Fruitful & Multiplying

Calavo Growers Inc. 2007 Annual Report

Calavo

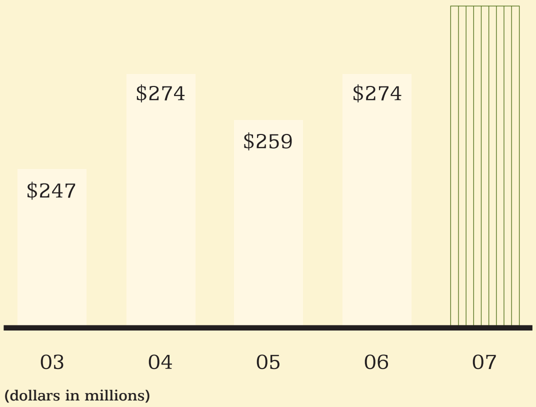
It began with a single seedling...

1
avocado

80-plus years as a brand synonymous with quality

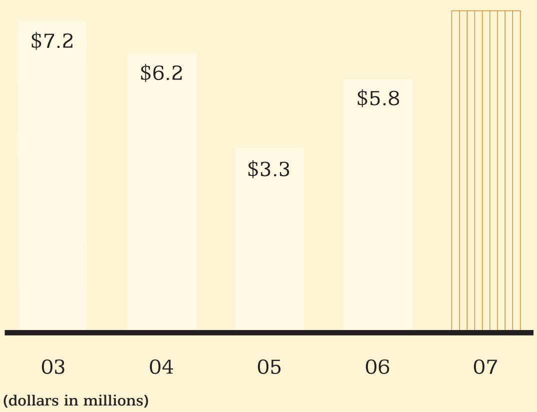
Like many great success stories, this is a story about numbers, great numbers. But while fiscal 2007 was Calavo's most fruitful year ever—boasting record operating profits across the board—ours is a numbers story that begins and ends with just "1". It's a saga long since committed to agricultural lore, spawned by a member-owned cooperative called the California Avocado Growers Exchange. Now, multiply that 1 small co-op by 80-plus years and you have today's publicly traded Calavo Growers, Inc.—the #1 packer and distributor of avocados in the world. Today, with over 2,300 California growers to our name, strong alliances with farmers from Mexico to Chile, three packinghouses, a gleaming processed-products plant and a world-class distribution system, we're multiplying our capabilities like never before. Still, there's even more to this equation. We are diversifying at an exponential rate—folding in a veritable green grocery of other fresh produce with the sterling Calavo name, from our already robust business in papayas to tomatoes, pineapples, mushrooms and more. And yet, as fruitful as our story becomes, it will always start and end with "1"—1 avocado, 1 company and 1 brand. A brand that is synonymous with quality—Calavo.

Revenue



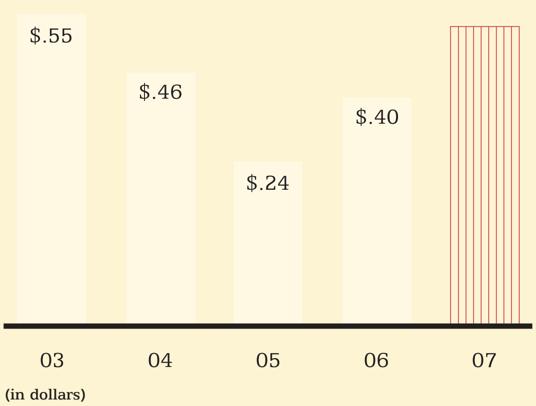
$303

Net Income



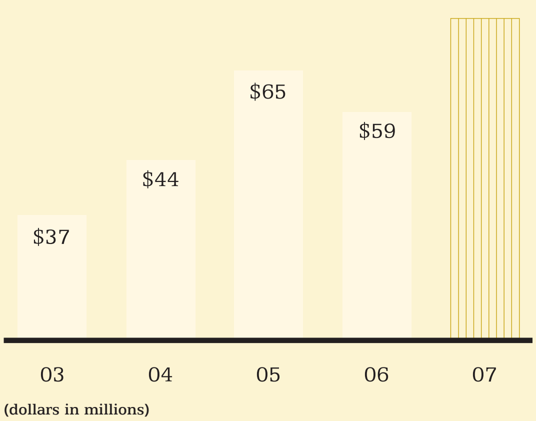
$7.3

Earnings Per Share



$.51

Shareholders’ Equity



$74

Our most fruitful year ever~

records, accomplishments and highlights

~ Calavo revenues, gross margin, operating income and net income vault to new historic highs in fiscal 2007.

~ Processed-product segment sales surge 13 percent fueled by continued demand by blue-chip retail and foodservice customers for our fresh, refrigerated guacamole.

~ Our national system of Value Added Depots completes its first year in operation, enjoying acceptance from customers who require premium services and enhanced overall distribution.

~ We enter the branded-tomato business via an agreement reached last August, which is expected to add $20-25 million to our top line in fiscal 2008.

~ Calavo becomes the exclusive North American marketer and distributor of Maui Gold® pineapples and, in concert with its papaya business, is now the largest provider of fresh tropical produce grown in Hawaii.

~ A pact signed subsequent to the close of fiscal 2007 expands Calavo into the branded-mushroom business on the Pacific Coast and in adjacent western states.

...evolved into global category leadership...

We are, at our heart, an avocado company—always have been, always will be. Following a record California avocado crop in fiscal 2006, the most recent year witnessed a cyclically smaller harvest further impacted by extensive winter frosts across the state.

A year like fiscal 2007 could be potentially devastating but Calavo, as our results attest, came out the other side stronger than ever. We turned to sources in Mexico for fresh avocados to make up this shortfall and met year-round demand. Nothing validates our cross-border strategy better than Calavo's ability to step up supply of high quality fresh avocados as need dictates. And very gratifying to us, our California growers, though delivering fewer pounds, enjoyed very strong returns on their harvests last year.

Diversification initiatives are a concerted effort to insulate our core California avocado business from inherent fluctuations—whether they be wildfires or winter frosts. Calavo will be better positioned to weather unexpected downturns in any particular segment as a more broadly based, diversified company. But at our heart, we're an avocado company first, an avocado company always.


Calavo

...took us to exotic, tropical locations...

65%

market share of Hawaiian **papayas** exported to U.S. mainland

Calavo's drive into diversified commodity-produce categories—a cornerstone of our company's dynamic growth strategy—traces to far-earlier roots in fresh Hawaiian papayas. Since 1949, in fact, Calavo has marketed Hawaiian papayas, grown on rolling slopes of sun-baked volcanic soil of the Big Island's eastern shore. We are today the number one distributor of this variety—renowned for its sweet-tasting, vibrant-yellow flesh—handling approximately 65 percent of Hawaiian papayas packed for export to the mainland United States.

This translates to approximately 10 to 15 million pounds per year of fresh Hawaiian papayas, named among the "fantastic fruits" by the respected Center for Science in the Public Interest: nutrient-rich and laden with heart-healthy antioxidants. It complements an array of other tropical-produce products marketed under the Maui Fresh brand, acquired by us in 2003. With this broad and deep island-produce portfolio, our company was ideally positioned to assume exclusive North American distribution for Maui Gold® pineapples, which began in December 2007. With that move, Calavo has become the leading distributor and marketer of fresh tropical produce grown in the Hawaiian Islands.

...enabled expansion into high-growth categories...

25
million lbs. of
tomatoes in fiscal 2008

The Calavo name has gained tremendous consumer awareness as a trusted brand that is synonymous with quality. Thus, in a major new initiative, we're excited to begin selling Calavo-brand tomatoes to retail and foodservice customers throughout the U.S. Nationwide distribution will utilize Calavo's solid infrastructure with our three strategically-located value-added depots and two market locations.

The new product is expected to generate a first-year sales contribution of $20 to $25 million and truly represents a major growth opportunity. Americans consume more than 19 pounds per capita. Over 80 percent of U.S. households purchase tomatoes and 40 percent buy them weekly. For retailers, tomatoes rank among the top three contributors to the produce department, with sales up 55 percent since 1999. Tomatoes are increasingly seen as a nutritional powerhouse, and new varieties and year-round availability are also spurring category growth. Traditionally merchandised in close proximity to avocados, this should further enhance sales and consumer acceptance of Calavo-brand tomatoes.

...capitalized on our distribution strengths ...

$30

million in fiscal 2008

pineapple sales

Securing exclusive rights to sell, market and distribute Maui Gold® fresh pineapples throughout the continental United States and Canada clearly was a major coup in our accelerating fresh-products diversification strategy. Our focus is on profitable growth by folding in products of the highest quality and Maui Gold® fully meets our exacting criteria in all respects. We expect it will add $25 to $30 million in new sales and contribute immediately to bottom line results.

Developed after years of exhaustive research, Maui Gold® is nothing short of the world's best pineapple—naturally sweet and delicious with an appealing aroma and beautiful golden color, plus extraordinary nutritional value with three times the Vitamin C content of ordinary pineapples. Maui Gold® is an excellent complement to our market leadership in Hawaiian-grown Hawaiian papayas and makes us the largest distributor and marketer of fresh produce grown in Hawaii.

...literally made our business mushroom...

$8
million in fiscal 2008
mushroom sales

Calavo mushrooms are the latest addition to our expanding portfolio with distribution targeted to the retail trade and food-service operators on the Pacific Coast and adjacent states where product consumption is particularly high. Initially, we will be offering the most popular varieties, packaged and sliced, along with limited exotics. We expect this initiative to generate approximately $7 to $8 million in new revenues in the coming fiscal year.

According to government statistics, mushroom consumption has been on the rise over the past several decades with per capita consumption quadrupling since 1965. Consumers appreciate the mushroom’s ability to add flavor, taste and texture to meals in a low-fat, low-calorie manner, along with essential amino acids, vitamins and minerals.

Our diversification strategy leverages our well-established customer relationships, solid nationwide distribution infrastructure, robust sales team, marketing expertise and powerful brand identity. We will continue to evaluate additional high-quality, complementary product opportunities with the potential for profitable growth.




...spurred breakthrough product innovations...

$41.7

million in fiscal 2007

processed product sales

Calavo's processed-products operating unit possesses all the right ingredients: a world-class manufacturing facility; blue-chip customers; and great-tasting products. It's an equation that simply adds up. Our Uruapan, Michoacán production facility—located strategically at the center of Mexico's avocado-growing region—in fiscal 2007 continued to ratchet up further advancements that position us well in the marketplace.

The addition last year of a second large ultra-high-pressure machine pushes manufacturing capacity for our extremely popular fresh refrigerated guacamole to more than 30 million pounds. Revenues continue to move northward in the processed unit, too, to registering more than $41 million, propelled principally by increased sales of ultra-high-pressure guacamole to both retail and foodservice customers. The interesting side effect: this great product spurs higher sales of other processed items such as—frozen avocado halves and pulp.

Although foodservice customers currently make up the bulk of the ultra-high-pressure business, retail is increasing in share. In the coming year, our fresh refrigerated guacamole will be found in more than 1,500 Safeway Inc. stores, marketed under the Safeway Signature label, and our Calavo label products will be in the entire Whole Foods Market chain.

$41.7 2007

Revenue (dollars in millions)

$37.0 2006

Revenue (dollars in millions)

$28.5 2005

Revenue (dollars in millions)

21% CAGR

Processed Products

...while seamlessly sourcing, marketing and selling with worldwide reach...

4 continents

16

countries 2 islands

Avocados sourced from California, Mexico and Chile. Add to that our fresh papayas from the Big Island, Maui Gold® pineapples and other tropical produce grown in Hawaii. Our branded tomatoes and Hispanic specialty items make their way from Mexico, while multiple mushroom varieties are cultivated and packed for us in western Canada. A mind-boggling array of global logistics goes into bringing the highest-quality fresh produce items to market under the Calavo brand.

Yet we manage this fast-paced sourcing and selling process with streamlined efficiencies. Three avocado packinghouses, an equal number of Value Added Depots (VADs), a terminal market and sales offices, keep our distribution system—one of the pillars to our growth—simply humming. As a result, Calavo products not only are sourced, marketed and sold throughout the United States and Canada, but as far away as Asia and Europe—to 16 countries on four continents in all.

For a genuine fiscal 2007 success story consider the first full year of operation at our three VADs—strategically placed across the United States to provide us a national blanket of distribution coverage. From them come our ProRipeVIP™ line-up of products, which enjoy high levels of acceptance by discriminating customers who require premium services and are proving a boon to Calavo profitability.


HATSU ELITE


CHINA SHIPPING
CHINA SHIPPING
ZIM
GENSTAR
QUAY LOADING RESTRICTION
CONTAINERS MAY NOT BE STACKED OVER TWO HIGH

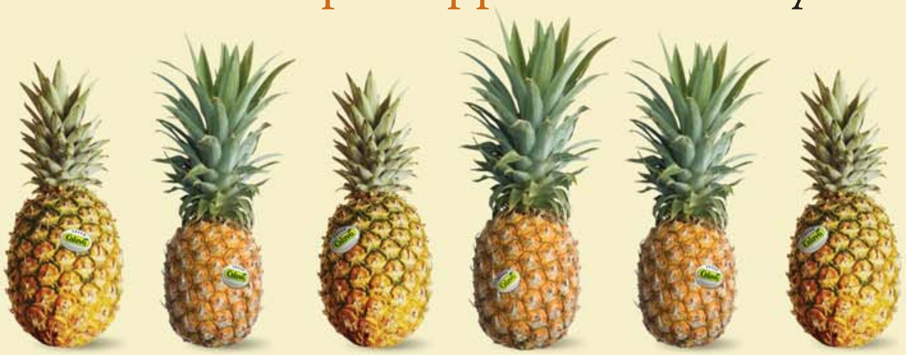
...it's an equation that simply adds up—

global avocado industry leadership

the #1 marketer of Hawaiian papayas

25 million lbs. of tomatoes

the sweetest pineapples found anywhere



mushrooms of many varieties

= a Calavo brand renowned for quality

Nearly 85 years ago a small cooperative of California avocado growers multiplied their efforts to create an entire industry and the great success story that has become today's Calavo. Throughout this history, quality—first and foremost—has been the cornerstone of our brand and key to the exceptional loyalty the Calavo name engenders among customers and consumers alike. It is, in fact, our relentless commitment to these high standards that continues to bear fruit—from the burgeoning cornucopia of fresh produce branded with the Calavo label to fiscal 2007's record operating results. Still, there are more opportunities to cultivate: The same principles that made us the worldwide leader in avocados will bear even more fruit as we enter new categories. Because ours is a mandate for growth and diversification that is borne with one end in mind: Building long-term value for you, our shareholders. And that's why—at Calavo—we will always be…

…fruitful and multiplying.

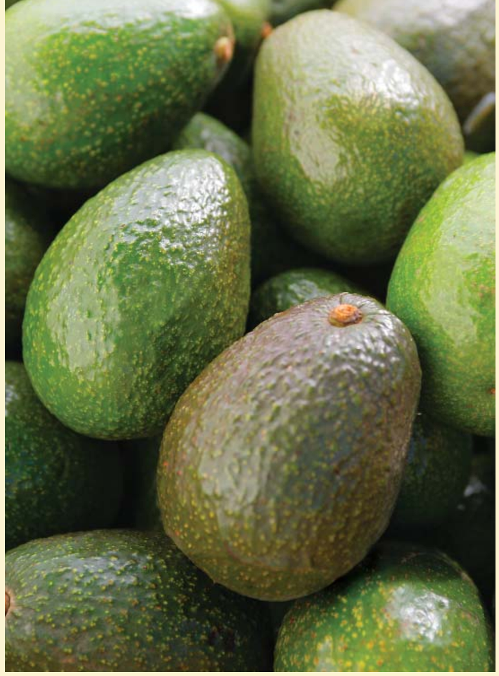
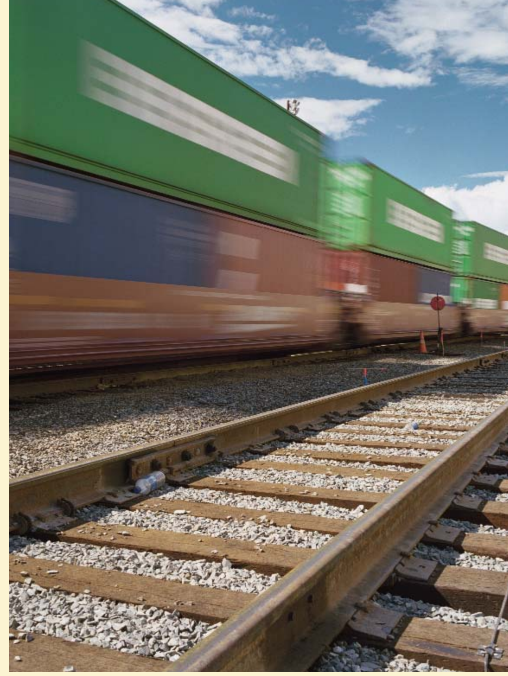
Now, here are more reasons to believe in Calavo...

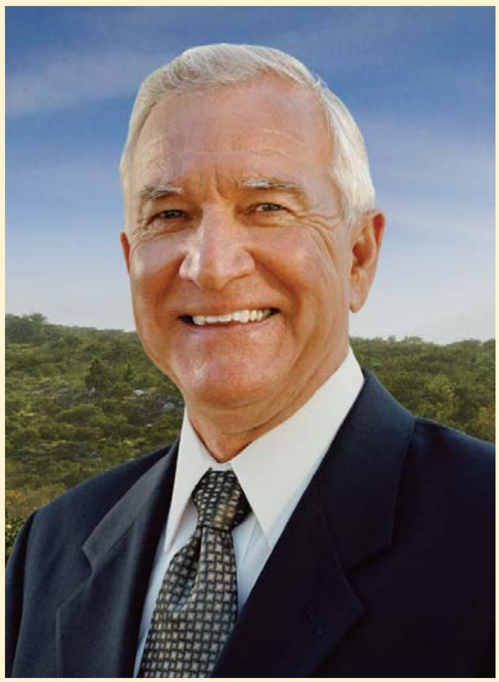
to our nearly 3,000 shareholders

I historically devote this space to a recap and analysis of the recently concluded year. For those looking forward to that, I will not disappoint, because fiscal 2007 was a great year for Calavo Growers. Our company registered record operating results, setting new all-time highs across nearly all key metrics.

Instead of dwelling excessively in the past, however, I want the focus of this communication to be forward-looking with eyes trained squarely on the future. Specifically, Calavo's course moving ahead and the profound, positive implications of our series of agreements effected during and immediately subsequent to fiscal 2007. This expansion beyond avocados and papayas—adding initially tomatoes, pineapples and mushrooms—offers an impetus for growth, extending our respected brand name across a cornucopia of other fresh produce products and affording new opportunities for our established core businesses. Particularly impressive, our company implemented this aggressive strategic agenda while delivering these record-breaking operating results, which makes last year doubly gratifying. It's as exciting a time as any in Calavo's 84-year history—indeed fruitful and multiplying—and I am delighted to weigh in with my perspective.

finacial review: our most fruitful year Turning first to the fiscal year ended October 31, 2007, our company posted record net income of $7.3 million, equal to $0.51 per diluted share, an increase of 27 percent from $5.8 million, or $0.40 per diluted share in fiscal 2006. Revenues advanced 11 percent to $303.0 million, a new all-time high, from $273.7 million the previous year. Gross margin climbed nine percent to a record $31.8 million from $29.1 million in fiscal 2006.





Operating income jumped from $9.3 million to $12.0 million in the most recent year, a jump of 29 percent to reach a new historic level. Income from operations clearly benefited from Calavo's rigorous cost-containment discipline, which resulted in sales, general and administrative (SG&A) expense actually decreasing slightly from fiscal 2006, even as we grew net sales by $29.3 million. As a result, SG&A as percentage of total revenues dropped nearly 100 basis points from 7.2 percent to 6.5 percent in the most recent year.

Calavo's financial condition is exceptionally strong: We possess a flexible balance sheet with considerable capacity for leverage, specifically for strategic acquisition opportunities that we evaluate routinely and remain an integral component of our growth agenda. Shareholders' equity totaled $74.0 million at the close of fiscal 2007, up 26 percent from $58.9 million one-year earlier. This translates to book value per common share of $5.15 versus $4.12 per common share at fiscal 2006 year end.

In recognition of these outstanding results, our board of directors increased the annual cash dividend on our common stock by nine percent to $0.35 per share, which was paid in January 2008. As point of considerable note, our company's cash dividend has risen 75 percent since Calavo became publicly traded company in 2002.

fresh and processed avocados: growth begins here Consumer demand is an interesting phenomenon: Once established it does not quickly disappear. Let me share two examples of how this relates to Calavo's fresh avocado operations.

First, programs to stimulate avocado consumption—including making ready-to-eat fruit widely available to consumers—are integral revenue-growth drivers in our core business unit. With Calavo's network of Value Added Depots (we call them VADs) fully in place last year, enabling seamless national distribution coverage, we redoubled emphasis on premium programs and services, namely our ProRipeVIP™, avocado preconditioning and bagged-fruit initiatives. ProRipeVIP™ technology is truly unparalleled in our industry and attracts the most-desired customers who are willing to pay a premium for superior fruit. This top-tier portion of the business grew a staggering 152 percent last year and accounts for a rapidly increasing percentage of our overall avocado sales. Similarly, we shipped more than 10 million individual bags of avocados in fiscal 2007—an impressive and steadily rising figure. To meet this growing demand, plans are already in motion to expand capacity at our existing VADs by 50 percent, including the addition of more ripening capabilities, as Calavo pushes further into value-added services. More facilities—adding to the network of VADs—are presently under consideration, too. We anticipate incremental revenue and profit contribution from these value-added programs to accelerate moving forward, as we strive to satisfy demand from hungry avocado devotees.

This second case illustrates how Calavo is well-positioned to gear up avocado supply in even the most challenging circumstances. A cyclically smaller California avocado crop last year—approximately 260 million pounds—further impacted by catastrophic winter frosts and fall wildfires, followed a record harvest in 2006 more than double that size. During that earlier 600-million-pound harvest, of which Calavo packed about 35 percent of all California avocados, mouths were found for every piece of fruit. Once hooked, these same consumers continue to clamor for fresh avocados largely unaware the crop size dropped by half. Product demand remains constant and unabated.

Nothing validates Calavo's Mexican avocado operations and multiple-source business model more vividly than the ability to adapt to last year's industry challenges without missing a beat. With the ebb in California avocados, we kicked up volumes through our Uruapan, Michoacán packinghouse to satisfy demand. In all, Calavo's total fresh avocado sales rose 10 percent last year and, despite the diminished California crop, our growers here enjoyed extremely strong returns for their fruit.

On the processed avocado side, this operating segment remains a source of considerable personal pride. While we were challenged somewhat last year by margin pressures resulting from high Mexican avocado prices, top-line growth continued to be solid. Compound annual revenue growth in our processed products unit has averaged 21 percent over the past three fiscal years. It's a testament to a streamlined manufacturing process, outstanding products and aggressive sales and marketing—we've brought this unit a long way. In a section elsewhere in this book you can find more about our expanding production capacity and growing customer base. It's a good read.

the case for diversification So now the commonly asked question: With dominant market positions in both fresh and processed avocados, is Calavo turning away from its core businesses by diversifying? The answer, in a word, is a resounding **no**! Expanding into new commodity-produce classifications actually fortifies our avocado business considerably. Opportunities increase to cross-sell avocados to customers procuring other fresh-produce items. We build a protective moat around our largest operating unit—fresh avocados—creating a more broadly based business better situated to weather unexpected downturns in any particular segment and which are inherent to this industry.

This management's mandate has always been intelligent growth acquired on favorable terms that is immediately accretive to earnings and, in turn, can further enhance shareholder value. It's a highly disciplined approach: We take a lot of "passed balls" before ultimately "swinging at the right pitch." Our recent agreements—with Agricola Belher for tomatoes, Maui Pineapple Co. and Farmers' Fresh Mushrooms—provide blueprints for future diversification deals. We leverage our truly world-class sales and distribution capabilities—including considerable resources of the aforementioned VADs—allowing us to fold-in and market virtually any fresh commodity product with comparatively few incremental costs.

With systems and infrastructure already in place, such distributions deals require no further capital expenditures and offer the potential to immediately bolster Calavo's top and bottom lines. And, with an expanding plate of product offerings, we make ourselves increasingly indispensable to customers seeking a single source for multiple commodity-produce items. Further, this formula presents a myriad of potential line extensions as we diversify—we're eager to put the Calavo name on more products and the possibilities are vast. One absolute remains the company's abiding commitment to and reputation for quality. New product classifications offer fertile opportunities to unlock Calavo's formidable brand equity—but we are judicious to place our well-respected name only on products that meet uniformly high standards for excellence. There never will be simply growth for growth's sake.

clear vision and able execution Branded-tomato, pineapple and mushroom sales are anticipated to contribute somewhere between $52 million to $68 million in our current fiscal year ending October 31, 2008. In concert principally with anticipated growth in our fresh and processed avocado business, I am confidently forecasting revenues to increase by 25 percent over fiscal 2007.

Moreover, our management team has set an ambitious growth plan in motion—the initial evidences of which I shared above—that will seek compound growth in revenues of 25 percent per year for the next five years. At that rate, Calavo is on target to become a company with sales approaching $1 billion by the end of fiscal 2012. It's a bold vision, to be sure, but an attainable one. Our plan for getting there will remain a disciplined combination of internal growth, folding in of additional commodity-produce items and an eye trained on opportunistic acquisitions. I am certain our operating expertise, not to mention significant financial, human and strategic resources, will serve us well in achieving this goal. As I wrote at the outset, it is an exciting time and I am deeply honored to lead Calavo at this pivotal juncture in its history.

In closing, let me extend sincere thanks to our management team and employees for their tireless hard work and dedication—each of you pulls the "laboring oars" that have made our current and future success possible. Our estimable board of directors provide counsel and judgment for which I am enormously grateful. To our customers, I thank you for continued patronage and commitment to the brand. My most profound appreciation goes to our loyal shareowners—new and old. This is your company and I and my colleagues remain committed to building an even stronger, more valuable Calavo.

Sincerely,

Lee Cole

Lee E. Cole
Chairman, President and Chief Executive Officer
March 4, 2008

board of directors

left to right

Harold S. Edwards
President and Chief Executive Officer
Limoneria Company
Santa Paula, California

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

John M. Hunt
Manager, Embarcadero Ranch
Goleta, California

Egidio "Gene" Carbone, Jr.
Retired Chief Financial Officer
Calavo Growers, Inc.

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

Donald "Mike" Sanders
President, S&S Grove Management
Escondido, California

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

Dorcas H. McFarlane
Owner and Operator, J.K. Thille Ranches
Santa Paula, California

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

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

Alva V. Snider
Avocado Grower
Fallbrook, California

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

Alan Van Wagner
President and Chief Executive Officer
Turners Machinery Inc.
Santa Paula, California

...and stronger financial results than ever .

financial table of contents

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

The following summary consolidated financial data (other than pounds information) for each of the years in the five-year period ended October 31, 2007 are derived from the audited consolidated financial statements of Calavo Growers, Inc.

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

Fiscal Year Ended October 31, (In thousands, except per share data)	2007	2006	2005	2004	2003
Income Statement Data:(1)					
Net sales	$302,984	$273,723	$258,822	$ 274,218	$ 246,761
Gross margin	31,772	29,084	21,734	25,404	25,465
Net income	7,330	5,788	3,322	6,210	7,160
Basic and diluted net income per share	$ 0.51	$ 0.40	$ 0.24	$ 0.46	$ 0.55
Balance Sheet Data as of End of Period:					
Working capital	$ 16,334	$ 12,023	$ 17,618	$ 20,353	$ 20,735
Total assets(4)	128,018	107,563	108,482	67,398	53,689
Short-term debt(4)	1,307	1,308	1,313	22	24
Long-term debt, less current portion(2)(4)	13,106	10,406	11,719	34	61
Shareholders' equity(4)	74,003	58,943	64,746	43,937	37,147
Cash Flows Provided by (Used in):					
Operations	$ 4,629	$ 7,819	$ 5,568	$ 4,460	$ 15,222
Investing(3)(4)(5)	(7,950)	(4,663)	(11,941)	(8,474)	(4,475)
Financing(4)	4,238	(4,239)	6,870	(725)	(6,293)
Other Data:					
Dividends per share	$ 0.35	$ 0.32	$ 0.32	$ 0.30	$ 0.25
Net book value per share	$ 5.15	$ 4.12	$ 4.51	$ 3.25	$ 2.87
Pounds of California avocados sold	91,038	218,460	104,950	152,725	122,950
Pounds of non-California avocados sold	135,723	70,063	103,830	69,410	70,348
Pounds of processed avocados products sold	22,556	20,489	15,628	13,317	14,707

(1) Operating results for fiscal years 2007, 2006, 2005, and 2004 include the acquisition of Maui Fresh International, Inc. For fiscal years 2007, 2006, 2005, and 2004, Maui's net sales, gross margins, and net income were as follows: (2007) $29.5 million, $2.1 million, and $0.6 million, (2006) $22.1 million, $1.4 million, and $0.2 million, (2005) $21.7 million, $1.1 million, and $0.4 million, and (2004) $19.8 million, $1.4 million, and $0.5 million.

(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 the final $2.8 million in principal under the indenture in September 2003.

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

(4) Total assets, short-term debt, long-term debt, equity, cash flows used in investing activities, and cash flows provided by financing activities for fiscal 2005 include the effect of the stock purchase agreement with Limoneira Company.

(5) During the second and third quarters of fiscal 2007, we advanced $5 million to Agricola Belher pursuant to our distribution and infrastructure agreements. See Note 16 to our consolidated financial statements.

Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion and analysis of our financial condition and results of operations together with Selected "Consolidated Financial Data" and our consolidated financial statements and notes thereto that appear elsewhere in this Annual Report. This discussion and analysis contains forward-looking statements that involve risks, uncertainties, and assumptions. Actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including, but not limited to, those presented under "Risks related to our business" included in our annual report on Form 10-K.

Overview

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

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).

Our Fresh Products business grades, sizes, packs, cools, and ripens (if desired) avocados grown in California for delivery to our customers. We presently operate three packinghouses in Southern California. These packinghouses handled approximately 34% of the California avocado crop during the 2007 fiscal year, based on data obtained from the California Avocado Commission. Our operating results and the returns we pay our growers are highly dependent on the volume of avocados delivered to our packinghouses, as a significant portion of our costs are fixed. Our strategy calls for continued efforts to retain and recruit growers that meet our business model.

Additionally, our Fresh products business also procures avocados grown in Mexico and Chile, as well as other various commodities, including tomatoes, papayas, mushrooms, onions, coconuts, and pineapples. We operate a packinghouse in Mexico that, together with certain co-packers that we frequently purchase fruit from, handled approximately 25% of the Mexican avocado crop bound for the United States market and approximately 7% of the avocados exported from Mexico to countries other than the United States during the 2006-2007 Mexican season, based on our estimates. Additionally, during the 2006-2007 Chilean avocado season, we handled approximately 7% of the Chilean avocado crop, based on our estimates. Our strategy is to procure and sell non-Californian grown avocados to complement our distribution efforts of California grown avocados. We believe that the introduction of these avocados, although competitive at times with California grown avocados, provides a level of supply stability that may, over time, help solidify the demand for avocados among consumers in the United States and elsewhere in the world. We believe our efforts in distributing our other various commodities, such as those shown above, complement our offerings of avocados. From time to time, we continue to explore distribution of other crops that provide reasonable returns to the business.

Our processed products business procures avocados, processes avocados into a wide variety of guacamole products, and distributes the processed product to our customers. Customers include both food service industry and retail businesses and our products primarily include both frozen and "cold pasteurized" fresh guacamole. "Cold pasteurized" fresh guacamole refers to fresh guacamole product that has been treated by one of our ultra high pressure machines. We currently have two 215-liter ultra high pressure machines located in Uruapan, Michoacán, Mexico (Uruapan). These machines utilize ultra high pressure only (i.e. without additives or preservatives) and destroy the cells of any bacteria that could lead to spoilage or oxidation issues.

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

Net sales of frozen products represented approximately 63% and 62% of total processed segment sales for the years ended October 31, 2007 and 2006. Net sales of our ultra high pressure products represented approximately 37% and 38% of total processed segment sales for the years ended October 31, 2007 and 2006.

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

Recent Developments

Dividend Payment

On January 2, 2008, we paid a $0.35 per share dividend in the aggregate amount of $5.0 million to shareholders of record on December 15, 2007.

Revolving Credit Facilities

In July 2007 and October 2007, we renewed and extended our non-collateralized, revolving credit facilities with Farm Credit West, PCA and Bank of America, N.A. These two credit facilities now expire in February 2012 and July 2009. Under the terms of these agreements, we are advanced funds for both working capital and long-term productive asset purchases. Total credit available under these combined borrowing agreements was $30 million, with a weighted-average interest rate of 5.8% and 6.2% at October 31, 2007 and 2006. Under these credit facilities, we had $10.6 million and $3.8 million outstanding as of October 31, 2007 and 2006, of which $4.0 million was classified as a long-term liability as of October 31, 2007. We had no long-term amounts outstanding pursuant to these credit facilities as of October 31, 2006. These credit facilities contain various financial covenants, the most significant relating to working capital, tangible net worth (as defined), and Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) (as defined). We were in compliance with all such covenants at October 31, 2007.

Agreements with Tomato Grower

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

Concurrently, we also entered into an infrastructure agreement in June 2007 with Belher in order to significantly increase production yields and fruit quality. Pursuant to this agreement, we are to advance up to $5 million to be used solely for the acquisition, construction, and installation of improvements to and on certain land owned by Belher, as well as packing line equipment. Advances incur interest at 9.4% at October 31, 2007. We advanced $5.0 million as of October 31, 2007 ($1.0 million included in prepaid expenses and other current assets and $4.0 million included in other long-term assets). Belher is to annually repay these advances in no less than 20% increments through July 2012. In addition, the agreement allows for additional $1.0 million advances to take place during the last five months of each of our fiscal years 2008 through 2010, but they are subject to certain conditions and are to be made at our sole discretion. Belher is to annually repay these advances in full on or before each of July 2008 through July 2010. Interest is to be paid monthly or annually, as defined. Belher may prepay, without penalty, all or any portion of the advances at any time.

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

Agreement with Mushroom Grower

Effective November 2007, we entered into a consignment and marketing agreement with Farmers Fresh Mushroom, Inc (FFMI) to market and sell conventional and organic mushrooms in the United States. FFMI agreed, among other things, to source, pack, and ship product primarily to our customers, but also to any of our distribution centers, at our option. In exchange, we agreed, among other things, to market and sell such product. The agreement specifically calls for FFMI to not actively pursue new business in the United States of America and it also requires that all product sold by us will be packed in our cartons and sold only by us.

The term of this agreement is for 12 months (through October 2008) and automatically renews for a 12-month period on the final day of the agreement, unless terminated, as defined.

Agreement with Pineapple Grower

Effective December 2007, we entered into a consignment and marketing agreement with Maui Pineapple Company, LTD. (MPC), to market and sell Maui Gold Pineapples throughout the continental United States and Canada. MPC agreed, among other things, to source, pack and ship such pineapples to an agreed port of entry. In exchange, we agreed, among other things, to be responsible for such product upon arrival at the port, to market and sell the related product, and to develop and implement marketing strategies aimed at building the Maui Gold brand recognition. The agreement specifically calls for us to be the sole and exclusive source for the sale of Maui Gold Pineapples. Additionally, Maui Gold Pineapples are to be our sole fresh pineapple product.

The agreement calls for us to provide certain advances, as defined, and return the proceeds from such pineapple sales to MPC, net of our commission, fees, and incentives, if applicable. The term of this agreement is for 13 months (through December 2008) and automatically renews for a 12-month period, unless terminated, as defined.

Critical Accounting Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an ongoing basis, we re-evaluate all of our estimates, including those related to the areas of customer and grower receivables, inventories, useful lives of property, plant and equipment, promotional allowances, income taxes, retirement benefits, and commitments and contingencies. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may materially differ from these estimates under different assumptions or conditions as additional information becomes available in future periods.

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

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

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

Income Taxes. Our effective income tax rate and the tax bases of assets and liabilities are based on estimates of taxes which will ultimately be payable. Deferred taxes are recorded to give recognition to temporary differences between the tax bases of assets or liabilities and their reported amounts in the financial statements. Valuation allowances are established when it is deemed, more likely than not, that the benefit of deferred tax assets will not be realized.

Goodwill and acquired intangible assets. Goodwill is tested for impairment on an annual basis and between annual tests whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, in accordance with SFAS No. 142, Goodwill and Other Intangible Assets. Under SFAS No. 142, goodwill is tested at the reporting unit level, which is defined as an operating segment or one level below the operating segment. Goodwill impairment testing is a two-step process. The first step of the goodwill impairment test, used to identify potential impairment, compares the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired, and the second step of the impairment test would be unnecessary. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test must be performed to measure the amount of impairment loss, if any. The second step of the goodwill impairment test, used to measure the amount of impairment loss, compares the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss must be recognized in an amount equal to that excess. Goodwill impairment testing requires significant judgment and management estimates, including, but not limited to, the determination of (i) the number of reporting units, (ii) the goodwill and other assets and liabilities to be allocated to the reporting units and (iii) the fair values of the reporting units. The estimates and assumptions described above, along with other factors such as discount rates, will significantly affect the outcome of the impairment tests and the amounts of any resulting impairment losses. We performed our annual assessment of goodwill and determined that no impairment existed as of October 31, 2007.

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

Results of Operations

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

Year ended October 31,	**2007**	2006	2005
Net sales	100.0%	100.0%	100.0%
Gross margins	10.5%	10.6%	8.4%
Selling, general and administrative	6.5%	7.2%	7.2%
Operating income	4.0%	3.4%	1.2%
Interest Income	0.1%	0.1%	0.1%
Interest Expense	(0.4)%	(0.3)%	(0.2)%
Other income, net	0.2%	0.2%	0.9%
Net income	2.4%	2.1%	1.3%

Net Sales

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

Additionally, we believe that the demographic changes in the U.S. will greatly impact the consumption of avocados and avocado-based products. The Hispanic community currently accounts for approximately 14% of the U.S. population, and the total number of Hispanics is estimated to triple by the year 2050. Avocados are considered a staple item purchased by Hispanic consumers, as the per-capita avocado consumption in Mexico is estimated to be more than seven-fold that of the U.S.

We anticipate avocado products will further penetrate the United States marketplace driven by growth in the Hispanic community and general acceptance in American cuisine. As the largest marketer of avocado products in the United States, we believe that we are well positioned to leverage this trend and to grow all segments of our business. Additionally, we also believe that avocados and avocado based products will further penetrate other marketplaces that we currently operate in, as interest in avocados continues to expand.

In October 2002, the USDA announced the creation of a Hass Avocado Board to promote the sale of Hass variety avocados in the U.S. marketplace. This board provides a basis for a unified funding of promotional activities based on an assessment on all avocados sold in the U.S. marketplace, including imported and California grown fruit. The California Avocado Commission, which receives its funding from California avocado growers, has historically shouldered the promotional and advertising costs supporting avocado sales. We believe that the incremental funding of promotional and advertising programs in the U.S. will, in the long term, positively impact average selling prices and will favorably impact our California avocado and international avocado businesses. During fiscal 2007, 2006 and 2005, on behalf of avocado growers, we remitted approximately $1.7 million, $1.7 million and $1.5 million to the California Avocado Commission. During fiscal 2007, 2006 and 2005, we remitted approximately $2.2 million, $4.7 million and $2.4 million to the Hass Avocado Board related to California avocados.

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

(Dollars in thousands)	2007	Change	2006	Change	2005
Net sales:					
Fresh products	$ 261,325	10.3%	$236,889	2.9%	$230,289
Processed products	41,659	13.1%	36,834	29.1%	28,533
Total net sales	$302,984	10.7%	$273,723	5.8%	$258,822
As a percentage of net sales:					
Fresh products	86.3%		86.5%		89.0%
Processed products	13.7%		13.5%		11.0%
	100.0%		100.0%		100.0%

Net sales for the year ended October 31, 2007, when compared to 2006, increased by approximately $29.3 million, or 10.7%, principally as a result of an increase in both our fresh products and processed products segments. The increase in sales related to our fresh products segment was primarily driven by an increase in our average selling price, partially offset by a decrease in the total pounds sold. The increase related to our processed products segment was primarily related to an increase in both the total pounds sold, as well as an increase in the average selling price per pound.

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, 2007			Year ended October 31, 2006		
	Fresh products	Processed products	Total	Fresh products	Processed products	Total
Third-party sales:						
California avocados	$ 95,130	$ –	$ 95,130	$ 140,995	$ –	$ 140,995
Imported avocados	120,588	–	120,588	51,191	–	51,191
Papayas	5,887	–	5,887	4,822	–	4,822
Specialities and tropicals	12,923	–	12,923	9,543	–	9,543
Processed - food service	–	38,338	38,338	–	34,021	34,021
Processed - retail and club	–	10,706	10,706	–	10,454	10,454
Total fruit and product sales to third-parties	234,528	49,044	283,572	206,551	44,475	251,026
Freight and other charges	26,816	739	27,555	30,383	637	31,020
Total gross sales to third-parties	261,344	49,783	311,127	236,934	45,112	282,046
Less sales incentives	(19)	(8,124)	(8,143)	(8)	(8,278)	(8,323)
Total net sales to third-parties	261,325	41,659	302,984	236,889	36,834	273,723
Intercompany sales	13,020	8,123	21,143	9,532	6,227	15,759
Net sales	$274,345	$ 49,782	324,127	$246,421	$ 43,061	289,482
Intercompany sales eliminations			(21,143)			(15,759)
Consolidated net sales			$302,984			$273,723

	Year ended October 31, 2006			Year ended October 31, 2005		
	Fresh products	Processed products	Total	Fresh products	Processed products	Total
Third-party sales:						
California avocados	$140,995	$ –	$ 140,995	$ 104,481	$ –	$ 104,481
Imported avocados	51,191	–	51,191	81,756	–	81,756
Papayas	4,822	–	4,822	6,251	–	6,251
Specialities and tropicals	9,543	–	9,543	13,777	–	13,777
Processed - food service	–	34,021	34,021	–	28,307	28,307
Processed - retail and club	–	10,454	10,454	–	6,766	6,766
Total fruit and product sales to third-parties	206,741	44,475	251,026	206,265	35,073	241,338
Freight and other charges	30,156	637	31,020	24,129	258	24,387
Total gross sales to third-parties	236,897	45,112	282,046	230,394	35,331	265,725
Less sales incentives	(8)	(8,278)	(8,323)	(105)	(6,798)	(6,903)
Total net sales to third-parties	236,889	36,834	273,723	230,289	28,533	258,822
Intercompany sales	9,532	6,227	15,759	15,850	6,166	22,016
Net sales	$246,421	$ 43,061	289,482	$ 246,139	$ 34,699	280,838
Intercompany sales eliminations			(15,759)			(22,016)
Consolidated net sales			$273,723			$258,822

Net sales to third parties by segment exclude value-added services billed by our Uruapan packinghouse, Uruapan processing plant and Mexicali processing plant to the parent company. All intercompany sales are eliminated in our consolidated results of operations.

Fresh Products

Fiscal 2007 vs. Fiscal 2006:

Net sales delivered by the business increased by approximately $24.4 million, or 10.3%, from fiscal 2006 to 2007. This increase was primarily related to an increase in Mexican and Chilean avocado sales and an increase in tomato sales, partially offset by a decrease in California avocado sales.

Sales of Mexican sourced avocados increased $73.2 million, or 138.3%, for fiscal year 2007, when compared to the same prior year period. The volume of Mexican fruit sold increased by approximately 61.1 million pounds, or 106.2%, when compared to the same prior year period. This increase was primarily in the U.S. marketplace and was substantially related to an increased emphasis in the Mexican avocado crop certified for export to the U.S., which principally stemmed from the expected, and ultimately realized, smaller California avocado crop. Additionally, the average per carton selling price of Mexican avocados increased approximately 15.2% when compared to the same prior year period. We attribute some of this increase to the smaller California avocado crop in the marketplace during fiscal 2007, as well as the premium pricing related to our ProRipeVIPTM avocado ripening program.

Sales of Chilean sourced avocados increased $4.9 million for fiscal year 2007, when compared to the same prior year period. The volume of Chilean fruit sold increased by approximately 7.8 million pounds, or 86.2%, when compared to the same prior year period. This increase was primarily related to the size of the Chilean avocado crop, as well as the timing of the delivery to the United States. Our average selling prices, on a per carton basis, of Chilean avocados experienced a decrease of 11.9% for fiscal 2007, when compared to the same prior period. We attribute some of these price fluctuations to the size and/or timing of delivery of the Chilean and California avocado crop in the marketplace during fiscal 2007.

Mexican and Chilean grown avocados are primarily sold in the U.S., Japanese, and/or European marketplace. We anticipate that the combined sales of Mexican and Chilean grown avocados will remain comparable in fiscal 2008.

The volume of non-brokered tomatoes increased by approximately 25.6 million pounds during fiscal 2007, when compared to the same prior year period. This increase, which accounted for the majority of the fluctuation, was primarily related to a new supplier relationship. We expect a significant increase in tomato sales during fiscal 2008 due primarily to our new tomato agreements. See Note 16 to the consolidated financial statements.

Sales of California sourced avocados decreased $56.5 million for fiscal 2007, when compared to the same prior period. This decrease was primarily related a 58.3% decrease in pounds of avocados sold, partially offset by an increase in our average selling prices. The decrease in pounds was primarily related to a cyclically low California avocado crop for the 2006/2007 season, coupled with the freeze experienced during our first fiscal quarter. Our market share of shipped California avocados decreased to 33.7% for fiscal 2007, when compared to a 35.6% market share for the same prior year period. Based on estimates generated from the California Avocado Commission, we expect the California avocado crop for the 2007/2008 season to be moderately larger than the 2006/2007 crop.

For fiscal year 2007, average selling prices, on a per carton basis, for California avocados were 56.2% higher when compared to the same prior year period. We attribute some of this increase to the aforementioned smaller California avocado crop for the 2006/2007 season. For fiscal year 2008, we believe that the demand for California avocados will remain strong in the U.S. marketplace, and, as a result, such is expected to have a positive impact on sales prices. California avocados are primarily sold in the U.S. marketplace.

Fiscal 2006 vs. Fiscal 2005:

Net sales delivered by the business increased by approximately $6.6 million, or 2.9%, from fiscal 2005 to 2006. This increase was primarily related to an increase in California avocados sales, partially offset by a decrease in Mexican and Chilean avocado sales.

Sales of California sourced avocados increased $36.5 million for fiscal 2006, when compared to the same prior period. This increase was primarily related to a 108.1% increase in pounds of avocados sold, partially offset by a decrease in our average selling prices. This increase in pounds sold was consistent with the expected increase in the overall harvest of the California avocado crop for the 2005/2006 season. Our market share of California avocados remained consistent at 35.6% for the year ended October 31, 2006, compared to 34.4% for the same period in the prior year.

For fiscal year 2006, average selling prices, on a per carton basis, for California avocados were 35.6% lower when compared to the same prior year period. This pricing structure primarily reflects the impact of a larger California avocado harvest, as well as a 7.0% increase in the sale of grade two Hass avocados in proportion to grade one Hass avocados sales. Grade two Hass avocados generally sell for significantly less than grade one Hass avocados.

Sales of Mexican sourced avocados decreased $13.0 million for fiscal year 2006, when compared to the same prior year period. This decrease was primarily related to a 19.7% decrease in pounds of Mexican avocados sold, due primarily to the large California crop discussed above. Our average selling prices, on a per carton basis, of Mexican avocados experienced a marginal decrease of 3.9% for fiscal 2006 when compared to the same prior period.

Sales of Chilean sourced avocados decreased $13.6 million for fiscal year 2006, when compared to the same prior year period. This decrease was primarily related to a 67.7% decrease in pounds of Chilean avocados sold. This decrease was primarily related to the size of the Chilean avocado crop, as well as the timing of the delivery to the United States. Our average selling prices, on a per carton basis, of Chilean avocados experienced a marginal increase of 4.0% for fiscal 2006 when compared to the same prior period.

Sales of papayas decreased $1.4 million for fiscal year 2006, when compared to the same prior year period. This decrease was primarily related to a 38.6% decrease in the volume of papaya fruit sold. This decrease was primarily related to adverse weather conditions negatively affecting the current year papaya crop. Such decrease, however, was partially offset by an increase in average selling prices of papayas, on a per carton basis, which increased approximately 44.5% when compared to the same prior year period. We attribute some of this increase in average selling prices to significantly fewer pounds sold in the U.S. marketplace.

Processed Products

Fiscal 2007 vs. Fiscal 2006:

Net sales increased by approximately $4.8 million, or 13.1% for fiscal 2007, when compared to the same prior period. The increase in net sales is primarily attributable to an increase of 2.1 million pounds of product sold, or 10.0%, as well as an increase in the net selling price totaling $0.05 per product pound sold, or 2.8%. During fiscal year 2007, the increase in pounds sold primarily relates to an increase in the sale of both our frozen and high-pressure guacamole products, which increased approximately 12.0% and 6.5% when compared to the same prior year period. The increase in our net average selling price primarily relates to a change in our product mix.

We currently have two 215L ultra high pressure machines located in Uruapan and estimate we are operating at approximately 42% of the combined machines' capacities as of October 31, 2007. We believe the additional capacity provided by the 2nd machine is reasonable given our current sales projections and expected growth. Net sales of our ultra high pressure products represented approximately 37% and 38% of total processed segment sales for the years ended October 31, 2007 and 2006.

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

Fiscal 2006 vs. Fiscal 2005:

Net sales increased by approximately $8.3 million, or 29.1% for fiscal 2006, when compared to the same prior period. The increase in net sales is primarily attributable to an increase of 4.9 million pounds of product sold, or 31.1%. Such increase was partially offset, however, by a decrease in the net selling price totaling $0.02 per product pound sold, or 1.1%. During fiscal year 2006, the increase in pounds sold primarily relates to an increase in the sale of our high-pressure guacamole product, which increased approximately 37% when compared to the same prior year period. The decrease in our net average selling price primarily relates to a change in our product mix.

Gross Margins

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

(Dollars in thousands)	2007	Change	2006	Change	2005
Gross Margins:					
Fresh products	$ 21,461	14.9%	$ 18,673	9.4%	$ 17,071
Processed products	10,311	(1.0)%	10,411	123.3%	4,663
Total gross margins	$ 31,772	9.2%	$ 29,084	33.8%	$ 21,734
Gross profit percentages:					
Fresh products	8.2%		7.9%		7.4%
Processed products	24.8%		28.3%		16.3%
Consolidated	10.5%		10.6%		8.4%

Our cost of sales consists predominantly of fruit costs, packing materials, freight and handling, labor and overhead (including depreciation) associated with preparing food products, and other direct expenses pertaining to products sold. Consolidated gross margin, as a percent of sales, remained consistent for fiscal year 2007 when compared to fiscal year 2006. This consistency was principally attributable to decreased profitability in our processed product segment, substantially offset by an increase in profitability from our fresh products segment. Consolidated gross margin, as a percent of sales, increased 2.2% for fiscal year 2006 when compared to fiscal year 2005. This increase was principally attributable to increased profitability in fresh products segment, as well as our processed product segment.

Gross margins and gross profit percentages related to California avocados are largely dependent on production yields achieved at our packinghouses, current market prices of avocados, and the volume of avocados packed. The decrease in our gross margin percentage during fiscal year 2007 was primarily related to a significant decrease in pounds of fruit sold, as well as an increase in the market price of avocados. During fiscal year 2007, when compared to fiscal year 2006, we experienced a 58.3% decrease in pounds of avocados sold. Additionally, we also experienced a 56.2% increase in the average sales price of California avocados. Combined, these had the effect of increasing our per pound costs, which, as a result, negatively impacted gross margins.

The increase in our gross margin percentage related to California avocados during fiscal year 2006 was primarily related to a significant increase in pounds of fruit sold, partially offset by an increase in the cost of fruit. During fiscal year 2006, when compared to fiscal year 2005, we experienced a 108.1% increase in pounds of avocados sold. This had the effect of decreasing our per pound costs, which, as a result, positively impacted gross margins.

The gross margin and gross profit percentage for consignment sales, including Chilean avocados and tomatoes, is dependent on the volume of fruit we handle and the competitiveness of the returns that we provide to third-party packers. The gross margin we earn is generally based on a commission agreed to with each party. Accordingly, the gross margin results for these products are a function of the volume handled and the competitiveness of the sales prices that we realize. Although we generally do not take legal title to such avocados and perishable products, we do assume responsibilities (principally assuming credit risk, inventory loss and delivery risk, and limited pricing risk) that are consistent with acting as a principal in the transaction. Accordingly, our results of operations include sales and cost of sales from the sale of avocados and perishable products procured under consignment arrangements. For fiscal years 2007, 2006, and 2005, we generated gross margins of $1.7 million, $1.2 million, and $1.7 million from the sale of fresh produce products that were packed by third parties.

Our business with Mexican growers differs in that we operate a packinghouse in Mexico and purchase avocados directly from the field. Alternatively, we may also purchase Mexican avocados directly from co-packers located in Mexico as well. In either case, the gross margin and gross profit percentages generated by our Mexican operations are significantly impacted by the volume of avocados handled by our packinghouse and the cost of the fruit. During fiscal year 2007, our gross margins generated from the sale of Mexican avocados increased from approximately $1.6 million in fiscal year 2006 to $14.0 million in fiscal year 2007. Such increase was primarily related to a 106.2% increase in the volume of Mexican avocados sold, as well as higher sales prices of Mexican fruit. Collectively, these items positively affected gross margins.

During fiscal year 2006, our gross margins generated from the sale of Mexican avocados decreased from approximately $3.8 million in fiscal year 2005 to $1.6 million in fiscal year 2006. Such decrease is primarily related to both the significant decrease in the volume of Mexican avocados sold, totaling 19.7% (primarily related to the large California crop discussed above), as well as an increase in Mexican fruit costs. Collectively, these items contributed to a higher per pound cost, which negatively affected gross margins.

Gross margins and gross profit percentages for our processed products business are largely dependent on the pricing of our final product and the cost of avocados used in preparing guacamole. During fiscal year 2007, the processed products gross profit percentages decreased primarily as a result of higher fruit costs, as well as increased packaging costs, both of which had the effect of increasing our per pound costs. Such were partially offset, however, by an increase in total pounds produced, which had the effect of reducing our per pound costs. We anticipate that the gross profit percentage for our processed product segment will continue to experience fluctuations during the next fiscal year primarily due to the uncertainty of the cost of fruit that will be used in the production process.

During fiscal year 2006, when compared to the same prior year period, the processed products gross profit percentages increased primarily as a result of lower fruit costs and increases in total pounds produced, both of which had the effect of reducing our per pound costs.

Selling, General and Administrative

(Dollars in thousands)	2007	Change	2006	Change	2005
Selling, general and administrative	$ 19,759	NM	$ 19,767	6.3%	$ 18,588
Percentage of net sales	6.5%		7.2%		7.2%

NM-Not meaningful

Selling, general and administrative expenses include costs of marketing and advertising, sales expenses, and other general and administrative costs. For fiscal year 2007, selling, general and administrative expenses remained substantially consistent when compared to the same period for fiscal 2006. This consistency was primarily related to higher corporate costs, including, but not limited to, costs related to an increase bad debt expense (totaling approximately $0.5 million), an increase in legal fees (totaling approximately $0.1 million), and an increase in management bonuses (totaling approximately $0.1 million). Such higher corporate costs were substantially offset, however, by a decrease in auditing/Sarbanes-Oxley costs (totaling approximately $0.1 million), and a decrease in stock option expense (totaling approximately $0.6 million).

For fiscal year 2006, selling, general and administrative expenses increased by $1.2 million, or 6.3%, compared to the same period for fiscal 2005. This increase was primarily related to higher corporate costs, including, but not limited to, costs related to an increase in stock-based compensation (totaling approximately $0.6 million), an increase in management bonuses (totaling approximately $1.1 million), and an increase in employee compensation costs (totaling approximately $0.5 million). Such higher corporate costs were partially offset by a decrease in auditing/Sarbanes-Oxley costs (totaling approximately $0.2 million), a decrease in bad debt expense (totaling approximately $0.5 million), and a decrease in corporate moving expenses (totaling approximately $0.3 million).

Interest income

(Dollars in thousands)	2007	Change	2006	Change	2005
Interest income	$ 248	(30.3)%	$ 356	2.3%	$ 348
Percentage of net sales	0.1%		0.1%		0.1%

Interest income was primarily generated from loans to growers and our notes receivable from shareholders. During fiscal years 2007, 2006 and 2005, interest income includes interest accrued on notes receivable from directors and officers of approximately $0.1 million, $0.2 million and $0.2 million.

Interest expense

(Dollars in thousands)	2007	Change	2006	Change	2005
Interest expense	$ (1,346)	42.7%	$ (943)	136.3%	$ (399)%
Percentage of net sales	(0.4)%		(0.3)%		(0.2

Interest expense is primarily generated from our line of credit borrowings, as well as our term loan agreement with Farm Credit West, PCA. For fiscal 2007, as compared to fiscal 2006, the increase in interest expense was primarily related to a higher average outstanding balance under our non-collateralized, revolving credit facilities with Farm Credit West, PCA and Bank of America, N.A.

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

Other Income, Net

(Dollars in thousands)	2007	Change	2006	Change	2005
Other income, net	$ 512	(14.5)%	$ 599	(75.1)%	$ 2,408
Percentage of net sales	0.2%		0.2%		0.9%

Other income, net includes dividend income, as well as certain other transactions that are outside of the course of normal operations. During fiscal 2007, 2006, and 2005, we received $0.4 million, $0.4 million, and $0.2 million as dividend income from Limoneira. During fiscal year 2005, other income, net includes the gain on the sale of our corporate facility totaling approximately $1.7 million.

Provision for Income Taxes

(Dollars in thousands)	2007	Change	2006	Change	2005
Provision for income taxes	$ 4,271	18.0%	$ 3,620	66.0%	$ 2,181
Percentage of income before provision for income taxes	36.8%		38.5%		39.6%

The effective income tax rate for fiscal years 2007, 2006, and 2005 is higher than the federal statutory rate principally due to state taxes. Our effective income tax rate decreased from 38.5% in fiscal year 2006 to 36.8% in fiscal year 2007 primarily as a result of a an increase in pre-tax income in a foreign jurisdiction with favorable tax rates. Our effective income tax rate decreased from 39.6% in fiscal year 2005 to 38.5% in fiscal year 2006 primarily as a result of a favorable decrease in our foreign tax rates during fiscal year 2006 when compared to fiscal year 2005.

Quarterly Results of Operations

The following table presents our operating results for each of the eight fiscal quarters in the period ended October 31, 2007. 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. The California crop is highly seasonal and is characterized by crop volume and price changes. Historically, we receive and sell a substantially lesser number of California avocados in our first fiscal quarter.

(in thousands, except per share amounts)	Three months ended Oct. 31, 2007	July 31, 2007	Apr. 30, 2007	Jan. 31, 2007	Oct. 31, 2006	July 31, 2006	Apr. 30, 2006	Jan. 31, 2006
Statement of Operations Data								
Net sales	$85,295	$ 91,212	$ 69,184	$ 57,293	$ 76,880	$ 78,954	$ 67,429	$ 50,647
Cost of sales	78,214	82,680	59,993	50,325	69,896	68,738	58,768	47,237
Gross margin	7,081	8,532	9,191	6,968	6,984	10,216	8,661	3,410
Selling, general and administrative	5,608	4,708	4,812	4,631	5,163	5,284	5,063	4,444
Operating income (loss)	1,473	3,824	4,379	2,337	1,821	4,932	3,598	(1,034)
Other income (expense), net	128	(247)	(137)	(156)	292	(136)	10	(75)
Income (loss) before provision (benefit) for income taxes	1,601	3,577	4,242	2,181	2,113	4,796	3,608	(1,109)
Provision (benefit) for income taxes	411	1,355	1,655	850	775	1,870	1,419	(444)
Net income (loss)	$ 1,190	$ 2,222	$ 2,587	$ 1,331	$ 1,338	$ 2,926	$ 2,189	$ (665)
Net income (loss) per share:								
Basic	$ 0.08	$ 0.16	$ 0.18	$ 0.09	$ 0.09	$ 0.21	$ 0.15	$ (0.05)
Diluted	$ 0.08	$ 0.15	$ 0.18	$ 0.09	$ 0.09	$ 0.21	$ 0.15	$ (0.05)
Number of shares used in per share computation:								
Basic	14,329	14,300	14,294	14,293	14,292	14,171	14,282	14,352
Diluted	14,530	14,452	14,398	14,359	14,319	14,237	14,343	14,352

Liquidity and Capital Resources

Operating activities for fiscal 2007, 2006 and 2005 provided cash flows of $4.6 million, $7.8 million, and $5.6 million. Fiscal year 2007 operating cash flows reflect our net income of $7.3 million, net noncash charges (depreciation and amortization, income from Maui Fresh, LLC, loss on disposal of fixed assets, provision for losses on accounts receivable, deferred income taxes and stock compensation expense) of $3.1 million and a net decrease from changes in the non-cash components of our working capital of approximately $5.8 million.

Fiscal year 2007 decreases in operating cash flows, caused by working capital changes, include a decrease in payable to growers of $3.9 million, a decrease in trade accounts payable and accrued expenses of $2.9 million, a net increase in accounts receivable of $2.2 million, and an increase in advance to suppliers of $0.9 million, partially offset by a decrease in inventory of $2.2 million, a net decrease in prepaid expenses and other assets of $1.0 million, a decrease in income tax receivable of $0.8 million, and a decrease in other assets totaling $0.1 million.

Our amounts payable to growers reflects a significant decrease in the volume of California avocados received in the month of October 2007, as compared to October 2006. The decreases in our trade accounts payable and accrued expenses as of October 31, 2007, when compared to October 31, 2006, primarily reflect the timing of certain payments, reductions related to vendors used in the ordinary course of California business, which decreased significantly as compared to prior year, as well as a reduction in our promotional allowance liability.

The increase in our accounts receivable balance as of October 31, 2007, when compared to October 31, 2006, primarily reflects a significantly higher volume of Mexican and Chilean avocado sales, partially offset by a significant reduction in the volume of California avocado sales, recorded in the month of October 2007, as compared to October 2006. These volume level fluctuations are consistent with the harvests experienced, and our increased emphasis in the Mexican avocado crop certified for export to the U.S., in the related years. The increase in our advances to suppliers as of October 31, 2007, as compared to October 31, 2006, primarily reflects our advances pursuant to our new tomato agreements. See Note 16 in our consolidated financial statements.

The decrease in our inventory balance is primarily related to a significant reduction in California inventory on hand at October 31, 2007, as compared to the same prior year period. Additionally, we also experienced a significant decrease in finished processed products inventory based primarily on sales exceeding production during fiscal 2007, as compared to fiscal 2006. The net decrease in prepaid expenses and other current assets primarily relates to the collection of certain non-trade receivables, and the decrease in our income tax receivable was primarily related to estimated payments made in fiscal 2007, as compared to pre-tax income for fiscal 2007.

Cash used in investing activities was $8.0 million, $4.7 million, and $11.9 million for fiscal years 2007, 2006, and 2005. Fiscal year 2007 cash flows used in investing activities include capital expenditures of $3.0 million and a $5.0 million loan to Agricola Belher pursuant to our tomato agreements. See Note 16 to our consolidated financial statements.

Cash provided by financing activities was $4.2 million and $6.9 million for fiscal years 2007 and 2005, while cash used in financing activities was $4.2 million for fiscal year 2006. Cash provided during fiscal year 2007 primarily includes proceeds from our non-collateralized, revolving credit facilities totaling $6.8 million, $2.4 million related to payments on notes receivable from shareholders and $0.7 million related to stock option exercises. These cash receipts were partially offset, however, by the payment of a dividend totaling $4.6 million and a payment related to our long-term obligation of $1.3 million.

Our principal sources of liquidity are our existing cash reserves, cash generated from operations and amounts available for borrowing under our existing credit facilities. Cash and cash equivalents as of October 31, 2007 and 2006 totaled $1.0 million and $0.1 million. Our working capital at October 31, 2007 was $16.3 million compared to $12.0 million at October 31, 2006. The overall working capital increase primarily reflects a reduction in payables to growers and trade accounts payable, partially offset by additional short-term borrowings.

We believe that cash flows from operations and available credit facilities will be sufficient to satisfy our future capital expenditures, grower recruitment efforts, working capital and other financing requirements. We will continue to evaluate grower recruitment opportunities and exclusivity arrangements with food service companies to fuel growth in each of our business segments. In July 2007 and October 2007, we renewed and extended our non-collateralized, revolving credit facilities with Farm Credit West, PCA and Bank of America, N.A. These two credit facilities now expire in February 2012 and July 2009. Under the terms of these agreements, we are advanced funds for both working capital and long-term productive asset purchases. Total credit available under these combined borrowing agreements was $30 million, with a weighted-average interest rate of 5.8% and 6.2% at October 31, 2007 and 2006. Under these credit facilities, we had $10.6 million and $3.8 million outstanding as of October 31, 2007 and 2006, of which $4.0 million was classified as a long-term liability as of October 31, 2007. We had no long-term amounts outstanding pursuant to these credit facilities as of October 31, 2006. These credit facilities contain various financial covenants, the most significant relating to working capital, tangible net worth (as defined), and Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) (as defined). We were in compliance with all such covenants at October 31, 2007.

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, 2007:

	Payments due by period				
Contractual Obligations	Total	Less than 1 year	1-3 years	4-5 years	More than 5 years
Long-term debt obligations (including interest)	$ 17,132	$ 2,054	$ 8,360	$ 3,970	$ 2,748
Revolving credit facilities	6,630	6,630	–	–	–
Defined benefit plan	361	47	141	94	79
Operating lease commitments	4,719	739	1,602	751	1,627
Total	$ 28,842	$ 9,470	$ 10,103	$ 4,815	$ 4,454

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

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

Impact of Recently Issued Accounting Pronouncements

See Note 2 of Notes to Consolidated Financial Statements.

Quantitative and Qualitative Disclosures About Market Risk

Our financial instruments include cash and cash equivalents, accounts receivable, notes receivable from shareholders, payable to growers, accounts payable, current borrowings pursuant to our credit facilities with financial institutions, and long-term, fixed-rate obligations. All of our financial instruments are entered into during the normal course of operations and have not been acquired for trading purposes. The table below summarizes interest rate sensitive financial instruments and presents principal cash flows in U.S. dollars, which is our reporting currency, and weighted-average interest rates by expected maturity dates, as of October 31, 2007.

	Expected maturity date October 31,							
(All amounts in thousands)	2008	2009	2010	2011	2012	Thereafter	Total	Fair Value
Assets								
Cash and cash equivalents (1)	$ 967	$ —	$ —	$ —	$ —	$ —	$ 967	$ 967
Accounts receivable (1)	25,992	—	—	—	—	—	25,992	25,992
Advances to Suppliers (1)	2,292	—	—	—	—	—	2,292	2,292
Liabilities								
Payable to growers (1)	$ 2,414	$ —	$ —	$ —	$ —	$ —	$ 2,414	$ 2,414
Accounts payable (1)	2,643	—	—	—	—	—	2,643	2,643
Current borrowings pursuant to credit facilities (1)	6,630	—	—	—	—	—	6,630	6,630
Long-term borrowings pursuant to credit facilities (2)	—	1,000	1,000	1,000	1,000	—	4,000	4,092
Fixed-rate long-term obligations (3)	1,307	1,306	1,300	1,300	1,300	3,900	10,413	9,972

(1)We believe the carrying amounts of cash and cash equivalents, accounts receivable, advances to suppliers, payable to growers, accounts payable, and current borrowings pursuant to credit facilities approximate their fair value due to the short maturity of these financial instruments.

(2)Long-term borrowings pursuant to our credit facility bears interest at 6.4%. We believe that a portfolio of loans with a similar risk profile would currently yield a return of 5.7%. We project the impact of an increase or decrease in interest rates of 100 basis points would result in a change of fair value by approximately $122,000.

(3)Fixed-rate long-term obligations bear interest rates ranging from 3.3% to 5.7% with a weighted-average interest rate of 5.7%. We believe that loans with a similar risk profile would currently yield a return of 7.0%. We project the impact of an increase or decrease in interest rates of 100 basis points would result in a change of fair value of approximately $333,000.

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

Our Mexican-based operations transact business in Mexican pesos. Funds are transferred by our corporate office to Mexico on a weekly basis to satisfy domestic cash needs. Consequently, the spot rate for the Mexican peso has a moderate impact on our operating results. However, we do not believe that this impact is sufficient to warrant the use of derivative instruments to hedge the fluctuation in the Mexican peso. Total foreign currency gains and losses for each of the three years in the period ended October 31, 2007 do not exceed $0.1 million.

Consolidated Balance Sheets

October 31, (in thousands, except share amounts)	**2007**	2006
Assets		
Current assets:		
Cash and cash equivalents	$ 967	$ 50
Accounts receivable, net of allowances of $2,271 (2007) and $1,833 (2006)	25,992	24,202
Inventories, net	8,359	10,569
Prepaid expenses and other current assets	4,911	4,934
Advances to suppliers	2,292	1,475
Income taxes receivable	1,539	2,268
Deferred income taxes	2,525	2,348
Total current assets	46,585	45,846
Property, plant, and equipment, net	20,888	19,908
Investment in Limoneira	48,962	33,879
Investment in Maui Fresh, LLC	403	229
Goodwill	3,591	3,591
Other assets	7,589	4,110
	$ 128,018	$ 107,563
Liabilities and shareholders' equity		
Current liabilities:		
Payable to growers	$ 2,414	$ 6,334
Trade accounts payable	2,643	4,046
Accrued expenses	12,227	13,758
Short-term borrowings	6,630	3,804
Dividend payable	5,030	4,573
Current portion of long-term obligations	1,307	1,308
Total current liabilities	30,251	33,823
Long-term liabilities:		
Long-term obligations, less current portion	13,106	10,406
Deferred income taxes	10,658	4,391
Total long-term liabilities	23,764	14,797
Commitments and contingencies (Note 8)		
Shareholders' equity:		
Common stock ($0.001 par value, 100,000 shares authorized; 14,371 and 14,293 shares outstanding at October 31, 2007 and 2006)	14	14
Additional paid-in capital	38,068	37,109
Notes receivable from shareholders	–	(2,430)
Accumulated other comprehensive income	15,664	6,293
Retained earnings	20,257	17,957
Total shareholders' equity	74,003	58,943
	$ 128,018	$ 107,563

See accompanying notes to consolidated financial statements.

Year Ended October 31, (in thousands, except per share amounts)	2007	2006	2005
Net sales	$302,984	$273,723	$258,822
Cost of sales	271,212	244,639	237,088
Gross margin	31,772	29,084	21,734
Selling, general and administrative	19,759	19,767	18,588
Operating income	12,013	9,317	3,146
Equity in earnings from Maui Fresh, LLC	174	79	–
Interest income	248	356	348
Interest expense	(1,346)	(943)	(399)
Other income, net	512	599	2,408
Income before provision for income taxes	11,601	9,408	5,503
Provision for income taxes	4,271	3,620	2,181
Net income	$ 7,330	$ 5,788	$ 3,322
Net income per share:			
Basic	$ 0.51	$ 0.40	$ 0.24
Diluted	$ 0.51	$ 0.40	$ 0.24
Number of shares used in per share computation:			
Basic	14,304	14,304	13,892
Diluted	14,435	14,354	13,985

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income (Loss)

Year ended October 31, (All amounts in thousands)	2007	2006	2005
Net income	$ 7,330	$ 5,788	$ 3,322
Other comprehensive income (loss), before tax:			
Unrealized holding gains (losses) arising during period	15,083	(11,755)	22,184
Income tax benefit (expense) related to items of other comprehensive income (loss)	(5,712)	4,662	(8,798)
Other comprehensive income (loss), net of tax	9,371	(7,093)	13,386
Comprehensive income (loss)	$ 16,701	$ (1,305)	$ 16,708

See accompanying notes to consolidated financial statements.

(in thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Notes Receivable From Shareholders	Accumulated Other Comprehensive Income	Retained Earnings	Total
Balance, October 31, 2004	13,507	$ 14	$ 28,822	$ (2,883)	$ –	$ 17,984	$ 43,937
Exercise of stock options and income tax benefit of $59	55	–	334	–	–	–	334
Stock compensation expense	–	–	84	–	–	–	84
Issuance of stock to Limoneira	1,000	1	9,999	–	–	–	10,000
Unrealized gain on Limoneira investment, net	–	–	–	–	13,386	–	13,386
Retirement of common stock	(200)	(1)	(1,999)	–	–	–	(2,000)
Collections on shareholder notes receivable	–	–	–	247	–	–	247
Dividend declared to shareholders	–	–	–	–	–	(4,564)	(4,564)
Net income	–	–	–	–	–	3,322	3,322
Balance, October 31, 2005	14,362	14	37,240	(2,636)	13,386	16,742	64,746
Exercise of stock options and income tax benefit of $146	51	–	403	–	–	–	403
Stock compensation expense	–	–	666	–	–	–	666
Unrealized loss on Limoneira investment, net	–	–	–	–	(7,093)	–	(7,093)
Retirement of common stock	(120)	–	(1,200)	–	–	–	(1,200)
Collections on shareholder notes receivable	–	–	–	206	–	–	206
Dividend declared to shareholders	–	–	–	–	–	(4,573)	(4,573)
Net income	–	–	–	–	–	5,788	5,788
Balance, October 31, 2006	14,293	14	37,109	(2,430)	6,293	17,957	58,943
Exercise of stock options and income tax benefit of $233	78	–	943	–	–	–	943
Stock compensation expense	–	–	16	–	–	–	16
Unrealized gain on Limoneira investment, net	–	–	–	–	9,371	–	9,371
Collections on shareholder notes receivable	–	–	–	2,430	–	–	2,430
Dividend declared to shareholders	–	–	–	–	–	(5,030)	(5,030)
Net income	–	–	–	–	–	7,330	7,330
Balance, October 31, 2007	14,371	$ 14	$ 38,068	$ –	$ 15,664	$ 20,257	$ 74,003

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Year Ended October 31, (in thousands)	2007	2006	2005
Cash Flows from Operating Activities:			
Net income	$ 7,330	$ 5,788	$ 3,322
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	2,391	2,326	3,151
Provision for losses on accounts receivable	473	14	475
Income from Maui Fresh, LLC	(174)	(79)	–
Stock compensation expense	16	666	84
Loss (gain) on disposal of property, plant, and equipment	8	23	(1,668)
Deferred income taxes	378	767	(1,925)
Effect on cash of changes in operating assets and liabilities:			
Accounts receivable	(2,263)	(4,963)	1,403
Inventories, net	2,210	(473)	1,279
Prepaid expenses and other current assets	1,023	(974)	(1,072)
Advances to suppliers	(886)	(265)	1,272
Income taxes receivable	816	(1,229)	(31)
Other assets	92	(1,286)	60
Payable to growers	(3,920)	4,581	(4,036)
Trade accounts payable and accrued expenses	(2,865)	2,923	3,254
Net cash provided by operating activities	4,629	7,819	5,568
Cash Flows from Investing Activities:			
Acquisitions of property, plant, and equipment	(2,950)	(4,513)	(1,874)
Loan to Agricola Belher	(5,000)	–	–
Cash settlement of the acquisition of Limoneira stock, net of our common stock issued	–	–	(13,450)
Investment in Maui Fresh, LLC	–	(150)	–
Proceeds from sale of building	–	–	3,383
Net cash used in investing activities	(7,950)	(4,663)	(11,941)
Cash Flows from Financing Activities:			
Dividend paid to shareholders	(4,573)	(4,564)	(4,052)
Proceeds from (repayments of) short-term borrowings, net	6,826	2,380	(576)
Proceeds from issuance of long-term debt	–	–	13,000
Payments on long-term obligations	(1,301)	(1,318)	(24)
Retirement of common stock	–	(1,200)	(2,000)
Proceeds from stock option exercises	710	257	275
Tax benefit of stock option exercises	146	–	–
Proceeds from collection of shareholder notes receivable	2,430	206	247
Net cash provided by (used in) financing activities	4,238	(4,239)	6,870
Net increase (decrease) in cash and cash equivalents	917	(1,083)	497
Cash and cash equivalents, beginning of year	50	1,133	636
Cash and cash equivalents, end of year	$ 967	$ 50	$ 1,133
Supplemental Information -			
Cash paid during the year for:			
Interest	$ 1,310	$ 936	$ 399
Income taxes	$ 3,100	$ 4,091	$ 3,875
Noncash Investing and Financing Activities:			
Tax receivable increase related to stock option exercise	$ 233	$ 146	$ 59
Declared dividends payable	$ 5,030	$ 4,573	$ 4,564
Issuance of our common stock in Limoneira transaction	$ –	$ –	$ 10,000
Construction in progress included in trade accounts payable and accrued expenses	$ –	$ 438	$ 396
Unrealized holding gains (losses)	$ 15,083	$ (11,755)	$ 22,184

See accompanying notes to consolidated financial statements.

1. Description of the business

Business

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

2. Basis of Presentation and Significant Accounting Policies

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

Our consolidated financial statements include the accounts of Calavo Growers, Inc. and our wholly owned subsidiaries, Calavo Foods, Inc., Calavo de Mexico S.A. de C.V., Calavo Foods de Mexico S.A. de C.V., and Maui Fresh International, Inc. (Maui). Effective November 2007, we dissolved our Calavo Foods, Inc. subsidiary. Such dissolution did not have any impact on our financial position or our results of operations. All intercompany accounts and transactions have been eliminated.

Cash and Cash Equivalents

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

Inventories

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

Property, Plant, and Equipment

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

We capitalize software development costs for internal use in accordance with Statement of Position 98-1, *Accounting for Costs of Computer Software Developed or Obtained for Internal Use* (SOP 98-1). Capitalization of software development costs begins in the application development stage and ends when the asset is placed into service. We amortize such costs using the straight-line basis over estimated useful lives. The net book value of capitalized computer software costs was $0.2 million and $0.3 million as of October 31, 2007 and 2006 and the related depreciation expense was $0.1 million and $0.2 million for the fiscal years ended October 31, 2007 and 2006.

Goodwill and Acquired Intangible Assets

Goodwill is tested for impairment on an annual basis and between annual tests whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, in accordance with Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*. Under SFAS No. 142, goodwill is tested at the reporting unit level, which is defined as an operating segment or one level below the operating segment. Goodwill impairment testing is a two-step process. The first step of the goodwill impairment test, used to identify potential impairment, compares the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired, and the second step of the impairment test would be unnecessary.

If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test must be performed to measure the amount of impairment loss, if any. The second step of the goodwill impairment test, used to measure the amount of impairment loss, compares the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss must be recognized in an amount equal to that excess. Goodwill impairment testing requires significant judgment and management estimates, including, but not limited to, the determination of (i) the number of reporting units, (ii) the goodwill and other assets and liabilities to be allocated to the reporting units and (iii) the fair values of the reporting units. The estimates and assumptions described above, along with other factors such as discount rates, will significantly affect the outcome of the impairment tests and the amounts of any resulting impairment losses. We performed our annual assessment of goodwill and determined that no impairment existed as of October 31, 2007.

Included in other assets in the accompanying consolidated financial statements are the following intangible assets: customer-related intangibles of $590,000 (accumulated amortization of $442,000 at October 31, 2007), brand name intangibles of $275,000 and other identified intangibles totaling $2,000 (accumulated amortization of $2,000 at October 31, 2007). The customer-related intangibles are being amortized over five years. The intangible asset related to the brand name currently has an indefinite remaining useful life and, as a result, is not currently subject to amortization. We performed our annual assessment of the brand name intangible and determined that no impairment existed as of October 31, 2007. We anticipate recording amortization expense related to customer-related intangibles of approximately $119,000 for fiscal 2008, with the remaining amortization expense of approximately $27,000 recorded in fiscal 2009.

Long-lived Assets

Long-lived assets, including fixed assets and intangible assets (other than goodwill), are continually monitored and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of any such asset may not be recoverable. The determination of recoverability is based on an estimate of undiscounted cash flows expected to result from the use of an asset and its eventual disposition. The estimate of undiscounted cash flows is based upon, among other things, certain assumptions about future operating performance, growth rates and other factors. Estimates of undiscounted cash flows may differ from actual cash flows due to, among other things, technological changes, economic conditions, changes to the business model or changes in operating performance. If the sum of the undiscounted cash flows (excluding interest) is less then the carrying value, an impairment loss will be recognized, measured as the amount by which the carrying value exceeds the fair value of the asset. We have evaluated our long-lived assets and determined that no impairment existed as of October 31, 2007.

Investments

We account for non-marketable investments using the equity method of accounting if the investment gives us the ability to exercise significant influence over, but not control, an investee. Significant influence generally exists when we have an ownership interest representing between 20% and 50% of the voting stock of the investee. Under the equity method of accounting, investments are stated at initial cost and are adjusted for subsequent additional investments and our proportionate share of earnings or losses and distributions. Additional investments by other parties in the investee, if any, will result in a reduction in our ownership interest, and the resulting gain or loss will be recorded in our consolidated statements of income. See Note 15.

Marketable Securities

We account for marketable securities in accordance with provisions of SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (SFAS 115). SFAS 115 addresses the accounting and reporting for investments in fixed maturity securities and for equity securities with readily determinable fair values. Our marketable securities consist of our investment in Limoneira Company (Limoneira) stock. We currently own approximately 15% of Limoneira's outstanding common stock. These securities are carried at fair value as determined from quoted market prices. The estimated fair value, cost, and gross unrealized gain related to such investment was $49.0 million, $23.5 million and $25.5 million as of October 31, 2007. The estimated fair value, cost, and gross unrealized gain related to such investment was $33.9 million, $23.5 million and $10.4 million as of October 31, 2006.

Advances to Suppliers

We advance funds to third-party growers primarily in Chile and Mexico for various farming needs. Typically, we obtain collateral (i.e. fruit, fixed assets, etc.) that approximates the value at risk, prior to making such advances. We continuously evaluate the ability of these growers to repay advances in order to evaluate the possible need to record an allowance. No such allowance was required at October 31, 2007, nor October 31, 2006.

Accrued Expenses

Included in accrued expenses at October 31, 2007 are un-vouchered receipts of approximately $1.9 million. Included in accrued expenses at October 31, 2006 are un-vouchered receipts of $2.3 million.

Revenue Recognition

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

Shipping and Handling

In accordance with Emerging Issues Task Force (EITF) Issue No. 00-10, *Accounting for Shipping and Handling Fees and Costs*, we include shipping and handling fees billed to customers in net revenues. Amounts incurred by us for freight are included in cost of goods sold.

Promotional Allowances

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

Allowance for Accounts Receivable

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

Consignment Arrangements

We frequently enter into consignment arrangements with avocado growers and packers located outside of the United States and growers of certain perishable products in the United States. Although we generally do not take legal title to these avocados and perishable products, we do assume responsibilities (principally assuming credit risk, inventory loss and delivery risk, and limited pricing risk) that are consistent with acting as a principal in the transaction. Accordingly, the accompanying financial statements include sales and cost of sales from the sale of avocados and perishable products procured under consignment arrangements. Amounts recorded for each of the fiscal years ended October 31, 2007, 2006 and 2005 in the financial statements pursuant to consignment arrangements are as follows (in thousands):

	2007	2006	2005
Sales	$ 22,347	$ 10,127	$ 27,171
Cost of Sales	20,640	8,943	25,456
Gross Margin	$ 1,707	$ 1,184	$ 1,715

Advertising Expense

Advertising costs are expensed when incurred. Such costs in fiscal 2007, 2006, and 2005 were approximately $0.1 million, $0.4 million, and $0.3 million.

Other income, net

Included in other income, net is dividend income totaling $0.4 million, $0.4 million and $0.2 million for fiscal years 2007, 2006, and 2005.

Use of Estimates

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

Income Taxes

We account for 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. 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 14,304,000, 14,304,000, and 13,892,000 for fiscal years 2007, 2006, and 2005. Diluted earnings per common share is calculated using the weighted-average number of common shares outstanding during the period after consideration of the dilutive effect of stock options, which were 131,000, 50,000, and 93,000 for fiscal years 2007, 2006 and 2005. There were no anti-dilutive options for fiscal years 2007, 2006 and 2005.

Stock-Based Compensation

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123(R), *Share-Based Payment*. This pronouncement amends SFAS No. 123, *Accounting for Stock-Based Compensation*, and supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*. SFAS No. 123(R) requires that companies account for awards of equity instruments issued to employees under the fair value method of accounting and recognize such amounts in their statements of operations. We adopted SFAS No. 123(R) on November 1, 2005 using the modified prospective method and, accordingly, have not restated the consolidated statements of operations for prior interim periods or fiscal years. Under SFAS No. 123(R), we are required to measure compensation cost for all stock-based awards at fair value on the date of grant and recognize compensation expense in our consolidated statements of operations over the service period that the awards are expected to vest.

Prior to the adoption of SFAS No. 123(R), we accounted for employee stock-based compensation using the intrinsic value method in accordance with APB Opinion No. 25, as permitted by SFAS No. 123 and SFAS No. 148, *Accounting for Stock-Based Compensation — Transition and Disclosure*. Under the intrinsic value method, the difference between the market price on the date of grant and the exercise price is charged to the statement of operations over the vesting period. Prior to the adoption of SFAS No. 123(R), we recognized compensation cost only for stock options issued with exercise prices set below market prices on the date of grant and provided the necessary pro forma disclosures required under SFAS No. 123.

During the year ended October 31, 2005, we recognized $84,000 of compensation expense with respect to stock option awards pursuant to APB 25, which was charged to the consolidated statement of operations. For the year ended October 31, 2005, had stock-based compensation been accounted for based on the estimated grant date fair values, as defined by SFAS No. 123(R), the Company's net income and net income per share would have been the following pro forma amounts (in thousands, except per share amounts):

Net Income:	Fiscal Year Ended 2005
As reported	$ 3,322
Add: Total stock-based compensation expense determined under APB 25 and related interpretations, net of tax effects	51
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of tax effects	(54)
Pro forma	$ 3,319
Net income per share, as reported:	
Basic	$ 0.25
Diluted	$ 0.25
Net income per share, pro forma:	
Basic	$ 0.25
Diluted	$ 0.25

Under SFAS No. 123(R), we now record in our consolidated statements of operations (i) compensation cost for options granted, modified, repurchased or cancelled on or after November 1, 2005 under the provisions of SFAS No. 123(R) and (ii) compensation cost for the unvested portion of options granted prior to November 1, 2005 over their remaining vesting periods using the amounts previously measured under SFAS No. 123 for pro forma disclosure purposes. For the years ended October 31, 2007, 2006 and 2005, we recognized compensation expense of $16,000, $666,000 and $84,000 related to stock-based compensation.

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

We measure the fair value of our stock option awards on the date of grant. The following assumptions were used in the estimated grant date fair value calculations for stock options (no stock option grants took place during fiscal 2006):

	2007	2005
Risk-free interest rate	3.25%	4.1%
Expected volatility	22.19%	27.6%
Dividend yield	3.1%	3.2%
Expected life (years)	5.5	3

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

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

Foreign Currency Translation and Remeasurement

Our foreign operations are subject to exchange rate fluctuations and foreign currency transaction costs. The functional currency of our foreign subsidiaries is the United States dollar. As a result, monetary assets and liabilities are translated into U.S. dollars at exchange rates as of the balance sheet date and non-monetary assets, liabilities and equity are translated at historical rates. Sales and expenses are translated using a weighted-average exchange rate for the period. Gains and losses resulting from those remeasurements are included in income. Gains and losses resulting from foreign currency transactions are also recognized currently in income. Total foreign currency gains and losses for each of the three years ended October 31, 2007 did not exceed $0.1 million.

Fair Value of Financial Instruments

We believe that the carrying amounts of cash and cash equivalents, accounts receivable, and accounts payable approximates fair value based on either their short-term nature or on terms currently available to the Company in financial markets. We believe that our fixed-rate long-term obligations have a fair value of approximately $9.9 million as of October 31, 2007, with a corresponding carrying value of approximately $10.4 million.

Derivative Financial Instruments

We do not presently engage in derivative or hedging activities. In addition, we have reviewed agreements and contracts and have determined that we have no derivative instruments, nor do any of our agreements and contracts contain embedded derivative instruments, as of October 31, 2007.

Recent Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations (FAS 141(R)). This Statement provides greater consistency in the accounting and financial reporting of business combinations. It requires the acquiring entity in a business combination to recognize all assets acquired and liabilities assumed in the transaction, establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed, and requires the acquirer to disclose the nature and financial effect of the business combination. FAS 141(R) is effective for fiscal years beginning after December 15, 2008. We will adopt FAS 141(R) no later than the first quarter of fiscal 2010 and are currently assessing the impact the adoption will have on our financial position and results of operations.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements (FAS 160). This Statement amends Accounting Research Bulletin No. 51, Consolidated Financial Statements, to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. FAS 160 is effective for fiscal years beginning after December 15, 2008. We will adopt FAS 160 no later than the first quarter of fiscal 2010 and are currently assessing the impact the adoption will have on our financial position and results of operations.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, which permits entities to choose to measure at fair value eligible financial instruments and certain other items that are not currently required to be measured at fair value. The standard requires that unrealized gains and losses on items for which the fair value option has been elected be reported in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We will adopt SFAS No. 159 no later than the first quarter of fiscal 2009. We are currently assessing the impact the adoption of SFAS No. 159 will have on our financial position and results of operations.

In September 2006, the FASB issued SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R). SFAS No. 158 requires company plan sponsors to display the net over- or under-funded position of a defined benefit postretirement plan as an asset or liability, with any unrecognized prior service costs, transition obligations or actuarial gains/losses reported as a component of other comprehensive income in shareholders' equity. SFAS No. 158 is effective for fiscal years ending after December 15, 2006. We adopted the recognition provisions of SFAS No. 158 as of the end of fiscal 2007. The adoption of SFAS No. 158 did not have a material effect on the Company's financial position or results of operations.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 establishes a framework for measuring fair value in generally accepted accounting principles, clarifies the definition of fair value and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements. However, the application of SFAS No. 157 may change current practice for some entities. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We will adopt SFAS No. 157 in the first quarter of fiscal 2009. We are currently assessing the impact that the adoption of SFAS No. 157 will have on our financial position and results of operations.

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* (FIN 48). This interpretation clarifies the application of SFAS No. 109, *Accounting for Income Taxes*, by defining a criterion that an individual tax position must meet for any part of the benefit of that position to be recognized in an enterprise's financial statements and also provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006, but earlier adoption is permitted. We will adopt FIN 48 no later than the first quarter of fiscal 2008. We do not believe the adoption of FIN 48 will have a significant impact on our financial position and results of operations.

Comprehensive Income (Loss)

Comprehensive income (loss) is defined as all changes in a company's net assets, except changes resulting from transactions with shareholders. For the fiscal year ended October 31, 2007, other comprehensive income includes the unrealized gain on our Limoneira investment totaling $9.4 million, net of income taxes. Limoneira's stock price at October 31, 2007 equaled $283.25 per share. For the fiscal year ended October 31, 2006, other comprehensive loss includes the unrealized loss on our Limoneira investment totaling $7.1 million, net of income taxes. Limoneira's stock price at October 31, 2006 equaled $196 per share. For the fiscal year ended October 31, 2005, other comprehensive income includes the unrealized gain on our Limoneira investment totaling $13.4, net of income taxes. Limoneira's stock price at October 31, 2005 equaled $264 per share.

Reclassifications

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

3. Inventories

Inventories consist of the following (in thousands):

October 31,	2007	2006
Fresh fruit	$ 3,884	$ 4,961
Packing supplies and ingredients	2,389	2,380
Finished processed foods	2,086	3,228
	$ 8,359	$ 10,569

Cost of goods sold for fiscal year 2005 include inventory write-downs of $0.1 million. Write-downs in fiscal 2005 primarily related to a reduction in the cost of pulp used in certain processed avocado products. We did not have any write-downs in fiscal 2007 or fiscal 2006.

We assess the recoverability of inventories through an ongoing review of inventory levels in relation to sales and forecasts and product marketing plans. When the inventory on hand, at the time of the review, exceeds the foreseeable demand, the value of inventory that is not expected to be sold is written down. The amount of the write-down is the excess of historical cost over estimated realizable value (generally zero). Once established, these write-downs are considered permanent adjustments to the cost basis of the excess inventory.

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

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

4. Property, Plant, and Equipment

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

October 31,	2007	2006
Land	$ 947	$ 947
Building and improvements	13,976	13,840
Leasehold improvements	171	171
Equipment	35,449	31,793
Information systems - Hardware and software	4,689	4,324
Construction in progress	886	2,841
	56,118	53,916
Less accumulated depreciation and amortization	(35,230)	(34,008)
	$ 20,888	$ 19,908

Depreciation expense was $2.0 million, $1.9 million and $2.7 million for fiscal years 2007, 2006, and 2005.

5. Other Assets

During 1999, we established a Grower Development Program whereby funds can be advanced to growers in exchange for their commitment to deliver a minimum volume of avocados on an annual basis. These commitments to deliver fruit generally extend over a multi-year period. During fiscal 2007, no amounts were advanced pursuant to this program and $2.7 million was included in other assets as of October 31, 2007. During fiscal 2006 and as of October 31, 2006, we advanced $3.3 million ($1.2 million was paid in cash, the remainder via receivable restructuring) to certain growers. Advances are not repaid and are amortized to cost of goods sold over the term of the related agreements, up to a maximum of approximately 11 years. The financial statements for fiscal years 2007, 2006 and 2005 include a charge of approximately $304,000, $298,000 and $322,000 representing the amortization of these advances.

6. Revolving Credit Facilities

In July 2007 and October 2007, we renewed and extended our non-collateralized, revolving credit facilities with Farm Credit West, PCA and Bank of America, N.A. These two credit facilities now expire in February 2012 and July 2009. Under the terms of these agreements, we are advanced funds for both working capital and long-term productive asset purchases. Total credit available under these combined borrowing agreements was $30 million, with a weighted-average interest rate of 5.8% and 6.2% at October 31, 2007 and 2006. Under these credit facilities, we had $10.6 million and $3.8 million outstanding as of October 31, 2007 and 2006, of which $4.0 million was classified as a long-term liability as of October 31, 2007. See Note 12 for detail of long-term obligations. We had no long-term amounts outstanding pursuant to these credit facilities as of October 31, 2006. These credit facilities contain various financial covenants, the most significant relating to working capital, tangible net worth (as defined), and Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) (as defined). We were in compliance with all such covenants at October 31, 2007.

7. Employee Benefit Plans

We sponsor two defined contribution retirement plans for salaried and hourly employees. Expenses for these plans approximated $543,000, $502,000, and $399,000 for fiscal years 2007, 2006 and 2005, 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, net of actuarial gains, approximated $6,000 and $46,000 for the years ended October 31, 2007 and 2006. Pension expenses and actuarial losses approximated $65,000 for the year ended October 31, 2005. These amounts are included in selling, general and administrative expenses in the accompanying financial statements.

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

	2007	2006
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	$ 414	$ 510
Interest cost	23	29
Actuarial gain	(29)	(75)
Benefits paid	(47)	(50)
Projected benefit obligation at end of year (unfunded)	$ 361	$ 414

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

	2007	2006
Projected benefit obligation	$ 361	$ 414
Unrecognized net (gain) loss	–	–
Recorded pension liabilities	$ 361	$ 414

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

	2007	2006
Discount rate on projected benefit obligation	6.00%	6.00%

8. Commitments and Contingencies

Commitments and guarantees

We lease facilities and certain equipment under non cancelable operating leases expiring at various dates through 2021. We are committed to make minimum cash payments under these agreements as of October 31, 2007 as follows (in thousands):

2008	$ 739
2009	646
2010	558
2011	398
2012	376
Thereafter	2,002
	$ 4,719

In August 2006, we entered into an operating lease agreement with Columbia New Jersey Commodore Industrial, LLC to rent approximately 30,000 square feet of building space in Swedesboro, New Jersey. This lease enables us to not only invest in our ProRipeVIP™ avocado ripening program, but also expand our refrigeration and storage capabilities. The lease has a term of approximately 15 years and includes scheduled rent increases. Pursuant to FASB Technical Bulletin 85-3, *Accounting for Operating Leases with Scheduled Rent Increases*, our straight-line rent expense for such lease will approximate $13,000 per month for the duration of such lease. This facility commenced operations during the first quarter of fiscal 2007.

Total rent expense amounted to approximately $1.5 million, $1.5 million and $1.2 million for the years ended October 31, 2007, 2006, and 2005. Rent to Limoneira, for our corporate office, amounted to approximately $0.2 million, $0.2 million, and $0.1 million for fiscal years 2007, 2006, and 2005. We are committed to rent our corporate facility through fiscal 2015 at an annual rental of $0.2 million per annum (subject to annual CPI increases, as defined).

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

Litigation

Hacienda Suit — We are currently under examination by the Mexican tax authorities (Hacienda) for the tax year ended December 31, 2000 and December 31, 2004. We have received assessments totaling approximately $2.0 million and $4.5 million from Hacienda related to the amount of income at our Mexican subsidiary. Subsequent to that initial assessment, the Hacienda offered a settlement of approximately $400,000 related to the tax year 2000 assessment, which we declined. Based primarily on discussions with legal counsel and the evaluation of our claim, we maintain our belief that the Hacienda's position has no merit and that we will prevail. Accordingly, no amounts have been provided in the financial statements as of October 31, 2007. We pledged our processed products building located in Uruapan, Michoacan, Mexico as collateral to the Hacienda in regards to this assessment.

Processed Products suit — During the first quarter of fiscal 2007, the Company was named defendant in a complaint filed with the Superior Court of the State of California for the County of Los Angeles, seeking monetary damages of not less than $2.5 million stemming from packing services performed on behalf of the complainant. The initial complaint stated various allegations, including breach of contract, negligence, etc. Subsequent to that initial complaint, the court has dismissed certain allegations. During the fourth quarter of fiscal 2007, we settled such suit out-of-court with a cash payment of $0.2 million.

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

9. Related-Party Transactions

We sell papayas procured from an entity owned by the Chairman of our Board of Directors and CEO and President. Sales of papayas amounted to approximately $5,887,000, $4,822,000, and $6,251,000 for the years ended October 31, 2007, 2006 and 2005, resulting in gross margins of approximately $547,000, $285,000, and $510,000. Net amounts due to this entity approximated $438,000 and $213,000 at October 31, 2007 and 2006.

Certain members of our Board of Directors market avocados through Calavo pursuant to our customary marketing agreements. During the years ended October 31, 2007, 2006 and 2005, the aggregate amount of avocados procured from entities owned or controlled by members of our Board of Directors, was $9.7 million, $17.2 million, and $5.2 million. Accounts payable to these Board members were $0.2 million and $0.6 million as of October 31, 2007 and 2006.

During fiscal 2007, 2006 and 2005, we received $0.4 million, $0.4 million, and $0.2 million as dividend income from Limoneira.

10. Income Taxes

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

	2007	2006	2005
Current:			
Federal	$ 2,865	$ 2,423	$ 3,046
State	817	598	767
Foreign	211	63	293
Total current	3,893	3,084	4,106
Deferred	378	536	(1,925)
Total income tax provision	$ 4,271	$ 3,620	$ 2,181

At October 31, 2007 and 2006, gross deferred tax assets totaled approximately $3.1 million and $2.9 million, while gross deferred tax liabilities totaled approximately $11.3 million and $4.9 million. Deferred income taxes reflect the net of temporary differences between the carrying amount of assets and liabilities for financial reporting and income tax purposes.

Significant components of our deferred taxes as of October 31, 2007 and 2006 are as follows:

	2007	2006
Allowances for accounts receivable	$ 2,021	$ 1,779
Inventories	127	292
State taxes	126	62
Accrued liabilities	251	215
Current deferred income taxes	$ 2,525	$ 2,348
Property, plant, and equipment	(1,029)	(541)
Intangible assets	(180)	(231)
Unrealized Gain, Limoneira investment	(9,848)	(4,136)
Retirement benefits	150	177
Stock-based compensation	287	340
Other	(38)	–
Long-term deferred income taxes	$ (10,658)	$ (4,391)

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:

	2007	2006	2005
Federal statutory tax rate	35.0%	35.0%	35%
State taxes, net of federal effects	5.0	4.8	4.7
Foreign income taxes greater (less) than U.S.	(1.3)	(0.8)	1.2
Benefit of lower federal tax brackets	(0.7)	(0.7)	(1.6)
Other	(1.2)	0.2	0.3
	36.8%	38.5%	39.6%

We intend to reinvest our accumulated foreign earnings, which approximated $4.1 million at October 31, 2007, indefinitely. As a result, we have not provided any deferred income taxes on such unremitted earnings. For fiscal years 2007, 2006 and 2005, income before income taxes related to domestic operations was approximately $10.6 million, $8.9 million, and $4.8 million. For fiscal years 2007, 2006 and 2005, income before income taxes related to foreign operations was approximately $1.0 million, $0.5 million and $0.7 million.

11. Segment Information

We report our operations in two different business segments: (1) fresh products and (2) processed products. These two business segments are presented based on how information is used by our president to measure performance and allocate resources. The fresh products segment includes all operations that involve the distribution of avocados grown both inside and outside of California, as well as the distribution of other non-processed, perishable food products. The processed products segment represents all operations related to the purchase, manufacturing, and distribution of processed avocado products. Additionally, selling, general and administrative expenses and non-operating line items are not charged directly, nor allocated to, a specific product line. These items are now evaluated by our president only in aggregate. We do not allocate assets, or specifically identify them to, our operating segments.

(All amounts are presented in thousands)

	Fresh products	Processed products	Inter-segment eliminations	Total
Year ended October 31, 2007				
Net sales	$ 274,345	$ 49,782	$ (21,143)	$ 302,984
Cost of sales	252,884	39,471	(21,143)	271,212
Gross margin	$ 21,461	$ 10,311	$ –	$ 31,772
Year ended October 31, 2006				
Net sales	$ 246,421	$ 43,061	$ (15,759)	$ 273,723
Cost of sales	227,748	32,650	(15,759)	244,639
Gross margin	$ 18,673	$ 10,411	$ –	$ 29,084
Year ended October 31, 2005				
Net sales	$ 246,139	$ 34,699	$ (22,016)	$ 258,822
Cost of sales	229,068	30,036	(22,016)	237,088
Gross margin	$ 17,071	$ 4,663	$ –	$ 21,734

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

	Year ended October 31, 2007		
	Fresh products	Processed products	Total
Third-party sales:			
California avocados	$ 95,130	$ –	$ 95,130
Imported avocados	120,588	–	120,588
Papayas	5,887	–	5,887
Specialities and tropicals	12,923	–	12,923
Processed - food service	–	38,338	38,338
Processed - retail and club	–	10,706	10,706
Total fruit and product sales to third-parties	234,528	49,044	283,572
Freight and other charges	26,816	739	27,555
Total third-party sales	261,344	49,783	311,127
Less sales incentives	(19)	(8,124)	(8,143)
Total net sales to third-parties	261,325	41,659	302,984
Intercompany sales	13,020	8,123	21,143
Net sales before eliminations	$ 274,345	$ 49,782	324,127
Intercompany sales eliminations			(21,143)
Consolidated net sales			$ 302,984

	Year ended October 31, 2006		
	Fresh products	Processed products	Total
Third-party sales:			
California avocados	$ 140,995	$ –	$ 140,995
Imported avocados	51,191	–	51,191
Papayas	4,822	–	4,822
Specialities and tropicals	9,543	–	9,543
Processed - food service	–	34,021	34,021
Processed - retail and club	–	10,454	10,454
Total fruit and product sales to third-parties	206,551	44,475	251,026
Freight and other charges	30,383	637	31,020
Total third-party sales	236,934	45,112	282,046
Less sales incentives	(45)	(8,278)	(8,323)
Total net sales to third-parties	236,889	36,834	273,723
Intercompany sales	9,532	6,227	15,759
Net sales before eliminations	$ 246,421	$ 43,061	289,482
Intercompany sales eliminations			(15,759)
Consolidated net sales			$ 273,723

	Year ended October 31, 2005		
	Fresh Products	Processed Products	Total
Third-party sales:			
California avocados	$ 104,481	$ –	$ 104,481
Imported avocados	81,756	–	81,756
Papayas	6,251	–	6,251
Specialities and tropicals	13,777	–	13,777
Processed - food service	–	28,307	28,307
Processed - retail and club	–	6,766	6,766
Total fruit and product sales to third-parties	206,265	35,073	241,338
Freight and other charges	24,129	258	24,387
Total third-party sales	230,394	35,331	265,725
Less sales incentives	(105)	(6,798)	(6,903)
Total net sales to third-parties	230,289	28,533	258,822
Intercompany sales	15,850	6,166	22,016
Net sales before eliminations	$ 246,139	$ 34,699	280,838
Intercompany sales eliminations			(22,016)
Consolidated net sales			$ 258,822

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

	United States	Mexico	Consolidated
2007	$ 69,325	$ 12,108	$ 81,433
2006	$ 50,014	$ 11,703	$ 61,717

Sales to customers outside the United States were approximately $15.7 million, $13.8 million and $15.9 million for the three years ended October 31, 2007.

12. Long-Term Obligations

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

	2007	2006
Farm Credit West, PCA, term loan	$ 10,400	$ 11,700
Farm Credit West, PCA, long-term portion of revolving credit facility (Note 6)	4,000	–
Other	13	14
	14,413	11,714
Less current portion	(1,307)	(1,308)
	$ 13,106	$ 10,406

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

Such term loan contains various financial covenants, the most significant relating to working capital, tangible net worth (as defined), and Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) (as defined). We were in compliance with all such covenants at October 31, 2007.

At October 31, 2007, annual debt payments are scheduled as follows (in thousands):

Year ending October 31:	Total
2008	$ 1,307
2009	2,306
2010	2,300
2011	2,300
2012	2,300
Thereafter	3,900
	$ 14,413

13. Stock-Based Compensation

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

The Directors Stock Option Plan

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

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

	Number of Shares	Weighted-Average Exercise Price	Aggregate Intrinsic Value
Outstanding at October 31, 2004	155	$ 5.65	
Exercised	(55)	$ 5.00	
Outstanding at October 31, 2005	100	$ 6.00	
Exercised	(51)	$ 5.04	
Outstanding at October 31, 2006	49	$ 7.00	
Outstanding at October 31, 2007	49	$ 7.00	$ 780
Exercisable at October 31, 2007	49	$ 7.00	$ 780

The weighted average remaining life of such outstanding options is 1.14 years and the total fair value of shares vested during the year ended October 31, 2007 was approximately $344,000.

We terminated this plan during fiscal 2007. Outstanding options were not be impacted by such termination.

The Employee Stock Purchase Plan

The employee stock purchase plan was approved by our Board of Directors and shareholders. Participation in the employee stock purchase plan is limited to employees. The plan provides the Board of Directors, or a plan administrator, the right to make available up to 2,000,000 shares of common stock at a price not less than fair market value. In March 2002, the Board of Directors awarded selected employees the opportunity to purchase up to 474,000 shares of common stock at $7.00 per share, the closing price of our common stock on the date prior to the grant. The plan also permits us to advance all or some of the purchase price of the purchased stock to the employee upon the execution of a full-recourse note at prevailing interest rates. These awards expired in April 2002, with 84 participating employees electing to purchase approximately 279,000 shares. There was no activity related to such plan during fiscal 2007.

The 2005 Stock Incentive Plan

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

- "Incentive stock options" that are intended to satisfy the requirements of Section 422 of the Internal Revenue Code of 1986, as amended, and the regulations thereunder;
- "Non-qualified stock options" that are not intended to be incentive stock options; and
- Shares of common stock that are subject to specified restrictions

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

In December 2006, our Board of Directors approved the issuance of options to acquire a total of 20,000 shares of our common stock to two members of our Board of Directors. Each grant to acquire 10,000 shares vests in increments of 2,000 per annum over a five-year period and have an exercise price of $10.46 per share. Vested options have a term of five years from the vesting date. The market price of our common stock at the grant date was $10.46. The estimated fair market value of such option grant was approximately $40,000. The total compensation cost not yet recognized as of October 31, 2007 was $32,000. Such will be recognized over the remaining service period of 49 months.

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

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Fair-Value	Aggregate Intrinsic Value
Outstanding at October 31, 2004	-			
Granted	400	$ 9.10	$1.65/share	
Outstanding at October 31, 2005	400	$ 9.10		
Forfeited	(9)	$ 9.10		
Outstanding at October 31, 2006	391	$ 9.10		
Granted	20	$ 10.46	$2.06/share	
Exercised	(78)	$ 9.10		
Outstanding at October 31, 2007	333	$ 9.18		$ 4,572
Exercisable at October 31, 2007	313	$ 9.10		$ 4,323

The weighted average remaining life of such outstanding options is 2.9 years and the total intrinsic value of options exercised during fiscal 2007 was $712,000. The fair value of shares vested during the year ended October 31, 2006 was approximately $4.0 million.

14. Dividends

On January 2, 2008, we paid a $0.35 per share dividend in the aggregate amount of $5.0 million to shareholders of record on December 15, 2007. On January 2, 2007, we paid a $0.32 per share dividend in the aggregate amount of $4.6 million to shareholders of record on December 15, 2006.

15. Joint Venture in Maui Fresh International, LLC

In August 2006, we entered into a joint venture agreement with San Rafael Distributing (SRD) for the purpose of the wholesale marketing, sale and distribution of fresh produce from the existing location of SRD at the Los Angeles Wholesale Produce Market (Terminal Market), located in Los Angeles, California. Such joint venture operates under the name of Maui Fresh International, LLC (Maui Fresh LLC) and commenced operations in August 2006. SRD and Calavo each have an equal one-half ownership interest in Maui Fresh, but SRD shall have overall management responsibility for the operations of Maui Fresh at the Terminal Market. Therefore, pursuant to Accounting Principles Board (ABP) 18 and Emerging Issues Task Force (EITF) 03-16, we believe that our level of economic influence is that of "significant." As such, we will use the equity method to account for our investment.

Commencing on the first anniversary of this agreement and continuing thereafter during the term of the agreement, Calavo shall have the unconditional right, but not the obligation, to purchase the one-half interest in Maui Fresh owned by SRD at a purchase price to be determined pursuant to the agreement. The term of the agreement is for five years, which may be extended, or terminated early, as defined. As of October 31, 2007, we have advanced Maui Fresh approximately $0.5 million (included in prepaid expenses and other current assets) for working capital purposes. Per the agreement, these advances were made at our own discretion and are expected to be paid back in cash.

16. Agreements with Tomato Grower

In June 2007, we entered into a distribution agreement with Agricola Belher (Belher) of Mexico, a well-established quality producer of fresh vegetables, primarily tomatoes, for export to the U.S. market. Pursuant to such distribution agreement, Belher agreed, at their sole cost and expense, to harvest, pack, export, ship, and deliver tomatoes exclusively to our Arizona facility. In exchange, we agreed to sell and distribute such tomatoes, advance $2 million to Belher for operating purposes, provide additional advances as shipments are made during the season (subject to limitations, as defined), and return the proceeds from such tomato sales to Belher, net of our commission and aforementioned advances. The agreement also allows for us to advance additional amounts to Belher at our sole discretion. All advances that remain outstanding as of June 2008 are immediately due and payable. As of October 31, 2007, we have advanced $2 million to Belher (included in advances to suppliers) pursuant to this agreement. Pursuant to EITF 99-19, *Reporting Revenue Gross as a Principal versus Net as an Agent*, we will record gross revenues related to this agreement, as we believe we are acting more like the principal in these sales transactions (principally primary obligor, inventory loss and delivery risk, latitude in establishing prices, and determination of product specifications).

Concurrently, we also entered into an infrastructure agreement in June 2007 with Belher in order to significantly increase production yields and fruit quality. Pursuant to this agreement, we are to advance up to $5 million to be used solely for the acquisition, construction, and installation of improvements to and on certain land owned by Belher, as well as packing line equipment. Advances incur interest at 9.4% at October 31, 2007. We advanced $5.0 million as of October 31, 2007 ($1.0 million included in prepaid expenses and other current assets and $4.0 million included in other long-term assets). Belher is to annually repay these advances in no less than 20% increments through July 2012. In addition, the agreement allows for additional $1.0 million advances to take place during the last five months of each of our fiscal years 2008 through 2010, but they are subject to certain conditions and are to be made at our sole discretion. Belher is to annually repay these advances in full on or before each of July 2008 through July 2010. Interest is to be paid monthly or annually, as defined. Belher may prepay, without penalty, all or any portion of the advances at any time.

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

17. Subsequent Events

Effective November 2007, we entered into a consignment and marketing agreement with Farmers Fresh Mushroom, Inc (FFMI) to market and sell conventional and organic mushrooms in the United States. FFMI agreed, among other things, to source, pack, and ship product primarily to our customers, but also to any of our distribution centers, at our option. In exchange, we agreed, among other things, to market and sell such product. The agreement specifically calls for FFMI to not actively pursue new business in the United States of America and it also requires that all product sold by us will be packed in our cartons and sold only by us.

The term of this agreement is for 12 months (through October 2008) and automatically renews for a 12-month period on the final day of the agreement, unless terminated, as defined.

Effective December 2007, we entered into a consignment and marketing agreement with Maui Pineapple Company, LTD. (MPC) to market and sell Maui Gold Pineapples throughout the continental United States and Canada. MPC agreed, among other things, to source, pack and ship such pineapples to an agreed port of entry. In exchange, we agreed, among other things, to be responsible for such product upon arrival at the port, to market and sell the related product, and to develop and implement marketing strategies aimed at building the Maui Gold brand recognition. The agreement specifically calls for us to be the sole and exclusive source for the sale of Maui Gold Pineapples. Additionally, Maui Gold Pineapples are to be our sole fresh pineapple product.

The agreement calls for us to provide certain advances, as defined, and return the proceeds from such pineapple sales to MPC, net of our commission, fees, and incentives, if applicable. The term of this agreement is for 13 months (through December 2008) and automatically renews for a 12-month period, unless terminated, as defined.

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

We have audited the accompanying consolidated balance sheets of Calavo Growers, Inc. and subsidiaries (the "Company") as of October 31, 2007 and 2006, and the related consolidated statements of income, comprehensive income (loss), shareholders' equity, and cash flows for the years then ended. Our audits also included the 2007 and 2006 financial statement schedule listed at Item 15(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Calavo Growers, Inc. and subsidiaries at October 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related 2007 and 2006 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.

As discussed in Note 2 to the consolidated financial statements, Calavo Growers, Inc. changed its method of accounting for Share-Based Payments in accordance with Statement of Financial Accounting Standards No. 123 (revised 2004) on November 1, 2005.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Calavo Growers Inc.'s internal control over financial reporting as of October 31, 2007, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated January 11, 2008 expressed an unqualified opinion thereon.

Ernst + Young LLP

Woodland Hills, California
January 11, 2008

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated statements of income, comprehensive income, shareholders' equity, and cash flows of Calavo Growers, Inc. and subsidiaries (the "Company") for the year ended October 31, 2005. Our audit also included the financial statement schedule listed at Item 15(a)(2) of Form 10-K for the year ended October 31, 2005. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of the Company and subsidiaries for the year ended October 31, 2005, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule for the year ended October 31, 2005, 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.

Deloitte & Touche LLP

Los Angeles, California
January 31, 2006

Report of Management

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

Our fiscal 2007 and 2006 financial statements have been audited by Ernst and Young LLP, our independent registered public accounting firm. They were selected by the Audit Committee and are expected to be approved by our shareholders for fiscal 2008. Management has made available to Ernst and Young LLP all of our financial records and related data, as well as minutes of stockholder and director meetings.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of the end of the period covered by this report based on the framework set forth in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework set forth in Internal Control—Integrated Framework, our management concluded that our internal control over financial reporting was effective as of October 31, 2007.

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

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

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

Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

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

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

Fiscal 2007	High	Low
First Quarter	$ 11.67	$ 9.61
Second Quarter	$ 14.09	$ 10.50
Third Quarter	$ 14.52	$ 11.85
Fourth Quarter	$ 22.91	$ 14.45

Fiscal 2006	High	Low
First Quarter	$ 10.50	$ 9.59
Second Quarter	$ 11.00	$ 9.51
Third Quarter	$ 11.94	$ 9.37
Fourth Quarter	$ 10.24	$ 9.04

As of October 31, 2007, there were approximately 1,300 stockholders of record of our common stock.

During the year ended October 31, 2007, we did not issue any shares of common stock that were not registered under the Securities Act of 1933 and we did not repurchase any shares of our common stock.

Dividend Policy

Our dividend policy is to provide for an annual dividend payment, as determined by the Board of Directors. We anticipate that dividends will be paid in the first quarter of our fiscal year.
On January 2, 2008, we paid a $0.35 per share dividend in the aggregate amount of $5,030,000 to shareholders of record on December 15, 2007.
On January 3, 2007, we paid a $0.32 per share dividend in the aggregate amount of $4,573,000 to shareholders of record on December 15, 2006.

Shareowner Return Performance Graph

The following graph compares the performance of our common stock with the performance of the Nasdaq Market Index and the Hemscott Group Index for approximately the 67.5-month period beginning on March 22, 2002 and ending October 31, 2007. In making this comparison, we have assumed an investment of $100 in Calavo Growers, Inc. common stock, the Nasdaq Market Index, and the Hemscott Group Index as of March 22, 2002, the first day that our common shares began trading on the OTC Bulletin Board. Since July 23, 2002, our shares have traded on the Nasdaq National Market and then the Nasdaq Global Select Market. We have also assumed the reinvestment of all dividends. The Hemscott Group Index is a composition of major diversified food companies.

Compare Cumulative Total Return among Calavo Growers, Inc., Nasdaq Market Index and Hemscott Group Ind

Assumes $100 Invested on October 31, 2002. Assumes Dividend Reinvested Fiscal Year Ending on October 31, 2007.

senior management

left to right

Mike Browne
Vice President
Fresh Operations

Rob Wedin
Vice President
Fresh Sales and Marketing

Al Ahmer
Vice President
Processed Product Sales
and Operations

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

Calavo Growers, Inc.

Calavo Growers, Inc. is a leading packer and marketer of fresh and processed avocados throughout the United States and other countries globally, and a rapidly expanding distributor of other commodity-produce items sold under the company's well-respected brand name and its Maui Fresh label, a wholly owned subsidiary. Through two principal operating units—Fresh Avocados and Processed Products—the company supplies wholesale, retail and restaurant-institutional foodservice customers on a worldwide basis. Calavo packs and distributes approximately 35 percent of the California avocado crop, nearly twice the market share of its closest competitor. Additionally, the company sources fruit from Mexico and Chile to satisfy year-round domestic avocado demand, for export and for use in processed products. Calavo is also the leading marketer of fresh fruit grown in the Hawaiian Islands, including papayas, Maui Gold® pineapples and other tropical produce items. Our other commodity-produce offerings include Calavo-brand tomatoes and mushrooms, as well as Hispanic specialties such as a wide range of chilies. Founded in 1924 as a grower-owned cooperative, Calavo today is publicly traded on the Nasdaq Global Market under the ticker symbol CVGW. Employing more than 800 people, the company is headquartered in Santa Paula, California, where it also operates one of three fresh-avocado packinghouses and a Value Added Depot, housing sales, distribution and advanced-ripening technologies. Calavo's two additional packinghouses are located in Temecula, California and Uruapan, Michoacán, Mexico, where the company also operates its processed-products manufacturing facility. In late 2006, the company opened Value Added Depots equipped with the company's proprietary ProRipeVIP™ technology in San Antonio, Texas and Swedesboro, New Jersey.

Corporate Information

Officers

Lecil E. Cole
Chairman, President and
Chief Executive Officer

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

Rob Wedin
Vice President
Fresh Sales and Marketing

Mike Browne
Vice President
Fresh Operations

Al Ahmer
Vice President
Processed Product Sales
and Operations

Scott H. Runge
Treasurer

James E. Snyder
Corporate Controller

Officer—Calavo de Mexico

Dionisio Ortiz
Vice President
Operations

Principal Board Committees

Executive Committee

Lecil E. Cole
Chairman

J. Link Leavens
First Vice Chairman

Scott N. Van Der Kar
Second Vice Chairman

Dorcas H. McFarlane

Donald "Mike" Sanders

Harold S. Edwards

Audit Committee

Micheal D. Hause
Chairman

John M. Hunt

Egidio "Gene" Carbone, Jr.

Fred J. Ferrazzano

George H. Barnes

Nominating and Governance Committee

John M. Hunt
Chairman

George H. Barnes

Fred J. Ferrazzano

Micheal D. Hause

Alva V. Snider

Compensation Committee

Fred J. Ferrazzano
Chairman

Alan Van Wagner

John M. Hunt

Egidio "Gene" Carbone, Jr.

Alva V. Snider

Operating Directors and Managers

Carlos T. Vasquez
Director, Field Operations

John Agapin
Director, Systems Analysis
and Planning

Bruce Spurrell
Director, Administrative
Services and Purchasing

Michael F. Derr
Director, Fresh Packing

Michael Angelo
Director, National Fresh Sales

Patricia D. Vorhies
Director, Human Resources

Gary M. Gunther
Director, Fresh Operations
Special Projects

Joseph Malagone
Packinghouse Manager
Santa Paula

Irene Reyes
Packinghouse Manager
Temecula

Headquarters

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

General Counsel

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

Independent Registered Public Accounting Firm

Ernst & Young LLP
Woodland Hills, California

Investor & Corporate Relations Counsel

Foley/Freisleben LLC
Los Angeles, California

Form 10-K

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

Transfer Agent and Registrar

Computershare Trust
Company, N.A.
Canton, Massachusetts

Common Stock Listing

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

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