made in this Agreement

(d) Notwithstanding anything in this Agreement to the contrary, the parties to this Agreement (and their representatives and agents) may consult any tax advisor regarding the tax treatment and tax structure of the Merger and all other transactions contemplated by this Agreement and may at any time disclose to any person, without limitation of any kind, the tax treatment and tax structure of the Merger and such transactions and all materials (including opinions or other tax analysis) that are provided relating to such treatment or structure. The preceding sentence is intended to satisfy the requirements for the transactions contemplated herein to avoid classification as a "confidential transaction" in accordance with the Treasury Regulations Section 1.6011-4(b)(3) and shall be interpreted consistent with such intent.

4.2 CONDUCT OF MAUI FRESH AND THE LLC PRIOR TO THE CLOSING. Prior to the Closing, the Shareholders shall cause Maui Fresh and the LLC to conduct their business only in the ordinary and regular course (that is, reasonably consistent with past custom and practice), except as otherwise approved in writing by Calavo or except as otherwise expressly described in the Maui Fresh Shareholders' Agreement. Without limiting the generality of the preceding sentence, except as otherwise approved in writing by Calavo or except as otherwise expressly described in the Maui Fresh Shareholders' Agreement, neither Maui Fresh nor the LLC shall:

(a) Amend its charter documents;

(b) Issue or purchase any shares of its capital stock or membership interests or grant any options, warrants, subscriptions, commitments or other rights of any character to acquire any of its capital stock or membership interests;

(c) Declare or pay any dividend, or make any other distribution or payment, with respect to its capital stock;

(d) Amend or terminate any of its supply or customer contracts or other agreements, except in the ordinary course of business;

(e) Make any capital expenditure or guarantee or incur any indebtedness or other liabilities, except in the ordinary course of business;

(f) Enter into any supply or customer contract or other agreement, except in the ordinary course of business;

(g) Sell, lease, license, transfer, pledge or assign any of its assets, except in the ordinary course of business;

(h) Alter the manner of keeping its books, accounts or records; or

(i) Agree to take any of the actions described above in this Section 4.2 or otherwise take any action (or agree to take any action) that would cause a breach of any of the Shareholders' representations and warranties contained in this Agreement.

4.3 PRESERVATION OF THE BUSINESS. Prior to the Closing, the Shareholders shall cause Maui Fresh and the LLC to use their best efforts to preserve their business, agreements and relationships with clients.

4.4 TRANSFER OF SHARES. Prior to the Closing, no Shareholder shall sell, assign, encumber or otherwise transfer any of his Maui Fresh shares or agree to take any of such actions.

4.5 GOVERNMENTAL FILINGS. Calavo and the Shareholders shall cooperate in complying fully and on a timely basis with any and all governmental filings that are required as a result of this Agreement and its consummation.

4.6 PUBLICITY. Prior to the Closing, except as otherwise required by law, no party to this Agreement shall publicly disseminate any statement concerning this Agreement without the

prior written consent of Calavo (if the statement is to be made by Maui Fresh or any Shareholder) or the Shareholders (if the statement is to be made by Calavo or Newco). However, the parties agree that Calavo is entitled to make public announcements of the execution of this Agreement and of the Closing through press releases and the filing with the Securities and Exchange Commission of Current Reports on Form 8-K and Quarterly Reports on Form 10-Q. Calavo shall provide the Shareholders with an opportunity to review and comment upon such documents.

4.7 LEASES. If requested by Calavo, the Shareholders shall obtain prior to the Closing an estoppel letter in form and substance reasonably satisfactory to Calavo from each lessor of real property that is leased or subleased by Maui Fresh or the LLC. Among other things, each estoppel letter shall state that neither Maui Fresh nor the LLC is in default under the lease or sublease.

4.8 REPAYMENT OF LOANS. Prior to the Closing, Maui Fresh and the LLC shall repay all principal and accrued interest on all loans that have been made to them by the Shareholders.

4.9 COOPERATION. Calavo, on the one hand, and the Shareholders, on the other hand, shall cooperate with each other in the performance of all obligations under this Agreement and shall use its (or their) reasonable efforts to satisfy or cause to be satisfied, at or prior to the Closing, the conditions to the Closing obligations of the other party or parties under this Agreement.

4.10 EMPLOYEES. It is Calavo's present intention to continue the employment of the present employees of Maui Fresh and the LLC, other than the Shareholder employees, on an "at will" basis after the Closing and to carry forward vacation and sick leave benefits pursuant to the policies of Calavo applicable to its employees.

4.11 EMPLOYMENT OF ARTHUR J. BRUNO AND JAVIER M. BADILLO. Calavo agrees to enter into and to deliver at the Closing to Shareholders Arthur J. Bruno and Javier M. Badillo agreements providing for their compensation and other rights in the event of the termination of employment under specified circumstances of Shareholder Arthur J. Bruno (the "BRUNO SEVERANCE AGREEMENT") and Shareholder Javier M. Badillo (the "BADILLO SEVERANCE AGREEMENT") in substantially the form of Exhibits 4.11A and 4.11B, respectively, attached hereto. Calavo represents and warrants to the Shareholders that it has not entered into written employment agreements with any of its officers.

4.12 TERMINATION OF MAUI FRESH AND LLC EMPLOYMENT AGREEMENTS. Each Shareholder agrees that, effective as of the Closing and without the need for any further action, (i) any employment, severance or consulting agreement that he may have entered into with Maui Fresh or the LLC shall be terminated, and (ii) neither Maui Fresh nor the LLC shall owe any money to any Shareholder with respect to services performed by the Shareholder prior to the Closing.

4.13 OPERATION OF MAUI FRESH AND THE LLC AFTER THE CLOSING. No representation, warranty or agreement has been made by Calavo regarding the specific manner in which it shall operate Maui Fresh and the LLC after the Closing, except that Calavo represents and warrants

that it is Calavo's present intention to continue the historic business lines of Maui Fresh and the LLC or to use a significant portion of the historic business assets of Maui Fresh and the LLC in a business after the Closing.

4.14 TAX CONSEQUENCES OF THE MERGER. Calavo and the Shareholders intend for the Merger to constitute a tax-free reorganization under Section 368(a) of the Code. However, no party to this Agreement is making any representations or warranties to any other party regarding the tax or accounting consequences of the Merger or of any other transaction that is described in this Agreement.

ARTICLE 5
CLOSING

5.1 TIME, PLACE AND DATE. Unless Calavo and the Shareholders agree in writing to a different date, the Closing shall occur on November 7, 2003 at a time and place mutually agreed upon by Calavo and the Shareholders.

5.2 CONDITIONS PRECEDENT TO CALAVO'S CLOSING OBLIGATIONS. Each of the following shall be a condition to the obligation of Calavo to consummate the transactions contemplated by this Agreement, except to the extent that Calavo may elect to waive any of such conditions in writing:

(a) Each representation and warranty of the Shareholders contained in this Agreement (including any exhibit, schedule or other agreement or document delivered pursuant hereto) shall be true and correct in all respects on and as of the Closing Date with the same effect as if such representation and warranty had been made on and as of the Closing Date, and each Shareholder shall have performed or complied with all agreements required by this Agreement to be performed or complied with by each Shareholder prior to or at the Closing;

(b) The Shareholders shall have executed and delivered to Calavo a certificate to the effect that the conditions described in Section 5.2(a) have been satisfied;

(c) The Shareholders shall have executed and delivered to Calavo the agreements and documents and made the other deliveries that are described in Section 5.5;

(d) No claim or legal proceeding shall be pending or threatened before any court or governmental agency that presents a substantial risk of the restraint or rescission of the transactions contemplated by this Agreement; and

(e) The Articles of Merger shall have been filed with the Nevada Secretary of State.

5.3 CONDITIONS PRECEDENT TO THE SHAREHOLDERS' CLOSING OBLIGATIONS. Each of the following shall be a condition to the obligation of the Shareholders to consummate the transactions contemplated by this Agreement, except to the extent that the Shareholders may elect to waive any of such conditions in writing:

(a) Each representation and warranty of Calavo contained in this Agreement (including any exhibit, schedule or other agreement or document delivered pursuant hereto) shall be true and correct in all respects on and as of the Closing Date with the same effect as if such representation and warranty had been made on and as of the Closing Date, and Calavo shall have performed or complied with all agreements required by this Agreement to be performed or complied with by it prior to or at the Closing;

(b) Calavo shall have executed and delivered to the Shareholders a certificate to the effect that the conditions described above in Section 5.3(a) have been satisfied;

(c) Calavo shall have executed and delivered the agreements and documents and made the other deliveries that are described in Section 5.4;

(d) No claim or legal proceeding shall be pending or threatened before any court or governmental agency that presents a substantial risk of the restraint or rescission of the transactions contemplated by this Agreement; and

(e) The Articles of Merger shall have been filed with the Nevada Secretary of State.

5.4 CALAVO'S CLOSING DELIVERIES. At the Closing, Calavo shall deliver to the Shareholders the following instruments, agreements and documents, duly executed where applicable, each of which must be in form and substance reasonably satisfactory to the Shareholders:

(a) The Closing certificate described in Section 5.3(b);
and

(b) The Bruno Severance Agreement and the Badillo Severance Agreement.

As promptly as possible after the Closing, Calavo or its transfer agent shall deliver to the Shareholders stock certificates evidencing the Calavo Merger Shares that are not required by this Agreement to be delivered to Calavo as security for the Shareholders' obligations.

5.5 SHAREHOLDERS' CLOSING DELIVERIES. At the Closing, the Shareholders shall deliver to Calavo the following instruments, agreements and documents, duly executed where applicable, each of which must be in form and substance reasonably satisfactory to Calavo:

(a) Stock certificates evidencing all shares of Maui Fresh's capital stock that are issued and outstanding immediately prior to the Closing, marked "cancelled";

(b) A stock certificate evidencing the shares of Maui Fresh stock acquired by Calavo in the Merger;

(c) Evidence of the repayment of all outstanding principal and interest on all loans that have been made by the Shareholders to Maui Fresh or the LLC;

(d) All resignations from the Board of Directors of Maui Fresh or the Management Committee or other governing body of the LLC that are requested by Calavo;

(e) The Closing certificate described above in Section 5.2(b);

(f) The Bruno Severance Agreement and the Badillo Severance Agreement; and

(g) Stock assignments duly executed by the Shareholders regarding the Calavo Merger Shares that are required to be delivered as security to Calavo, which Calavo shall use in the event that it is entitled by this Agreement to satisfy an obligation of the Shareholders by causing Calavo Merger Shares to be delivered back to Calavo.

5.6 TERMINATION OF THIS AGREEMENT. This Agreement may be terminated at any time by a writing executed by Calavo and the Shareholders. If the Closing has not occurred, for any reason, prior to December 1, 2003, this Agreement automatically shall terminate (unless extended by the written agreement of Calavo and the Shareholders) and, except as provided in this Section 5.6, the parties to this Agreement shall have no further rights or obligations hereunder. Notwithstanding the termination of this Agreement pursuant to the preceding sentence, the obligations of the parties described in the following Sections of this Agreement shall survive: 4.1(b) (Confidentiality); 8.12 (Governing Laws); 8.13 (Arbitration of Disputes; Jury Trial Waiver); and 8.14 (Attorneys' Fees and Other Expenses). Furthermore, the termination of this Agreement pursuant to the provisions of this paragraph shall not limit any right or remedy that one party may have against another for breach of contract.

ARTICLE 6 CONFIDENTIALITY AND NONCOMPETITION AGREEMENTS

6.1 CONFIDENTIALITY. A Shareholder shall at no time after the Closing use or disclose to any person, directly or indirectly, any confidential information concerning the business of Calavo, Maui Fresh or the LLC, including, without limitation, any business secret, trade secret, financial information, software, internal procedure, business plan, marketing plan, pricing strategy or policy or customer list, except to the extent that such use or disclosure is (x) necessary to the performance of the Shareholder's employment with Calavo during the period that he is so employed, (y) required by an order of a court of competent jurisdiction, or (z) authorized in writing by a duly authorized executive officer of Calavo. The prohibition that is contained in the preceding sentence shall not apply to any information that is or becomes generally available to the public other than through a disclosure by a Shareholder or by a person acting in concert with the Shareholder.

6.2 NONCOMPETITION COVENANT. To provide Calavo the full value of its acquisition of Maui Fresh and the LLC, and as a material inducement to Calavo to enter into this Agreement and to consummate the transactions contemplated hereby, each Shareholder agrees to refrain from competing with Calavo to the extent provided in this Article 6. Without the prior written consent of Calavo, no Shareholder shall, at any time during the period described in Section 6.3, directly or indirectly (whether as owner, investor, lender, principal, agent, partner, officer, director, employee, independent contractor, consultant, shareholder or otherwise), and whether or not for compensation, engage in (or have any interest in) any business, corporation, person, partnership or other entity that competes with any business that is engaged in by Calavo, Maui Fresh or the LLC (i) in any county, city or other geographic area in the United States (including,

without limitation, each county in the State of California) or foreign country in which Calavo, Maui Fresh or the LLC has conducted its business prior to the date of this Agreement, so long as Calavo, Maui Fresh or the LLC carry on such business or a similar business in such place or places, or (ii) in any other domestic or foreign geographic area in which Calavo, Maui Fresh or the LLC subsequently conducts its business. The provisions of this Section 6.2 shall not be construed as prohibiting any Shareholder from acquiring and owning up to one percent of the outstanding securities of any corporation that is a publicly traded corporation.

6.3 DURATION.

(a) With respect to Robert J. Bruno, the noncompetition covenant of Section 6.2 shall be effective for a period beginning on the Closing Date and ending on the second anniversary of the Closing.

(b) With respect to each of Arthur J. Bruno and Javier M. Badillo, the noncompetition covenant of Section 6.2 shall be effective for a period beginning on the Closing Date and ending on the later to occur of (i) the second anniversary of the Closing Date or (ii) the first anniversary of the date of the termination for any reason of the Shareholder's employment with Calavo. However, as provided in the Bruno Severance Agreement, the noncompetition covenant with respect to Arthur J. Bruno shall end on the date that his employment with Calavo is terminated Without Cause or for Good Reason (as each term is defined in such agreement) if the termination of employment occurs prior to October 1, 2005; and, as provided in the Badillo Severance Agreement, the noncompetition covenant with respect to Javier M. Badillo shall end on the date that his employment with Calavo is terminated Without Cause or for Good Reason (as each term is defined in such agreement) if the termination of employment occurs prior to November 3, 2005.

6.4 SCOPE AND REASONABLENESS. Calavo and the Shareholders agree that it is not their intention to violate any public policy or statutory or common law. The parties intend that the noncompetition covenants contained in Sections 6.2 and 6.3 shall be construed as a series of separate covenants by each Shareholder, one for each area included in the geographical scope described in Section 6.2 and for each year (or portion thereof) described in Section 6.3. Except for geographical coverage and duration, each such covenant of each Shareholder shall contain all of the terms of the covenants of this Article 6. If any arbitrator or court of competent jurisdiction refuses to enforce any covenant contained in this Article 6, then such unenforceable covenant shall be deemed to have been deleted from this Agreement to the extent necessary to permit the remaining separate covenants to be enforceable. Each Shareholder has considered the nature and extent of the restrictions upon competition set forth in this Article 6 and agrees that they are reasonable with respect to duration and geographical scope and in all other respects.

6.5 INJUNCTIVE RELIEF. Any party having any rights under any provision of this Article 6 shall be entitled to recover damages by reason of any breach of such provision and to exercise all other rights and remedies granted by law, which rights may be exercised cumulatively. The parties recognize and agree that the violation of the provisions of this Article 6 or of any other provision of this Agreement cannot be reasonably or adequately compensated in damages and that, in addition to any other relief to which any party may be entitled by reason of such violation, it shall also be entitled to temporary, preliminary and permanent injunctive and

equitable relief. Without limiting the generality of the foregoing, each Shareholder specifically agrees that a showing by Calavo of any breach of any provision of this Article 6 shall constitute, for the purposes of all determinations of the issue of injunctive relief, conclusive proof of all of the elements necessary to entitle Calavo to temporary, preliminary and permanent injunctive relief against such Shareholder.

6.6 VENUE. For purposes of injunctive relief, each Shareholder agrees to submit to the jurisdiction of the courts located in the jurisdiction or jurisdictions where it is alleged that Calavo is at the time being damaged by an alleged breach or violation of the provisions of this Article 6.

ARTICLE 7 INDEMNIFICATION

7.1 SURVIVAL OF REPRESENTATIONS, WARRANTIES AND AGREEMENTS.

(a) Except as described in this Section 7.1(a), all representations and warranties of the parties that are contained in this Agreement shall survive the Closing for a period of one year, and any claim for indemnification pursuant to Section 7.2(a) or 7.3(a) that is based upon the alleged breach of a representation or warranty must be brought not later than one year after the Closing Date. Notwithstanding the foregoing: (i) representations and warranties relating to tax, employee, environmental and other matters as to which the beneficiary of the representations and warranties may have liability under applicable statutes, rules or regulations or judicial or administrative orders, judgments or decrees shall not expire until the later to occur of the expiration of any applicable statute of limitations or the first anniversary of the Closing, and a claim for indemnification that is based upon the alleged breach of such a representation or warranty may be brought at any time prior to the later to occur of the expiration of the applicable statute of limitations or the first anniversary of the Closing; (ii) representations and warranties that are made fraudulently by a party shall survive forever; (iii) the Shareholders' representations and warranties that are contained in Sections 2.1 (Organization and Good Standing), 2.2 (Capitalization), 2.3 (Corporate Powers), 2.4 (Authority), 2.5 (Binding Effect) and 2.32 (Investment Representations) shall survive forever; and (iv) Calavo's representations and warranties that are contained in Sections 3.1 (Organization and Good Standing), 3.2 (Corporate Powers), 3.3 (Authority), 3.4 (Binding Effect) and 3.5 (Issuance of Shares to the Shareholders) shall survive forever. A claim for indemnification that alleges that a representation or warranty was made fraudulently may be brought at any time after the Closing, and a claim for indemnification that alleges a breach of a representation or warranty contained in one or more of the sections described in clauses (iii) or (iv) of the preceding sentence may be brought at any time after the Closing.

(b) A claim with respect to a breach of a representation or a warranty shall not be foreclosed if the maker of such claim shall have made such claim in writing to the other party prior to the expiration of the survival period described in Section 7.1(a). Except as described in Section 2.32 (Investment Representations), each representation or warranty made by any Shareholder shall be deemed to have been made jointly and severally by all of the Shareholders.

(c) All agreements of the parties made in this Agreement to perform obligations before or after the Closing shall survive forever, provided that a party's agreement to provide indemnification on account of a breach of its representations and warranties is subject to the survival period provisions set forth in Section 7.1(a). All representations, warranties and agreements of the parties that are contained in any exhibit or schedule to this Agreement or in any other agreement or document that is delivered pursuant to this Agreement shall be deemed to be contained in this Agreement.

7.2 INDEMNIFICATION BY THE SHAREHOLDERS. Subject to the provisions of this Article 7, the Shareholders jointly and severally shall indemnify, defend and hold harmless Calavo (including Maui Fresh and the LLC) from and against any and all losses, damages, obligations, liabilities and other costs and expenses, including, without limitation, settlement costs, judgments, interest, penalties and reasonable attorneys' fees, accountants' fees and other costs and expenses for investigating or defending any actions, claims and proceedings (all of the foregoing being collectively referred to herein as "LOSSES") that Calavo (including Maui Fresh and the LLC) may incur based upon, arising out of, relating to or resulting from:

(a) Any breach of any representation or warranty of any Shareholder made in this Agreement (including any exhibit, schedule or other agreement or document delivered pursuant to this Agreement);

(b) Any breach of, or failure to perform, any agreement of any Shareholder that is contained in this Agreement (including any exhibit, schedule or other agreement or document delivered pursuant to this Agreement);

(c) With respect to the agreements to which Maui Fresh or the LLC is a party or is otherwise bound as of the Closing, any breaches or defaults (or events giving rise to such breaches or defaults) by Maui Fresh or the LLC that occurred prior to the Closing; or

(d) Any litigation, arbitration, investigation or other claim or legal proceeding (including, without limitation, any claims and legal proceedings that are listed on a schedule to this Agreement), whether brought before or after the Closing, that is based upon or arises out of any actions or omissions made or taken by any Shareholder or Maui Fresh or the LLC prior to the Closing.

7.3 INDEMNIFICATION BY CALAVO. Subject to the provisions of this Article 7, Calavo shall indemnify, defend and hold harmless the Shareholders from and against any and all Losses that the Shareholders may incur based upon, arising out of, relating to or resulting from:

(a) Any breach of any representation or warranty of Calavo made in this Agreement (including any exhibit, schedule or other agreement or document delivered pursuant to this Agreement);

(b) Any breach of, or failure to perform, any agreement of Calavo that is contained in this Agreement (including any exhibit, schedule or other agreement or document delivered pursuant to this Agreement); or

(c) Any actions or omissions made or taken by Calavo, Maui Fresh or the LLC after the Closing, except if such actions or omissions provide Calavo with a right to indemnification from the Shareholders pursuant to Section 7.2 and except if such actions or omissions by Calavo, Maui Fresh or the LLC are attributable to the action or inaction of a Shareholder.

7.4 NOTICE OF CLAIMS; CONTEST OF CLAIMS.

(a) If any indemnified party believes that it has incurred any Losses, or if any claim or legal proceeding is instituted by a third party with respect to which any indemnified party intends to claim any Losses under this Article 7, the indemnified party shall so notify the indemnifying party. The notice shall describe the Losses, the amount of the Losses, if known, and the method of computation of the Losses, all with reasonable particularity and shall contain a reference to the provisions of this Agreement in respect of which the Losses shall have been incurred; and, in the case of a claim or legal proceeding by a third party, shall include a copy of all documents received by the indemnified party in connection therewith and any other information known to the indemnified party with respect to the claim or legal proceeding. The notice shall be given promptly after the indemnified party becomes aware of each such Loss, claim or legal proceeding, but failure to give such prompt notice shall not affect an indemnifying party's obligations hereunder except to the extent (if any) that the indemnifying party has suffered Losses as a result of such notification failure.

(b) With respect to any indemnification notice that does not involve a claim or legal proceeding by a third party, the indemnifying party shall, within ten days after receipt of such notice of Losses, pay or cause to be paid to the indemnified party the amount of Losses incurred by the indemnified party and described in the notice. With respect to an indemnification notice that involves a claim or legal proceeding by a third party, the indemnifying party shall, within ten days after receipt of such notice, notify the indemnified party if it elects to conduct and control the defense of the claim or legal proceeding, provided that any such election must be accompanied by a written acknowledgement by the indemnifying party of its obligation to indemnify the indemnified party with respect to all elements of such claim or legal proceeding. If the indemnifying party does not so notify the indemnified party of its election to conduct and control the defense of the claim or legal proceeding, the indemnified party shall have the right to defend, contest, settle or compromise the claim or legal proceeding, and the indemnifying party shall, within ten days after receipt of notice from the indemnified party, pay to the indemnified party the amount of any Losses resulting from the indemnified party's liability to the third-party claimant.

(c) Subject to the provisions of Section 7.4(b), the indemnifying party shall have the right to undertake, conduct and control, through counsel of its own choosing and at the sole expense of the indemnifying party, the defense of a claim or legal proceeding brought by a third party. At the expense and request of the indemnifying party, the indemnified party shall cooperate in connection with such defense; the indemnified party shall otherwise be entitled to participate in (but not control) the defense of the claim or legal proceeding at its own expense. So long as the indemnifying party is defending the claim or legal proceeding in good faith and on a reasonable basis, and so long as the indemnified party does not incur any Losses by reason of the defense of the claim or legal proceeding, the indemnified party shall not pay or settle the

claim or legal proceeding. Notwithstanding the foregoing, the indemnified party shall have the right to pay or settle the claim or legal proceeding at any time, provided that in such event the indemnified party shall waive any right to indemnity therefor by the indemnifying party. The indemnifying party shall not settle the claim or legal proceeding without the written consent of the indemnified party, which shall not be unreasonably withheld; provided, however, that the indemnified party shall not be required to give its consent unless the third-party claimant delivers to the indemnified party an unconditional release of all liability with respect to the claim or legal proceeding.

7.5 ADDITIONAL INDEMNIFICATION LIMITATIONS.

(a) The maximum aggregate indemnification obligation of the Shareholders under this Agreement shall not exceed Four Million Fifty Thousand Dollars (\$4,050,000), and the maximum aggregate indemnification obligation of Calavo under this Agreement shall not exceed Four Million Fifty Thousand Dollars (\$4,050,000).

(b) No claims shall be made by Calavo for indemnification from the Shareholders pursuant to Section 7.2(a), 7.2(c), and/or 7.2(d) unless and until the aggregate amount of the Losses incurred by Calavo exceeds Fifty Thousand Dollars (\$50,000), in which event Calavo shall become entitled to full indemnification for all of its Losses.

(c) No claims shall be made by the Shareholders for indemnification from Calavo pursuant to Section 7.3(a) and/or 7.3(c) unless and until the aggregate amount of the Losses incurred by the Shareholders exceeds Fifty Thousand Dollars (\$50,000), in which event the Shareholders shall become entitled to full indemnification for all of their Losses.

(d) The indemnification limitations described in Section 7.5(b) and 7.5(c) shall not apply to a claim that is made under Section 7.2(b) or 7.3(b) based upon an alleged breach of, or failure to perform, any agreement of Calavo or a Shareholder.

(e) The amount of any recovery by an indemnified party pursuant to this Article 7 shall be net of any insurance proceeds actually received by the indemnified party (but not to the extent that such proceeds are repaid by the indemnified party through increased insurance premiums).

(f) This Agreement sets forth the sole and exclusive remedies of Calavo, on the one hand, and of the Shareholders, on the other hand, for a breach of this Agreement by the other party.

ARTICLE 8 GENERAL PROVISIONS

8.1 NOTICES. All notices and other communications required or permitted by this Agreement to be given by one party to another party shall be delivered in writing, by registered or certified United States mail (postage prepaid and return receipt requested), by reputable overnight delivery service, or by facsimile transmission, to the address for the party appearing in Exhibit 8.1 (or such other address or facsimile number as the party may designate to the other parties to this Agreement). Any such notice or communication that is sent in the foregoing

manner shall be deemed to have been delivered upon actual receipt by facsimile transmission, or three days after deposit in the United States mail or one day after delivery to an overnight delivery service.

8.2 AMENDMENTS AND TERMINATION; ENTIRE AGREEMENT. This Agreement may be amended or terminated only by a writing executed by each party hereto. Together with the exhibits and schedules to this Agreement, this Agreement constitutes the entire agreement of the parties relating to the subject matter hereof and supersedes all prior oral and written understandings and agreements relating to such subject matter.

8.3 INCORPORATION OF EXHIBITS AND SCHEDULES. All exhibits and schedules that are attached to this Agreement are incorporated into this Agreement and shall be deemed to be part of this Agreement.

8.4 SUCCESSORS AND ASSIGNS. This Agreement shall be binding upon, and shall benefit, the parties hereto and their respective successors and assigns. Notwithstanding the foregoing, (i) the rights and obligations of the Shareholders hereunder are not assignable to another person without Calavo's prior written consent, (ii) the Shareholders may not sell, assign or otherwise transfer any Calavo Merger Shares except in accordance with the terms and conditions of this Agreement, and (iii) the rights and obligations of Calavo hereunder are not assignable to another person without the Shareholders' prior written consent, except that Calavo may assign its rights and obligations hereunder without obtaining such consent in connection with Calavo's merger with and into another corporation or in connection with the sale of all or substantially all of Calavo's assets or capital stock to another person, provided that such other person assumes in a writing delivered to the Shareholders all of the obligations of Calavo to the Shareholders provided in this Agreement. Subject to the preceding sentences of this paragraph, this Agreement is not intended to benefit any person, or to be enforceable by any person, other than the parties to this Agreement.

8.5 CALCULATION OF TIME. Wherever in this Agreement a period of time is stated in a number of days, unless otherwise stated it shall be deemed to mean calendar days starting with the first day after the event or delivery of notice and ending at the end of the last day of the applicable time period. However, when any period of time so stated would end upon a Saturday, Sunday or legal holiday, such period shall be deemed to end upon the next day following that is not a Saturday, Sunday or legal holiday.

8.6 FURTHER ASSURANCES. Each party to this Agreement shall perform any further acts and execute and deliver any further documents that may be requested by another party and that are reasonably necessary to carry out the provisions of this Agreement.

8.7 PROVISIONS SUBJECT TO APPLICABLE LAW. All provisions of this Agreement shall be applicable only to the extent that they do not violate any applicable law, and are intended to be limited to the extent necessary so that they will not render this Agreement invalid, illegal or unenforceable under any applicable law. If any provision of this Agreement or any application thereof shall be held to be invalid, illegal or unenforceable, the validity, legality and enforceability of other provisions of this Agreement or of any other application of such provision shall in no way be affected thereby.

8.8 WAIVER OF RIGHTS. No party to this Agreement shall be deemed to have waived any right or remedy that it has under this Agreement unless this Agreement expressly provides a period of time within which such right or remedy must be exercised and such period has expired or unless such party has expressly waived the same in writing. The waiver by any party of a right or remedy hereunder shall not be deemed to be a waiver of any other right or remedy or of any subsequent right or remedy of the same kind.

8.9 HEADINGS; GENDER AND NUMBER; PERSON. The headings contained in this Agreement are for reference purposes only and shall not affect in any manner the meaning or interpretation of this Agreement. Where appropriate to the context of this Agreement, use of the singular shall be deemed also to refer to the plural, and use of the plural to the singular, and pronouns of one gender shall be deemed to comprehend either or both of the other genders. The terms "hereof," "herein," "hereby" and variations thereof shall, whenever used in this Agreement, refer to this Agreement as a whole and not to any particular section hereof. The term "PERSON" refers to any natural person, corporation, partnership, limited liability company or other association or entity.

8.10 COUNTERPARTS. This Agreement may be executed in two or more counterparts, and by each party on a separate counterpart, each of which shall be deemed an original but all of which taken together shall constitute but one and the same instrument. This Agreement may be executed by facsimile.

8.11 PREPARATION OF THIS AGREEMENT. In the event of any dispute regarding this Agreement, no presumption or burden of proof shall be imposed on any party by reason of the preparation of this Agreement by its counsel.

8.12 GOVERNING LAWS. This Agreement shall be governed by, and construed and enforced in accordance with, the internal laws of the State of California without giving effect to such state's conflict-of-law principles.

8.13 ARBITRATION OF DISPUTES; JURY TRIAL WAIVER.

(a) To the fullest extent permitted by law, all disputes arising between two or more parties concerning the interpretation or enforcement of this Agreement shall be submitted to final and binding confidential arbitration, before one arbitrator, in accordance with the applicable Comprehensive Arbitration Rules and Procedures of the Judicial Arbitration Mediation Service, or its successor by law ("JAMS"), in effect on the date of such arbitration. All arbitration proceedings shall be conducted in Los Angeles, California and shall be administered by JAMS. Each party consents to such venue and jurisdiction and agrees that personal jurisdiction over such party for purposes of the arbitration proceeding or for any court action that is permitted by this Agreement may be effected by service of process addressed and delivered as provided in Section 8.1. A party shall be entitled to initiate an arbitration proceeding if a dispute cannot be resolved amicably within twenty days after the other party or parties have been notified in writing of the existence of the dispute. The parties shall attempt to agree upon the arbitrator, who shall be a retired California state or federal court judge from the Los Angeles, California office of JAMS. If the parties cannot agree upon an arbitrator within fifteen days after the matter is submitted for arbitration, a retired California state or federal court

judge from the Los Angeles, California office of JAMS promptly shall be appointed in accordance with the applicable rules of JAMS to serve as the sole arbitrator.

(b) The arbitrator hereby is instructed to interpret and enforce this Agreement in strict accordance with its terms, and the arbitrator shall not have the right or power to alter or amend any term of this Agreement except to the limited extent expressly provided above in Section 8.7, entitled Provisions Subject to Applicable Law. The arbitrator is required to apply applicable substantive law in making an award, and the arbitrator's award shall contain a written statement that summarizes the reasons for the award. An award of the arbitrator that is in violation of the requirements of either of the two immediately preceding sentences shall constitute an action that exceeds the arbitrator's power under this Agreement and, as such, may be vacated by a court of competent jurisdiction.

(c) The arbitrator's award may be enforced in any court of competent jurisdiction. Except as provided in Section 8.14, the fees of the arbitrator and all other related JAMS fees and costs shall be divided evenly among the parties to the dispute. Notwithstanding the foregoing, each party is entitled to bring an action for temporary or preliminary injunctive relief at any time in any court of competent jurisdiction in order to prevent immeasurable and irreparable injury that might result from a breach of this Agreement.

(d) Each party agrees that all rights to a trial by a jury of any claim arising out of or relating to this Agreement are forever and absolutely waived.

8.14 ATTORNEYS' FEES AND OTHER EXPENSES. The unsuccessful party to any arbitration proceeding or to any court action that is permitted by this Agreement shall pay to the prevailing party all costs and expenses, including, without limitation, reasonable attorneys' fees, incurred therein by the successful party, all of which shall be included in and as a part of the award rendered in such proceeding or action. For purposes of this Section 8.14, attorneys' fees shall include, without limitation, fees incurred in connection with post-judgment and post-award actions.

[signature page follows]

IN WITNESS WHEREOF, Calavo, Newco, Maui Fresh and the Shareholders have executed and delivered this Agreement as of the date first above written.

CALAVO GROWERS, INC.

By: /s/ Lecil E. Cole

Lecil E. Cole, Chief Executive Officer

CALAVO ACQUISITION, INC.

By: /s/ Lecil E. Cole

Lecil E. Cole, Chief Executive Officer

MAUI FRESH INTERNATIONAL, INC.

By: /s/Arthur J. Bruno

Arthur J. Bruno, Chief Executive Officer

/s/ Arthur J. Bruno

ARTHUR J. BRUNO

/s/ Robert J. Bruno

ROBERT J. BRUNO

/s/ Javier M. Badillo

JAVIER M. BADILLO

The Agreement and Plan of Merger, as shown in Exhibit 2.2 of this Form 10-K, omits the schedules and exhibits described on the following table. We will provide any omitted schedule to the Securities and Exchange Commission upon request.

EXHIBIT OR SCHEDULE NUMBER	DESCRIPTION
Schedule 2.1	Articles of Incorporation and Bylaws
Schedule 2.2	Beneficial owners
Schedule 2.9	Interested shareholders.
Schedule 2.10	Unaudited consolidated balance sheet of Maui Fresh
Schedule 2.13	Accounting practices
Schedule 2.15	Leases of real property
Schedule 2.16	Leases of personal property
Schedule 2.17	Other assets
Schedule 2.18	Accounts
Schedule 2.19	Insurance
Schedule 2.21	Loans
Schedule 2.22	Material agreements
Schedule 2.27	Intellectual property
Schedule 2.29	Employment agreements
Exhibit 4.11A	Employment/Severance agreement with Arthur J. Bruno.
Exhibit 4.11B	Employment/Severance agreement with Javier M. Badillo.
Exhibit 8.1	Addresses for notices

INDEPENDENT AUDITORS' CONSENT

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 22, 2004 appearing in this Annual Report on Form 10-K of Calavo Growers, Inc. for the year ended October 31, 2003.

/s/ Deloitte & Touche LLP
Costa Mesa, California
January 22, 2004

CERTIFICATION PURSUANT TO
15 U.S.C. Section 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 22, 2004

/s/ Lecil E. Cole

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

CERTIFICATION PURSUANT TO
15 U.S.C. Section 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 22, 2004

/s/ Arthur J. Bruno

Arthur J. Bruno
Vice President, Finance and Corporate Secretary

CERTIFICATION PURSUANT TO
18 U.S.C. Section 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 period ended October 31, 2003, 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. Section 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 22, 2004

CERTIFICATION PURSUANT TO
18 U.S.C. Section 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 period ended October 31, 2003, as filed with the Securities and Exchange Commission (the "Report"), I, Arthur J. Bruno,, Vice President, Finance and Corporate Secretary of the Company, certify, pursuant to 18 U.S.C. Section 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

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Arthur J. Bruno
Vice President, Finance and Corporate Secretary
January 22, 2004