CALAVO

INVESTOR EDITION

Calavo

Growth Science

CALAVO GROWERS, INC. 2008 ANNUAL REPORT

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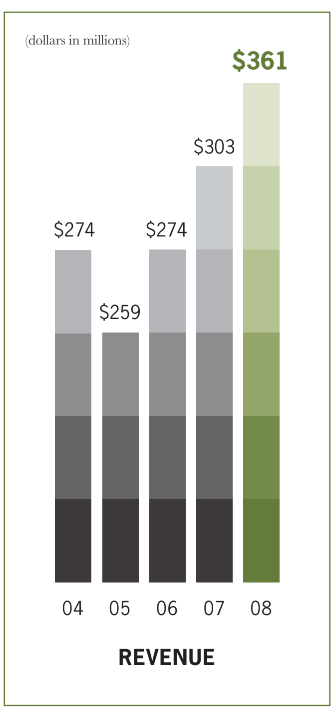
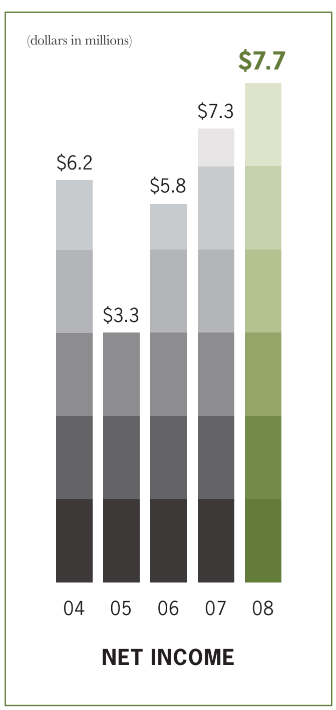
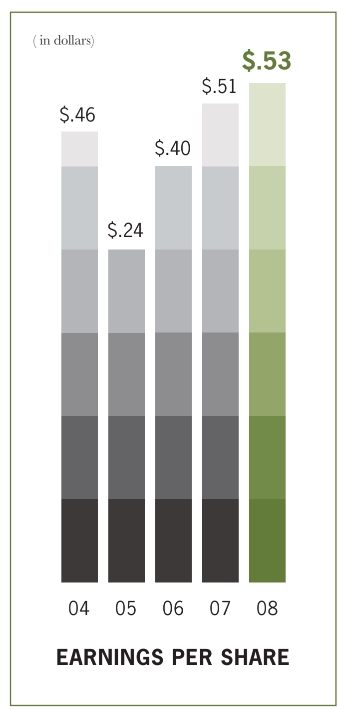






FOREWORD

Calavo Growers, Inc.
A Textbook Growth Story

Welcome to the 84th edition of the Calavo Growers, Inc. Annual Report, this year devoted exclusively to the subject of *Growth Science**: diversified products of the finest quality; efficient, streamlined operations; fruitful grower alliances; and how, ultimately, it results in record revenues and profits. The chapters contained herein provide a textbook study of Calavo's strategic plan and transformation into a multi-line global agribusiness using its market leadership in avocados as a springboard. These topics are intended to offer even the most casual student insights to the Calavo approach of building both a larger, more diversified company and long-term value for our shareholders. Only the unforgettable taste and flavor of Calavo products are magic. The rest of what we do is akin to science—growth science, to be specific—and an overview into that subject matter follows.

Santa Paula, California

March 2009

(*) *Growth Science* is offered neither on a letter grade nor pass-no-pass basis. There are no class meetings, midterm or final examinations. The complete subject matter for this course is found within.

CHAPTER 1

Letter to Shareholders:
A Record Year in Review

While considering messages to communicate in this letter, I inquired of a colleague: “Why can’t I just write, ‘We did what we said we’d do.’?” By that, of course, I mean Calavo Growers, Inc. faithfully executed to the letter of its strategic business blueprint in fiscal 2008 and, in doing so, our company registered record operating results for the second consecutive year. This climb to new historic highs came from performing precisely as we said we would by:

- Growing fresh avocado sales to maintain market leadership in our core business;
- Continuing to nurture and invest in our Mexico-based processed operations that are truly best-in-class and squarely positioned to accelerate expansion; and,
- Diversifying into new commodity produce classifications that are proving to be substantial incremental revenue drivers and enabling us to leverage the Calavo brand across additional fresh products.

The company’s operating performance was enormously gratifying—a textbook showing in every respect—and I am pleased to share our significant accomplishments with you.

FINANCIAL REVIEW: REACHING NEW HIGHS

Record operating results for the fiscal-year ended October 31, 2008—during which nearly all key financial yardsticks registered new highs—came amidst a backdrop of the most challenged United States economy in two generations. Despite the crises confronting capital and credit markets, Calavo posted net income of $7.7 million, equal to $0.53 per diluted share, an increase of five percent from $7.3 million, or $0.51 per diluted share in fiscal 2007. Revenues surged 19 percent from $303.0 million to $361.5 million in the most recent year. Gross profit advanced to $33.2 million last year from $31.8 million in fiscal 2007, an increase of four percent. Income from operations moved ahead three percent to $12.3 million from $12.0 million, the previous high point, posted in the preceding year. Fiscal 2008 results were paced by nothing less than a blow-out fourth quarter, during which the company hit the highest single-period totals in its history.

Our record operating profit benefited, in part, from a relentless discipline to cost containment readily evident on the selling, general and administrative (SG&A) expense line of Calavo's income statement. SG&A in the most recent year totaled $20.9 million, an increase of just $1.1 million from $19.8 million in fiscal 2007. With just this modest rise in SG&A costs, our company supported nearly $59 million in additional revenues in fiscal 2008—a testament to operating efficiency if ever there was one. As a trend line, SG&A expense as a percentage of total sales ratcheted down approximately 75 basis points to 5.8 percent in the most recent year from 6.5 percent in fiscal 2007 and nearly 150 basis points from 7.2 percent in fiscal 2006.

The company's financial condition remains strong and flexible. Calavo possesses considerable capacity to leverage its balance sheet; however, this management team is extremely judicious about assumption of debt, historically borrowing only for the addition of assets that are immediately accretive to sales and earnings. We vigilantly watch for acquisition opportunities, knowing the company is in prime position to move quickly when advantageous deals emerge, which I'll touch upon more subsequently.

Indicative both of the record results and Calavo's commitment to delivering strong returns to you, our valued shareowners, subsequent to fiscal-year end the board of directors declared an annual cash dividend on our common stock of 35 cents per share. Particularly notable, this was the eighth consecutive annual dividend since Calavo became publicly traded in 2002 and reflects a 75 percent increase in the payout over that same time frame.

PROCESSED PRODUCTS: KICKING INTO OVERDRIVE

A source of immense personal satisfaction to me, Calavo's Processed Products operation is a case study of our business-agenda implementation in action, as well. Since the completion of our Uruapan, Michoacán, Mexico manufacturing facility in early 2004, we have posted double-digit annual revenue growth in this unit, propelled principally by expanding sales and critical acclaim of our ultra-high-pressure guacamole to retail and food-service customers alike. Last year, for example, we opened distribution through one of the largest food retailers in the United States for this delicious product, which now accounts for 36 percent of total segment sales. Crowned at fiscal-year end by its 14th consecutive quarter of upward sales, Processed Products segment revenues totaled $45.8 million in fiscal 2008, rising 10 percent from $41.7 million the prior 12 months. Reflecting upon how far this unit has advanced—fully remaking previously inefficient operations that were break-even at best—I say with confidence that Processed Products has fully hit its stride. We have created an outstanding platform; from it, revenues will continue to grow, new products will be conceived and additional economies of scale realized.

DIVERSIFICATION: A WINNING FORMULA

Initiatives launched aggressively early last year into additional branded-produce categories—specifically, tomato, pineapple and mushroom which complement our well-established papaya marketing—proved to be every bit the incremental-revenue drivers we had anticipated. Capitalizing on Calavo's formidable existing sales and distribution infrastructure, we successfully folded these new items into our portfolio of product offerings without incurring any capital expense. The favorable effect from these healthy and delicious revenue-growth engines is best reflected in the significant aforementioned improvements in SG&A as a percentage of total sales. Key to this expansion effort, which last year added $46 million to the company's top line, is identifying and forging win-win growing alliances with the highest-quality partners. Most importantly, these affiliates must be capable of providing not only sufficient crop volume, but also the levels of excellence worthy of bearing the Calavo label. For nearly 85 years, our company has built a brand steeped in quality; we maintain an unfaltering commitment that any new products must be in that same tradition.

Our tomato-growing partner Agricola Belher, Maui Pineapple Company and Farmers Fresh Mushrooms all meet these exacting criteria. A vast and truly impressive Mexican farming operation, Agricola Belher is a textbook case of the growers with whom we seek to align and a model for future alliances, as well. Calavo invested in the form of loans to Agricola Belher, allowing the farming concern to tap our capital base and breadth of financial resources to substantially expand operations and output to meet the tomato-volume levels required of large, national customers.

Via Maui Pineapple, another great and venerable company, we expanded our footprint in the tropical-produce classification, gained a natural complement to our papaya operations and immediately became the leading North American marketer of Hawaiian-grown fruit. We continue to build our pineapple business and view the Maui relationship as a cornerstone for Calavo's market position in the category.

FRESH AVOCADOS: UPON WHICH ALL ELSE IS BUILT

Each of the preceding achievements—from streamlined processed-product operations to our fold-in strategy that transformed us into a veritable green grocer—is possible only through the vast knowledge base, operating expertise and bedrock financial strength that Calavo has amassed as the premier global marketer of fresh avocados. Our diversification initiative, as case in point, is an outgrowth from decades-old experience of building strong alliances and cross-border sourcing relationships with avocado farmers in Mexico and Chile, among other countries, as well as embedded in our roots as a grower-owned cooperative. Fresh avocados are the foundation upon which Calavo is built and remain its mainstay. Last year, I am pleased to say, our core business unit turned in a very strong performance to pace the record-setting fiscal year.

The company packed approximately 207 million pounds of fresh avocados in fiscal 2008, owing primarily to a large volume of Mexico-grown fruit and a rebound in the California crop from the devastating frost and wildfires of the previous year.

Indisputably, avocado consumption is growing at a steady clip. In the past decade alone per capita avocado eating in the United States has risen from about two to more than three-and-a-half pounds annually, even more in California and Texas.

Chalk up this movement to impressive marketing, changing demographics and increased awareness of avocados' health benefits. Calavo's proprietary value-added programs including ProRipeVIP™—which enables us to pre-condition avocados to customers' desired specifications—help spur consumption through higher-margin products that drive our incremental profitability. The premium segment of our company's fresh avocado business, which also includes bagged-fruit initiatives, continues to be its fastest-growing portion, too, even against the current economic climate. This top-tier portion of our fresh avocado operations rose by approximately 20 percent over fiscal 2007, with Calavo shipping 12.8 million bags of fruit to customers.

DISCIPLINED, FOCUSED AND STAYING THE COURSE

Despite the current bleak and distressing economy, I see only considerable opportunity for Calavo and believe that we are in a very enviable position. The company's financial position is excellent. Our growth initiatives are yielding the results we anticipated. The investments all have been made and the footprint is in place for building out an even larger, more profitable company.

The weakness in the economy, as regrettable as it is, works to our advantage in certain respects. First, dollar-conscious consumers tend to eat more at home, which benefits us through higher produce sales. Then there is the point I referenced at the outset of this letter: opportunistic expansion. In being up while others are down, Calavo potentially enhances its ability to seize on attractive opportunities, which, in my view will accelerate during the current fiscal year. That said, we will maintain an extremely cautious approach with any prospective transactions, proceeding only if they meet our rigorous criteria. With a strong cash position, we are ever mindful of our balance sheet and intend to maintain its flexibility—particularly during these challenging times.

Lest I have made all of the preceding achievements sound easy, trust me—they were not. The success our company enjoys reflects inordinately hard work, long hours and relentless discipline by the people I am so proud to call my Calavo colleagues. In closing, I extend profound thanks to our board of directors for its vision, counsel and wisdom. My gratitude to our senior management team for the painstaking implementation of our strategic business agenda and to employees across the company for its execution. To valued customers and shareholders alike, I express deep appreciation for your loyalty. It was a textbook year in every respect.

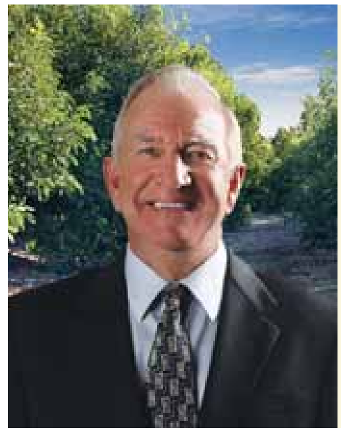


FIGURE 1.1 ☐ " We did what we said we'd do…Calavo faithfully executed to the letter of its strategic business blueprint in fiscal 2008. In doing so, our company registered record operating results for the second consecutive year…"

Sincerely,

Lee E. Cole
Chairman, President and Chief Executive Officer
March 4, 2009

CHAPTER 2

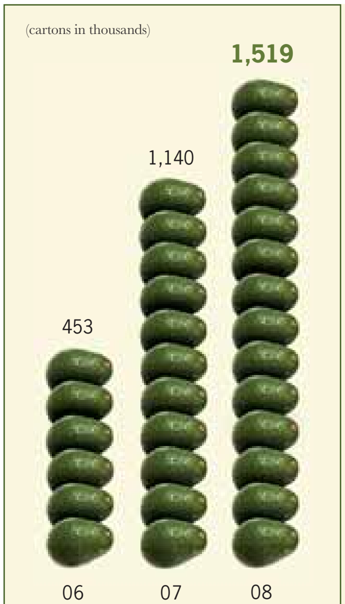
Avocado Market Leadership

What began with a sapling from a postman named Hass and evolved into a cooperative business called Calavo Growers of California, provided the cornerstone of today's publicly traded Calavo, the global leader in packing and marketing fresh and processed avocados. The company's expertise and vast knowledge base—spanning farming, packing, processing, sales and distribution—afford a competitive advantage that translates into a commanding position in the avocado category.

This dominant strength—both domestically and in the international space—propels Calavo with market share approximately two times that of its closest competitor, the company estimates.

Equally impressive, Calavo packs approximately one out of every four Mexico-grown avocados destined for export. Tens of millions of additional pounds of Mexican fruit make their way into our great tasting guacamole and other processed products distributed through retail and food-service channels.

Calavo drives expanding demand for fresh avocados through a range of value-added programs, most significantly its proprietary ProRipeVIP™ technology that pre-conditions fruit to customer specifications. By delivering ready-to-eat avocados, the company shortens cycles between purchase and consumption to accelerate incremental fresh product sales. An array of other value-added offerings, including bagged avocados and organic fruit, complement the high-quality, premium fresh avocados that are Calavo's mainstay.



ProRipeVIP™ CARTON VOLUME

FIGURE 2.1 ☐ Calavo's value-added fresh avocado initiatives continue to accelerate, with ProRipeVIP carton volume increasing 33 percent last year over fiscal 2007. Along with bagged and preconditioned fruit, as well, value-added initiatives accounted for 38 percent of Calavo's total fiscal 2008 avocado volume.

FIGURE 2.2 ☐ Avocado consumption continues to grow and Calavo meets this increasing demand with value-added programs including bagged avocados, which totaled 12.8 million units last year, advancing 28 percent from fiscal 2007. Fact: Calavo's consumer bag sales equate to over 24 bags purchased per second 365 days a year.

FIGURE 2.3 ☐ Since its founding in 1924, the company has rigorously applied its expertise across avocado growing, packing, processing and marketing to build an unsurpassed industry leadership position. Nowhere is this know-how better reflected than in Calavo's fresh and processed avocados—always of the highest quality and wholesomeness.

While Calavo's operations now extend beyond its core business segment, avocado marketing remains—and will always be—the formidable platform upon which our strategic initiatives are built. As *The First Name in Avocados*™, a reputation nearly 85 years in the making, we intend to continue to invest in and capture an expanding market fueled by popular acceptance, demographic shifts and awareness of the nutritional benefits of this delicious fruit.

CHAPTER SUMMARY

1. Calavo is the global leader in packing and distributing fresh and processed avocados, with a commanding domestic market share about twice that of its closest competitor.
2. Extensive international operations include fruit sourced from Mexico and Chile; Mexico-grown avocados provide a reliable, high-quality source for Calavo's processed products.
3. Value-added programs—including pre-ripened, organic and bagged avocado initiatives—drive incremental sales growth in Calavo's fresh avocado business by spurring consumption.

CHAPTER 3

Brand Equity:
The Value Behind the Name

The Calavo brand with its strength, acceptance and favorable recognition among key constituencies truly represents a prized asset and provides us with a bedrock foundation for profitable growth. Through the years, we have carefully cultivated our equity in the Calavo name based, above all else, on a total commitment to consistently delivering the highest possible quality.

In this way, the Calavo brand has opened many doors, allowing us to become an established supplier to leading retailers, who value high quality suppliers. Consumers as well are confident in seeking out the Calavo label as a mark of quality, further enhancing Calavo's enviable position as the number one name in avocados. Favorably known to the grower community, top retailers and consumers, we are well positioned to leverage our brand strength by folding in complementary products under the Calavo banner. Without compromising or diluting our brand, we have added a growing array of quality products such as papayas, tomatoes, Maui Gold® pineapples and mushrooms. Many other opportunities abound, but while driving toward further growth and diversification, we will always hold fast to the necessity of maintaining consistent quality and thereby further strengthening the Calavo brand.

FIGURE 3.1 □ Since its founding in 1924, Calavo has worked to develop a powerful and favorable brand identity with growers, retailers and the consuming public. Our success relates directly to an uncompromising commitment to delivering consistent quality. As we grow and diversify into additional categories, we have refused to cheapen the Calavo brand for short-term gain.

CHAPTER SUMMARY

1. Calavo's powerful brand is a valued asset and a strong foundation for profitable growth.
2. We have built our brand equity by consistently delivering the highest possible quality.
3. This ongoing commitment has made us a valued supplier to leading retailers and a consumer favorite.
4. We are leveraging our brand strength by folding in complementary products (papayas, tomatoes and pineapples) under the Calavo banner.

FIGURE 3.2 ☐ The powerful Calavo brand features an expanding array of topnotch products, serving consumers who seek consistent quality and healthy and delicious eating for their families. Known for the best in fresh avocados, along with a host of value-added services for retailers, Calavo's development of ultra-high pressure guacamole set a new taste standard, which continues to generate rave reviews and rising sales. Win-win alliances with top producers have allowed us to diversify further into complementary product categories including tomatoes, pineapples and mushrooms under the Calavo banner.

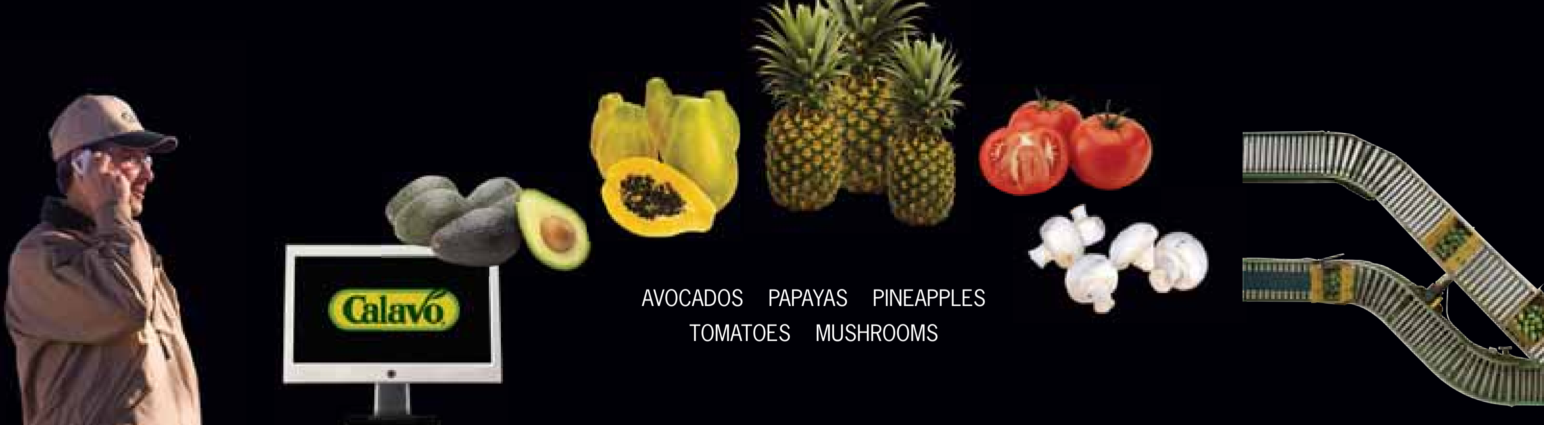
CHAPTER 4

Leveraging Existing Infrastructure

Building strength upon strength, Calavo's strategy of expanding into additional commodity produce classifications by utilizing resources already in place makes sense on every level. The company possesses a well-developed sales organization. We maintain a loyal, blue-chip customer base comprised of a virtual *Who's Who* of retail and food-service names. Sophisticated distribution capabilities efficiently handle complex global logistics. Our three Value-Added Depots facilitate delivery of the highest -quality fruit and vegetables across North America.

Expanding Calavo's portfolio of diversified fresh products enables us to meet our customers' wide-ranging needs beyond avocados. We are able to fold these additional produce items into our existing infrastructure without incurring capital expenses generally associated with expansion. The top-line growth is spread across our existing cost structure, benefiting the company's selling, general and administrative expense. Our expertise in forging marketing alliances with growers—a company core strength—is immediately accretive to revenue

FROM GROWER TO GROCER



GROWERS → PRODUCTS → SALES → PACKING →

FIGURE 4.1 ☐ Diversification initiatives reflect success building alliances with growers who share Calavo's steadfast commitment to quality. Company roots as a grower-owned cooperative provide unique understanding and make us particularly knowledgeable and, in turn, help attract farmers to Calavo.

FIGURE 4.2 ☐ Calavo's addition of complementary fresh, branded-produce items—tomatoes, mushrooms and pineapples initially—represent a sound strategic fit with our existing avocado and papaya lines.

FIGURE 4.3 ☐ The company's formidable sales and marketing organization, with established relationships to retail and food-service accounts, is well positioned for offering additional fresh produce items that bring value and convenience to customers.

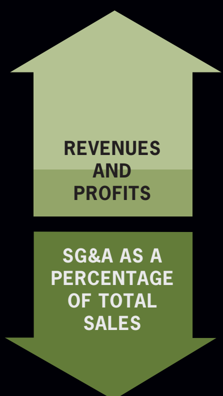
FIGURE 4.4 ☐ Ultra-efficient, scale-driven packing facilities are an all-important nerve center of Calavo operations—produce arrives from growers and is washed, sorted and packaged for shipment. Substantial investments in infrastructure provide the company with ample capacity to sustain additional growth initiatives.

and earnings. And, we expanded last year the Calavo brand through a complementary range of additional fresh products; specifically, with tomatoes that are merchandised in proximity to avocados at the grocer and by rounding out papaya and other tropical-fruit offerings with Maui Gold® pineapples.

Last year, these diversified fresh products contributed $46 million in incremental revenue to Calavo sales. Consistent with the formula in place, the company seeks to fold in additional products that have the potential to extend our well-respected name synonymous with quality.

CHAPTER SUMMARY

1. The Calavo growth strategy focuses on folding in new commodity produce items to existing infrastructure without incurring additional capital expense.
2. During the past fiscal year, these diversification initiatives accelerated with the addition of tomatoes, pineapples and mushrooms.
3. A mature sales organization, top-flight customers and a well-oiled distribution system all facilitate the company's ability to leverage current resources.
4. Diversification initiatives in fiscal 2008 generated $46 million in incremental revenues while resulting in just modest increases in SG&A expense.



CALAVO STRATEGY

FIGURE 4.5 ☐ Our company's ability to leverage infrastructure by expanding product offerings without incurring additional overhead or capital expenditures is a central component of our growth agenda. Calavo supported $59 million in additional sales in fiscal 2008 with just an additional $1.1 million in SG&A expense.

WAREHOUSING

FIGURE 4.6 ☐ Value Added Depots—strategically located in California, Texas and New Jersey and equipped with ProRipeVIP™ technology—provide a blanket of geographic coverage to serve customers throughout North America.

DISTRIBUTION

FIGURE 4.7 ☐ Calavo is expert in navigating all aspects of logistics and distribution. Ensuring each year that hundreds of millions of perishable produce pounds reach our customers looking and tasting farm-fresh is a major feat that we handle with agility and care.

GROCER

FIGURE 4.8 ☐ A blue-chip list of retail and food-service customers know that they can depend on Calavo for the freshest, highest-quality produce available. With diversification, we are able to provide them a virtual green grocery of products—from avocados to tropical fruits to Hispanic specialty items.

CHAPTER 5

Operating and Management Team Strength

As a growth-oriented public company building for a successful long-term future, Calavo has developed a solid infrastructure to maximize operating efficiencies, enhance competitive strength and support long-term profitable expansion.

Our two California packinghouses are key to operations, along with our mega processing and packing facilities located in Uruapan in the heart of Mexico's avocado growing region. Built in 2004, our state-of-the-art, 90,000 square feet processing plant manufactures our fresh, ultra-high pressure guacamole line and related-products for shipment to U.S. distribution centers and export to select markets worldwide. Our 50,000 square feet Uruapan packinghouse is the largest, most modern and best-equipped avocado industrial plant in Mexico, assuring our access to a stable source of Mexican fruit.

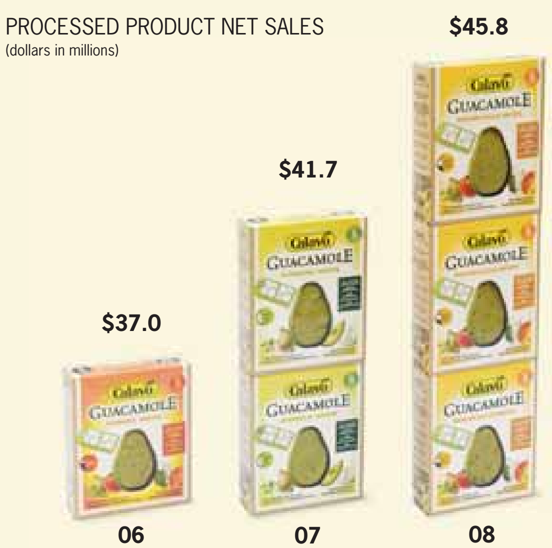


FIGURE 5.1 ☐ In 2004, Calavo launched its 90,000 square feet processing plant in Uruapan, Mexico to manufacture our acclaimed fresh, ultra-high pressure guacamole and related products. Subsequent to the opening of this sparkling, highly modern facility, our Processed Products operations have registered double-digit annual growth, driven principally by expanding distribution and growing consumer demand for this delicious product.

Calavo supports its retail customers nationwide with the delivery of ready-to-eat avocados, a proven spur to increased consumption. We operate three strategically located Value Added Depots (VAD) equipped with our proprietary, state-of-the-art ProRipeVIP™ technology, giving us the ability to ship fresh avocados pre-ripened to customers' precise specifications anywhere in the United States. Research demonstrates a strong consumer preference for ready-to-eat fruit, which outsells its unripe equivalent by four-to-one. ProRipeVIP™ employs Accoustic Firmness Sensors to measure ripeness with absolute precision, resulting in a vastly superior product and higher customer satisfaction.

Calavo's senior management team guides the implementation of our strategic growth plan and works unrelentingly to enhance efficiency, restrain operating costs and drive growth.

With nearly 150 combined years of industry experience, our team has the vision of the marketplace, the expertise and established relationships that are an essential underpinning for the company's continued progress.

CHAPTER SUMMARY

1. Calavo has invested in a modern and efficient infrastructure to support successful long-term growth.

2. Our state-of-the-art mega processing plant, packinghouses, Value Added Depots (VADs) and distribution centers allow us to efficiently serve customers nationwide and select markets worldwide.

3. Our dedicated management team has the expertise, marketplace vision and industry relationships to execute our strategic plan.

VALUE ADDED DEPOTS

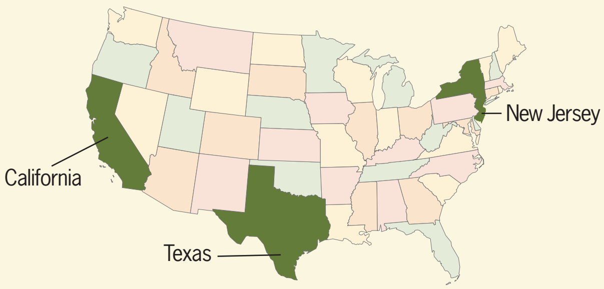


FIGURE 5.2 □ Consumers strongly prefer ready-to-eat avocados, and Calavo delivers high-quality, fresh avocados pre-ripened to customers' precise specifications nationwide via our Value Added Depots equipped with our proprietary ProRipeVIP™ Technology.

FIGURE 5.3 □ Showing Senior Management in action (from left to right): Rob Wedin, Vice President, Fresh Sales and Marketing; Arthur J. Bruno, Chief Operating Officer, Chief Financial Officer and Corporate Secretary; Lecil E. Cole, Chairman, President and Chief Executive Officer; Mike Browne, Vice President, Fresh Operations; and Al Ahmer, Vice President, Processed Product Sales and Operations.

CHAPTER 6

Global Resources

Earlier this decade, in an article on agricultural free-trade agreements, the influential *Wall Street Journal* wrote, Calavo "…transformed itself into a global player, building production facilities to process Mexican fruit locally and becoming a trader of avocados grown as far a field as New Zealand and Chile… There has always been a division between [companies] that get it and [companies] that don't. Calavo is one of the ones that gets it."

As far back as the early 1990s, we foresaw burgeoning cross-border opportunities and knew that intensifying domestic demand for a stable, year-round supply of avocados could not possibly be satisfied locally alone. At the forward edge of the curve, Calavo opened its modern, efficient Uruapan, Michoacán, Mexico packinghouse in 1997, laying the foundation for expansive, seamless fresh and processed operations that today are studies in efficiency and opportunistic growth. Reflecting the company's deep, broad core strength, we have forged successful farming alliances spanning California, Hawaii and Mexico and from Canada to Chile. Building upon this considerable competency, Calavo is also exploring both re-establishing avocado sourcing from New Zealand and striking new alliances in Peru, an agricultural market we view with considerable promise.

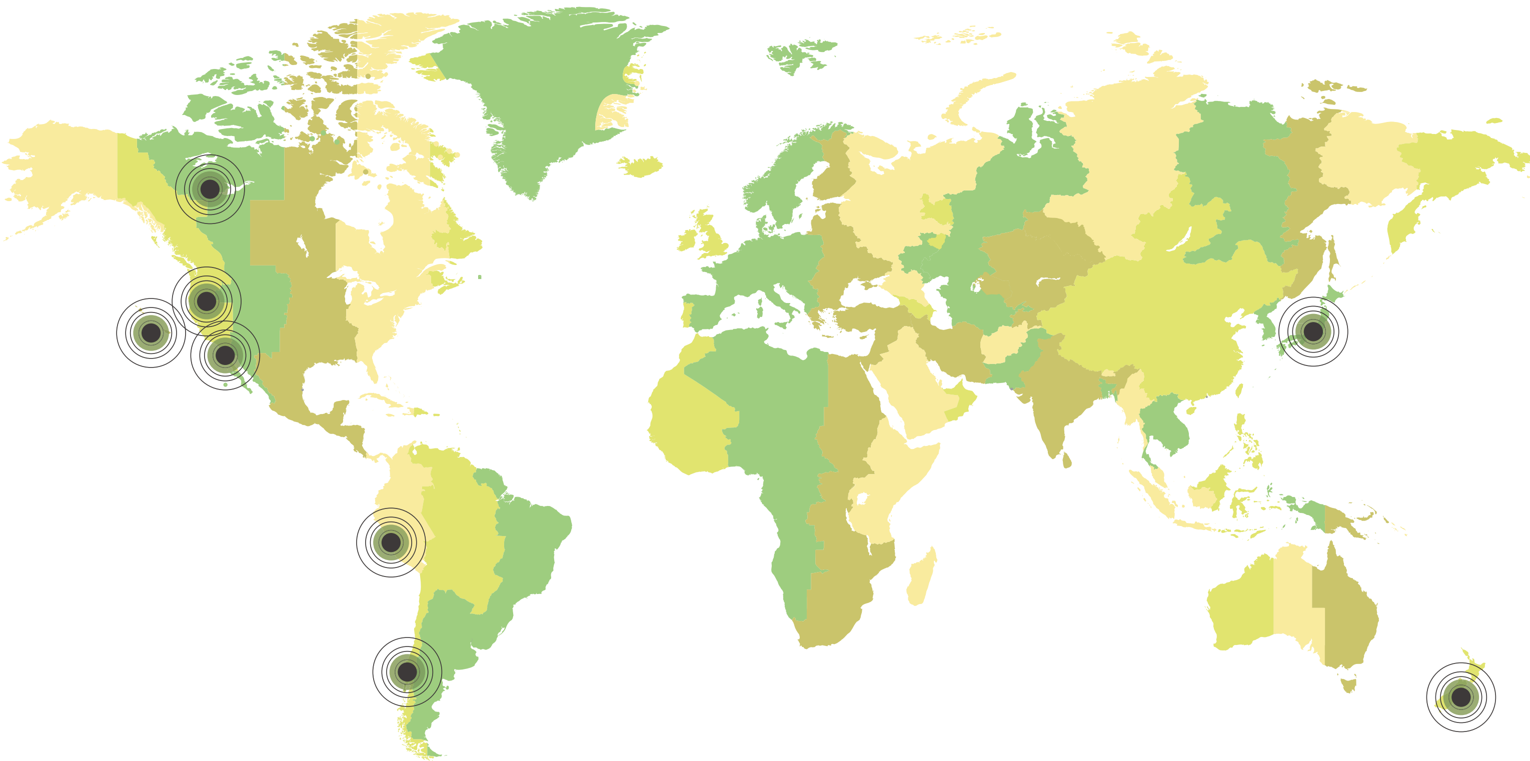
Sourcing, of course, reflects just one facet of the Calavo equation. We have sold globally since 1964, when we shipped the first avocados to Japan in what was, at that time, a genuine breakthrough. Today, we pack, market and distribute produce worldwide—with customers stretching as far as Asia and Europe. The company expertly navigates the maze of global procurement and sales logistics, shipping great-tasting Calavo products over land, sea and air to reach four continents.

FIGURE 6.1 ☐ Through the open borders enabling free trade, Calavo has built a formidable capability sourcing and marketing its products. Take Canada as case in point, where we procure fresh mushrooms, while selling avocados and other perishables.

FIGURE 6.2 ☐ Our company ships its products around the world via land, sea and air with the utmost efficiency. From the Big Island of Hawaii to the mainland U.S. alone, we ship millions of pounds of fresh papayas annually.

FIGURE 6.3 ☐ It requires substantial logistical expertise and seamless coordination to move hundreds of millions of pounds of perishable produce across four continents to reach our customers—and their customers, too— tasting farm-fresh.

FIGURE 6.4 ☐ From a local, grower-owned cooperative, Calavo has evolved into a publicly held, global agribusiness enterprise that spans 16 countries, four continents and two sun-drenched tropical islands. Now nearly 85 years old, our company has been doing business internationally since 1964—more than half its entire history.



CHAPTER SUMMARY

1. In 1997, Calavo opened a fresh avocado packinghouse in Uruapan, Michoacán, Mexico and subsequently opened a processed manufacturing plant there, as well, to capitalize on fruit availability.

2. Global sourcing enables a steady, year-round supply of fresh avocados and has been an impetus behind company growth.

3. The company currently sources avocados and other produce in California, Hawaii, Mexico, Canada and Chile and is exploring new alliances in New Zealand and Peru.

4. With a customer base that today spans four continents, Calavo has sold globally since 1964, when it opened the market to Japan with the first avocados.

CHAPTER 7

Mining Untapped Opportunities

Calavo is dedicated to building a larger, stronger and more diversified company via internal growth and complementary acquisitions and investments. We seek out opportunities that add synergistic benefits, offer unrealized potential and pave the way for increased revenues and profits.

As a prime example, Calavo became the single-largest shareholder in the Limoneira Co. through a 16 percent equity interest acquired three years ago. With more than 7,000 acres of land, Limoneira is California's largest avocado grower. The company harvests approximately 10-15 million pounds of fresh fruit per year, which is packed and marketed by Calavo. An annual cash dividend on its Limoneira shares provides Calavo with solid incremental income. A significant aspect of our investment rationale was the untapped opportunity afforded by the potential development of Limoneira's prime acreage located in California's dynamic, fast-growing Ventura County.

FIGURE 7.1 □ Reviewing a host of external growth opportunity in a fragmented industry, Calavo pursues only those select few meeting rigorous criteria: good fit with our infrastructure, immediately accretive to earnings and, as a bonus, untapped profit potential.

In June of 2008, Santa Paula voters overwhelmingly approved a ballot measure facilitating Limoneira's planned 501-acre mixed-use project, which calls for 1,500 homes, 210,000 square feet of office and retail, and 150,000 square feet of light industrial space in a balanced, high-quality development. Voter approval is a major step forward toward monetizing select Limoneira agricultural acreage. We believe the potential upside benefits to Calavo from Limoneira's planned development activity, while difficult to quantify at this point, will prove to be substantial.

Our earlier acquisition of Maui Fresh diversified our fresh product line, especially with respect to tropical and Hispanic offerings, and strengthened our management team. Last year's acquisition of papaya and tropical-product operations in Hawaii reflects our confidence that Calavo possesses the resources to maximize the revenue and profit potential of these assets. We are engaged in the continual review and evaluation of a multitude of acquisition opportunities in our highly fragmented industry, but will pursue only those that fit our business model and meet our stringent financial and operational criteria, particularly those transactions offering an attractive untapped potential.

FIGURE 7.2 ☐ In 2005, Calavo became the single-largest stockholder with a 16 percent stake in Limoneira Co., the largest avocado grower in California with substantial land holdings ideally positioned for development in a dynamic region. Calavo's corporate headquarters is located on the beautiful Limoneira ranch.

FIGURE 7.3 ☐ While continuing to enhance leadership in our core avocado market, Calavo has moved to build strength through diversification on favorable terms into new complementary categories. In 2003, we acquired Maui Fresh with its diversified line of tropical and Hispanic offerings, followed two years later with our Limoneira investment. In the past two years, we have added tomatoes, mushrooms and pineapples via alliances with high quality producers, and brought papaya packing under our direct control.

FIGURE 7.4 ☐ Voter approval of Measure G paves the way for Limoneira's planned mixed-use development in dynamic Ventura County. The project features single-family homes, office, retail and light industrial space. Plans call for substantial infrastructure investment and a commitment to open space and active parkland.

CHAPTER SUMMARY

1. Calavo seeks complementary opportunities which fit our strategic goals and offer an untapped potential.
2. We became the single largest shareholder in the Limoneira Co., California's largest avocado grower with 7,000 prime acres in a fast-growing area.
3. A high-quality mixed-use development is moving forward, and the potential benefits to Calavo from this and other projects may well prove to be substantial.
4. Our key acquisition of Maui Fresh diversified our product line and strengthened our management team.

BOARD OF DIRECTORS

(from left to right)

Steven William Hollister
Vice President
Sunrise Mortgage &
Investment Company
San Luis Obispo, California

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

Egidio "Gene" Carbone, Jr.
Retired CFO
Calavo Growers, Inc.

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

J. Link Leavens
General Manager
Leavens Ranches
Ventura, California

Harold S. Edwards
President and CEO
Limoneria Company
Santa Paula, California

Lecil E. Cole
Chairman, President and CEO
Calavo Growers, Inc.
Santa Paula, California

Dorcas H. McFarlane
Owner and Operator
J.K. Thille Ranches
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Scott N. Van Der Kar
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Van Der Kar Family Farms
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Avocado Grower
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Fred J. Ferrazzano
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Ferrazzano Farms
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John M. Hunt
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Embarcadero Ranch
Goleta, California

Michael D. Hause
President and CEO
Santa Clara Valley Bank
Santa Paula, California

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.

Financial Summary

Financial Highlights

The following summary consolidated financial data (other than pounds information) for each of the years in the five-year period ended October 31, 2008 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,	**2008**	2007	2006	2005	2004
(In thousands, except per share data)					
Income Statement Data: (1)					
Net sales	**$ 361,474**	$ 302,984	$ 273,723	$ 258,822	$ 274,218
Gross margin	**33,181**	31,772	29,084	21,734	25,404
Net income	**7,725**	7,330	5,788	3,322	6,210
Basic net income per share	**$ 0.54**	$ 0.51	$ 0.40	$ 0.24	$ 0.46
Diluted net income per share	**$ 0.53**	$ 0.51	$ 0.40	$ 0.24	$ 0.46
Balance Sheet Data as of End of Period:					
Working capital	**$ 15,413**	$ 16,334	$ 12,023	$ 17,618	$ 20,353
Total assets(3)	**134,686**	128,018	107,563	108,482	67,398
Short-term debt(3)	**1,362**	1,307	1,308	1,313	22
Long-term debt, less current portion(3)	**25,351**	13,106	10,406	11,719	34
Shareholders' equity(3)	**65,517**	74,003	58,943	64,746	43,937
Cash Flows Provided by (Used in):					
Operations	**$ 5,296**	$ 4,629	$ 7,819	$ 5,568	$ 4,460
Investing(2)(3)(4)	**(7,454)**	(7,950)	(4,663)	(11,941)	(8,474)
Financing(3)	**2,700**	4,238	(4,239)	6,870	(725)
Other Data:					
Dividends per share	**$ 0.35**	$ 0.35	$ 0.32	$ 0.32	$ 0.30
Net book value per share	**$ 4.52**	$ 5.15	$ 4.12	$ 4.51	$ 3.25
Pounds of California avocados sold	**92,165**	91,038	218,460	104,950	152,725
Pounds of non-California avocados sold	**123,740**	135,723	70,063	103,830	69,410
Pounds of processed avocados products sold	**22,274**	22,556	20,489	15,628	13,317

(1) Operating results for fiscal 2008 include the acquisitions of Hawaiian Sweet (HS) and Hawaiian Pride (HP). Such acquisitions, however, did not significantly impact trends or results of operations for fiscal 2008, as such acquisitions replaced the previous consigned arrangement, as discussed in Note 9 to our consolidated financial statements. See Note 17 to our consolidated financial statements for further discussion of these acquisitions.

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

(3) 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 and subsequent periods include the effect of the stock purchase agreement with Limoneira Company.

(4) For fiscal years 2008 and 2007, we advanced $0.8 million and $5.0 million to Agricola Belher pursuant to our infrastructure agreement. See Note 15 to our consolidated financial statements. Additionally, we purchased HS and HP for $5.2 million. See Note 17 to our consolidated financial statements for further discussion of these acquisitions.

MD&A of Financial Condition & 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 for delivery to our customers. We presently operate three packinghouses in Southern California. These packinghouses handled approximately 28% of the California avocado crop during the 2008 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, and pineapples. We operate a packinghouse in Mexico that, together with certain co-packers that we frequently purchase fruit from, handled approximately 22% of the Mexican avocado crop bound for the United States market and approximately 15% of the avocados exported from Mexico to countries other than the United States during the 2007-2008 Mexican season, based on our estimates. Additionally, during the 2007-2008 Chilean avocado season, we handled approximately 6% of the Chilean avocado crop, based on our estimates. Our strategy is to increase our market share of currently sourced avocados to all accepted marketplaces. We believe our diversified avocado sources provides a level of supply stability that may, over time, help solidify the demand for avocados among consumers in the United States and elsewhere in the world. We believe our efforts in distributing our other various commodities, such as those shown above, complement our offerings of avocados. From time to time, we continue to explore distribution of other crops that provide reasonable returns to the business.

Our processed products business procures avocados, processes avocados into a wide variety of guacamole products, and distributes the processed product to our customers. Customers include both food service industry and retail businesses and our products primarily include both frozen and "cold pasteurized" fresh guacamole. "Cold pasteurized" fresh guacamole refers to fresh guacamole 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 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 64% and 63% of total processed segment sales for the years ended October 31, 2008 and 2007. Net sales of our ultra high pressure products represented approximately 36% and 37% of total processed segment sales for the years ended October 31, 2008 and 2007.

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 December 23, 2008, we paid a $0.35 per share dividend in the aggregate amount of $5.0 million to shareholders of record on December 9, 2008.

Fresh Packinghouse acquisition

Effective July 2008, we purchased our previously leased fresh avocado packinghouse located in Uruapan, Michoacán, Mexico for $4.0 million, plus acquisition costs. We recorded approximately $0.9 million and $3.1 million in land and buildings and improvements related to this transaction. The building is currently being depreciated over a 40-year period.

Capital Lease

In April 2008, we entered into a capital lease for various fixed assets related to our Swedesboro, New Jersey facility. Such fixed assets are included in buildings and improvements and equipment at October 31, 2008, totaling $0.6 million and $0.5 million. Depreciation expense was $2.1 million, $2.0 million and $1.9 million for fiscal years 2008, 2007, and 2006, of which $0.1 million was related to depreciation on capital leases. We did not have any significant capital leases as of October 31, 2007.

Contingencies

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 for in the financial statements as of October 31, 2008. We pledged our processed products building located in Uruapan, Michoacán, Mexico as collateral to Hacienda in regards to this assessment.

IRS examination—We are currently under examination by the Internal Revenue Service for the year ended October 31, 2005. We do not believe that the settlement of such examination will have a material adverse impact on our financial statements.

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

Term Revolving Credit Agreement

In May 2008, we entered into a Term Revolving Credit Agreement (the "Agreement") with Farm Credit West, PCA. Under the terms of the Agreement, we are advanced funds for the purchase and installation of capital items and other corporate needs of the Company. Total credit available under the Agreement, which expires in February 2012, is now $30 million, up from $20 million. The credit facility 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, 2008.

Business Acquisitions

Calavo and Lecil E. Cole, Suzanne Cole-Savard, Guy Cole, Eric Weinert, and Lecil E. Cole and Mary Jeanette Cole, as trustees of the Lecil E. and Mary Jeanette Cole Revocable Trust dated October 19, 1993 (the "Cole Trust") (collectively, the "Sellers"), have entered into an Acquisition Agreement, dated May 19, 2008 (the "Acquisition Agreement"), which sets forth the terms and conditions pursuant to which Calavo purchased all of the outstanding shares of Hawaiian Sweet, Inc. ("HS") and all ownership interests of Hawaiian Pride, LLC ("HP"). HS and HP engage in tropical-product packing and processing operations in Hawaii. The Acquisition Agreement provides, among other things, that as a result of the Acquisition Agreement, Calavo shall make an initial purchase price payment in the aggregate amount of $3,500,000 for both entities. Calavo made the initial payment on May 20, 2008. Calavo shall also make two additional annual payments, ranging from $2,500,000 to $4,500,000, based on certain operating results (the "Earn-Out Payment(s)"), as defined. Mr. Cole is President, Chief Executive Officer, and Chairman of the Board of Directors of Calavo. Pursuant to SFAS 141, *Business Combinations*, we recorded approximately $7.1 million as a liability related to deferred and contingent consideration to the Sellers, of which $3.6 million was recorded in accrued expenses, $3.5 million is recorded in long-term obligations, less current portion, and $0.6 million as deferred tax liabilities. Total liabilities recorded as a result of the acquisition was $7.7 million.

The first Earn-Out Payment to be made by Calavo will be adjusted if the aggregate working capital ("WC") of HS and HP does not equal $700,000 as of the closing date. In the event that WC is less than $700,000, Calavo shall reduce its first Earn-Out payment by an amount equal to the difference between $700,000 and the closing date aggregate working capital of HS and HP. In the event that WC is greater than $700,000, Calavo shall increase its first Earn-Out payment by an amount equal to the difference between $700,000 and the closing date aggregate working capital of HS and HP.

Pursuant to the Acquisition Agreement, the transaction closed on May 30, 2008.

Concurrently with the execution of the Acquisition Agreement, Calavo and the Cole Trust have entered into an Agreement and Escrow Instructions for Purchase and Sale of Real Property (the "Real Estate Contract"), dated the same date as the acquisition agreement, pursuant to which Calavo purchased from the Cole Trust approximately 727 acres of agricultural land located in Pahoa, Hawaii for a purchase price of $1,500,000, which Calavo delivered on May 19, 2008. The Real Estate Contract also closed on May 30, 2008.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition (in thousands). We obtained third-party valuations for the long-term assets acquired and incurred approximately $0.2 million in acquisition costs.

At May 30, 2008	
Current assets	$ 1,498
Property, plant, and equipment	10,947
Intangible assets	1,310
Total assets acquired	13,755
Current liabilities	(809)
Deferred tax liabilities	(654)
Net assets acquired	12,292
Deferred consideration	(4,709)
Contingent consideration	(2,358)
Net cash paid as of May 30, 2008	$ 5,225

Of the $1,310,000 of intangible assets, $1,140,000 was assigned to customer contract/relationships with a weighted average life of 8 years, $100,000 to trade names with an average life of 8 years and $70,000 to non-competition agreements with an average life of 3 years.

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 accrued liabilities. When certain amounts of specific customer accounts are subsequently identified as promotional, they are written off against this allowance. Actual amounts may differ from these estimates and such differences are recognized as an adjustment to net sales in the period they are identified. A 1% change in the derived percentage would impact results of operations by approximately $0.1 million.

Income Taxes. We account for income taxes under the provisions of SFAS No. 109, Accounting for Income Taxes. This statement requires the recognition of deferred tax liabilities and assets for the future consequences of events that have been recognized in our consolidated financial statements or tax returns. Measurement of the deferred items is based on enacted tax laws. In the event the future consequences of differences between financial reporting bases and tax bases of our assets and liabilities result in a deferred tax asset, SFAS No. 109 requires an evaluation of the probability of being able to realize the future benefits indicated by such asset. A valuation allowance related to a deferred tax asset is recorded when it is more likely than not that some portion or all of the deferred tax asset will not be realized.

In November 2008, we adopted the provisions of the Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109* (FIN 48), which provides a financial statement recognition threshold and measurement attribute for a tax position taken or expected to be taken in a tax return. Under FIN 48, a company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

As a multinational corporation, we are subject to taxation in many jurisdictions, and the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in various taxing jurisdictions. If we ultimately determine that the payment of these liabilities will be unnecessary, the liability will be reversed and we will recognize a tax benefit during the period in which it is determined the liability no longer applies. Conversely, we record additional tax charges in a period in which it is determined that a recorded tax liability is less than the ultimate assessment is expected to be.

The application of tax laws and regulations is subject to legal and factual interpretation, judgment and uncertainty. Tax laws and regulations themselves are subject to change as a result of changes in fiscal policy, changes in legislation, the evolution of regulations and court rulings. Therefore, the actual liability for U.S. or foreign taxes may be materially different from management's estimates, which could result in the need to record additional tax liabilities or potentially reverse previously recorded tax liabilities.

FIN 48 also provides guidance on derecognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, and income tax disclosures. The adoption of FIN 48 did not have a material impact on our financial position and results of operations. See Note 10. Prior to fiscal 2008, we recorded estimated income tax liabilities to the extent they were probable and could be reasonably estimated.

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, 2008.

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,	**2008**	2007	2006
Net sales	**100.0%**	100.0%	100.0%
Gross margins	**9.2%**	10.5%	10.6%
Selling, general and administrative	**5.8%**	6.5%	7.2%
Operating income	**3.4%**	4.0%	3.4%
Interest Income	**0.1%**	0.1%	0.1%
Interest Expense	**(0.4)%**	(0.4)%	(0.3)%
Other income, net	**0.2%**	0.2%	0.2%
Net income	**2.1%**	2.4%	2.1%

NET SALES

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

Additionally, we believe that the demographic changes in the U.S. will greatly impact the consumption of avocados and avocado-based products. The Hispanic community currently accounts for approximately 15% of the U.S. population, and the total number of Hispanics is estimated to triple by the year 2050. Avocados are considered a staple item purchased by Hispanic consumers, as the per-capita avocado consumption in Mexico is estimated to be more than seven-fold that of the U.S.

We anticipate avocado products will further penetrate the United States marketplace driven by 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 2008, 2007 and 2006, on behalf of avocado growers, we remitted approximately $2.2 million, $1.7 million and $1.7 million to the California Avocado Commission. During fiscal 2008, 2007 and 2006, we remitted approximately $2.2 million, $2.2 million and $4.7 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)	**2008**	Change	2007	Change	2006
Net sales:					
Fresh products	**$ 315,667**	20.8%	$ 261,325	10.3%	$ 236,889
Processed products	**45,807**	10.0%	41,659	13.1%	36,834
Total net sales	**$ 361,474**	19.3%	$ 302,984	10.7%	$ 273,723
As a percentage of net sales:					
Fresh products	**87.3%**		86.3%		86.5%
Processed products	**12.7%**		13.7%		13.5%
	100.0%		100.0%		100.0%

Net sales for the year ended October 31, 2008, when compared to 2007, increased by approximately $58.5 million, or 19.3%, 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 sales related to Mexico and California sourced avocados, tomatoes, and pineapples. Such sales increases were partially offset, however, by a decrease in sales related to Chilean sourced avocados. The increase related to our processed products segment was primarily related to an increase in our 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, 2008			Year ended October 31, 2007		
	Fresh products	**Processed products**	**Total**	Fresh products	Processed products	Total
Third-party sales:						
California avocados	**$ 102,461**	**$ –**	**$ 102,461**	$ 95,130	$ –	$ 95,130
Imported avocados	**135,977**	**–**	**135,977**	120,588	–	120,588
Tomatoes	**19,609**	**–**	**19,609**	8,837	–	8,837
Pineapples	**15,944**	**–**	**15,944**	24	–	24
Papayas	**8,120**	**–**	**8,120**	5,887	–	5,887
Diversified products	**2,364**	**–**	**2,364**	4,062	–	4,062
Processed - food service	**–**	**38,233**	**38,233**	–	38,338	38,338
Processed - retail and club	**–**	**13,924**	**13,924**	–	10,706	10,706
Total fruit and product sales to third-parties	**284,475**	**52,157**	**336,632**	234,528	49,044	283,572
Freight and other charges	**31,263**	**1,397**	**32,660**	26,816	739	27,555
Total third-party sales	**315,738**	**53,554**	**369,292**	261,344	49,783	311,127
Less sales incentives	**(71)**	**(7,747)**	**(7,818)**	(19)	(8,124)	(8,143)
Total net sales to third-parties	**315,667**	**45,807**	**361,474**	261,325	41,659	302,984
Intercompany sales	**13,881**	**9,585**	**23,466**	13,020	8,123	21,143
Net sales	**$ 329,548**	**$ 55,392**	**384,940**	$ 274,345	$ 49,782	324,127
Intercompany sales eliminations			**(23,466)**			(21,143)
Consolidated net sales			**$ 361,474**			$ 302,984

	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
Tomatoes	8,837	–	8,837	–	–	–
Pineapples	24	–	24	–	–	–
Papayas	5,887	–	5,887	4,822	–	4,822
Diversified products	4,062	–	4,062	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 third-party sales	261,344	49,783	311,127	236,934	45,112	282,046
Less sales incentives	(19)	(8,124)	(8,143)	(45)	(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

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 2008 vs. Fiscal 2007:

Net sales delivered by the business increased by approximately $54.3 million, or 20.8%, from fiscal 2007 to 2008. This increase was primarily related to an increase in sales related to Mexico and California sourced avocados, tomatoes, and pineapples. Such increases were partially offset, however, by a decrease in Chilean avocado sales.

Sales of Mexican sourced avocados increased $23.5 million, or 16.9%, for fiscal year 2008, when compared to the same prior year period. This increase was primarily due to an increase in the average per carton selling price of Mexican avocados. The average per carton selling price of Mexican avocados increased approximately 19.5% when compared to the same prior year period. We attribute some of this increase to the small California avocado crop in the marketplace during fiscal 2008, as well as the premium pricing related to our ProRipeVIP™ avocado ripening program. The volume of Mexican fruit sold decreased by approximately 2.6 million pounds, or 2.2%, when compared to the same prior year period.

Sales of pineapples and tomatoes increased $16.4 million and $10.8 million from fiscal 2007 to 2008. The volume of pineapples and tomatoes increased by approximately 1.6 million cartons, or 100.0% and 0.7 million cartons, or 59.1%, when compared to the same prior year period. These increases were primarily related to our agreements with Agricola Belher of Mexico (for the tomatoes) and our consignment and marketing agreement with Maui Pineapple Company, LTD (for the pineapples). See Notes 15 and 16 to our consolidated financial statements for further discussion of these agreements. Additionally, the average selling price, on a per carton basis, of tomatoes increased approximately 39.8% when compared to the same prior year period. We attribute some of this increase to the quality of our tomatoes in the U.S. marketplace.

Sales of Chilean sourced avocados decreased $4.9 million for fiscal year 2008, when compared to the same prior year period. The volume of Chilean fruit sold decreased by approximately 9.4 million pounds, or 55.9%, when compared to the same prior year period. This decrease was primarily related to the smaller size of the Chilean avocado crop. Such decreased volume was partially offset, however, by an increase in our average selling prices, on a per carton basis, which experienced an increase of 39.2% for fiscal 2008, when compared to the same prior period. We attribute some of these price fluctuations to the smaller Chilean and California avocado crops, as well as the delivery of such crops, in the marketplace during fiscal 2008.

Mexican and Chilean grown avocados are primarily sold in the U.S., Japanese, and/or European marketplace. We anticipate that the combined sales of Mexican and Chilean grown avocados will increase in fiscal 2009.

Sales of California sourced avocados increased $8.3 million for fiscal 2008, when compared to the same prior period. This increase was primarily related to an increase in our average selling prices of 6.1%. The pounds sold of California sourced avocados remained consistent with the same prior year period. Our market share of shipped California avocados decreased to 27.7% for fiscal 2008, when compared to a 33.7% market share for the same prior year period. Based on estimates generated from the California Avocado Commission, we expect the California avocado crop for the 2008/2009 season to be smaller than the 2007/2008 crop.

For fiscal year 2008, average selling prices, on a per carton basis, for California avocados were 6.1% higher when compared to the same prior year period. We attribute some of this increase to the small California avocado crop for the 2007/2008 season. For fiscal year 2009, 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. We anticipate that sales of California grown avocados will decrease in fiscal 2009.

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 ProRipeVIP™ 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.

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.

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.

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.

PROCESSED PRODUCTS

Fiscal 2008 vs. Fiscal 2007:

Net sales increased by approximately $4.1 million, or 10.0% for fiscal 2008, when compared to the same prior period. The increase in net sales is primarily attributable to an increase in the net selling price totaling $0.22 per product pound sold, or 12.0%, partially offset by a decrease of 0.3 million pounds of product sold, or 1.2%. The increase in our net average selling price primarily relates to a change in our product mix. During fiscal year 2008, the decrease in pounds sold primarily relates to a decrease in the sale of both our frozen and high-pressure guacamole products, which decreased approximately 0.9% and 1.9% when compared to the same prior year period.

We currently have two 215L ultra high pressure machines located in Uruapan and estimate we are operating at approximately 50% of the combined machines' capacities as of October 31, 2008. 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 36% and 37% of total processed segment sales for the years ended October 31, 2008 and 2007.

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

Fiscal 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.

Gross Margins

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

(Dollars in thousands)	**2008**	Change	2007	Change	2006
Gross Margins:					
Fresh products	**$ 22,223**	3.6%	$ 21,461	14.9%	$ 18,673
Processed products	**10,958**	6.3%	10,311	(1.0)%	10,411
Total gross margins	**$ 33,181**	4.4%	$ 31,772	9.2%	$ 29,084
Gross profit percentages:					
Fresh products	**7.0%**		8.2%		7.9%
Processed products	**23.9%**		24.8%		28.3%
Consolidated	**9.2%**		10.5%		10.6%

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, decreased 1.3% for fiscal year 2008 when compared to fiscal year 2007. This decrease was principally attributable to decreases in both our fresh and processed product segments for fiscal year 2008. 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.

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, our packing and marketing fee, and the volume of avocados packed. Our gross margin percentage increased during fiscal year 2008 when compared to the same prior year period. Such increase is primarily related to a 1.2% increase in pounds of avocados sold, an increase in our packing and marketing fee, and a 6.1%

increase in the average sales price of California avocados. Combined, these had the effect of decreasing our per pound costs, which, as a result, positively impacted gross margins.

The decrease in our gross margin percentage related to California avocados during fiscal year 2007, as compared to fiscal 2006, 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 gross margin and gross profit percentage for consignment sales, including Chilean avocados, pineapples, and tomatoes, are dependent on the volume of fruit we handle, the average selling prices, and the competitiveness of the returns that we provide to third-party packers. The gross margin we earn is generally based on a commission agreed to with each party, which varies from a fixed rate per box to a percent of the overall selling price. Although we generally do not take legal title to such avocados and perishable products, we do assume responsibilities (principally assuming credit risk, inventory loss and delivery risk, and limited pricing risk) that are consistent with acting as a principal in the transaction. Accordingly, our results of operations include sales and cost of sales from the sale of avocados and perishable products procured under consignment arrangements. For fiscal years 2008, 2007, and 2006, we generated gross margins of \$3.5 million, \$1.7 million, and \$1.2 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 2008, our gross margins generated from the sale of Mexican avocados decreased from approximately \$14.0 million in fiscal year 2007 to \$11.1 million in fiscal year 2008. Such decrease was primarily related to a 2.2% decrease in the volume of Mexican avocados sold, as well as higher fruit costs. Collectively, these items negatively affected gross margins.

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.

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 2008, the processed products gross profit percentages marginally 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. In addition, there was a marginal decrease in total pounds produced, which had the effect of increasing our per pound costs. These increases were partially offset, however, by a decrease in the production and sale of less profitable items. 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 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.

Selling, General and Administrative

(Dollars in thousands)	2008	Change	2007	Change	2006
Selling, general and administrative	**$ 20,914**	5.8%	$ 19,759	NM	$ 19,767
Percentage of net sales	**5.8%**		6.5%		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 2008, selling, general and administrative expenses increased $1.2 million or 5.8% when compared to the same period for fiscal 2007. This increase was primarily related to higher corporate costs, including, but not limited to, costs related to an increase in salaries and benefits (totaling approximately $1.0 million), an increase in broker sales commissions (totaling approximately $0.4 million), and an increase in repairs and maintenance (totaling approximately $0.2 million). Such higher corporate costs were partially offset, however, by a decrease in bad debt expense (totaling approximately $0.4 million).

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).

Interest income

(Dollars in thousands)	2008	Change	2007	Change	2006
Interest income	**$ 516**	108.1%	$ 248	(30.3)%	$ 356
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 and 2006, interest income includes interest accrued on notes receivable from directors and officers of approximately $0.1 million and $0.2 million.

Interest expense

(Dollars in thousands)	2008	Change	2007	Change	2006
Interest expense	**$ (1,485)**	10.3%	$ (1,346)	42.7%	$ (943)
Percentage of net sales	**(0.4)%**		(0.4)%		(0.3)%

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 2008, as compared to fiscal 2007, the increase in interest expense was primarily related to a higher average outstanding balance under our non-collateralized, revolving credit facilities with Farm Credit West, PCA and Bank of America, N.A.

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.

Other Income, Net

(Dollars in thousands)	2008	Change	2007	Change	2006
Other income, net	**$ 715**	39.6%	$ 512	(14.5)%	$ 599
Percentage of net sales	**0.2%**		0.2%		0.2%

Other income, net includes dividend income, as well as certain other transactions that are outside of the normal course of operations. During fiscal 2008, 2007, and 2006, we received $0.6 million, $0.4 million, and $0.4 million as dividend income from Limoneira.

Provision for Income Taxes

(Dollars in thousands)	2008	Change	2007	Change	2006
Provision for income taxes	**$ 4,567**	6.9%	$ 4,271	18.0%	$ 3,620
Percentage of income before provision for income taxes	**37.2%**		36.8%		38.5%

The effective income tax rate for fiscal years 2008, 2007, and 2006 is higher than the federal statutory rate principally due to state taxes. Our effective income tax rate increased from 36.8% in fiscal year 2007 to 37.2% in fiscal year 2008 primarily as a result of an increase in foreign taxes, partially offset by a decrease in our average state tax rate. 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 an increase in pre-tax income in a foreign jurisdiction with favorable tax rates.

Quarterly Results of Operations

The following table presents our operating results for each of the eight fiscal quarters in the period ended October 31, 2008. 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. Certain items in the prior period amounts have been reclassified to conform to the current period presentation.

	Three months ended							
(in thousands, except per share amounts)	**Oct. 31, 2008**	July 31, 2008	Apr. 30, 2008	Jan. 31, 2008	Oct. 31, 2007	July 31, 2007	Apr. 30, 2007	Jan. 31, 2007
Statement of Operations Data								
Net sales	**$ 93,553**	$ 96,903	$ 98,777	$ 72,241	$ 85,286	$ 91,307	$ 69,147	$ 57,244
Cost of sales	**81,387**	89,211	91,483	66,212	78,214	82,680	59,993	50,325
Gross margin	**12,166**	7,692	7,294	6,029	7,072	8,627	9,154	6,919
Selling, general and administrative	**6,162**	5,301	4,701	4,750	5,599	4,803	4,775	4,582
Operating income (loss)	**6,004**	2,391	2,593	1,279	1,473	3,824	4,379	2,337
Other income (expense), net	**178**	(118)	52	(87)	128	(247)	(137)	(156)
Income (loss) before provision (benefit) for income taxes	**6,182**	2,273	2,645	1,192	1,601	3,577	4,242	2,181
Provision (benefit) for income taxes	**2,190**	884	1,033	460	411	1,355	1,655	850
Net income (loss)	**$ 3,992**	$ 1,389	$ 1,612	$ 732	$ 1,190	$ 2,222	$ 2,587	$ 1,331
Net income (loss) per share:								
Basic	**$ 0.28**	$ 0.10	$ 0.11	$ 0.05	$ 0.08	$ 0.16	$ 0.18	$ 0.09
Diluted	**$ 0.28**	$ 0.10	$ 0.11	$ 0.05	$ 0.08	$ 0.15	$ 0.18	$ 0.09
Number of shares used in per share computation:								
Basic	**14,408**	14,405	14,403	14,375	14,329	14,300	14,294	14,293
Diluted	**14,443**	14,467	14,514	14,503	14,530	14,452	14,398	14,359

Liquidity and Capital Resources

Operating activities for fiscal 2008, 2007 and 2006 provided cash flows of $5.3 million, $4.6 million, and $7.8 million. Fiscal year 2008 operating cash flows reflect our net income of $7.7 million, net noncash charges (depreciation and amortization, income from Maui Fresh, LLC, loss on disposal of fixed assets, provision for losses on accounts receivable, interest on deferred compensation, deferred income taxes, and stock compensation expense) of $3.5 million and a net decrease from changes in the non-cash components of our working capital accounts of approximately $5.9 million.

Fiscal year 2008 decreases in operating cash flows, caused by working capital changes, include an increase in inventory of $5.6 million, an increase in accounts receivable of $1.4 million, an increase in advances to suppliers of $0.6 million, and an increase in prepaid expenses and other current assets of $0.1 million, partially offset by an increase in trade accounts payable and accrued expenses of $1.2 million, a decrease in income tax receivable of $0.5 million and a decrease in other assets totaling $0.1 million.

The increase in our inventory balance is primarily related to a significant increase in Mexico inventory on hand at October 31, 2008, as compared to the same prior year period. Additionally, we also experienced a significant increase in finished processed products inventory based primarily on production exceeding sales during fiscal 2008, as compared to fiscal 2007.

The increase in our accounts receivable balance as of October 31, 2008, when compared to October 31, 2007, primarily reflects significantly higher Mexican avocado sales recorded in the month of October 2008, as compared to October 2007. This increase is consistent with the expected larger Mexican avocado crop for fiscal 2008, as compared to fiscal 2007. The increase in our advances to suppliers as of October 31, 2008, as compared to October 31, 2007, primarily reflects additional advances made to certain growers.

Cash used in investing activities was $7.5 million, $8.0 million, and $4.7 million for fiscal years 2008, 2007, and 2006. Fiscal year 2008 cash flows used in investing activities includes capital expenditures of $2.7 million and the acquisition of Hawaiian Sweet and Pride, net of cash acquired of $5.0 million, and a loan to Agricola Belher of $0.8 million. Such payments were partially offset by the collection of $1.0 million Agricola Belher, pursuant to our tomato agreements. See Note 15 and Note 17 to our consolidated financial statements.

Cash provided by financing activities was $2.7 million and $4.2 million for fiscal years 2008 and 2007, while cash used in financing activities was $4.2 million for fiscal year 2006. Cash provided during fiscal year 2008 primarily includes proceeds from our non-collateralized, revolving credit facilities totaling $8.5 million, and $0.6 million related to stock option exercises. These cash receipts were partially offset, however, by the payment of a dividend totaling $5.0 million and payments related to our long-term obligations of $1.4 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, 2008 and 2007 totaled $1.5 million and $1.0 million. Our working capital at October 31, 2008 was $15.4 million, compared to $16.3 million at October 31, 2007.

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 May 2008 and October 2007, we renewed and/or extended our non-collateralized, revolving credit facilities with Farm Credit West, PCA and Bank of America, N.A. These two credit facilities 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 $40 million, with a weighted-average interest rate of 4.8% at October 31, 2008 and 5.8% at October 31, 2007. Under these credit facilities, we had $23.1 million and $10.6 million outstanding as October 31, 2008 and 2007, of which $13.0 million and $4.0 million was classified as a long-term liability as October 31, 2008 and 2007. 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, 2008.

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, 2008:

	Payments due by period				
Contractual Obligations	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt obligations (including interest)	$ 31,972	$ 2,565	$ 8,710	$ 16,977	$ 3,720
Revolving credit facilities	10,130	10,130	–	–	–
Defined benefit plan	279	46	92	92	49
Operating lease commitments	10,119	1,185	2,030	1,788	5,116
Total	$ 52,500	$ 13,926	$ 10,832	$ 18,857	$ 8,885

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, payable to growers, accounts payable, current and long-term borrowings pursuant to our credit facilities with financial institutions, and long-term, fixed-rate obligations. All of our financial instruments are entered into during the normal course of operations and have not been acquired for trading purposes. The table below summarizes interest rate sensitive financial instruments and presents principal cash flows in U.S. dollars, which is our reporting currency, and weighted-average interest rates by expected maturity dates, as of October 31, 2008.

(All amounts in thousands)	Expected maturity date October 31,							
	2009	2010	2011	2012	2013	Thereafter	Total	Fair Value
Assets								
Cash and cash equivalents (1)	$ 1,509	$ –	$ —	$ –	$ –	$ –	$ 1,509	$ 1,509
Accounts receivable (1)	27,717	–	–	–	–	–	27,717	27,717
Liabilities								
Payable to growers (1)	$ 2,392	$ –	$ –	$ –	$ –	$ –	$ 2,392	$ 2,392
Accounts payable (1)	4,567	–	–	–	–	–	4,567	4,567
Current borrowings pursuant to credit facilities (1)	10,130	–	–	–	–	–	10,130	10,130
Long-term borrowings pursuant to credit facilities (2)	–	–	–	13,000	–	–	13,000	14,356
Fixed-rate long-term obligations (3)	1,362	4,892	1,370	1,373	1,376	3,340	13,713	14,713

(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 4.9%. We believe that a portfolio of loans with a similar risk profile would currently yield a return of 2.2%. We project the impact of an increase or decrease in interest rates of 100 basis points would result in a change of fair value by approximately $529,000.

(3) Fixed-rate long-term obligations bear interest rates ranging from 3.8% to 5.7% with a weighted-average interest rate of 5.1%. We believe that loans with a similar risk profile would currently yield a return of 3.2%. We project the impact of an increase or decrease in interest rates of 100 basis points would result in a change of fair value of approximately $456,000.

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 both Mexican pesos and US dollars. 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 for fiscal 2008 and 2007, net of losses, was approximately $0.5 million and $0.1 million, while fiscal year 2006 net foreign currency loss did not exceed $0.1 million.

Consolidated Balance Sheets

October 31, (in thousands, except share amounts)	2008	2007
Assets		
Current assets:		
Cash and cash equivalents	**$ 1,509**	$ 967
Accounts receivable, net of allowances of $2,213 (2008) and $2,271 (2007)	**27,717**	25,992
Inventories, net	**14,889**	8,359
Prepaid expenses and other current assets	**5,155**	4,911
Advances to suppliers	**2,927**	2,292
Income taxes receivable	**992**	1,539
Deferred income taxes	**1,826**	2,525
Total current assets	**55,015**	46,585
Property, plant, and equipment, net	**37,709**	20,888
Investment in Limoneira	**29,904**	48,962
Investment in Maui Fresh, LLC	**682**	403
Goodwill	**3,591**	3,591
Other assets	**7,785**	7,589
	$ 134,686	$ 128,018
Liabilities and shareholders' equity		
Current liabilities:		
Payable to growers	**$ 2,392**	$ 2,414
Trade accounts payable	**4,567**	2,643
Accrued expenses	**16,104**	12,227
Short-term borrowings	**10,130**	6,630
Dividend payable	**5,047**	5,030
Current portion of long-term obligations	**1,362**	1,307
Total current liabilities	**39,602**	30,251
Long-term liabilities:		
Long-term obligations, less current portion	**25,351**	13,106
Deferred income taxes	**4,216**	10,658
Total long-term liabilities	**29,567**	23,764
Commitments and contingencies		
Shareholders' equity:		
Common stock ($0.001 par value, 100,000 shares authorized; 14,419 and 14,371 shares outstanding at October 31, 2008 and 2007)	**14**	14
Additional paid-in capital	**38,626**	38,068
Accumulated other comprehensive income	**3,943**	15,664
Retained earnings	**22,934**	20,257
Total shareholders' equity	**65,517**	74,003
	$ 134,686	$ 128,018

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

Year Ended October 31, (in thousands, except per share amounts)	2008	2007	2006
Net sales	**$ 361,474**	$ 302,984	$ 273,723
Cost of sales	**328,293**	271,212	244,639
Gross margin	**33,181**	31,772	29,084
Selling, general and administrative	**20,914**	19,759	19,767
Operating income	**12,267**	12,013	9,317
Equity in earnings from Maui Fresh, LLC	**279**	174	79
Interest income	**516**	248	356
Interest expense	**(1,485)**	(1,346)	(943)
Other income, net	**715**	512	599
Income before provision for income taxes	**12,292**	11,601	9,408
Provision for income taxes	**4,567**	4,271	3,620
Net income	**$ 7,725**	$ 7,330	$ 5,788
Net income per share:			
Basic	**$ 0.54**	$ 0.51	$ 0.40
Diluted	**$ 0.53**	$ 0.51	$ 0.40
Number of shares used in per share computation:			
Basic	**14,398**	14,304	14,304
Diluted	**14,481**	14,435	14,354

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income (Loss)

Year ended October 31, (All amounts in thousands)	**2008**	2007	2006
Net income	**$ 7,725**	$ 7,330	$ 5,788
Other comprehensive income (loss), before tax:			
Unrealized holding gains (losses) arising during period	**(19,058)**	15,083	(11,755)
Income tax benefit (expense) related to items of other comprehensive income (loss)	**7,337**	(5,712)	4,662
Other comprehensive income (loss), net of tax	**(11,721)**	9,371	(7,093)
Comprehensive income (loss)	**$ (3,996)**	$ 16,701	$ (1,305)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

(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, 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**
Exercise of stock options and income tax benefit of $147	**48**	**–**	**534**	**–**	**–**	**–**	**534**
Stock compensation expense	**–**	**–**	**24**	**–**	**–**	**–**	**24**
Unrealized loss on Limoneira investment, net	**–**	**–**	**–**	**–**	**(11,721)**	**–**	**(11,721)**
Dividend declared to shareholders	**–**	**–**	**–**	**–**	**–**	**(5,048)**	**(5,048)**
Net income	**–**	**–**	**–**	**–**	**–**	**7,725**	**7,725**
Balance, October 31, 2008	**14,419**	**$ 14**	**$ 38,626**	**$ –**	**$ 3,943**	**$ 22,934**	**$ 65,517**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Year Ended October 31, (in thousands)	2008	2007	2006
Cash Flows from Operating Activities:			
Net income	$ 7,725	$ 7,330	$ 5,788
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	2,657	2,391	2,326
Provision for losses on accounts receivable	20	473	14
Income from Maui Fresh, LLC	(279)	(174)	(79)
Interest on deferred consideration	75	–	–
Stock compensation expense	24	16	666
Loss on disposal of property, plant, and equipment	70	8	23
Deferred income taxes	940	378	767
Effect on cash of changes in operating assets and liabilities:			
Accounts receivable	(1,400)	(2,263)	(4,963)
Inventories, net	(5,587)	2,210	(473)
Prepaid expenses and other current assets	(79)	1,023	(974)
Advances to suppliers	(635)	(886)	(265)
Income taxes receivable	461	816	(1,229)
Other assets	171	92	(1,286)
Payable to growers	(22)	(3,920)	4,581
Trade accounts payable and accrued expenses	1,155	(2,865)	2,923
Net cash provided by operating activities	5,296	4,629	7,819
Cash Flows from Investing Activities:			
Acquisitions of property, plant, and equipment	(2,674)	(2,950)	(4,513)
Loan to Agricola Belher	(750)	(5,000)	–
Collections from Agricola Belher	1,000	–	–
Acquisition of Hawaiian Sweet and Pride, net of cash acquired	(5,030)	–	–
Investment in Maui Fresh, LLC	–	–	(150)
Net cash used in investing activities	(7,454)	(7,950)	(4,663)
Cash Flows from Financing Activities:			
Dividend paid to shareholders	(5,031)	(4,573)	(4,564)
Proceeds from line of credit borrowings, net	8,500	6,826	2,380
Proceeds from issuance of long-term debt	–	–	–
Payments on long-term obligations	(1,389)	(1,301)	(1,318)
Retirement of common stock	–	–	(1,200)
Proceeds from stock option exercises	387	710	257
Tax benefit of stock option exercises	233	146	–
Proceeds from collection of shareholder notes receivable	–	2,430	206
Net cash provided by (used in) financing activities	2,700	4,238	(4,239)
Net increase (decrease) in cash and cash equivalents	542	917	(1,083)
Cash and cash equivalents, beginning of year	967	50	1,133
Cash and cash equivalents, end of year	$ 1,509	$ 967	$ 50
Supplemental Information -			
Cash paid during the year for:			
Interest	$ 1,455	$ 1,310	$ 936
Income taxes	$ 2,504	$ 3,100	$ 4,091
Noncash Investing and Financing Activities:			
Tax receivable increase related to stock option exercise	$ 147	$ 233	$ 146
Declared dividends payable	$ 5,047	$ 5,030	$ 4,573
Construction in progress included in trade accounts payable and accrued expenses	$ 259	$ –	$ 438
Capital lease	$ 1,125	$ –	$ –
Fixed asset acquired with long term debt	$ 4,000	$ –	$ –
Unrealized holding gains (losses)	$ (19,058)	$ 15,083	$ (11,755)

Consolidated Statements of Cash Flows (continued)

In May 2008, we acquired all of the outstanding shares of Hawaiian Sweet, Inc. and all ownership interests of Hawaiian Pride, LLC for approximately $5.0 million, as well as approximately $7.1 million in deferred and contingent consideration and $0.6 million in deferred tax liabilities, plus acquisition costs of approximately $0.2 million. See Note 17 for further explanation. The following table summarizes the estimated fair values of the non-cash assets acquired and liabilities assumed at the date of acquisition.

(in thousands)	2008
Current assets	$ 1,303
Fixed assets	10,947
Intangible assets	1,310
Total non-cash assets acquired	13,560
Current liabilities assumed	809
Deferred tax liabilities	654
Deferred and contingent consideration	7,067
Net non-cash assets acquired	$ 5,030

See accompanying notes to consolidated financial statements.

NOTE 1

DESCRIPTION OF THE BUSINESS

Business

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

NOTE 2

BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

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

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

Cash and Cash Equivalents

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

Inventories

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

Property, Plant, and Equipment

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

We capitalize software development costs for internal use 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 $0.3 million and $0.2 million as of October 31, 2008 and 2007 and the related depreciation expense was $0.1 million for the fiscal years ended October 31, 2008, 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, 2008.

At October 31, 2008, other assets in the accompanying consolidated condensed financial statements included the following intangible assets: customer-list, trade name and non-competition agreements of $1.9 million (accumulated amortization of $0.7 million) and brand name intangibles of $0.3 million. The customer-list, trade name and non-competition agreements are being amortized over periods up to ten years. The intangible asset related to the brand name currently has an indefinite life and, as a result, is not currently subject to amortization. We recorded amortization expense of approximately $247,000 and $119,000 for fiscal years 2008 and 2007, with $196,000, $166,000, 157,000, $143,000, and $143,000 of amortization expense expected for fiscal years 2009 through 2013. The remainder of approximately $405,000 will be amortized over fiscal years 2014 through 2018.

Long-lived Assets

Long-lived assets, including fixed assets and intangible assets (other than goodwill), are continually monitored and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of any such asset may not be recoverable. The determination of recoverability is based on an estimate of undiscounted cash flows expected to result from the use of an asset and its eventual disposition. The estimate of undiscounted cash flows is based upon, among other things, certain assumptions about future operating performance, growth rates and other factors. Estimates of undiscounted cash flows may differ from actual cash flows due to, among other things, technological changes, economic conditions, changes to the business model or changes in operating performance. If the sum of the undiscounted cash flows (excluding interest) is less then the carrying value, an impairment loss will be recognized, measured as the amount by which the carrying value exceeds the fair value of the asset. We have evaluated our long-lived assets and determined that no impairment existed as of October 31, 2008.

Investments

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

In August 2006, we entered into a joint venture agreement with San Rafael Distributing (SRD) for the purpose of the wholesale marketing, sale and distribution of fresh produce from the existing location of SRD at the Los Angeles Wholesale Produce Market (Terminal Market), located in Los Angeles, California. Such joint venture operates under the name of Maui Fresh International, LLC (Maui Fresh LLC) and commenced operations in August 2006. SRD and Calavo each have an equal one-half ownership interest in Maui Fresh, but SRD has overall management responsibility for the operations of Maui Fresh at the Terminal Market. We use the equity method to account for this investment.

Commencing on the first anniversary of this agreement and continuing thereafter during the term of the agreement, Calavo has the unconditional right, but not the obligation, to purchase the one-half interest in Maui Fresh owned by SRD at a purchase price to be determined pursuant to the agreement. The term of the agreement is for five years, which may be extended, or terminated early, as defined. As of October 31, 2008 and 2007, we have advanced Maui Fresh approximately $0.7 million and $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.

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 $29.9 million, $23.5 million and $6.4 million as of October 31, 2008. 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.

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, 2008, nor October 31, 2007.

Accrued Expenses

Included in accrued expenses at October 31, 2008 are un-vouchered receipts and deferred consideration (see Note 17) of approximately $1.5 million and $3.6 million. Included in accrued expenses at October 31, 2007 are un-vouchered receipts of $1.9 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 accrued expenses. When certain amounts of specific customer accounts are subsequently identified as promotional, they are written off against this allowance. Actual amounts may differ from these estimates and such differences are recognized as an adjustment to net sales in the period they are identified.

Allowance for Accounts Receivable

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

Consignment Arrangements

We frequently enter into consignment arrangements with avocado 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, 2008, 2007 and 2006 in the financial statements pursuant to consignment arrangements are as follows (in thousands):

	2008	2007	2006
Sales	**$ 49,189**	$ 22,347	$ 10,127
Cost of Sales	**45,739**	20,640	8,943
Gross Margin	**$ 3,450**	$ 1,707	$ 1,184

Advertising Expense

Advertising costs are expensed when incurred. Such costs in fiscal 2008, 2007, and 2006 were approximately $0.1 million, $0.1 million, and $0.4 million.

Other income, net

Included in other income, net is dividend income totaling $0.6 million, $0.4 million and $0.4 million for fiscal years 2008, 2007, and 2006.

Use of Estimates

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

Income Taxes

We account for income taxes under the provisions of SFAS No. 109, *Accounting for Income Taxes.* This statement requires the recognition of deferred tax liabilities and assets for the future consequences of events that have been recognized in our consolidated financial statements or tax returns. Measurement of the deferred items is based on enacted tax laws. In the event the future consequences of differences between financial reporting bases and tax bases of our assets and liabilities result in a deferred tax asset, SFAS No. 109 requires an evaluation of the probability of being able to realize the future benefits indicated by such asset. A valuation allowance related to a deferred tax asset is recorded when it is more likely than not that some portion or all of the deferred tax asset will not be realized.

In November 2008, we adopted the provisions of the Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109* (FIN 48), which provides a financial statement recognition threshold and measurement attribute for a tax position taken or expected to be taken in a tax return. Under FIN 48, a company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

As a multinational corporation, we are subject to taxation in many jurisdictions, and the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in various taxing jurisdictions. If we ultimately determine that the payment of these liabilities will be unnecessary, the liability will be reversed and we will recognize a tax benefit during the period in which it is determined the liability no longer applies. Conversely, we record additional tax charges in a period in which it is determined that a recorded tax liability is less than the ultimate assessment is expected to be.

The application of tax laws and regulations is subject to legal and factual interpretation, judgment and uncertainty. Tax laws and regulations themselves are subject to change as a result of changes in fiscal policy, changes in legislation, the evolution of regulations and court rulings. Therefore, the actual liability for U.S. or foreign taxes may be materially different from management's estimates, which could result in the need to record additional tax liabilities or potentially reverse previously recorded tax liabilities.

FIN 48 also provides guidance on derecognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, and income tax disclosures. The adoption of FIN 48 did not have a material impact on our financial position and results of operations. See Note 10. Prior to fiscal 2008, we recorded estimated income tax liabilities to the extent they were probable and could be reasonably estimated.

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 14,398,000, 14,304,000, and 14,304,000 for fiscal years 2008, 2007, and 2006. 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 83,000, 131,000, and 50,000 for fiscal years 2008, 2007 and 2006. There were no anti-dilutive options for fiscal years 2008, 2007 and 2006.

Stock-Based Compensation

We account for awards of equity instruments issued to employees pursuant to SFAS No. 123(R), *Share-Based Payment* (SFAS 123(R)). 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. 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.

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:

	2008	2007
Risk-free interest rate	**2.95%**	3.25%
Expected volatility	**28.24%**	22.19%
Dividend yield	**2.4%**	3.1%
Expected life (years)	**4.0**	5.5

For the years ended October 31, 2008, 2007 and 2006, we recognized compensation expense of $24,000, $16,000 and $666,000 related to stock-based compensation.

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

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

Foreign Currency Translation and Remeasurement

Our foreign operations are subject to exchange rate fluctuations and foreign currency transaction costs. The functional currency of our foreign subsidiaries is the United States dollar. As a result, monetary assets and liabilities are translated into U.S. dollars at exchange rates as of the balance sheet date and non-monetary assets, liabilities and equity are translated at historical rates. Sales and expenses are translated using a weighted-average exchange rate for the period. Gains and losses resulting from those remeasurements are included in income. Gains and losses resulting from foreign currency transactions are also recognized currently in income. Total foreign currency gains for fiscal 2008 and 2007, net of losses, was approximately $0.5 million and $0.1 million, while fiscal year 2006 net foreign currency loss 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 $14.7 million as of October 31, 2008, with a corresponding carrying value of approximately $13.7 million. In addition, our long-term borrowings pursuant to credit facilities have a fair value of approximately of $14.4 million, with a corresponding carrying value of approximately $13.0 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, 2008.

Recent Accounting Pronouncements

In May 2008, the FASB issued FASB Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS No. 162), which identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of non-governmental entities that are presented in conformity with GAAP. SFAS No. 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles.* We do not expect the adoption of SFAS No. 162 to have an impact on our consolidated financial position, results of operations or cash flows.

In April 2008, the FASB issued FSP FAS 142-3, *Determination of the Useful Life of Intangible Assets* (FSP 142-3). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142. This change is intended to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141R and other generally accepted account principles (GAAP). The requirement for determining useful lives must be applied prospectively to intangible assets acquired after the effective date and the disclosure requirements must be applied prospectively to all intangible assets recognized as of, and subsequent to, the effective date. FSP 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years, which will require us to adopt these provisions in our first quarter of fiscal 2010. We are currently evaluating the impact of adopting FSP 142-3 on our consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about *Derivative Instruments and Hedging Activities* (SFAS 161). SFAS 161 requires expanded disclosures regarding the location and amount of derivative instruments in an entity's financial statements, how derivative instruments and related hedged items are accounted for under SFAS 133 and how derivative instruments and related hedged items affect an entity's financial position, operating results and cash flows. SFAS 161 is effective for periods beginning on or after November 15, 2008. We do not believe that the adoption of SFAS 161 will have a material impact on our financial statement disclosures.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB 51,* which changes the accounting and reporting for minority interests. Minority interests will be re-characterized as noncontrolling interests and will be reported as a component of equity separate from the parent's equity, and purchases or sales of equity interests that do not result in a change in control will be accounted for as equity transactions. In addition, net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement and, upon a loss of control, the interest sold, as well as any interest retained, will be recorded at fair value with any gain or loss recognized in earnings. We will adopt SFAS No. 160 no later than the first quarter of fiscal 2010. We are currently assessing the potential impact that adoption of SFAS No. 160 would have on our financial position and results of operations.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS No. 141R), which replaces SFAS No 141. The statement retains the purchase method of accounting for acquisitions, but requires a number of changes, including changes in the way assets and liabilities are recognized in the purchase accounting. It also changes the recognition of assets acquired and liabilities assumed arising from contingencies, requires the capitalization of in-process research and development at fair value, and requires the expensing of acquisition-related costs as incurred. We will adopt SFAS No. 141R no later than the first quarter of fiscal 2010 and it will apply prospectively to business combinations completed on or after that date.

In 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 and we will adopt SFAS No. 159 no later than the first quarter of fiscal 2009. We do not believe the adoption of SFAS 161 will have a significant impact on our 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 and 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. In February 2008, the FASB issued FASB Staff Position FAS 157-2 (FSP FAS 157-2) *Effective Date of FASB Statement No. 157,* which delays the effective date of SFAS No. 157 for non-financial assets and non-financial liabilities that are recognized or disclosed in the financial statements on a nonrecurring basis to fiscal years beginning after November 15, 2008. These non-financial items include assets and liabilities, such as reporting units measured at fair value in a goodwill impairment test and non-financial assets acquired and non-financial liabilities assumed in a business combination. We will adopt SFAS No. 157 no later than the first quarter of fiscal 2009. We are currently assessing the potential impact that adoption of SFAS No. 157 would have 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, 2008, other comprehensive loss includes the unrealized loss on our Limoneira investment totaling $11.7 million, net of income taxes. Limoneira's stock price at October 31, 2008 equaled $173.00 per share. For the fiscal year ended October 31, 2007, other comprehensive income includes the unrealized gain on our Limoneira investment totaling $9.4 million, net of income taxes. Limoneira's stock price at October 31, 2007 equaled $283.25 per share. 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.

Reclassifications

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

NOTE 3

INVENTORIES

Inventories consist of the following (in thousands):

October 31,	2008	2007
Fresh fruit	**$ 6,019**	$ 3,884
Packing supplies and ingredients	**3,059**	2,389
Finished processed foods	**5,811**	2,086
	$ 14,889	$ 8,359

Cost of goods sold for fiscal year 2008 included a lower of cost or market adjustment of $0.1 million, which related primarily to a reduction in the cost of fresh fruit inventory. We did not have any lower of cost or market adjustments 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.

NOTE 4

PROPERTY, PLANT, AND EQUIPMENT

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

October 31,	2008	2007
Land	**$ 7,179**	$ 947
Buildings and improvements	**17,769**	13,976
Leasehold improvements	**416**	171
Equipment	**43,311**	35,449
Information systems - Hardware and software	**5,270**	4,689
Construction in progress	**1,049**	886
	74,994	56,118
Less accumulated depreciation and amortization	**(37,285)**	(35,230)
	$ 37,709	$ 20,888

In April 2008, we entered into a capital lease for various fixed assets related to our Swedesboro, New Jersey facility. Such fixed assets are included in buildings and improvements and equipment at October 31, 2008, totaling $0.6 million and $0.5 million. Depreciation expense was $2.1 million, $2.0 million and $1.9 million for fiscal years 2008, 2007, and 2006, of which $0.1 million was related to depreciation on capital leases. We did not have any significant capital leases as of October 31, 2007.

Effective July 2008, we purchased our previously leased fresh avocado packinghouse located in Uruapan, Michoacán, Mexico for $4.0 million, plus acquisition costs. We recorded approximately $0.9 million and $3.1 million in land and buildings and improvements related to this transaction. The building is currently being depreciated over a 40-year period.

NOTE 5

OTHER ASSETS

During 1999, we established a Grower Development Program whereby funds can be advanced to growers in exchange for their commitment to deliver a minimum volume of avocados on an annual basis. These commitments to deliver fruit generally extend over a multi-year period. During fiscal 2008 and fiscal 2007, no amounts were advanced pursuant to this program. $2.4 million and $2.7 million were included in other assets as of October 31, 2008 and October 31, 2007. 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 2008, 2007 and 2006 include a charge of approximately $296,000, $304,000 and $298,000 representing the amortization of these advances.

NOTE 6

REVOLVING CREDIT FACILITIES

In May 2008 and October 2007, we renewed and/or extended our non-collateralized, revolving credit facilities with Farm Credit West, PCA and Bank of America, N.A. These two credit facilities expire in February 2012 and July 2009. Under the terms of these agreements, we are advanced funds for working capital, the purchase and installation of capital items, and/or other corporate needs of the Company. Total credit available under these combined borrowing agreements was $40 million, with a weighted-average interest rate of 4.8% at October 31, 2008 and 5.8% at October 31, 2007. Under these credit facilities, we had $23.1 million and $10.6 million outstanding as October 31, 2008 and 2007, of which $13.0 million and $4.0 million was classified as a long-term liability as October 31, 2008 and 2007. 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, 2008.

NOTE 7

EMPLOYEE BENEFIT PLANS

We sponsor two defined contribution retirement plans for salaried and hourly employees. Expenses for these plans approximated $604,000, $543,000, and $502,000 for fiscal years 2008, 2007 and 2006, 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 $36,000, $6,000, and $46,000 for the years ended October 31, 2008, 2007 and 2006. 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):

	2008	2007
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	**$ 361**	$ 414
Interest cost	**20**	23
Actuarial gain	**(56)**	(29)
Benefits paid	**(46)**	(47)
Projected benefit obligation at end of year (unfunded)	**$ 279**	$ 361

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

	2008	2007
Projected benefit obligation	**$ 279**	$ 361
Unrecognized net (gain) loss	**–**	–
Recorded pension liabilities	**$ 279**	$ 361

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

	2008	2007
Discount rate on projected benefit obligation	7.00%	6.00%

NOTE 8

COMMITMENTS AND CONTINGENCIES

Commitments and guarantees

We lease facilities and certain equipment under non cancelable operating leases expiring at various dates through 2021. We are committed to make minimum cash payments under these agreements as of October 31, 2008 as follows (in thousands):

2009	$ 1,185
2010	1,093
2011	937
2012	899
2013	889
Thereafter	5,116
	$ 10,119

Total rent expense amounted to approximately $1.7 million, $1.5 million and $1.5 million for the years ended October 31, 2008, 2007, and 2006. Rent to Limoneira, for our corporate office, amounted to approximately $0.2 million, $0.2 million, and $0.2 million for fiscal years 2008, 2007, and 2006. We are committed to rent our corporate facility through fiscal 2015 at an annual rental of $0.2 million per annum (subject to annual CPI increases, as defined).

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

In August 2008, we entered into a lease for a facility that will ultimately replace our distribution center in San Antonio, Texas. This facility is located in Garland, Texas and is presently under construction. Per the agreement, both we and the landlord must make improvements to the facility totaling approximately $3.1 million, of which we are responsible for approximately $1.5 million. As of October 31, 2008, we have recorded approximately $0.6 million in construction in progress (included in fixed assets) related to these improvements. The term of the lease is for 10 years, with two five year options to extend at our choice. The lease will commence once we take possession, which is expected to be in the 2nd quarter of fiscal 2009. We anticipate that rent will be less than $0.1 million per month throughout the life of the lease, but final amounts are not determinable until construction is complete. As such, no amounts have been included in the minimum cash payments table above.

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 for in the financial statements as of October 31, 2008. We pledged our processed products building located in Uruapan, Michoacán, Mexico as collateral to Hacienda in regards to this assessment.

IRS examination — We are currently under examination by the Internal Revenue Service for the year ended October 31, 2005. We do not believe that the results of such examination will have a material adverse impact on our financial statements.

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

NOTE 9

RELATED-PARTY TRANSACTIONS

We sell papayas obtained from an entity previously owned by our Chairman of the Board of Directors, Chief Executive Officer and President. Sales of papayas amounted to approximately $5,887,000, and $4,822,000 for the years ended October 31, 2007 and 2006, resulting in gross margins of approximately $547,000, and $285,000. Net amounts due to this entity approximated $438,000 at October 31, 2007. On May 30, 2008, we acquired all of the outstanding shares of this entity. Sales of papayas through the acquisition date amounted to approximately $4,383,000, resulting in gross margins of approximately $323,000. See Note 17 for further discussion.

Certain members of our Board of Directors market avocados through Calavo pursuant to our customary marketing agreements. During the years ended October 31, 2008, 2007 and 2006, the aggregate amount of avocados procured from entities owned or controlled by members of our Board of Directors, was $11.9 million, $9.7 million, and $17.2 million. Accounts payable to these Board members were $0.4 million and $0.2 million as of October 31, 2008 and 2007.

During fiscal 2008, 2007 and 2006, we received $0.6 million, $0.4 million, and $0.4 million as dividend income from Limoneira.

NOTE 10

INCOME TAXES

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

	2008	2007	2006
Current:			
Federal	**$ 2,639**	$ 2,865	$ 2,423
State	**615**	817	598
Foreign	**251**	211	63
Total current	**3,505**	3,893	3,084
Deferred	**1,062**	378	536
Total income tax provision	**$ 4,567**	$ 4,271	$ 3,620

At October 31, 2008 and 2007, gross deferred tax assets totaled approximately $2.5 million and $3.1 million, while gross deferred tax liabilities totaled approximately $4.9 million and $11.3 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, 2008 and 2007 are as follows (in thousands):

	2008	2007
Allowances for accounts receivable	**$ 1,014**	$ 2,021
Inventories	**305**	127
State taxes	**166**	126
Intangible assets	**11**	–
Accrued liabilities	**330**	251
Current deferred income taxes	**$ 1,826**	$ 2,525
Property, plant, and equipment	**(2,151)**	(1,029)
Intangible assets	**(222)**	(180)
Unrealized gain, Limoneira investment	**(2,511)**	(9,848)
Retirement benefits	**362**	150
Stock-based compensation	**286**	287
Other	**20**	(38)
Long-term deferred income taxes	**$ (4,216)**	$ (10,658)

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:

	2008	2007	2006
Federal statutory tax rate	**35.0%**	35.0%	35.0%
State taxes, net of federal effects	**4.3**	5.0	4.8
Foreign income taxes greater (less) than U.S.	**(1.2)**	(1.3)	(0.8)
Benefit of lower federal tax brackets	**(0.6)**	(0.7)	(0.7)
Other	**(0.3)**	(1.2)	0.2
	37.2%	36.8%	38.5%

We intend to reinvest our accumulated foreign earnings, which approximated $5.2 million at October 31, 2008, indefinitely. As a result, we have not provided any deferred income taxes on such unremitted earnings. For fiscal years 2008, 2007 and 2006, income before income taxes related to domestic operations was approximately $10.9 million, $10.6 million, and $8.9 million. For fiscal years 2008, 2007 and 2006, income before income taxes related to foreign operations was approximately $1.4 million, $1.0 million and $0.5 million.

Effective November 1, 2007, we adopted FIN 48. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB 109. This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The cumulative effect, if any, of applying FIN 48 is to be reported as an adjustment to the opening balance of retained earnings in the year of adoption. The impact of our reassessment of our tax positions in accordance with FIN 48 did not have a material effect on the results of operations, financial condition or liquidity.

As of October 31, 2008, we provided a liability of $0.1 million for unrecognized tax benefits related to various federal and state income tax matters. The tax effected amount would reduce our effective income tax rate if recognized.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

Balance at November 1, 2007	$ 61
Additions for tax positions of prior years	46
Balance at October 31, 2008	**$ 107**

We recognize accrued interest and penalties related to unrecognized tax benefits in income tax expense. For fiscal 2008, we did not record any significant accrued interest and penalties.

We are subject to U.S. federal income tax as well as income tax of multiple state tax jurisdictions. We are currently under examination by the Internal Revenue Service for the October 31, 2005 tax year.

NOTE 11

SEGMENT INFORMATION

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

(All amounts are presented in thousands)	Fresh products	Processed products	Total
Year ended October 31, 2008			
Net sales	**$ 315,667**	**$ 45,807**	**$ 361,474**
Cost of sales	**293,444**	**34,849**	**328,293**
Gross margin	**$ 22,223**	**$ 10,958**	**$ 33,181**
Year ended October 31, 2007			
Net sales	$ 261,325	$ 41,659	$ 302,984
Cost of sales	239,864	31,348	271,212
Gross margin	$ 21,461	$ 10,311	$ 31,772
Year ended October 31, 2006			
Net sales	$ 236,889	$ 36,834	$ 273,723
Cost of sales	218,216	26,423	244,639
Gross margin	$ 18,673	$ 10,411	$ 29,084

For fiscal years 2008, 2007 and 2006, inter-segment sales and cost of sales of $23.5 million, $21.1 million, and $15.8 million were eliminated in consolidation.

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

	Year ended October 31, 2008		
	Fresh products	**Processed products**	**Total**
Third-party sales:			
California avocados	**$ 102,461**	**$ –**	**$ 102,461**
Imported avocados	**135,977**	**–**	**135,977**
Tomatoes	**19,609**	**–**	**19,609**
Pineapples	**15,944**	**–**	**15,944**
Papayas	**8,120**	**–**	**8,120**
Diversified products	**2,364**	**–**	**2,364**
Processed - food service	**–**	**38,233**	**38,233**
Processed - retail and club	**–**	**13,924**	**13,924**
Total fruit and product sales to third-parties	**284,475**	**52,157**	**336,632**
Freight and other charges	**31,263**	**1,397**	**32,660**
Total third-party sales	**315,738**	**53,554**	**369,292**
Less sales incentives	**(71)**	**(7,747)**	**(7,818)**
Total net sales to third-parties	**315,667**	**45,807**	**361,474**
Intercompany sales	**13,881**	**9,585**	**23,466**
Net sales	**$ 329,548**	**$ 55,392**	**384,940**
Intercompany sales eliminations			**(23,466)**
Consolidated net sales			**$ 361,474**

	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
Tomatoes	8,837	–	8,837
Pineapples	24	–	24
Papayas	5,887	–	5,887
Diversified products	4,062	–	4,062
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	$ 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
Diversified products	9,543	–	9,543
Processed - food service	–	34,021	34,021
Processed - retail and club	–	10,454	10,454
Total fruit and product sales	206,551	44,475	251,026
to third-parties	30,383	637	31,020
Freight and other charges			
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	$ 246,421	$ 43,061	289,482
Intercompany sales eliminations			(15,759)
Consolidated net sales			$ 273,723

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

	United States	Mexico	Consolidated
2008	**$ 21,560**	**$ 16,149**	**$ 37,709**
2007	$ 8,807	$ 12,081	$ 20,888

Sales to customers outside the United States were approximately $27.3 million, $17.9 million and $13.8 million for the three years ended October 31, 2008.

NOTE 12

LONG-TERM OBLIGATIONS

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

	2008	2007
Farm Credit West, PCA, term loan, bearing interest at 5.7%	**$ 9,100**	$ 10,400
Farm Credit West, PCA, long-term portion of revolving credit facility (Note 6)	**13,000**	4,000
Capital Lease, bearing interest at 4.3% at October 31, 2008 (Note 4)	**1,088**	–
Deferred and contingent consideration related to acquisition, deferred consideration bearing interest at 3.8% at October 31, 2008 (Note 17)	**3,525**	–
Other	**–**	13
	26,713	14,413
Less current portion	**(1,362)**	(1,307)
	$ 25,351	$ 13,106

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, 2008.

At October 31, 2008, annual debt payments are scheduled as follows (in thousands):

	Total
Year ending October 31:	
2009	$ 1,362
2010	4,892
2011	1,370
2012	14,373
2013	1,376
Thereafter	3,340
	$ 26,713

NOTE 13

STOCK-BASED COMPENSATION

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

The Directors Stock Option Plan

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

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

	Number of Shares	Weighted-Average Exercise Price
Outstanding at October 31, 2005	100	$ 6.00
Exercised	(51)	$ 5.04
Outstanding at October 31, 2006	49	$ 7.00
Outstanding at October 31, 2007	49	$ 7.00
Exercised	(25)	$ 7.00
Forfeited	(24)	$ 7.00
Outstanding at October 31, 2008	–	

We terminated this plan during fiscal 2007 and no options remain outstanding as of October 31, 2008.

The Employee Stock Purchase Plan

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

The 2005 Stock Incentive Plan

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

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

Subject to the adjustment provisions of the 2005 Plan that are applicable in the event of a stock dividend, stock split, reverse stock split or similar transaction, up to 2,500,000 shares of common stock may be issued under the 2005 Plan and no person shall be granted awards under the 2005 Plan during any 12-month period that cover more 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 has an exercise price of $10.46 per share. Vested options have a term of five years from the vesting date. The market price of our common stock at the grant date was $10.46. The estimated fair market value of such option grant was approximately $40,000. The total compensation cost not yet recognized as of October 31, 2008 was not significant.

In May 2008, our Board of Directors approved the issuance of options to acquire a total of 58,000 shares of our common stock to three members of our Board of Directors. Each grant vests in equal increments over a five-year period and has an exercise price of $14.58 per share. Vested options have a term of five years from the vesting date. The market price of our common stock at the grant date was $14.58. The estimated fair market value of such option grants were approximately $184,000. The total compensation cost not yet recognized as of October 31, 2008 was approximately $169,000, which will be recognized over the remaining service period of 55 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, 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		
Granted	58	$ 14.58	$3.18/share	
Forfeited	(8)	$ 10.46		
Exercised	(23)	$ 9.22		
Outstanding at October 31, 2008	360	$ 10.02		$ 295
Exercisable at October 31, 2008	294	$ 9.11		$ 295

The weighted average remaining life of such outstanding options is 2.9 years and the total intrinsic value of options exercised during fiscal 2008 was $0.2 million. The fair value of shares vested during the year ended October 31, 2008 and 2007 was not significant, while the fair value of shares vested during the year ended October 31, 2006 was approximately $4.0 million.

NOTE 14

DIVIDENDS

On December 23, 2008, we paid a $0.35 per share dividend in the aggregate amount of $5.0 million to shareholders of record on December 9, 2008. 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.

NOTE 15

AGREEMENTS WITH TOMATO GROWER

In June 2007, we entered into a distribution agreement with Agricola Belher (Belher) of Mexico, a well-established quality producer of fresh vegetables, primarily tomatoes, for export to the U.S. market. Pursuant to such distribution agreement, Belher agreed, at their sole cost and expense, to harvest, pack, export, ship, and deliver tomatoes exclusively to our 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 2009 are immediately due and payable. As of October 31, 2008 and 2007, we have advanced $2 million to Belher (included in advances to suppliers) pursuant to this agreement. We record gross revenues related to this agreement, as we believe we are acting more like the principal in these sales transactions (principally primary obligor, inventory loss and delivery risk, latitude in establishing prices, and determination of product specifications).

We also entered into an infrastructure agreement in June 2007 with Belher in order to significantly increase production yields and fruit quality. Pursuant to this agreement, we are to advance up to $5 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 8.8% at October 31, 2008. During fiscal 2008, we collected $1.0 million and advanced an additional $0.8 million to Belher, resulting in a total receivable from Belher of $4.8 million, of which $1.2 million is included in prepaid expenses and other current assets and $3.6 million is included in other long-term assets as of October 31 2008. Belher is to annually repay these advances in no less than 20% increments through July 2012. In addition, the agreement allows for up to an additional $1.0 million advance 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.

NOTE 16

AGREEMENT WITH PINEAPPLE GROWER

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

The agreement calls for us to provide certain advances, as defined, and return the proceeds from such pineapple sales to MPC, net of our commission, fees, and incentives, if applicable. The term of this agreement is generally for 12 months and automatically renews for a 12-month period, unless terminated, as defined. Our initial agreement expired in December 2008 and we are currently re-negotiating such agreement.

NOTE 17

BUSINESS ACQUISITIONS

Calavo and Lecil E. Cole, Suzanne Cole-Savard, Guy Cole, Eric Weinert, and Lecil E. Cole and Mary Jeanette Cole, as trustees of the Lecil E. and Mary Jeanette Cole Revocable Trust dated October 19, 1993 (the "Cole Trust") (collectively, the "Sellers"), have entered into an Acquisition Agreement, dated May 19, 2008 (the "Acquisition Agreement"), which sets forth the terms and conditions pursuant to which Calavo purchased all of the outstanding shares of Hawaiian Sweet, Inc. ("HS") and all ownership interests of Hawaiian Pride, LLC ("HP"). HS and HP engage in tropical-product packing and processing operations in Hawaii. The Acquisition Agreement provides, among other things, that as a result of the Acquisition Agreement, Calavo shall make an initial purchase price payment in the aggregate amount of $3,500,000 for both entities. Calavo made the initial payment on May 20, 2008. Calavo shall also make two additional annual payments, ranging from $2,500,000 to $4,500,000 each, based on certain operating results (the "Earn-Out Payment(s)"), as defined. Mr. Cole is President, Chief Executive Officer, and Chairman of the Board of Directors of Calavo. Pursuant to SFAS 141, Business Combinations, we recorded approximately $7.1 million as a liability related to deferred and contingent consideration to the Sellers, of which $3.6 million was recorded in accrued expenses, $3.5 million is recorded in long-term obligations, less current portion, and $0.6 million as deferred tax liabilities. Total liabilities recorded as a result of the acquisition was $7.7 million.

The first Earn-Out Payment to be made by Calavo will be adjusted if the aggregate working capital ("WC") of HS and HP does not equal $700,000 as of the closing date. In the event that WC is less than $700,000, Calavo shall reduce its first Earn-Out payment by an amount equal to the difference between $700,000 and the closing date aggregate working capital of HS and HP. In the event that WC is greater than $700,000, Calavo shall increase its first Earn-Out payment by an amount equal to the difference between $700,000 and the closing date aggregate working capital of HS and HP.

Pursuant to the Acquisition Agreement, the transaction closed on May 30, 2008.

Concurrently with the execution of the Acquisition Agreement, Calavo and the Cole Trust entered into an Agreement and Escrow Instructions for Purchase and Sale of Real Property (the "Real Estate Contract"), dated the same date as the acquisition agreement, pursuant to which Calavo purchased from the Cole Trust approximately 727 acres of agricultural land located in Pahoa, Hawaii for a purchase price of $1,500,000, which Calavo paid on May 19, 2008. The Real Estate Contract also closed on May 30, 2008.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition (in thousands). We obtained third-party valuations for the long-term assets acquired and incurred approximately $0.2 million in acquisition costs.

At May 30, 2008	
Current assets	$ 1,498
Property, plant, and equipment	10,947
Intangible assets	1,310
Total assets acquired	13,755
Current liabilities	(809)
Deferred tax liabilities	(654)
Net assets acquired	12,292
Deferred consideration	(4,709)
Contingent consideration	(2,358)
Net cash paid as of May 30, 2008	$ 5,225

Of the $1,310,000 of intangible assets, $1,140,000 was assigned to 0customer contract/relationships with a weighted average life of 8 years, $100,000 to trade names with an average life of 8 years and $70,000 to non-competition agreements with an average life of 3 years.

Report of Independent Registered Public Accounting Firm

**THE BOARD OF DIRECTORS AND SHAREHOLDERS
OF CALAVO GROWERS, INC.**

We have audited the accompanying consolidated balance sheets of Calavo Growers, Inc. and subsidiaries (the "Company") as of October 31, 2008 and 2007, and the related consolidated statements of income, comprehensive income (loss), shareholders' equity, and cash flows for each of the three years in the period ended October 31, 2008. Our audits also included the financial statement schedule listed at Item 15(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Calavo Growers, Inc. and subsidiaries at October 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended October 31, 2008, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Calavo Growers Inc.'s internal control over financial reporting as of October 31, 2008, 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 13, 2009 expressed an unqualified opinion thereon.

Ernst + Young LLP

Los Angeles, California
January 13, 2009

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 estimate and judgments.

Our fiscal 2008 and 2007 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 2009. 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, 2008.

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 2008	High	Low
First Quarter	**$ 22.71**	**$ 14.75**
Second Quarter	**$ 20.09**	**$ 13.53**
Third Quarter	**$ 15.65**	**$ 10.46**
Fourth Quarter	**$ 13.87**	**$ 8.42**

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

As of October 31, 2008, there were approximately 1,210 stockholders of record of our common stock.

During the year ended October 31, 2008, we did not issue any shares of common stock that were not registered under the Securities Act of 1933 and we did not repurchase any shares of our common stock.

DIVIDEND POLICY

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

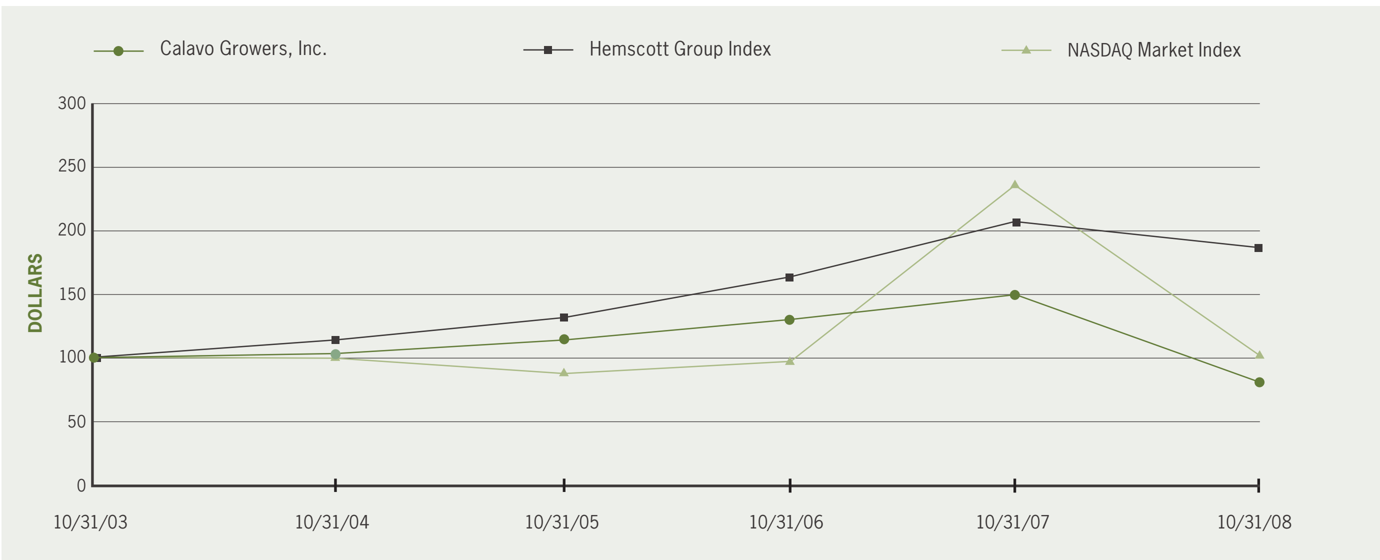
On December 23, 2008, we paid a $0.35 per share dividend in the aggregate amount of $5,047,000 to shareholders of record on December 9, 2008.

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.

Shareowner Return Performance Graph

The following graph compares the performance of our common stock with the performance of the Nasdaq Market Index and the Hemscott Group Index for approximately the 60-month period beginning on October 31, 2003 and ending October 31, 2008. In making this comparison, we have assumed an investment of $100 in Calavo Growers, Inc. common stock, the Nasdaq Market Index, and the Hemscott Group Index as of October 31, 2003. We have also assumed the reinvestment of all dividends. The Hemscott Group Index is a composition of major diversified food companies.

COMPARISON OF 5-YEAR CUMULATIVE TOTAL RETURN AMONG CALAVO GROWERS, INC., NASDAQ MARKET INDEX AND HEMSCOTT GROUP INDEX



Assumes $100 Invested on Oct. 31, 2003
Assumes Dividend Reinvested
Fiscal Year Ending Oct. 31, 2008

Corporate Information

Officers

Lecil E. Cole
Chairman, President and
Chief Executive Officer

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

Rob Wedin
Vice President
Fresh Sales and Marketing

Mike Browne
Vice President
Fresh Operations

Al Ahmer
Vice President
Processed Product Sales
and Operations

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

Michael 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

Michael D. Hause

Alva V. Snider

Compensation Committee

Fred J. Ferrazzano
Chairman

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, Purchasing
and Risk Management

Michael F. Derr
Director, Fresh Packing

Michael Angelo
Director, National Fresh Sales

Patricia D. Vorhies
Director, Human Resources

Gary M. Gunther
Director, Fresh Operations
Special Projects

Michael Lippold
Director, Strategic Development

Joseph Malagone
Packinghouse Manager
Santa Paula

Irene Reyes
Packinghouse Manager
Temecula

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General Counsel

Troy Gould PC
Los Angeles, California

Independent Registered Public Accounting Firm

Ernst & Young LLP
Los Angeles, California

Investor & Corporate Relations Counsel

Foley/Freisleben LLC
Los Angeles, California

Form 10-K

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

Transfer Agent and Registrar

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.

About Calavo: 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 Select 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 Dallas, Texas and Swedesboro, New Jersey.

VISIT: WWW.CALAVO.COM/ FOR A TEXTBOOK GROWTH STORY

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