Calavo

INVESTOR'S ALMANAC

Calavo Growers, Inc. Annual Report 2010

A RECORD-SETTING YEAR IN REVIEW

$398.4

REVENUE

$17.8

NET INCOME

$1.22

EARNINGS PER SHARE

$51.5

GROSS MARGIN

Through Every Season…

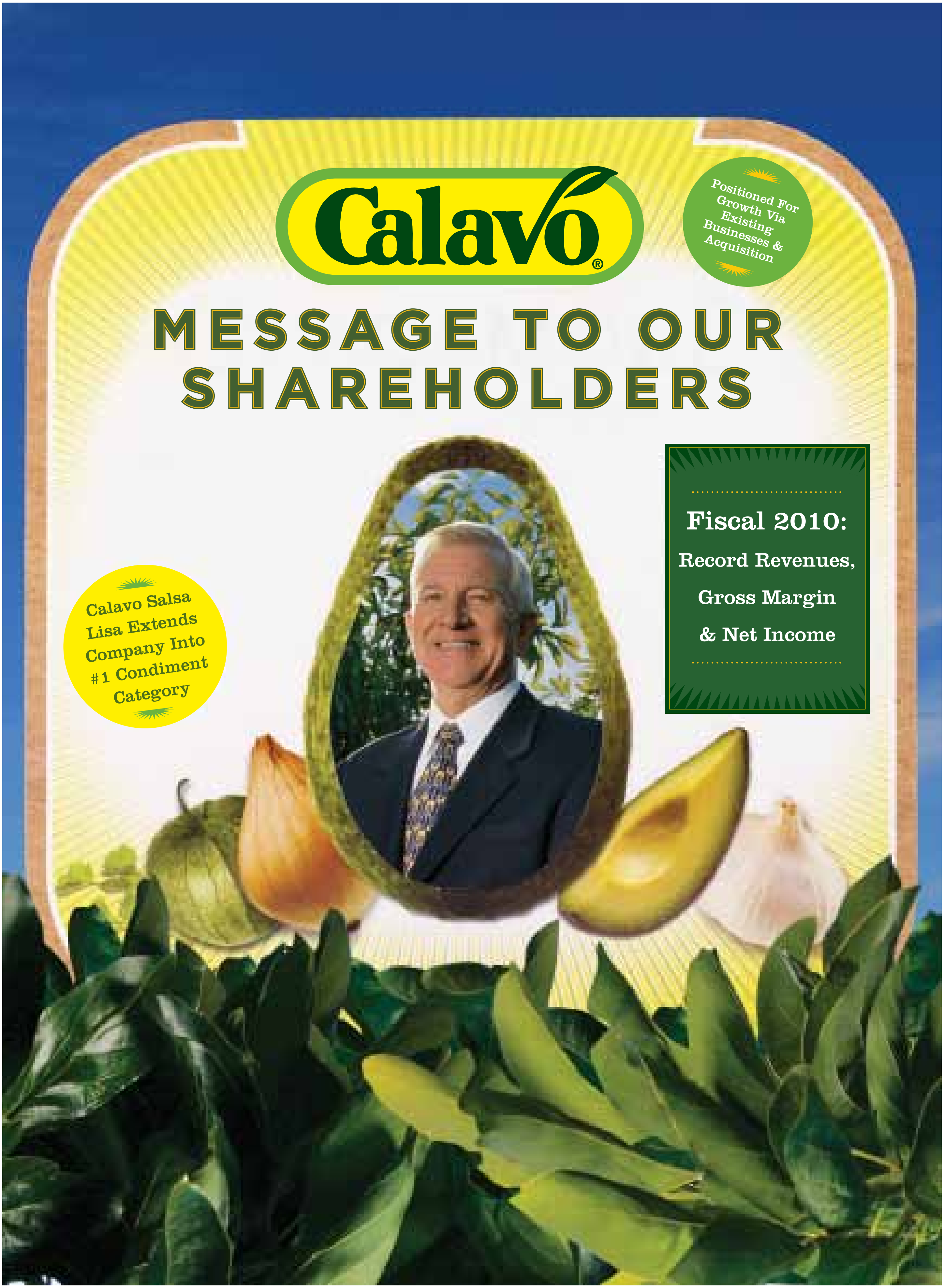
A farmer's almanac remains an indispensable part of American agricultural life—much as it has been for more than 200 years, dating back to its original publication during George Washington's presidency in 1792. The almanac provides weather forecasts, astronomical patterns, optimal planting dates, pest risks and other useful information required by farmers to nurture their crops.

With a rich company history and roots deeply planted in agricultural life, we uniquely appreciate the instrumental contributions to our success by farmers—in the United States and globally. Inspired by the country's oldest continuously published periodical, the fiscal 2010 Calavo Growers, Inc. Annual Report is titled Investor's Almanac, a compendium of facts, figures, anecdotes and definitive information about our company. It offers insights to our record-setting performance, our outstanding portfolio of products and the business plan and growth strategies driving them.
Fiscal 2010 was a year of substantial accomplishment—our fourth consecutive year of historic operating results.

It was, in every respect, Calavo's Season in the Sun.

visit: www.calavo.com / for a Calavo Growers Inc. Investor's Almanac

Printed in the United States of America.
Designed by MC BrandStudios, www.mc-brandstudios.com
Editorial by FoleyFreisleben LLC, www.folfry.com
Concept and creative direction by Dan McNulty and Richard Huvard, MC BrandStudios
Illustrations by Liz Wheaton
Printed by Primary Color www.primarycolor.com



MESSAGE TO OUR SHAREHOLDERS

It is with immense pride that I report Calavo Growers, Inc. completed a very successful fiscal 2010—our company's fourth consecutive year of record operating results. This historic performance speaks to the single-minded focus and determination with which we have implemented our business agenda, last year generating double-digit sales growth in fresh avocados, diversified produce and prepared foods to power our results.

We benefited as a company from the burgeoning fresh avocado supply, increasing unit volumes in diversified produce and an expanding portfolio of prepared food products. Neither those achievements nor the record results they propelled, however, occurred by happenstance. Instead, they were all in keeping with a disciplined strategic blueprint that has broadened our fresh produce sources, further diversified our product offerings and enabled us to continue leveraging the formidable Calavo sales, marketing and distribution infrastructure.

Among the company's notable fiscal 2010 accomplishments were:

- Registering new all-time highs in revenues, gross margin, and net income, as well as virtually all other key performance metrics;
- Entering the number-one-ranked condiment category through the creation of a new majority-owned subsidiary, Calavo Salsa Lisa, and that entity's acquisition of a popular Upper Midwest manufacturer of a fresh, all-natural line of salsa products;
- Re-branding the CalavoFoods business unit to best reflect our prepared product portfolio of fresh refrigerated guacamole, expansion into salsa and introductions of guacamole hummus and premium tortilla chips; and,
- Packing and distributing sharply higher year-over-year total unit volume of fresh avocados and other diversified produce—a central component of our business model.

RECORD FINANCIAL RESULTS

Net income for the fiscal year ended October 31, 2010 climbed 31 percent to $17.8 million, equal to $1.22 per diluted share, from $13.6 million, or $0.94 per diluted share, in the preceding year, which was the previous all-time high. On the strength of the aforementioned double-digit sales growth in each of our business segments, revenues rose to $398.4 million, an increase of approximately 16 percent from $344.8 million in fiscal 2009.

Full-year gross margin advanced 16 percent to $51.5 million, eclipsing the prior historic high of $44.5 million set one year earlier. Gross margin as a percentage of revenues was 12.9 percent. Operating income in the most recent year totaled $28.4 million, an increase of $6.7 million, or 30 percent, from $21.7 million in the corresponding 12 months of fiscal 2009.

Our accomplishments expanding revenues, gross margin and profit while incurring only a nominal increase in selling, general and administrative (SG&A) expense are indicative of Calavo's success in leveraging its vast packing, marketing and distribution infrastructure. To that end, SG&A expense for fiscal 2010 rose just slightly—less than $400,000 or 1.7 percent—to $23.2 million from $22.8 million in the prior year, while supporting an additional $53.6 million in revenues. As a result, SG&A as a percentage of revenues declined 80 basis points to 5.8 percent in the most recent year from 6.6 percent in fiscal 2009. SG&A as a percentage of gross profit in the most recent year—a key Calavo performance metric—fell 620 basis points to 45.0 percent from 51.2 percent for the corresponding 12 months earlier.

Calavo's financial condition is strong, flexible and possesses considerable capacity for leverage as we pursue complementary acquisitions aligning with our business plan, a topic which I address in more detail below. We pared long-term obligations from our balance sheet last year by more than half to $6.1 million at fiscal-year end from $13.9 million 12 months earlier. While sharply reducing our debt, the robust operating performance in fiscal 2010 also enabled us to distribute over $8 million to shareholders in the form of our annual cash dividend. We re-affirmed our abiding commitment to stockholder returns by boosting our payout 10 percent to $0.55 per common share.

A YEAR OF ACHIEVEMENT IN BRIEF

Last year, we put in motion key initiatives intended to expand our platform in the prepared foods segment, where the company's ultra-high-pressure guacamole is already a category leader. Most notably, the February 2010 acquisition of Lisa's Salsa Co. by a newly formed majority-owned subsidiary was a pivotal step in re-casting and expanding the CalavoFoods business unit. Through Lisa's Salsa, we gained entrée to the number-one-selling condiment category in the United States via an award-winning maker of all-natural, fresh refrigerated salsas. The re-branded Calavo Salsa Lisa, with a line-up of six delicious varieties sold in supermarket produce sections, melds an outstanding product, which formerly had a popular-albeit-limited reach in the Upper Midwest, to our company's distribution muscle, as well as deep financial resources. Moreover, from a sales and merchandising standpoint, salsa ideally complements Calavo's guacamole: both are fresh, all-natural and have extended shelf lives for side-by-side grocery sales.

To that end, in the second half of fiscal 2010, Calavo Salsa Lisa distribution exploded by ten-fold from 200 to 2,000 locations. We anticipate that number to expand to 3,500 through the imminent addition of another national supermarket chain, with still more to come. Market potential for salsa continues to explode with demographic shifts—the same factors driving avocado and guacamole growth. United States salsa sales (in dollars) already outstrip ketchup, the next largest-selling condiment, by a factor of almost two to one, according to market-research firm A.C. Nielsen.

New product introduction and innovation did not end with salsa last year. Calavo Premium Tortilla Chips complement our dip offerings. Another wholesome, all-natural product, these chips must be tasted to be believed—they're simply terrific, enhancing the CalavoFoods lineup and further extending the brand. The chips are joined by another exciting new product, the first-ever guacamole hummus. The Mediterranean-inspired chickpea dip was launched under an exclusive one-year agreement with a national grocery chain in fiscal 2010. With the expiration of that pact this spring, Calavo will roll out widely this flavorful and nutritious product and we're excited about its prospects. There's a common thread that ties guacamole, salsa and hummus: all are products that originated in ethnic niches but now ride crests of popular appeal. We have the experience, distribution and merchandising clout to capitalize on this distinction. Consider, as well, that while already a $350 million sales category, hummus is yet untried by approximately 80 percent of the U.S. population, putting the vast market potential in context. It is, indeed, a very busy and promising time in the CalavoFoods segment.

Turning to the Fresh products business unit, I previously wrote in detail about the burgeoning available avocado supply and its profound implications for the growth of our company. Much as predicted, the total all-source fresh avocado volume last year rose to about 1.3 billion pounds, of which Calavo packed approximately 23 percent, or nearly one of every four pieces of fruit sold domestically—a formidable statistic. We expect to continue as a principal beneficiary of both rising demand and the trends fueling this occurrence. I also cannot overstate the instrumental role that avocado-industry marketing campaigns are playing in generating awareness and driving interest. The California Avocado Commission and its contemporaries in Mexico and Chile collectively spend about $60 million annually in advertising and promotion to which Calavo contributes significantly on the basis of its volume. Suffice to say, it is paying off and then some.

BUILDING BLOCKS FOR CALAVO'S FUTURE

When I contemplate our company's course ahead, legendary baseball player Satchel Paige's immortal words come to mind: "Don't look back. Something might be gaining on you." As a company, we are never content to rest upon past achievements. Instead, we keep the collective Calavo eye trained squarely toward the future and building an ever-larger, more broadly based agribusiness and prepared-food enterprise. We adhere to our business plan, a proven formula as the company's operating performance evidences. Calavo anticipates growth will be driven by a four-pronged strategy which encompasses: fresh avocados; diversified produce; CalavoFoods; and opportunistic acquisitions.

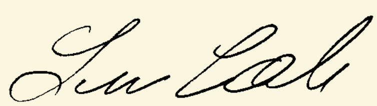
My ambition of growing our company to $1 billion in annual revenues is no secret, and I believe the four drivers above will get us there. Through organic growth—specifically, folding additional avocado volume as well as current and new diversified produce categories into our existing packing, sales, marketing and distribution infrastructure—our Fresh products segment can expand to $600-$650 million in sales. With virtually no capital expansion costs, we could potentially double current avocado and fresh produce sales and unit volume that way. This growth will come as avocado demand continues to rise. We will also nurture existing diversified produce categories—tomatoes and papayas as items-in-point—while expanding our portfolio further. Subsequent to the close of the fiscal year, Calavo shipped its first melons and other new products are in the offing in fiscal 2011, as well.

As I see it, the balance of a prospective $1 billion company—approximately $350 million—will come from the CalavoFoods segment. To grow this business unit to such a level will require not only internal growth but an aggressive acquisition program, for which we have both operating and financial resources, as well as ambition and determination. I want to state clearly that we are evaluating prospective transactions of various sizes which would complement our current CalavoFoods product portfolio. Our criteria are rigorous—being immediately accretive to revenue and net income is a given. We recognize that gaining scale in the prepared foods segment likely requires us buying into a category and we possess the necessary skill sets to integrate a significant transaction.

Executing the aforementioned would enable Calavo to best utilize a best-in-class customer list comprised of leading grocery retailers, institutional foodservice suppliers and restaurant chains. Our client roster is the envy of our industry and we have a unique opportunity to leverage it by offering customers more products from our sterling brand franchise.

My excitement and confidence about Calavo's outlook ahead is palpable. I am fortunate to be surrounded by a dedicated senior-management team that shares this same vision and works tirelessly in its pursuit. Our rank-and-file are a source of considerable pride to me; Calavo could not ask for finer employees. Our board of directors offers sound counsel and possess good judgment and wisdom for which I am eternally grateful. In that vein, let me also pay tribute to longtime director Fred J. Ferrazzano, who retired from the company's board last year, by thanking him for his service. To our stockholders, my profound thanks for your support and loyalty. I look forward to reporting Calavo's future achievements—they shall be many and meaningful.

Sincerely,



Lecil E. Cole
Chairman, President and Chief Executive Officer
March 4, 2011

EVERY SEASON

Is Calavo Season

Each day there are more ways to enjoy Calavo fresh produce and prepared food items than ever before. Slice fragrant Calavo Gold® papaya and other tropical fruit onto a breakfast platter. Enjoy the wholesome, great taste of flavorful fresh avocados and juicy tomatoes on a noontime sandwich. Or, wind down on the patio at the end of a warm summer day by dipping our crispy golden tortilla chips into bowls of Calavo fresh refrigerated guacamole and salsa.

To everything there is a season? Not at Calavo, where it is all products, every season. We have diligently implemented our business strategy to expand our sources globally for fresh produce and to diversify the range of product offerings, all the while leveraging a formidable infrastructure that spans packing, marketing, sales and distribution. This is a long way from early days as a one-product, one-season avocado business. Yet even as Calavo evolves, the values that define us—quality, integrity and the strength of our brand—remain constant.

Look no further than our stellar operating performance—four consecutive years of record results—to see that the business model is working. More ways to enjoy Calavo products sourced from more places worldwide is translating to top- and bottom-line growth and transforming us at a quickening pace. Calavo customers and consumers look increasingly to us for best-in-category avocados, diversified produce and prepared foods—ready to be enjoyed winter, spring, summer and fall.

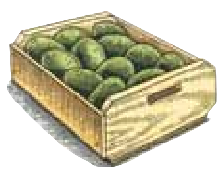
Introducing Lisa, SalsaLisa That Is

Things really began to heat up in February 2010, when we announced the formation of a new majority-owned subsidiary, Calavo Salsa Lisa, and that entity's acquisition of Lisa's Salsa Co., a maker of an award-winning line of fresh, all-natural products distributed until then in the upper Midwest. Talk about putting the thaw on a frigid winter!

Combining the great-tasting Salsa Lisa family of refrigerated fresh products—and its popular following with consumers—with Calavo's formidable operating and financial resources affords considerable synergies—a case where one plus one can equal *three*. In just its first six months as part of Calavo, Salsa Lisa distribution expanded 10-fold from 200 to 2,000 retail locations. Merchandised in retailers' produce sections, Calavo Salsa Lisa has a 90-plus day shelf life. And expansion into the number-one condiment category ideally complements Calavo's fresh guacamole and hummus offerings.

CALAVO GLOBAL SOURCING ENSURES A STABLE, YEAR-ROUND SUPPLY OF THE FINEST AVOCADOS FROM AROUND THE WORLD:

California, Mexico, Chile, Peru and New Zealand



FRESH AVOCADOS—MORE POPULAR THAN EVER BEFORE

Consumer demand for fresh avocados is expanding robustly. The available all-source fruit supply totaled about 1.3 billion pounds in fiscal 2010, up from about 900 million pounds the preceding year. Where are all these avocados going, it's logical to ask? Simply put, Americans are gobbling them down faster than ever before. Once viewed as a niche specialty item, avocados are in the mainstream—and here to stay that way.

As the avocado market frontrunner, we lead the pack—literally. We packed and distributed about 300 million pounds of fresh fruit last year, approximately 23 percent of the entire market. Calavo is at the forefront of value-added initiatives, including its ProRipeVIP® and bagged avocado programs, which are spurring consumption further. In fact, our bagged avocado popularity is sufficiently robust that it translates to 26 bags sold each minute 365 days per year.

AVOCADO BOOM TIMES

Growing consumer awareness of the **healthful benefits** of **fresh avocados**

Demographic shifts resulting from an expanding **Hispanic population**

A **bountiful** year-round supply from far-reaching **parts of the globe**

Popular appeal and exciting new menu suggestions using **avocados**

Vigorous industry marketing programs to drive **demand** and **consumption**

Disciplined Strategic Agenda Yields Record Results

UNIT-DRIVEN BUSINESS MODEL

To put Calavo's record-setting fiscal 2010 into context, look no further than the company's double-digit sales growth in fresh avocados, diversified produce and CalavoFoods business unit. The company's unit-driven business model paced top-line expansion by folding additional volume into the company's considerable packing, distribution, sales and marketing infrastructure.

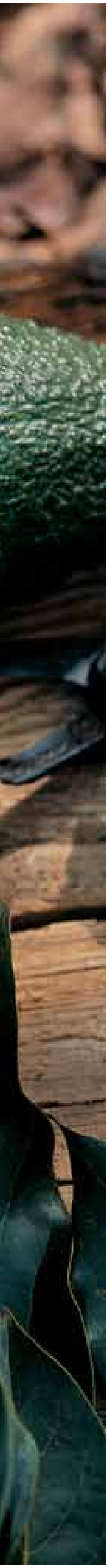
Total volume of fresh avocados and diversified produce rose 23 percent last year to more than 16.1 million units. This was anchored by a 37 percent jump in avocado units to nearly 12 million, which translates to almost 300 million pounds of fruit packed and shipped in fiscal 2010. Tomato units shipped grew last year by approximately 30 percent, as well. Since expanding into the category three years ago, tomato performance has exceeded all Calavo projections and remains a cornerstone of the diversified produce lineup.

TOTAL AVOCADO UNITS

shipped last year rose › **37%**

TO NEARLY

12 MILLION



SG&A AS A PERCENTAGE OF GROSS MARGIN NARROWED

620

Basis Points in Fiscal 2010

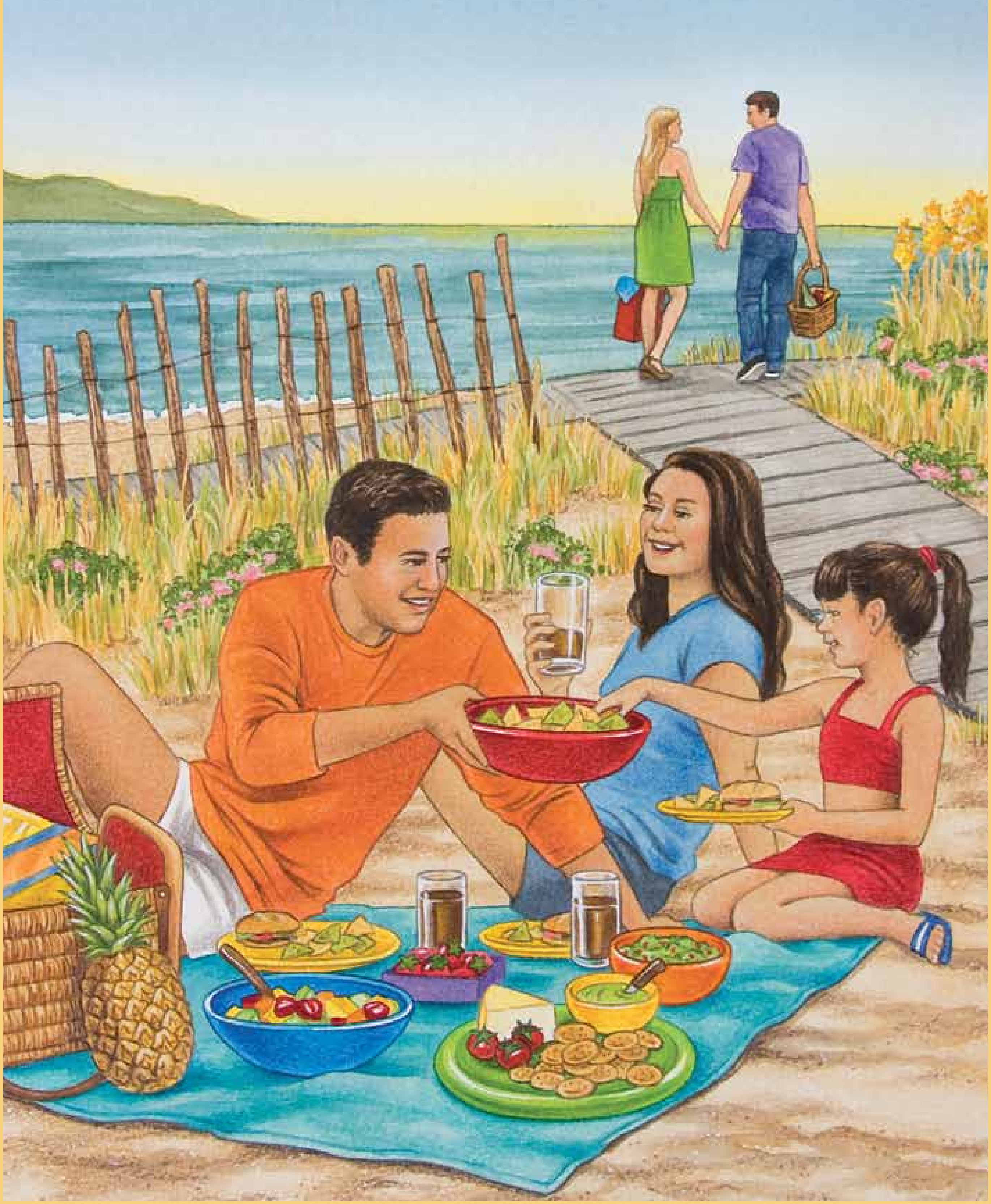
EXPANDING GROSS MARGIN PROFILE

Our diversified sourcing for avocados and fresh produce and expanding portfolio of items is driving sales growth and, just as importantly, Calavo's gross margin profile. Gross margin last year expanded 16 percent to $51.5 million, reflecting the success of product diversification programs. Similarly, even as we boost revenues and gross margin, we are maintaining firm rein on sales, general and administrative expense, or SG&A.

Last year, our revenues grew $54 million or 16 percent, but SG&A expense rose just $400,000 or 1.7 percent—indicative of our success leveraging infrastructure without incurring additional costs. As a result and further indication of performance gains, SG&A as a percentage of gross margin—a key performance metric at Calavo—fell 620 basis points to 45 percent from 51.2 percent in the preceding year.

GROWING PRODUCT PORTFOLIO CREATES BETTER UTILIZATION *of* CALAVO INFRASTRUCTURE

SUMMER SIZZLE



SALSA LISA

Adds Spice to an Already-Hot Calavo...

The addition of Salsa Lisa to the Calavo product family in fiscal 2010 is a boon to the company, our customers and consumers alike. With award-winning homemade recipes, all-natural ingredients and a 98-day shelf life, the six flavorful salsa varieties are making every day sizzle like summer. At poolside, while grilling on the patio, part of a warm-weather picnic or just snacking straight from the container, consumers can now enjoy Salsa Lisa along with our premium tortilla chips and fresh guacamole.

Founder Lisa Nicholson's homemade goodness helped propel her salsas to the leading refrigerated-fresh line in the Upper Midwest. Now capitalizing on Calavo's resources and distribution clout, retailers nationally are able to bring these great tastes to their produce and deli sections. From our company's three strategically located distribution centers, we literally cover the country with salsa, the number-one-selling condiment in the United States. And in broadening our product portfolio, grocers can rely on the trusted Calavo brand for more of what their own customers want, making us even more integral to the retailer than ever before.

In addition to extending the brand, expansion into salsa enables us to draw upon our fresh tomato market expertise and resources, much as the company has done with avocados and guacamole. Last year, Calavo sold 64 million pounds of fresh tomatoes. As Salsa Lisa grows, we will continue to leverage our tomato sourcing capabilities, as well as the inter-company sales potential between our Fresh and CalavoFoods business segments.

A Chip *off the* Ol' Guac

What's a great dip if you don't have the best possible chip to go along with it? We thought so, too, which is why we set out to find a tortilla chip worthy not only of our fresh guacamole and salsas, but of the Calavo name itself. Lo and behold, we've done it. Calavo Premium Tortilla Chips are authentic and natural, made from real corn seeped in water and lime for eight hours and then mashed using volcanic stone. Two flavors and quality synonymous with Calavo make our chips a tasty complement to the product family.

DIVERSIFIED AND GROWING
THE STRATEGY IN BRIEF

More products through our pipeline mean better utilization of Calavo's vast sales, marketing and distribution infrastructure. We have been able to expand the portfolio of fresh and prepared items over the last four years without incurring the capital expenses historically associated with growth at most companies. As a result, we have layered year upon year upon year upon year—literally, four consecutive ones!—of upward profile in revenue, gross margin and per-share results. The lineup we're continuing to build, in both our Fresh and CalavoFoods segments, is highly complementary: the core avocado business meshes with tomatoes; guacamole and salsa offer a good fit. We will seek further diversification, broadening the lineup with other great offerings—through organic growth and opportunistic acquisition. The most stringent criteria are potential incremental profit growth and products equal to the sterling Calavo brand.

FRESH GUACAMOLE THIS GOOD MUST BE CALAVO

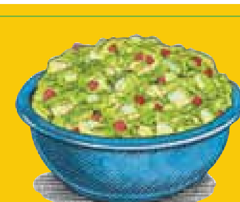
When Salsa Lisa entered the CalavoFoods family last year, it joined our established, fresh refrigerated guacamole, the standard bearer for excellence in the category and tent-pole offering in the expanding business unit. Even after five years in the marketplace, Calavo's ultra-high-pressure guacamole products continue to gain sales and market share in both the retail and food-service channels.

As indication of this upward trendline, fresh refrigerated guacamole production last year grew by 15 percent and high-pressure offerings accounted for more than 50 percent of total prepared avocado output for the first time. Total high-pressure sales grew by about 600 basis points in fiscal 2010 on continuing robust demand, particularly at retail.

And our prepared avocado operations are the model of productivity within the CalavoFoods unit. On the manufacturing side, with our gleaming 90,000-square-foot production facility in Uruapán, Michoacan, Mexico, the company benefits from being strategically situated at the center of avocado supply. Reciprocally, finished product is available for ready distribution from each of our three nationally based Value Added Depots, enabling us to service customers across the United States and Canada.

Calavo Gold Papayas *Offer a* Slice of Paradise

The outlook for Calavo papayas, a diversified produce mainstay since 1949, just keeps getting sweeter. And we aren't only talking about taste here, although for our money, there's no finer papaya anywhere. The sales volume profile for papayas is looking tastier than ever. We are experiencing solid revenue and volume growth, with papaya sales rising more than 20 percent in fiscal 2010. Investments two years ago to bring papaya operations under direct company control are paying off through better efficiencies across the entire diversified produce category. Our papayas from the warm eastern slopes of the Big Island, along with pineapples sourced elsewhere in Hawaii as well as from Costa Rica, place Calavo squarely in the top rung of tropical-fruit distributors. How sweet it is: pure gold, Calavo Gold—the best taste in papaya.

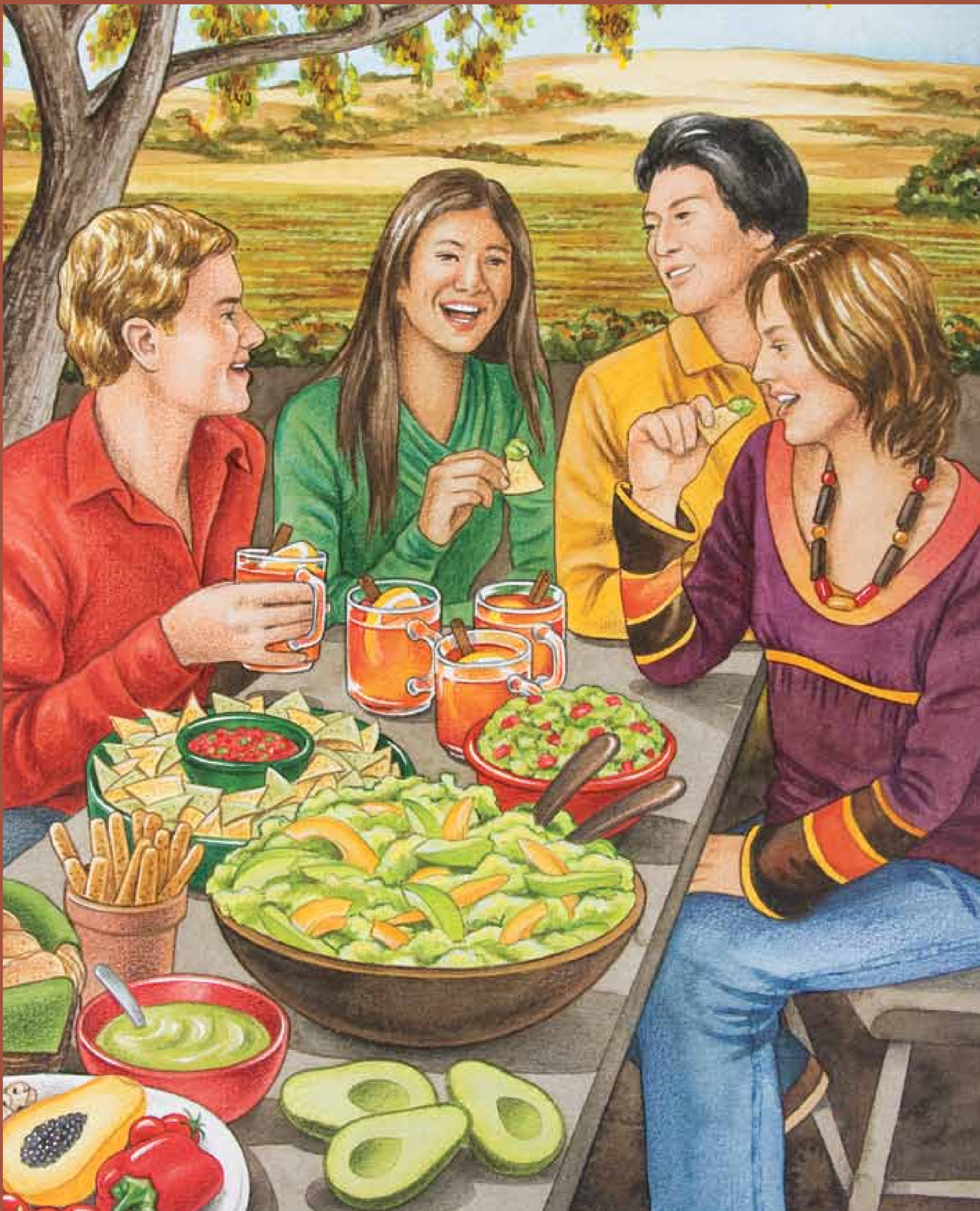


HIGH PRESSURE GUACAMOLE SALES INCREASED 600 BASIS POINTS LAST YEAR ON CONTINUING ROBUST DEMAND

BEST-IN-CLASS PRODUCTS FOR BEST-IN-CLASS CUSTOMERS

One of Calavo's hallmarks always has been its world-class customer base. We proudly supply a *Who's Who* of retail, institutional and food-service clients. And we place great precedence on those valued relationships—Calavo seeks to be as indispensable to its customers as they are to us. Consequently, a considerable part of the rationale for diversifying our product offerings is precisely to better serve our customers across all categories. Instead of being able to offer just a few items, Calavo will possess a more broad-based lineup. The confidence in the brand—and, more importantly, what stands behind it—is already forged in these alliances. Our aim now is to bring these customers an ever-larger array of offerings featuring the trusted and respected Calavo name.

FALL GATHERINGS



f IS FOR FALL

Friends and the Flavors of Calavo...

Leaves turn crimson and gold as the autumn air grows crisp. Fall gatherings around hearth and home or in the expanse of outdoors make ideal settings for Calavo fresh and prepared foods—at home on every table. Bring out the best in Sunday supper recipes for hearty stews or spaghetti Bolognese using our fresh tomatoes and mushrooms. Don't forget the ripe avocados to slice on grilled burgers at the football tailgate. Entice the ghosts and goblins with Calavo chips, salsa and guacamole at the annual Halloween get-together. Good times… and Calavo products to go with them.

TOMATOES

ANCHORED DIVERSIFIED FRESH

with 30 PERCENT

UNIT VOLUME GROWTH

To-MAY-to, To-MAH-to—No Matter, *As Long As It's Calavo*

The rationale behind our fresh product diversification, which began three years ago with expansion into tomatoes, is well documented: to better leverage Calavo's substantial sales, marketing and distribution infrastructure and to capitalize on our brand strength with customers through a broader array of offerings. Tomatoes represented a great start—a complementary produce item frequently merchandised alongside fresh avocados in supermarkets. With the company's established expertise sourcing from Mexico for sale to the U.S. market and beyond, it was a logical extension for us to diversify into tomatoes.

The highest quality was an absolute—Calavo's sterling reputation demands nothing less. We forged an alliance in fiscal 2007 with Agricola Belher, a fresh-vegetable producer, primarily of tomatoes, for export to the U.S. The Calavo-Belher union truly represents a model for successful sourcing agreements. Calavo advanced $5 million to Belher for investment in improvements to drive the grower's production, yield and product quality. Belher benefited from our financial strength and, in turn, Calavo solidified a stable, high-quality sourcing "pipeline" for its fresh tomatoes.

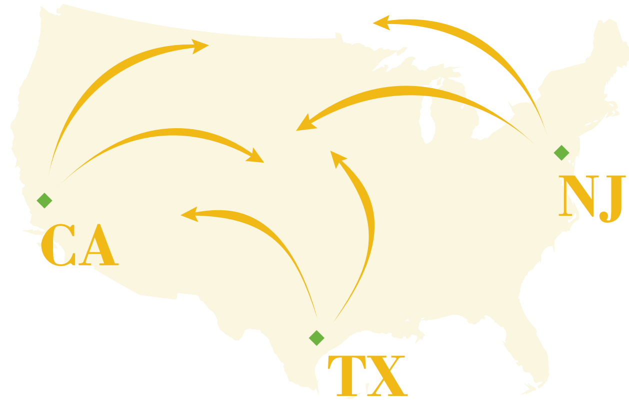
Results exceed all internal expectations. At the time we announced the alliance three years ago, we projected selling 25 million pounds of Calavo tomatoes. In fiscal 2010, tomato sales surpassed 60 million pounds—two-and-a-half times those original forecasts. Tomato unit volume last year rose 30 percent over fiscal 2009. With Calavo's expansion into salsa, our demand for quality tomatoes is growing and we stand to become one of our own best customers. Tomatoes represented a key first step into new diversified fresh product categories. Global sourcing alliances such as Calavo-Belher are central to our business strategy and will drive growth in existing, as well as future products.

They Want 'Em Ripe— They Want 'Em Now

As nutritious eating and changing demographics drive fresh avocado demand to unprecedented levels, advents in ripening and other value-added programs indelibly alter consumption patterns. Not surprisingly, Calavo is at the forefront of the ripening revolution, making ready-to-eat fruit available like never before. Purchase cycles are shortening as consumers gobble down avocados in increasing frequency as ripened and bagged avocados enhance convenience. Per capita U.S. fruit consumption in the past decade has nearly doubled from two to almost four pounds. Last year, Calavo's value-added programs accounted for more than 37 percent of our fresh avocados sold throughout the U.S. and Canada, made possible by a seamless distribution system of regional facilities equipped with our proprietary ripening technology.

Our best-in-class ProRipeVIP® avocados continue to be the cornerstone of Calavo's value-added initiatives. In fiscal 2010, ProRipeVIP® sales accounted for about 2.2 million cartons, equal to more than 20 percent of our total avocados packed and shipped in North America—a 21 percent increase from the prior year. Included in this figure is the single-largest month since the technology was introduced four years ago. Along with an additional 700,000 cartons of pre-conditioned fruit, total Calavo ripened avocados last year approximated 2.9 million cartons, representing nearly 27 percent of all U.S. and Canadian shipments. In total, shipments of ripened avocados rose 19 percent from fiscal 2009.

Bagged avocados are, of course, the other factor driving the consumption quotient. We sold 13.7 million bags of avocados, which translate to 1.1 million cartons or 11 percent of North American volume—a seven percent jump from the preceding year. To put those figures in perspective, they equal 26 bags of avocados consumed each minute, 365 days per year.



Three North American **distribution** facilities—in CA, TX and NJ— provide CALAVO with a seamless blanket of **coverage** across the U.S. and Canada

Calavo Investment *in* Limoneira Company:

An Update

Our 15 percent equity ownership interest in Limoneira Company, the diversified farming, agribusiness and land concern, is a bonafide value-added investment for Calavo. Our company packs and distributes the fresh avocados from Limoneira, one of California's two largest producers. (We also pack and distribute the other major domestic producer, the Irvine Co.) In addition to the avocado sales volume realized, we earn a healthy cash dividend each year on our Limoneira shares.

Limoneira, with more than 7,500 acres growing citrus, as well as avocados, is working diligently to unlock the underlying value of its company. In its headquarters city of Santa Paula, California, Limoneira received voter approval in a ballot initiative to develop 500-plus master-planned acres of its holdings for residential and light commercial purposes. This project, East Area One, is expected to begin in stages as the real estate market begins to recover and strengthen. Last year, Limoneira took another significant step forward in unlocking value by listing its shares on the Nasdaq Market, enhancing the liquidity of its common stock and widening its ownership base.

Each of these moves has contributed to a rise in Limoneira's market valuation and is reflected on Calavo's balance sheet through its equity ownership stake. We are long-term owners and pleased with the many ways in which our packing alliance and investment in Limoneira contribute to Calavo's underlying value. In the meantime, as well, we are content to call Limoneira "neighbor," with Calavo's corporate headquarters operating from offices on that company's historic ranch.

GUACAMOLE HUMMUS

NEWEST ENTRANT *in* $350 million PRODUCT CATEGORY

AND INTRODUCING...

Calavo earns high marks for its ability to execute the business plan—record operating results speak for themselves. But we are proving ourselves adept at product innovation, as well. Rounding out the CalavoFoods expansion last year was our distinctive new guacamole hummus—a first-of-its-kind offering that complements our entry into salsa and tortilla chips. Layering our fresh refrigerated guacamole onto creamy blended chickpeas represents a unique twist to the flavored hummus category.

Calavo's guacamole hummus entered the market through a one-year exclusive agreement with a leading national grocery retailer sold under the chain's name. It is meeting good initial acceptance among consumers and we will be rolling out widely under our own and other store brands in fiscal 2011. As both a dip and a spread, hummus is growing in popular acceptance from a niche, ethnic food into a more mainstream item—much like the way in which awareness of avocados and guacamole has grown through the years. In fact, research shows that more than 80 percent of all Americans have never heard of or tasted hummus—huge growth potential. Yet already, it's a $350 million product category at retail, according to market research. And best of all, similar to avocados, the healthful attributes of chickpeas make for nutritious, guilt-free snacking.

WINTER CELEBRATIONS

GLOBAL DISTRIBUTION STRENGTH:
A Calavo Hallmark

A true Calavo hallmark and strategic differentiator is the strength and efficiency of our global distribution system. At the same time that we have built worldwide farming alliances for sourcing of avocados and diversified fresh produce, our company reciprocally has assembled a vast distribution network capable of successfully serving global customers with often-divergent and complex requirements.

To meet the needs of North American customers, distribution facilities in California, Texas and New Jersey—each equipped with our proprietary ProRipeVIP®—provide Calavo with seamless coverage throughout the United States and Canada for fresh avocados and diversified produce, as well as the expanding line of CalavoFoods items. Via these facilities, Calavo possesses the capacity to supply and meet the volume needs of the largest supermarket chains, food service, wholesalers and other distributors.

Distribution capabilities to customers in far-reaching corners of the world have vaulted Calavo into a global leader in avocado marketing and other perishable products. We ship via air freighter approximately 100,000 pounds of golden Hawaiian papayas each week, making our tropical produce among the Big Island's most frequent fliers. We were the first packer to ship fresh avocados to Japan—nearly a half century ago—and today distribute fruit across all of Asia-Pacific. Our brand is equally at home on the European continent, which we serve through a sales office in Paris. Our expanding sourcing relationships, especially in Chile, will enhance these capabilities in Europe and we have expansion plans for that market in the current fiscal year and beyond.

LEVERAGING A WORLD-CLASS CUSTOMER BASE *with* EXPANDED PRODUCT OFFERINGS

FUTURE GROWTH DRIVERS:

Fresh Avocados

Diversified Fresh Produce

CalavoFoods

Opportunistic Acquisitions

BOARD OF DIRECTORS

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

John M. Hunt
Manager
Embarcadero Ranch
Goleta, 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

Alva V. Snider
Avocado Grower
Fallbrook, California

Scott N. Van Der Kar
General Manager
Van Der Kar Family Farms
Carpinteria, California

Marc L. Brown
Attorney - Partner
Troy Gould PC

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

J. Link Leavens
General Manager
Leavens Ranches
Ventura, California

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

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

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

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

About Calavo...

Calavo Growers, Inc. is a leading packer and marketer of fresh and prepared avocados throughout the United States and other countries globally, as well as an expanding distributor of other diversified produce items sold under the company's well-respected brand name and its Maui Fresh label, a wholly owned subsidiary. Through its two principal operating units—Fresh products and CalavoFoods—the company supplies wholesale, retail, restaurant and institutional foodservice customers on a world-wide basis.

Calavo packs, markets and distributes about 23 percent of the available all-source fresh avocado supply to the United States and Canada, nearly twice the market share of its closest competitor. The company sources these avocados from California, Mexico, Chile and Peru to satisfy year-round domestic demand, for export and for use in prepared products. Calavo is also a leading marketer of fresh fruit grown in the Hawaiian Islands, including papayas, pineapples and other tropical-produce items. Other diversified fresh produce items include Calavo-brand tomatoes and mushrooms, as well as Hispanic specialties such as a wide range of chilies.

The company's CalavoFoods business unit manufactures and distributes prepared items including fresh refrigerated guacamole and other avocado products, as well guacamole hummus. Under the Calavo Salsa Lisa brand, the company produces and sells six varieties of wholesome refrigerated fresh salsa made with all-natural ingredients. The company also distributes Calavo Premium Tortilla Chips.

Founded in 1924 as grower-owned cooperative, Calavo today is publicly traded on the Nasdaq Global Select Market under the ticker symbol CVGW. Employing more than 1,150 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 additional two packinghouses are located in Temecula, California and Uruapan, Michoacán, Mexico, where the company also operates its prepared-avocado manufacturing facility. There are additional Value Added Depots equipped with the company's proprietary ProRipeVIP® technology in Dallas, Texas and Swedesboro, New Jersey.

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

SELECTED CONSOLIDATED FINANCIAL DATA

The following summary consolidated financial data (other than pounds information) for each of the years in the five-year period ended October 31, 2010 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,	2010	2009	2008	2007	2006
(In thousands, except per share data)					
Income Statement Data: (1)(2)					
Net sales	**$ 398,351**	$ 344,765	$ 361,474	$ 302,984	$ 273,723
Gross margin	**51,530**	44,533	33,181	31,772	29,084
Net income	**17,640**	13,611	7,725	7,330	5,788
Basic net income per share	**$ 1.22**	$ 0.94	$ 0.54	$ 0.51	$ 0.40
Diluted net income per share	**$ 1.22**	$ 0.94	$ 0.53	$ 0.51	$ 0.40
Balance Sheet Data as of End of Period:					
Working capital	**$ 14,801**	$ 12,052	$ 15,413	$ 16,334	$ 12,023
Total assets	**150,198**	122,749	134,422	127,920	107,563
Current portion of long-term obligations	**1,369**	1,366	1,362	1,307	1,308
Long-term debt, less current portion	**6,089**	13,908	25,351	13,106	10,406
Shareholders' equity	**88,257**	69,487	65,517	74,003	58,943
Cash Flows Provided by (Used in):					
Operations	**$ 18,198**	$ 21,997	$ 5,296	$ 4,629	$ 7,819
Investing (3)	**(7,721)**	(5,990)	(7,454)	(7,950)	(4,663)
Financing	**(10,288)**	(16,641)	2,700	4,238	(4,239)
Other Data:					
Dividends declared per share	**$ 0.55**	$ 0.50	$ 0.35	$ 0.35	$ 0.32
Net book value per share	**$ 6.04**	$ 4.79	$ 4.52	$ 5.15	$ 4.12
Pounds of California avocados sold	**170,650**	53,000	92,165	91,038	218,460
Pounds of non-California avocados sold	**123,700**	162,950	123,740	135,723	70,063
Pounds of processed avocados products sold	**21,651**	21,259	22,274	22,556	20,489

(1) Operating results for fiscal 2010 include the acquisitions of Calavo Salsa Lisa from the date of acquisition of February 8, 2010. For fiscal year 2010, Calavo Salsa Lisa's net sales and gross losses were $0.8 million and $0.4 million. Net loss was not significant. See Note 16 to our consolidated financial statements for further discussion of these acquisitions.
(2) Operating results for fiscal 2010, 2009 and 2008 include the acquisitions of HS and HP. Such acquisitions, however, did not significantly impact trends or results of operations for fiscal 2008, as such acquisitions substantially replaced the previous consigned arrangement.
(3) For fiscal years 2010 and 2009, we have not made any infrastructure advances to Agricola Belher. Agricola Belher paid $1.8 million and $0.5 million in fiscal years 2010 and 2009 related to infrastructure advances.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

OVERVIEW

We are a leader in the distribution of avocados, prepared avocado products, and other perishable food products throughout the United States. 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) CalavoFoods. See Note 11 to our consolidated financial statements for further discussion.

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 30% of the California avocado crop during the 2010 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 Chile, Mexico and Peru, 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 21% of the Mexican avocado crop bound for the United States market and approximately 5% of the avocados exported from Mexico to countries other than the United States during the 2009-2010 Mexican season, based on our estimates. Additionally, during the 2009-2010 Chilean avocado season, we handled approximately 5% 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 CalavoFoods business procures avocados, processes avocados into a wide variety of guacamole products, and distributes the processed product to our customers. All of our prepared avocado products are now "cold pasteurized" and include both frozen and fresh guacamole. Additionally, we also prepare various fresh salsa products. Customers include both food service industry and retail businesses. Due to the long shelf-life of our frozen guacamole and the purity of our fresh guacamole, we believe that we are well positioned to address the diverse taste and needs of today's customers. 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 54% and 53% of total processed segment sales for the years ended October 31, 2010 and 2009. Net sales of our ultra high pressure products represented approximately 46% and 47% of total processed segment sales for the years ended October 31, 2010 and 2009.

Our Fresh products business is characterized by crop volume and price changes. Furthermore, the operating results of all of our businesses, including our CalavoFoods business, have been, and will continue to be, affected by 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 CalavoFoods 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 13, 2010, we paid a $0.55 per share dividend in the aggregate amount of $8,092,000 to shareholders of record on December 1, 2010.

Earn-Out Payment

In May 2008, we purchased all of the outstanding shares of Hawaiian Sweet (HS) and all ownership interests of Hawaiian Pride (HP) from the Chairman of our Board of Directors, Chief Executive Officer and President. HS and HP engage in tropical-product packing and processing operations in Hawaii. Pursuant to the acquisition agreement, we made an initial purchase price payment in the aggregate amount of $3,500,000 for both entities on May 20, 2008. We then made two additional annual payments, based on certain operating results (the "Earn-Out Payment(s)"), as defined. The first annual Earn-Out payment, which was made on September 23, 2009, totaled approximately $2.4 million. The second, and final, annual Earn-Out payment, which was made on July 9, 2010, totaled approximately $4.5 million.

Contingencies

Hacienda Suits – We are currently under examination by the Mexican tax authorities (Hacienda) for the tax year ended December 31, 2000. We have received an assessment totaling approximately $2.0 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, which we declined. In the second quarter of 2009, we won our appeal case. The Hacienda subsequently appealed that decision and the case was sent back to the tax court due to administrative error by such jurisdiction. During the second quarter of 2010, we once again won our appeal and, once again, the Hacienda appealed the decision and the case has been sent back to the tax court. We do not believe that the resolution of this examination will have a significant impact on our results of operations.

We are currently under examination by the Mexican tax authorities (Hacienda) for the tax year ended December 31, 2004. We have received an assessment totaling approximately $4.5 million from Hacienda related to the amount of income at our Mexican subsidiary, which primarily is related to three issues, one of which represents the majority of the total assessment (the primary assessment). In the fourth quarter of 2010, we received a favorable ruling from the tax court related to the primary assessment, but received an unfavorable ruling related to the remaining issues. We appealed the unfavorable rulings, which we believe are without merit. We do not believe that the resolution of this examination will have a significant impact on our results of operations.

In the second quarter of 2009, the Hacienda initiated an examination related to the tax year ended December 31, 2007 as well. We are not aware of any assessments related to this examination, nor do we expect this examination to have a significant impact on our results of operations.

In the first quarter of 2011, we received an assessment totaling approximately $720,000 related to the tax year ended December 31, 2005. This assessment relates to depreciation expense taken on such tax return. Based on discussions with legal, we believe that the Hacienda's position is without merit and do not believe that the resolution of this examination will have a significant impact on our results of operations.

We pledged our CalavoFoods building located in Uruapan, Michoacan, Mexico as collateral to the Hacienda in regards to these assessments.

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.

Acquisition

On February 8, 2010, Calavo Growers, Inc. ("Calavo"), Calavo Salsa Lisa, LLC ("Calavo Salsa Lisa"), Lisa's Salsa Company ("LSC") and Elizabeth Nicholson and Eric Nicholson, entered into an Asset Purchase and Contribution Agreement, dated February 8, 2010 (the "Acquisition Agreement"), which sets forth the terms and conditions pursuant to which Calavo acquired a 65 percent ownership interest in newly created Calavo Salsa Lisa which acquired substantially all of the assets of LSC. Elizabeth Nicholson and Eric Nicholson, through LSC, hold the remaining 35 percent ownership of Calavo Salsa Lisa. LSC is a regional producer in the upper Midwest of Salsa Lisa refrigerated salsas. We believe that this new line of salsas will further diversify our product offerings and will be a natural complement to our ultra-high-pressure guacamole, as well as our recently introduced Calavo tortilla chips. See Note 16 in our consolidated financial statements for further information.

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 for the entire year would impact results of operations by approximately $0.5 million.

Income Taxes. We account for 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, we perform 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.

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.

Goodwill and acquired intangible assets. Goodwill, defined as unidentified asset(s) acquired in conjunction with a business acquisition, 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. 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, 2010.

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,	2010	2009	2008
Net sales	**100.0 %**	100.0 %	100.0 %
Gross margins	**12.9 %**	12.9 %	9.2 %
Selling, general and administrative	**5.8 %**	6.6 %	5.8 %
Operating income	**7.1 %**	6.3 %	3.4 %
Interest income	**0.1 %**	0.1 %	0.1 %
Interest expense	**(0.2)%**	(0.3)%	(0.4)%
Other income, net	**0.1 %**	0.1 %	0.2 %
Net income	**4.4 %**	3.9 %	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 compounded annual growth rate of 7.3% 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 16% 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 year-round availability of fresh avocados due to imports, a rapid growing Hispanic population, and the promotion of the health benefits of avocados. 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. 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 avocado businesses. During fiscal 2010, 2009 and 2008, on behalf of avocado growers, we remitted approximately $2.0 million, $0.6 million and $2.2 million to the California Avocado Commission. During fiscal 2010, 2009 and 2008, we remitted approximately $5.6 million, $3.8 million and $4.2 million to the Hass Avocado Board related to 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 tables set forth sales by product category and sales incentives, by segment (dollars in thousands):

	YEAR ENDED OCTOBER 31, 2010			YEAR ENDED OCTOBER 31, 2009		
	Fresh products	**Calavo-Foods**	**Total**	Fresh products	Calavo-Foods	Total
Third-party sales:						
Avocados	**$ 287,808**	**$ —**	**$ 287,808**	$ 259,558	$ —	$ 259,558
Tomatoes	**41,595**	**—**	**41,595**	14,067	—	14,067
Papayas	**11,278**	**—**	**11,278**	9,118	—	9,118
Pineapples	**3,838**	**—**	**3,838**	13,341	—	13,341
Other Fresh products	**3,617**	**—**	**3,617**	4,219	—	4,219
CalavoFoods - food service	**—**	**40,654**	**40,654**	—	36,493	36,493
CalavoFoods - retail and club	**—**	**17,473**	**17,473**	—	15,554	15,554
Total gross sales	**348,136**	**58,127**	**406,263**	300,303	52,047	352,350
Less sales incentives	**(84)**	**(7,828)**	**(7,912)**	(68)	(7,517)	(7,585)
Net sales	**$ 348,052**	**$ 50,299**	**$ 398,351**	$ 300,235	$ 44,530	$ 344,765

	YEAR ENDED OCTOBER 31, 2009			YEAR ENDED OCTOBER 31, 2008		
	Fresh products	Calavo-Foods	Total	Fresh products	Calavo-Foods	Total
Third-party sales:						
Avocados	$ 259,558	$ —	$ 259,558	$ 268,674	$ —	$ 268,674
Tomatoes	14,067	—	14,067	19,666	—	19,666
Papayas	9,118	—	9,118	8,392	—	8,392
Pineapples	13,341	—	13,341	16,442	—	16,442
Other Fresh products	4,219	—	4,219	2,564	—	2,564
CalavoFoods - food service	—	36,493	36,493	—	38,919	38,919
CalavoFoods - retail and club	—	15,554	15,554	—	14,634	14,634
Total gross sales	300,303	52,047	352,350	315,738	53,553	369,291
Less sales incentives	(68)	(7,517)	(7,585)	(71)	(7,746)	(7,817)
Net sales	$ 300,235	$ 44,530	$ 344,765	$ 315,667	$ 45,807	$ 361,474

Net sales to third parties by segment exclude value-added services billed by our Uruapan packinghouse and processing plant to the parent company. For fiscal years 2010, 2009, and 2008, inter-segment sales and cost of sales for Fresh products totaling $11.7 million, $14.1 million and $13.9 million were eliminated. For fiscal years 2010, 2009, and 2008, inter-segment sales and cost of sales for CalavoFoods totaling $9.4 million $7.8 million, and $9.6 million were eliminated.

The following table summarizes our net sales by business segment:

(Dollars in thousands)	2010	Change	2009	Change	2008
Net sales:					
Fresh products	$ 348,052	15.9%	$ 300,235	(4.9)%	$ 315,667
CalavoFoods	50,299	13.0%	44,530	(2.8)%	45,807
Total net sales	$ 398,351	15.5%	$ 344,765	(4.6)%	$ 361,474
As a percentage of net sales:					
Fresh products	87.4%		87.1%		87.3%
CalavoFoods	12.6%		12.9%		12.7%
	100.0%		100.0%		100.0%

Net sales for the year ended October 31, 2010, when compared to 2009, increased by approximately $53.6 million, or 15.5%, principally as a result of an increase in both our Fresh products and CalavoFoods segments. The increase in fresh product sales for the year ended October 31, 2010 was primarily related to increased sales of California avocados and tomatoes. These increases were partially offset, however, by decreased sales from Mexican sourced avocados, pineapples and Chilean sourced avocados. While the procurement of fresh avocados related to our fresh products segment is seasonal based on region, our CalavoFoods business is generally not subject to a seasonal effect. The increase in net sales delivered by our CalavoFoods business was due primarily to an increase in pounds sold and an increase in the net sales price compared to prior year.

Fresh products

Fiscal 2010 vs. Fiscal 2009:

Net sales delivered by the business increased by approximately $47.8 million, or 15.9%, from fiscal 2009 to 2010. This increase was primarily related to an increase in sales of California sourced avocados (due primarily to a significant increase in cartons sold) as well as tomatoes (due primarily to an increase in units sold and an increase in per unit sales price). These increases were partially offset, however, by decreased sales from Mexican sourced avocados (due primarily to a decrease in cartons sold and a decrease in sales price per unit), pineapples (due primarily to a decrease in units sold), as well as Chilean sourced avocados (due primarily to a decrease in cartons sold and a decrease in sales price per unit).

Sales of California sourced avocados increased $87.2 million, or 119.1%, for fiscal year 2010, when compared to the same prior year period. California sourced avocado sales reflect a 222.0% increase in pounds of avocados sold, when compared to the same prior year period. The increase in California sourced avocados was primarily related to the larger California avocado crop for fiscal 2010. Our market share of California avocados decreased to 30% for fiscal year 2010, when compared to a 31% market share for the same prior year period. The average selling price, on a per carton basis, of California avocados sold decreased approximately 31.8% when compared to the same prior year period. We attribute this decrease to the higher overall volume of California avocados in the marketplace. California avocados are primarily sold in the U.S. marketplace. We anticipate that sales of California grown avocados will significantly decrease in fiscal 2011, due to a significantly smaller expected avocado crop.

Sales of tomatoes increased $27.5 million, or 195.7%, for fiscal year 2010, when compared to the same prior year period. The increase in sales for tomatoes is due to an increase in the average per carton selling price of 128.1%, in addition to a 29.6% increase in the number of units sold. We attribute most of the increase in the per carton selling price to the lower volume of tomatoes in the U.S. marketplace (due to weather conditions in Florida) for fiscal 2010, as compared to the same prior period. We attribute most of the increase in units sold to growers supplying us with significantly more volume, due primarily to market conditions. We do not anticipate a significant change in the sales of tomatoes for fiscal 2011, based on current weather conditions in Florida.

Partially offsetting such increases described above was a decrease in sales of Mexican sourced avocados, which decreased $49.0 million, or 29.0%, for fiscal year 2010, when compared to the same prior year period. The decrease in Mexican sourced avocados was primarily related to the decrease in the volume of Mexican fruit sold by 29.1 million pounds, or 20.1%, when compared to the same prior year period. In addition, Mexican sourced avocados had a decrease in the average selling price per carton of approximately 11.2%, when compared to the same prior year period. As mentioned above, we attribute most of this decrease in volume and price to the increase in volume of California sourced avocados in the U.S. marketplace during fiscal year 2010, as compared to the same prior year period.

Sales of pineapples decreased $9.5 million, or 71.2%, when compared to the same prior year period. The decrease in sales for pineapples was primarily due to a decrease in volume by 73.2% when compared to the same prior year period. This decrease is primarily related to the expiration of our agreement with Maui Pineapple Company (Maui) in December 2009, which was primarily related to Maui exiting the pineapple business. We do not anticipate a significant change in pineapple sales during fiscal 2011.

Sales of Chilean sourced avocados decreased $9.5 million, or 57.2% for fiscal year 2010, when compared to the same prior year period. The volume of Chilean fruit sold decreased by approximately 7.8 million pounds, or 51.1%, when compared to the same prior year period. This decrease was primarily related to the smaller Chilean avocado crop in fiscal year 2010 when compared to the crop in fiscal year 2009. In addition to the increase in pounds sold, our average selling prices, on a per carton basis, experienced a decrease of 12.4% for fiscal 2010, when compared to the same prior period. We attribute most of this decrease in volume and price to the increase in volume of California sourced avocados in the U.S. marketplace during fiscal year 2010, as compared to the same prior year period.

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 2011.

Fiscal 2009 vs. Fiscal 2008:

Net sales delivered by the business decreased by approximately $15.4 million, or 4.9%, from fiscal 2008 to 2009. This decrease was primarily related to decreased sales of California avocados, tomatoes, and pineapples. Such decreases were partially offset, however, by increased sales from Mexican and Chilean sourced avocados. For fiscal 2009, due to the significant increase in the Mexican avocado crop, there was an increase in the volume of avocados delivered to the United States market. As a result, avocado prices industry-wide decreased for most of fiscal 2009, which primarily caused our total avocado revenues to decrease for the year.

For fiscal year 2009, California sourced avocado sales (which are primarily sold in the U.S. marketplace) reflect a 42.5% decrease in pounds of avocados sold, when compared to the same prior year period. This decrease in pounds sold is primarily related to the corresponding decrease in the California avocado crop for fiscal 2008/2009. Such decrease is believed to be primarily related to poor weather conditions. Our market share of California avocados increased to 31% for fiscal year 2009, when compared to a 28% market share for the same prior year period. The average selling price, on a per carton basis, of California avocados sold increased approximately 13.8% when compared to the same prior year period. We attribute some of this increase to the lower overall volume of California avocados in the marketplace.

Sales of tomatoes decreased $5.6 million, or 28.5%, for fiscal year 2009, when compared to the same prior year period. The decrease in sales for tomatoes is primarily due to the decrease in the average carton selling price by 38.0%. This was partially offset by an increase in the volume of tomatoes by approximately 0.3 million cartons, or 15.3%, when compared to the same prior year period. We attribute most of this decrease in the per carton selling price to the out of season production from the U.S. east coast that increased the volume of tomatoes in the U.S. marketplace at the very beginning of the Mexican tomato season.

Sales of pineapples decreased $3.1 million, or 18.9%, when compared to the same prior year period. The decrease in sales for pineapples is primarily due to the decrease in the per unit selling price by 12.2%, in addition to the decrease in the volume of pineapples by approximately 0.1 million units, or 7.5%, when compared to the same prior year period. We attribute some of this decrease in the per carton selling price to the volume of pineapples in the U.S. marketplace and the recession in the United States. Our agreement with Maui Pineapple Company ended December 31, 2009, and is not expected to be extended.

Partially offsetting such decreases was an increase in sales of Mexican sourced avocados, which increased $20.1 million, or 13.5%, for fiscal year 2009, when compared to the same prior year period. The increase in Mexican sourced avocados was primarily related to an increase in the volume of Mexican fruit sold of 35.1 million pounds, or 31.1%, when compared to the same prior year period. We attribute some of this increase to the large Mexican avocado crop for fiscal 2009. Such increase was partially offset, however, by a decrease in the average carton selling price of Mexican avocados, which decreased approximately 13.4% when compared to the same prior year period. We attribute some of this decrease to the higher overall volume of Mexican avocados in the marketplace.

Sales of Chilean sourced avocados increased $9.0 million, or 117.0% for fiscal year 2009, when compared to the same prior year period. The volume of Chilean fruit sold increased by approximately 7.0 million pounds, or 94.6%, when compared to the same prior year period. This increase was primarily related to the improvement of the Chilean avocado crop in fiscal year 2009 when compared to the disappointing crop in fiscal year 2008. In addition to the increase in pounds sold, our average selling prices, on a per carton basis, experienced an increase of 11.5% for fiscal 2009, when compared to the same prior period. We attribute some of these price fluctuations to the smaller California avocado crops, as well as the timing of the delivery of such crops, in the marketplace during fiscal 2009.

CalavoFoods

Fiscal 2010 vs. Fiscal 2009:

Net sales increased by approximately $5.8 million, or 13.0% for fiscal 2010, when compared to the same prior period. This increase is primarily related to a 1.8% increase in total pounds sold for fiscal year 2010 and an increase in the average net selling price per pound of 2.4%, when compared to the same prior year period. The increase in average net selling price is primarily related to a change in sales mix. In addition, the recently acquired Calavo Salsa Lisa contributed approximately $0.8 million for fiscal year 2010.

We currently have two 215L ultra high pressure machines located in Uruapan. Starting in fiscal year 2010, we have begun using the two 215L ultra high pressure machines to pressurize all product lines within CalavoFoods (including frozen products). This has caused our operating capacity for these two 215L ultra high pressure machines to be approximately 80% as of October 31, 2010. Our estimated combined operating capacity for these two machines was approximately 59% as of October 31, 2009. A 3rd ultra high pressure machine with a larger capacity of 350L has been ordered and is expected to begin operating during our second fiscal quarter of 2011. We believe with this 3rd machine our operating capacity will be in line with our current sales projections and expected growth. Net sales of our ultra high pressure (fresh) products, typically sold to retail customers, represented approximately 46% and 47% of total processed segment sales for the years ended October 31, 2010 and 2009.

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, mangoes and other readily available fruit products. We anticipate a marginal increase in sales related to our CalavoFoods.

Fiscal 2009 vs. Fiscal 2008:

Net sales decreased by approximately $1.3 million, or 2.8% for fiscal 2009, when compared to the same prior period. This decrease is primarily related to a 4.4% decrease in total pounds sold for fiscal year 2009, when compared to the same prior year period. Frozen product sales are closely linked to the economic environment of the foodservice industry.

We currently have two 215L ultra high pressure machines located in Uruapan and estimate we are operating at approximately 59% of the combined machines' capacities as of October 31, 2009. We believe this combined capacity is reasonable given our current sales projections and expected growth. Net sales of our ultra high pressure products represented approximately 47% and 44% of total processed segment sales for the years ended October 31, 2009 and 2008.

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.

Gross Margins

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

	2010	Change	2009	Change	2008
(Dollars in thousands)					
Gross Margins:					
Fresh products	**$ 38,443**	32.2 %	$ 29,076	30.8%	$ 22,223
CalavoFoods	**13,087**	(15.3)%	15,457	41.1%	10,958
Total gross margins	**$ 51,530**	15.7 %	$ 44,533	34.2%	$ 33,181
Gross profit percentages:					
Fresh products	**11.0%**		9.7%		7.0%
CalavoFoods	**26.0%**		34.7%		23.9%
Consolidated	**12.9%**		12.9%		9.2%

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, stayed consistent at 12.9% for fiscal year 2010 when compared to fiscal year 2009. Gross margins increased by approximately $7.0 million, or 15.7%, for fiscal year 2010, when compared to the same prior year period. This increase was attributable primarily to an increase in our Fresh products segment, partially offset by a decrease in our CalavoFoods segment.

Fresh products

Fiscal 2010 vs. Fiscal 2009:

During fiscal year 2010, as compared to the same prior year period, the increase in our Fresh products segment gross margin and gross margin percentage was primarily related to an increase in the gross margin percentage for California avocados. This was due to a significant increase in the volume of California avocados sold, which increased 222.0%. This increase was primarily related to the larger California avocado crop. This had the effect of decreasing our per pound costs, which, as a result, positively impacted gross margins. Partially offsetting this increase in gross margin was a decrease in margins for Mexican sourced avocados due to a similar fruit cost year-over-year, but at a lower selling price, for Mexican sourced avocados. We believe this decrease in selling price is primarily related to a significantly higher volume of non-Mexican fruit in the U.S marketplace, which put downward pressure on carton selling prices. As a result of this downward pressure, we were not able to purchase Mexican sourced fruit as effectively (in relation to the selling price) as we were able to in the same prior year period. Additionally, we experienced a decrease in the volume of Mexican sourced avocados sold by 29.1 million pounds or 20.1%, which we believe was primarily related to the aforementioned pricing pressure. In addition, the U.S. Dollar to Mexican Peso exchange rate weakened during fiscal 2010, when compared to the same prior period. All of these combined had the effect of increasing our per pound costs, which, as a result, negatively impacted gross margins.

As mentioned above, the weakening of the U.S. Dollar compared to the Mexican Peso negatively affected our gross margin for fiscal year 2010. Any significant fluctuations in the exchange rate between the U.S. Dollar and the Mexican Peso may have a material impact on future gross margins for our fresh and CalavoFoods segments.

The gross margin and gross profit percentage for consignment sales, including certain Chilean avocados 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 growers/packers. The gross margin we earn is generally based on a commission agreed to with each party, which usually is 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 2010, we generated gross margins of $6.0 million from the sale of fresh produce products that were packed by third parties. This is a $3.2

million increase in gross margin for consigned sales compared to previous year. This increase is due to an increase in tomato sales of 195.7% for fiscal 2010, when compared to the same prior year period. The increase in sales for tomatoes is due to an increase in the average per carton selling price of 128.1%, in addition to a 29.6% increase in the number of units sold. We attribute most of the increase in the per carton selling price to the lower volume of tomatoes in the U.S. marketplace (due to weather conditions in Florida) for fiscal 2010, as compared to the same prior period. We attribute most of the increase in units sold to growers supplying us with significantly more volume, due primarily to market conditions.

Fiscal 2009 vs. Fiscal 2008:

During fiscal year 2009, as compared to the same prior year period, the increase in our Fresh products segment gross margin percentage was primarily related to a significant decrease in fruit costs for Mexican sourced avocados, as well as a decrease in substantially all operating costs related to our Mexican operations. These decreases are primarily related to the large Mexican avocado crop, as well as the considerable strengthening of the U.S. Dollar compared to the Mexican Peso. For fiscal year 2009, when compared to the prior year period, we experienced an increase in the volume of Mexican sourced avocados sold by 35.1 million pounds or 31.1%. Combined, these had the effect of decreasing our per pound costs, which, as a result, positively impacted gross margins. Such increase was partially offset, however, by a decrease in the average carton selling price of Mexican avocados, which decreased approximately 13.4% when compared to the same prior year period. Collectively, these items positively increased gross margins generated from the sale of Mexican avocados from approximately $11.1 million in fiscal year 2008 to $22.5 million in fiscal year 2009.

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 growers/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 2009, we generated gross margins of $2.8 million from the sale of fresh produce products that were packed by third parties.

Gross margin 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. A significant portion of our costs are fixed. As such, a lower volume of fruit going through our packinghouses will decrease our gross margin percentage. Pounds of California avocados sold decreased 42.5% in fiscal 2009 as compared to fiscal 2008. This had the effect of increasing our per pound costs, which, as a result, negatively impacted gross margins.

CalavoFoods

Fiscal 2010 vs. Fiscal 2009:

Gross margin percentages for our CalavoFoods business are largely dependent on the pricing of our final product and the cost of avocados used in preparing guacamole. The CalavoFoods gross profit percentages for the fiscal year 2010, when compared to the same prior year period, decreased $2.4 million or 15.3%, primarily as a result of higher fruit and operating costs, partially offset by an increase in total pounds sold by 1.8%. We anticipate that the gross profit percentage for our CalavoFoods segment will continue to experience significant fluctuations during the next fiscal year primarily due to the uncertainty of the cost of fruit that will be used in the production process.

Fiscal 2009 vs. Fiscal 2008:

Gross margin percentages for our CalavoFoods business are largely dependent on the pricing of our final product and the cost of avocados used in preparing guacamole. The CalavoFoods gross profit percentages for the fiscal year 2009, when compared to the same prior year period, increased $4.4 million or 41.1%, primarily as a result of lower fruit and operating costs, partially offset by a decrease in total pounds sold by 4.4%. As discussed above, the large Mexican avocado crop, as well as the considerable strengthening of the U.S. Dollar compared to the Mexican Peso, significantly decreased our per pound costs. We anticipate that the gross profit percentage for our processed product segment will continue to experience fluctuations during the next fiscal year primarily due to the uncertainty of the cost of fruit that will used in the production process, and the uncertainty of the exchange rate between the U.S. Dollar and the Mexican Peso (as discussed above).

Selling, General and Administrative

(Dollars in thousands)	2010	Change	2009	Change	2008
Selling, general and administrative	$ **23,168**	1.7 %	$ 22,791	9.0%	$ 20,914
Percentage of net sales	**5.8%**		6.6%		5.8%

Selling, general and administrative expenses include costs of marketing and advertising, sales expenses, and other general and administrative costs. For fiscal year 2010, selling, general and administrative expenses increased $0.4 million or 1.7% when compared to the same period for fiscal 2009. This increase was primarily related to higher corporate costs, including, but not limited to, costs related to an increase in management bonuses (totaling approximately $0.9 million), and an increase in directors fees (totaling approximately $0.3 million). Such higher corporate costs were partially offset, however, by lower salaries and employee benefits (totaling approximately $0.4 million), lower audit fees (totaling approximately $ 0.3 million) and a decrease in bad debt expense (totaling approximately $0.1 million).

For fiscal year 2009, selling, general and administrative expenses increased $1.9 million or 9.0% when compared to the same period for fiscal 2008. This increase was primarily related to higher corporate costs, including, but not limited to, costs related to an increase in management bonuses (totaling approximately $1.7 million), an increase in salaries and benefits (totaling approximately $0.5 million), and an increase in general insurance (totaling approximately $0.3 million). Such higher corporate costs were partially offset, however, by lower broker commissions (totaling approximately $0.3 million) and lower audit fees (totaling approximately $ 0.3 million).

Interest income

(Dollars in thousands)	2010	Change	2009	Change	2008
Interest income	$ **274**	(28.1)%	$ 381	(26.2)%	$ 516
Percentage of net sales	**0.1%**		0.1%		0.1%

Interest income was primarily generated from loans to growers. The decrease in interest income in fiscal 2010 as compared to 2009 is due to the principal balances being paid off by Agricola Belher for infrastructure advances.

Interest expense

(Dollars in thousands)	2010	Change	2009	Change	2008
Interest expense	$ **(834)**	(24.7)%	$ (1,108)	(25.4)%	$ (1,485)
Percentage of net sales	**(0.2)%**		(0.3)%		(0.4)%

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 2010, as compared to fiscal 2009, the decrease in interest expense was primarily related to a lower average outstanding balance and an overall decrease in interest rates under our non-collateralized, revolving credit facilities with Farm Credit West, PCA and Bank of America, N.A.

For fiscal 2009, as compared to fiscal 2008, the decrease in interest expense was primarily related to a lower average outstanding balance and an overall decrease in interest rates under our non-collateralized, revolving credit facilities with Farm Credit West, PCA and Bank of America, N.A.

Other Income, Net

	2010	Change	2009	Change	2008
(Dollars in thousands)					
Other income, net	**$ 430**	63.5%	$ 263	(63.2)%	$ 715
Percentage of net sales	**0.1%**		0.1%		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 2010, 2009, and 2008, we received $0.2 million, $0.1 million, and $0.6 million as dividend income from Limoneira.

Provision for Income Taxes

	2010	Change	2009	Change	2008
(Dollars in thousands)					
Provision for income taxes	**$ 11,341**	35.4%	$ 8,277	81.2 %	$ 4,567
Percentage of income before provision for income taxes	**39.1%**		37.8%		37.2%

The effective income tax rate for fiscal years 2010, 2009, and 2008 is higher than the federal statutory rate principally due to state taxes. Our effective income tax rate increased from 37.8% in fiscal year 2009 to 39.1% in fiscal year 2010 primarily due to a higher portion of the total pre-tax book income being taxed at the higher U.S. statutory rate compared to Mexico as well as an increase in our federal tax rate, partially offset by several miscellaneous reductions. Our effective income tax rate increased from 37.2% in fiscal year 2008 to 37.8% in fiscal year 2009 primarily as a result of an increase in foreign taxes, partially offset by a decrease in our average state tax rate.

QUARTERLY RESULTS OF OPERATIONS

The following table presents our operating results for each of the eight fiscal quarters in the period ended October 31, 2010. 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. 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	**Oct. 31, 2010**	July 31 2010	Apr. 30, 2010	Jan. 31, 2010	Oct. 31, 2009	July 31, 2009	Apr. 30, 2009	Jan. 31, 2009
(in thousands, except per share amounts)								
Statement of Operations Data								
Net sales	**$107,234**	$114,578	$109,219	$ 67,320	$ 80,942	$106,347	$ 86,829	$ 70,647
Cost of sales	**92,940**	99,303	96,133	58,445	71,713	96,441	73,890	58,188
Gross margin	**14,294**	15,275	13,086	8,875	9,229	9,906	12,939	12,459
Selling, general and administrative	**7,035**	5,514	5,455	5,164	6,134	5,822	5,535	5,300
Operating income	**7,259**	9,761	7,631	3,711	3,095	4,084	7,404	7,159
Other income (expense), net	**169**	181	233	36	164	(22)	75	(71)
Income before provision for income taxes	**7,428**	9,942	7,864	3,747	3,259	4,062	7,479	7,088
Provision for income taxes	**2,733**	4,045	3,090	1,473	955	1,597	3,017	2,708
Net income	**4,695**	5,897	4,774	2,274	2,304	2,465	4,462	4,380
Add: Net loss-noncontrolling interest	**55**	50	19	—	—	—	—	—
Net income-Calavo Growers, Inc	**$ 4,750**	$ 5,947	$ 4,793	$ 2,274	$ 2,304	$ 2,465	$ 4,462	$ 4,380
Basic	**$ 0.32**	$ 0.41	$ 0.33	$ 0.16	$ 0.16	$ 0.17	$ 0.31	$ 0.30
Diluted	**$ 0.32**	$ 0.41	$ 0.33	$ 0.16	$ 0.16	$ 0.17	$ 0.31	$ 0.30
Number of shares used in per share computation:								
Basic	**14,710**	14,651	14,572	14,505	14,505	14,457	14,423	14,419
Diluted	**14,722**	14,676	14,598	14,572	14,582	14,529	14,508	14,429

LIQUIDITY AND CAPITAL RESOURCES

Operating activities for fiscal 2010, 2009 and 2008 provided cash flows of $18.2 million, $22.0 million, and $5.3 million. Fiscal year 2010 operating cash flows reflect our net income of $17.6 million, net noncash charges (depreciation and amortization, income from unconsolidated entities, provision for losses on accounts receivable, interest on deferred compensation, deferred income taxes, and stock compensation expense) of $4.1 million and a net decrease from changes in the non-cash components of our working capital accounts of approximately $3.5 million.

Fiscal year 2010 increases in operating cash flows, caused by working capital changes, include an increase in accounts receivable of $9.4 million, an increase in inventory of $3.0 million, and an increase in prepaid expenses and other current assets of $2.5 million, partially offset by an increase in payable to growers of $6.9 million, an increase in trade accounts payable and accrued expenses of $2.7 million, a decrease in advances to suppliers of $1.0 million and a decrease in income tax receivable of $0.8 million.

The increase in our accounts receivable balance as of October 31, 2010, when compared to October 31, 2009, primarily reflects more California avocado sales recorded in the month of October 2010, as compared to October 2009. This is consistent to what was expected with the greatly improved California avocado season ending later in the current year than in the prior year. The increase in our inventory balance is primarily related to an increase in California and Mexico avocado inventory on hand at October 31, 2010, as compared to the same prior year period. The increase in payable to our growers primarily reflects an increase in California fruit delivered in the month of October 2010, as compared to the month of October 2009. The increase in our trade accounts payable and accrued expenses primarily reflect a contingent consideration accrual related to our acquisition of Calavo Salsa Lisa (see note 16), and an increase in management bonuses in fiscal year 2010, compared to the previous year.

Cash used in investing activities was $7.7 million, $6.0 million, and $7.5 million for fiscal years 2010, 2009, and 2008. Fiscal year 2010 cash flows used in investing activities includes capital expenditures of $4.7 million, the final annual Earn-Out payment from the acquisition of HS and HP, totaling approximately $4.5 million and $0.4 million in payments related to the acquisition of Calavo Salsa Lisa. Such payments were partially offset by the collection of $1.8 million from Agricola Belher, pursuant to our tomato agreements and distributions received of $0.1 million from our joint venture Maui Fresh International, LLC.

Cash used in financing activities was $10.3 million and $16.6 million for fiscal years 2010 and 2009. Cash provided by financing activities was $2.7 million for fiscal years 2008. Cash used during fiscal year 2010 primarily includes the payment of a dividend totaling $7.3 million, and payments related to our long-term obligations of $6.8 million. Partially offsetting these payments, however, were $2.2 million in cash provided by the exercise of stock options, and proceeds from our non-collateralized, revolving credit facilities totaling $1.6 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, 2010 and 2009 totaled $1.1 million and $0.9 million. Our working capital at October 31, 2010 was $14.8 million, compared to $12.1 million at October 31, 2009.

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. Effective July 31, 2009, we entered into a new loan agreement with Bank of America, N.A. which increased our existing non-collateralized, revolving credit facility to $15.0 million, from $10.0 million. This new agreement expires July 1, 2011. Our non-collateralized, revolving credit facilities with Farm Credit West, PCA expires in February 2012. 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 $45 million, with a weighted-average interest rate of 2.3% and 2.4% at October 31, 2010 and 2009. Under these credit facilities, we had $8.2 million and $12.0 million outstanding as October 31, 2010 and 2009, of which $6.5 million was classified as a long-term liability as October 31, 2009. These credit facilities contain various financial covenants, the most significant relating to 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, 2010.

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, 2010:

	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)	$ 8,768	$ 1,781	$ 3,340	$ 3,045	$ 602
Revolving credit facilities	8,150	8,150	—	—	—
Defined benefit plan	275	42	84	84	65
Operating lease commitments	11,492	1,480	2,743	2,513	4,756
Total	$ 28,685	$ 11,453	$ 6,167	$ 5,642	$ 5,423

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.

Recently Adopted Accounting Pronouncements

In April 2009, as amended in February 2010, we adopted accounting guidance for subsequent events, which establishes general standards of accounting for, and disclosure of, events that occur after the balance sheet date, but before financial statements are issued or are available to be issued. In particular, this accounting guidance sets forth:

- The period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements.

- The circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements.

- The disclosures that should be made about events or transactions that occurred after the balance sheet date.

Our adoption of this accounting guidance did not have a material impact on our financial position, results of operations or liquidity.

Effective the first quarter of fiscal 2010, we adopted, on a prospective basis, guidance related to fair value measurements pertaining to nonfinancial assets and liabilities. The adoption of this accounting guidance did not have a material impact on our financial position, results of operations or liquidity.

Effective the first quarter of fiscal 2010, we adopted revised accounting guidance for business combinations, which changed its previous accounting practices regarding business combinations. The statement requires a number of changes, to be applied prospectively, to the purchase method of accounting for acquisitions, 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. The impact of this accounting guidance and its relevant updates on our results of operations or financial position will vary depending on each specific business combination. See Note 16 for a business combination we closed in February 2010.

Effective the first quarter of fiscal 2010, we adopted revised accounting guidance for the determination of the useful life of intangible assets. This accounting guidance amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. This change is intended to improve the consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset. 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. Our adoption of this guidance did not have a material impact on its financial position, results of operations or liquidity.

Effective the first quarter of fiscal 2010, we adopted revised accounting guidance for measuring liabilities at fair value. This accounting guidance provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more of the following methods: 1) a valuation technique that uses a) the quoted price of the identical liability when traded as an asset or b) quoted prices for similar liabilities or similar liabilities when traded as assets and/or 2) a valuation technique that is consistent with the principles of the accounting guidance for fair value measurements and disclosures. This guidance also clarifies that when estimating the fair value of a liability, a reporting entity is not required to adjust to include inputs relating to the existence of transfer restrictions on that liability. Our adoption of this accounting guidance did not have a material impact on our financial position, results of operations or liquidity.

Effective the first quarter of fiscal 2010, we adopted revised accounting guidance related to the accounting and reporting for minority interests. Minority interests are now re-characterized as noncontrolling interests and in most cases are 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 is now 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. See Note 16 for a business combination we closed in February 2010.

Recently Issued Accounting Standards

In June 2009, the FASB issued revised guidance for the accounting of transfers of financial assets. This guidance is intended to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. This accounting guidance will be effective for financial statements issued for fiscal years beginning after November 15, 2009, and interim periods within those fiscal years. Early adoption is not permitted. We do not believe that adoption of this guidance will have a material impact on our financial position and results of operations.

In June 2009, the FASB issued revised guidance for the accounting of variable interest entities, which replaces the quantitative-based risks and rewards approach with a qualitative approach that focuses on identifying which enterprise has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance. This accounting guidance also requires an ongoing reassessment of whether an entity is the primary beneficiary and requires additional disclosures about an enterprise's involvement in variable interest entities. This accounting guidance will be effective for financial statements issued for fiscal years beginning after November 15, 2009, and interim periods within those fiscal years. Early adoption is not permitted. We do not believe that adoption of this guidance will have a material impact on our financial position and results of operations.

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, 2010.

	EXPECTED MATURITY DATE OCTOBER 31,							
	2011	2012	2013	2014	2015	Thereafter	Total	Fair Value
(All amounts in thousands)								
Assets								
Cash and cash equivalents (1)	$ 1,064	$ —	$ —	$ —	$ —	$ —	$ 1,064	$ 1,064
Accounts receivable (1)	31,743	—	—	—	—	—	31,743	31,743
Advances to suppliers (1)	1,598	—	—	—	—	—	1,598	1,598
Liabilities								
Payable to growers (1)	$ 11,208	$ —	$ —	$ —	$ —	$ —	$11,208	$ 11,208
Accounts payable (1)	2,839	—	—	—	—	—	2,839	2,839
Current borrowings pursuant to credit facilities (1)	7,150	—	—	—	—	—	7,150	7,150
Current long-term borrowings pursuant to credit facilities (2)	1,000	—	—	—	—	—	1,000	1,024
Fixed-rate long-term obligations (3)	1,369	1,373	1,376	1,380	1,383	577	7,458	8,082

(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) Current long-term borrowings pursuant to our credit facility bears interest at 6.5%. We believe that a portfolio of loans with a similar risk profile would currently yield a return of 4.0%. We project the impact of an increase or decrease in interest rates of 100 basis points would result in a change of fair value by approximately $10,000.

(3) Fixed-rate long-term obligations bear interest rates ranging from 4.3% to 5.7% with a weighted-average interest rate of 5.5%. We believe that loans with a similar risk profile would currently yield a return of 2.5%. We project the impact of an increase or decrease in interest rates of 100 basis points would result in a change of fair value of approximately $235,000.

Except as disclosed in Note 16, we were not a party to any derivative instruments during the fiscal year. It is currently our intent not to use derivative instruments for speculative or trading purposes. Additionally, we do not use any hedging or forward contracts to offset market volatility.

Our Mexican-based operations transact business in Mexican pesos. Funds are transferred by our corporate office to Mexico on a weekly basis to satisfy domestic cash needs. Historically, the consistency of the spot rate for the Mexican peso has led to a small-to-moderate impact on our operating results. We do not anticipate using derivative instruments to hedge fluctuations in the Mexican peso to U.S. dollar exchange rates during fiscal 2011. Total foreign currency losses for fiscal 2010, net of gains was $0.1 million. Total foreign currency gains for fiscal 2009, and 2008, net of losses, was less than $0.1 million and $0.5 million.

CONSOLIDATED BALANCE SHEETS

OCTOBER 31, (In thousands)	2010	2009
Assets		
Current assets:		
Cash and cash equivalents	**$ 1,064**	$ 875
Accounts receivable, net of allowances of $1,372 (2010) and $2,353 (2009)	**31,743**	22,314
Inventories, net	**14,831**	11,731
Prepaid expenses and other current assets	**8,424**	6,430
Advances to suppliers	**1,598**	2,623
Income taxes receivable	**1,816**	2,178
Deferred income taxes	**2,336**	2,728
Total current assets	**61,812**	48,879
Property, plant, and equipment, net	**41,059**	38,621
Investment in Limoneira Company	**34,986**	24,200
Investment in unconsolidated entities	**2,016**	1,382
Goodwill	**4,085**	3,591
Other assets	**6,240**	6,076
	$ 150,198	$ 122,749
Liabilities and shareholders' equity		
Current liabilities:		
Payable to growers	**$ 11,208**	$ 4,343
Trade accounts payable	**2,839**	2,223
Accrued expenses	**15,353**	16,123
Short-term borrowings	**8,150**	5,520
Dividend payable	**8,092**	7,252
Current portion of long-term obligations	**1,369**	1,366
Total current liabilities	**47,011**	36,827
Long-term liabilities:		
Long-term obligations, less current portion	**6,089**	13,908
Deferred income taxes	**8,266**	2,527
Total long-term liabilities	**14,355**	16,435
Commitments and contingencies		
Noncontrolling interest	**575**	—
Shareholders' equity:		
Common stock ($0.001 par value, 100,000 shares authorized; 14,712 and 14,505 shares outstanding at October 31, 2010 and 2009)	**14**	14
Additional paid-in capital	**42,319**	39,714
Accumulated other comprehensive income	**6,959**	466
Retained earnings	**38,965**	29,293
Total shareholders' equity	**88,257**	69,487
	$ 150,198	$ 122,749

CONSOLIDATED STATEMENTS OF INCOME

YEAR ENDED OCTOBER 31,	2010	2009	2008
(In thousands, except per share data)			
Net sales	$ 398,351	$ 344,765	$ 361,474
Cost of sales	346,821	300,232	328,293
Gross margin	51,530	44,533	33,181
Selling, general and administrative	23,168	22,791	20,914
Operating income	28,362	21,742	12,267
Equity in earnings from unconsolidated entities	749	610	279
Interest income	274	381	516
Interest expense	(834)	(1,108)	(1,485)
Other income, net	430	263	715
Income before provision for income taxes	28,981	21,888	12,292
Provision for income taxes	11,341	8,277	4,567
Net Income	17,640	13,611	7,725
Add: Net loss attributable to noncontrolling interest	124	—	—
Net income attributable to Calavo Growers, Inc.	$ 17,764	$ 13,611	$ 7,725
Calavo Growers, Inc.'s net income per share:			
Basic	$ 1.22	$ 0.94	$ 0.54
Diluted	$ 1.22	$ 0.94	$ 0.53
Basic	14,610	14,451	14,398
Diluted	14,619	14,503	14,481

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

YEAR ENDED OCTOBER 31,	2010	2009	2008
(In thousands)			
Net income	$ 17,640	$ 13,611	$ 7,725
Other comprehensive income (loss), before tax:			
Unrealized holding gains (losses) arising during period	10,786	(5,704)	(19,058)
Income tax benefit (expense) related to items of other comprehensive income (loss)	(4,293)	2,227	7,337
Other comprehensive income (loss), net of tax	6,493	(3,477)	(11,721)
Comprehensive income (loss)	24,133	10,134	(3,996)
Add: Net loss attributable to noncontrolling interest	124	—	—
Comprehensive income (loss) – Calavo Growers, Inc.	$ 24,257	$ 10,134	$ (3,996)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(In thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total
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
Exercise of stock options and income tax benefit of $261	86	—	1,044	—	—	1,044
Stock compensation expense	—	—	44	—	—	44
Unrealized loss on Limoneira investment, net	—	—	—	(3,477)	—	(3,477)
Dividend declared to shareholders	—	—	—	—	(7,252)	(7,252)
Net income	—	—	—	—	13,611	13,611
Balance, October 31, 2009	14,505	14	39,714	466	29,293	69,487
Exercise of stock options and income tax benefit of $664	207	—	2,553	—	—	2,553
Stock compensation expense	—	—	52	—	—	52
Unrealized gain on Limoneira investment, net	—	—	—	6,493	—	6,493
Dividend declared to shareholders	—	—	—	—	(8,092)	(8,092)
Net income attributable to Calavo Growers, Inc.	—	—	—	—	17,764	17,764
Balance, October 31, 2010	**14,712**	**$ 14**	**$ 42,319**	**$ 6,959**	**$ 38,965**	**$ 88,257**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEAR ENDED OCTOBER 31,	2010	2009	2008
(In thousands, except per share data)			
Cash Flows from Operating Activities:			
Net income	$ 17,640	$ 13,611	$ 7,725
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	3,368	3,054	2,657
Provision for losses on accounts receivable	38	106	20
Income from unconsolidated entities	(750)	(610)	(279)
Interest on deferred consideration	62	152	75
Stock compensation expense	52	44	24
Loss on disposal of property, plant, and equipment	—	—	70
Deferred income taxes	1,332	(215)	940
Effect on cash of changes in operating assets and liabilities:			
Accounts receivable	(9,353)	5,297	(1,400)
Inventories, net	(3,006)	3,158	(5,587)
Prepaid expenses and other current assets	(2,544)	(963)	1
Advances to suppliers	1,025	219	(549)
Income taxes receivable	765	(1,072)	461
Other assets	(25)	(113)	171
Payable to growers	6,865	(602)	919
Trade accounts payable and accrued expenses	2,729	(69)	48
Net cash provided by operating activities	18,198	21,997	5,296
Cash Flows from Investing Activities:			
Acquisitions of property, plant, and equipment	(4,767)	(4,149)	(2,674)
Loan to Agricola Belher	—	—	(750)
Collections from Agricola Belher	1,781	507	1,000
Distribution from unconsolidated entity	116	—	—
Acquisition of Hawaiian Sweet and Pride, net of cash acquired	(4,500)	(2,348)	(5,030)
Acquisition of Calavo Salsa Lisa, net of cash acquired	(351)	—	—
Net cash used in investing activities	(7,721)	(5,990)	(7,454)
Cash Flows from Financing Activities:			
Dividend paid to shareholders	(7,252)	(5,047)	(5,031)
Proceeds (repayments) from (on) line of credit borrowings, net	1,580	(11,160)	8,500
Payments on long-term obligations	(6,766)	(1,364)	(1,389)
Proceeds from stock option exercises	1,889	783	387
Tax benefit of stock option exercises	261	147	233
Net cash provided by (used in) financing activities	(10,288)	(16,641)	2,700
Net increase (decrease) in cash and cash equivalents	189	(634)	542
Cash and cash equivalents, beginning of year	875	1,509	967
Cash and cash equivalents, end of year	$ 1,064	$ 875	$ 1,509

Consolidated Statements of Cash Flows (continued)

Supplemental Information						
Cash paid during the year for:						
Interest	**$**	**850**	$	1,195	$	1,455
Income taxes	**$**	**8,845**	$	8,803	$	2,504
Noncash Investing and Financing Activities:						
Tax receivable increase related to stock option exercise	**$**	**664**	$	261	$	147
Declared dividends payable	**$**	**8,092**	$	7,252	$	5,047
Construction in progress included in trade accounts payable and accrued expenses	**$**	**32**	$	245	$	259
Capital lease obligations	**$**	**—**	$	—	$	1,125
Fixed asset acquired with long term debt	**$**	**—**	$	—	$	4,000
Minimum earnout adjustment related to the acquisition of Hawaiian Sweet and Pride	**$**	**—**	$	902	$	—
Unrealized holding gains (losses)	**$**	**10,786**	$	(5,704)	$	(19,058)

In February 2010, we entered into an asset purchase and contribution agreement in which we acquired a 65 percent ownership interest in newly created Calavo Salsa Lisa, LLC which acquired substantially all of the assets of Lisa's Salsa Company. See Note 16 for further information. The following table summarizes the estimated fair values of the non-cash assets acquired and liabilities assumed at the date of acquisition (in thousands):

(In thousands)		**2010**
Current assets, excluding cash	**$**	**214**
Property, plant, and equipment		**321**
Goodwill		**88**
Intangible assets		**1,950**
Total assets acquired		**2,573**
Current liabilities		**(55)**
Noncontrolling interest		**(699)**
Contingent consideration		**(1,468)**
Net non-cash assets acquired	**$**	**351**

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 $7.7 million in deferred and contingent consideration, plus acquisition costs of approximately $0.2 million. 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 and contingent consideration		7,721
Net non-cash assets acquired	$	5,030

See accompanying notes to consolidated financial statements.

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 Arizona, California, Hawaii, New Jersey, Texas, and Mexico, we sort, pack, and/or ripen avocados, tomatoes and/or Hawaiian grown papayas for distribution both domestically and internationally. We also have an operating facility in Minnesota that produces salsa. We report our operations in two different business segments: (1) Fresh products and (2) CalavoFoods. See Note 11 in our consolidated financial statements for further information about our business segments. See Note 16 for discussion regarding our acquisition of Calavo Salsa Lisa.

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 de Mexico S.A. de C.V., Calavo Foods de Mexico S.A. de C.V., Maui Fresh International, Inc. (Maui), Calavo Inversiones (Chile) Limitada, Hawaiian Sweet, Inc. ("HS") and Hawaiian Pride, LLC ("HP"). In addition, we consolidate our newly acquired entity Calavo Salsa Lisa, in which we have a 65 percent ownership interest. See Note 16 for discussion regarding our acquisition of Calavo Salsa Lisa. 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. Effective July 2009, we formed Calavo Inversiones (Chile) Limitada, a wholly owned subsidiary.

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.

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist primarily of non-trade receivables, infrastructure advances and prepaid expenses. Non-trade receivables were $6.9 and $5.0 million at October 31, 2010 and 2009. Infrastructure advances are discussed further below. Prepaid expenses are primarily for insurance, rent and other items.

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 beginning in the application development stage and ending when the asset is placed into service. Costs capitalized include coding and testing activities and various implementation costs. These costs are limited to (1) external direct costs of materials and services consumed in developing or obtaining internal-use computer software; (2) payroll and payroll-related costs for employees who are directly associated with and who devote time to the internal-use computer software project to the extent of the time spent directly on the project; and (3) interest cost incurred while developing internal-use computer software. See Note 4 for further information.

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. 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, 2010.

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, 2010.

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, 2010, we have no advances outstanding to Maui Fresh. As of October 31, 2009, we have advanced Maui Fresh approximately $0.4 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.

In June 2009, we (through a newly created wholly owned subsidiary: Calavo Inversiones (Chile) Limitada) entered into a joint venture agreement with Exportadora M5, S.A. (M5) for the purpose of selling and distributing Chilean sourced avocados. Such joint venture operates under the name of Calavo de Chile and commenced operations in July 2009. M5 and Calavo each have an equal one-half ownership interest in Calavo de Chile, but M5 has overall management responsibility for the operations of Calavo De Chile. We use the equity method to account for this investment.

Marketable Securities

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 $35.0 million, $23.5 million and $11.5 million as of October 31, 2010. The estimated fair value, cost, and gross unrealized gain related to such investment was $24.2 million, $23.5 million and $0.7 million as of October 31, 2009.

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, 2010, nor October 31, 2009.

In June 2007, we entered into a distribution agreement with Agricola Belher (Belher) of Mexico, a 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 company, primarily 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. As of October 31, 2010 and 2009, we have advanced $1.0 million and $2.0 million to Belher pursuant to this agreement, which is recorded in advances to suppliers.

Infrastructure Advances

We 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 advanced $2.4 million and $4.2 million as of October 31, 2010 and 2009 ($1.2 million and $1.8 million included in prepaid expenses and other current assets and $1.2 million and $2.4 million included in other long-term assets). Belher is to annually repay these advances in no less than 20% increments through July 2012. Agricola Belher paid $1.8 million and $0.5 million in fiscal years 2010 and 2009 related to infrastructure advances. For fiscal year 2010 and 2009, we have not made any infrastructure advances to Agricola Belher. In addition, the agreement allows for additional $1.0 million advances to take place during the last five months of each of our fiscal years 2009 and 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 2010 and July 2011. For fiscal 2010 and 2009, no additional advances were made to Belher. 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.

Accrued Expenses

Included in accrued expenses at October 31, 2010 are un-vouchered receipts and deferred consideration of approximately $1.9 million and $1.5 million. Included in accrued expenses at October 31, 2009 are un-vouchered receipts and deferred consideration of $2.0 million and $3.9 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

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 historical 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 and tomato 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, 2010, 2009 and 2008 in the financial statements pursuant to consignment arrangements are as follows (in thousands):

	2010	2009	2008
Sales	$ 54,736	$ 44,776	$ 49,189
Cost of Sales	48,713	41,941	45,739
Gross Margin	$ 6,023	$ 2,835	$ 3,450

Advertising Expense

Advertising costs are expensed when incurred. Such costs in fiscal 2010, 2009, and 2008 were approximately $0.1 million.

Other income, net

Included in other income, net is dividend income totaling $0.3 million, $0.2 million and $0.6 million for fiscal years 2010, 2009, and 2008.

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 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, we perform 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.

We 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.

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 14,610,000, 14,451,000, and 14,398,000 for fiscal years 2010, 2009, and 2008. 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 9,000, 52,000, and 83,000 for fiscal years 2010, 2009 and 2008. There were no significant anti-dilutive options for fiscal years 2010, 2009 and 2008.

Stock-Based Compensation

We account for awards of equity instruments issued to employees under the fair value method of accounting and recognize such amounts in their statements of operations. We 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:

	2010	2009	2008
Risk-free interest rate	**1.70%**	2.02%	2.95%
Expected volatility	**47.37%**	67.95%	28.24%
Dividend yield	**2.5%**	4.3%	2.4%
Expected life (years)	**4.0**	4.0	4.0

For the years ended October 31, 2010, 2009 and 2008, we recognized compensation expense of $52,000, $44,000, and $24,000 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 losses for fiscal 2010, net of gains was $0.1 million. Total foreign currency gains for fiscal 2009, and 2008, net of losses, was less than $0.1 million and $0.5 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 $8.1 million as of October 31, 2010, with a corresponding carrying value of approximately $7.5 million. In addition, our long-term borrowings pursuant to credit facilities have a fair value and a corresponding carrying value of approximately of $1.0 million.

Derivative Financial Instruments

Except as disclosed in Note 16, we were not a party to any derivative instruments during the fiscal year 2010. 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.

Recently Adopted Accounting Pronouncements

In April 2009, as amended in February 2010, we adopted accounting guidance for subsequent events, which establishes general standards of accounting for, and disclosure of, events that occur after the balance sheet date, but before financial statements are issued or are available to be issued. In particular, this accounting guidance sets forth:

The period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements.

- The circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements.
- The disclosures that should be made about events or transactions that occurred after the balance sheet date.
- Our adoption of this accounting guidance did not have a material impact on our financial position, results of operations or liquidity.

Effective the first quarter of fiscal 2010, we adopted, on a prospective basis, guidance related to fair value measurements pertaining to nonfinancial assets and liabilities. The adoption of this accounting guidance did not have a material impact on our financial position, results of operations or liquidity.

Effective the first quarter of fiscal 2010, we adopted revised accounting guidance for business combinations, which changed its previous accounting practices regarding business combinations. The statement requires a number of changes, to be applied prospectively, to the purchase method of accounting for acquisitions, 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. The impact of this accounting guidance and its relevant updates on our results of operations or financial position will vary depending on each specific business combination. See Note 16 for a business combination we closed in February 2010.

Effective the first quarter of fiscal 2010, we adopted revised accounting guidance for the determination of the useful life of intangible assets. This accounting guidance amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. This change is intended to improve the consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset. 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. Our adoption of this guidance did not have a material impact on its financial position, results of operations or liquidity.

Effective the first quarter of fiscal 2010, we adopted revised accounting guidance for measuring liabilities at fair value. This accounting guidance provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more of the following methods: 1) a valuation technique that uses a) the quoted price of the identical liability when traded as an asset or b) quoted prices for similar liabilities or similar liabilities when traded as assets and/or 2) a valuation technique that is consistent with the principles of the accounting guidance for fair value measurements and disclosures. This guidance also clarifies that when estimating the fair value of a liability, a reporting entity is not required to adjust to include inputs relating to the existence of transfer restrictions on that liability. Our adoption of this accounting guidance did not have a material impact on our financial position, results of operations or liquidity.

Effective the first quarter of fiscal 2010, we adopted revised accounting guidance related to the accounting and reporting for minority interests. Minority interests are now re-characterized as noncontrolling interests and in most cases are 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 is now 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. See Note 16 for a business combination we closed in February 2010.

Recently Issued Accounting Standards

In June 2009, the FASB issued revised guidance for the accounting of transfers of financial assets. This guidance is intended to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. This accounting guidance will be effective for financial statements issued for fiscal years beginning after November 15, 2009, and interim periods within those fiscal years. Early adoption is not permitted. We do not believe that adoption of this guidance will have a material impact on our financial position and results of operations.

In June 2009, the FASB issued revised guidance for the accounting of variable interest entities, which replaces the quantitative-based risks and rewards approach with a qualitative approach that focuses on identifying which enterprise has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance. This accounting guidance also requires an ongoing reassessment of whether an entity is the primary beneficiary and requires additional disclosures about an enterprise's involvement in variable interest entities. This accounting guidance will be effective for financial statements issued for fiscal years beginning after November 15, 2009, and interim periods within those fiscal years. Early adoption is not permitted. We do not believe that adoption of this guidance will have a material impact on our financial position and results of operations.

Comprehensive Income (Loss)

Comprehensive income (loss) is defined as all changes in a company's net assets, except changes resulting from transactions with shareholders. For the fiscal year ended October 31, 2010, other comprehensive income includes the unrealized gain on our Limoneira investment totaling \$6.5 million, net of income taxes. Limoneira's stock price at October 31, 2010 equaled \$20.24 per share, after a 10 for 1 stock split in the second quarter of fiscal year 2010. For the fiscal year ended October 31, 2009, other comprehensive loss includes the unrealized loss on our Limoneira investment totaling \$3.5 million, net of income taxes. Limoneira's stock price at October 31, 2009 equaled \$14.00 per share (adjusted for the above mentioned stock split). 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 \$17.30 per share (adjusted for the above mentioned stock split).

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, 2010	2009
Fresh fruit	**$ 8,630**	$ 4,495
Packing supplies and ingredients	**3,069**	2,652
Finished processed foods	**3,132**	4,584
	$ 14,831	$11,731

We did not record any lower of cost or market adjustments during fiscal years 2010 and 2009.

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, 2010	2009
Land	**$ 7,023**	$ 6,923
Buildings and improvements	**18,039**	17,694
Leasehold improvements	**1,104**	828
Equipment	**48,725**	45,812
Information systems - Hardware and software	**5,175**	5,209
Construction in progress	**2,265**	648
	82,331	77,114
Less accumulated depreciation and amortization	**(41,272)**	(38,493)
	$41,059	$ 38,621

Depreciation expense was $2.8 million, $2.6 million and $2.1 million for fiscal years 2010, 2009, and 2008, of which $ 0.1 million was related to depreciation on capital leases for fiscal years 2010, 2009, and 2008.

We capitalize software development costs for internal use beginning in the application development stage and ending when the asset is placed into service. We amortize such costs using the straight-line basis over estimated useful lives. In fiscal year 2010, we have begun the conversion to a new accounting software system. The net book value of capitalized computer software costs was $2.0 million and $0.4 million as of October 31, 2010 and 2009 and the related depreciation expense was $0.1 million for the fiscal years ended October 31, 2010 and 2009.

Note 5

OTHER ASSETS

Other assets consist of the following (in thousands):

	October 31, 2010	October 31, 2009
Grower advances	**$ 1,827**	$ 2,123
Intangibles, net	**2,872**	1,205
Loan to Agricola Belher	**1,225**	2,450
Other	**316**	298
	$ 6,240	$ 6,076

At October 31, 2010, other assets in the accompanying consolidated financial statements included the following intangible assets: customer list, trade name and non-competition agreements of $2.2 million (accumulated amortization of $1.1 million), brand name intangibles of $0.3 million, trade secrets of $1.4 million (accumulated amortization of $0.1 million) and a customer list of $0.2 million. The customer-related, trade name and non-competition agreements are being amortized over periods up to 10 years, the trade secrets are being amortized over 13 years and the customer list is being amortized over 7 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 $291,000, $171,000, and $247,000 for fiscal years 2010, 2009, and 2008. We anticipate recording amortization expense of approximately $318,000 of amortization expense for fiscal year 2011 and $305,000 of amortization expense for fiscal years 2012 through 2015. The remainder of approximately $1,058,000 will be amortized over fiscal years 2016 through 2023.

Note 6

REVOLVING CREDIT FACILITIES

In July 2009 and May 2008, we renewed and/or extended our non-collateralized, revolving credit facilities with Bank of America, N.A. and Farm Credit West, PCA. These two credit facilities expire in July 2011 and February 2012. 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. In July 2009, our credit available under these combined borrowing agreements was increased from $40 million to $45 million, with a weighted-average interest rate of 2.3% at October 31, 2010 and 2.4% at October 31, 2009. Under these credit facilities, we had $8.2 million and $12.0 million outstanding at October 31, 2010 and 2009, of which $6.5 million was classified as a long-term liability as October 31, 2009. These credit facilities contain various financial covenants, the most significant relating to 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, 2010.

Note 7

EMPLOYEE BENEFIT PLANS

We sponsor two defined contribution retirement plans for salaried and hourly employees. Expenses for these plans approximated $639,000, $557,000, and $604,000 for fiscal years 2010, 2009 and 2008, 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, including actuarial losses, approximated $34,000 and $48,000 for the year ended October 31, 2010, and 2009. Pension income, including actuarial gains approximated $36,000 for the years ended October 31, 2008. 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):

	2010	2009
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	**$ 283**	$ 279
Interest cost	**16**	18
Actuarial loss	**18**	30
Benefits paid	**(42)**	(44)
Projected benefit obligation at end of year (unfunded)	**$ 275**	$ 283

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

	2010	2009
Projected benefit obligation	**$ 275**	$ 283
Unrecognized net (gain) loss	**—**	—
Recorded pension liabilities	**$ 275**	$ 283

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

	2010	2009
Discount rate on projected benefit obligation	**5.00%**	5.25%

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, 2010 as follows (in thousands):

2011	$ 1,480
2012	1,378
2013	1,365
2014	1,297
2015	1,216
Thereafter	4,756
	$ 11,492

Total rent expense amounted to approximately $1.7 million, $1.8 million and $1.7 million for the years ended October 31, 2010, 2009, and 2008. Rent to Limoneira, for our corporate office, amounted to approximately $0.2 million for fiscal years 2010, 2009, and 2008. 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 related to these indemnifications.

In February 2009, we ceased operating in our distribution center in San Antonio, Texas and transferred our operations to our newly leased facility location in Garland, Texas. The term of the operating lease for the new facility is for 10 years, with two five year options to extend at our choice. Total rent expense amounted to approximately $0.6 million and $0.5 million for the years ended October 31, 2010 and 2009.

Litigation

Hacienda Suits – We are currently under examination by the Mexican tax authorities (Hacienda) for the tax year ended December 31, 2000. We have received an assessment totaling approximately $2.0 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, which we declined. In the second quarter of 2009, we won our appeal case. The Hacienda subsequently appealed that decision and the case was sent back to the tax court due to administrative error by such jurisdiction. During the second quarter of 2010, we once again won our appeal and, once again, the Hacienda appealed the decision and the case has been sent back to the tax court. We do not believe that the resolution of this examination will have a significant impact on our results of operations.

We are currently under examination by the Mexican tax authorities (Hacienda) for the tax year ended December 31, 2004. We have received an assessment totaling approximately $4.5 million from Hacienda related to the amount of income at our Mexican subsidiary, which primarily is related to three issues, one of which represents the majority of the total assessment (the primary assessment). In the fourth quarter of 2010, we received a favorable ruling from the tax court related to the primary assessment, but received an unfavorable ruling related to the remaining issues. We appealed the unfavorable rulings, which we believe are without merit. We do not believe that the resolution of this examination will have a significant impact on our results of operations.

In the second quarter of 2009, the Hacienda initiated an examination related to tax year ended December 31, 2007 as well. We are not aware of any assessments related to this examination, nor do we expect this examination to have a significant impact on our results of operations.

In the first quarter of 2011, we received an assessment totaling approximately $720,000 related to tax year ended December 31, 2005. This assessment relates to depreciation expense taken on such tax return. Based on discussions with legal counsel, we believe that the Hacienda's position is without merit and do not believe that the resolution of this examination will have a significant impact on our results of operations.

We pledged our CalavoFoods building located in Uruapan, Michoacan, Mexico as collateral to the Hacienda in regards to these assessments.

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. 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.

Certain members of our Board of Directors market avocados through Calavo pursuant to our customary marketing agreements. During the years ended October 31, 2010, 2009 and 2008, the aggregate amount of avocados procured from entities owned or controlled by members of our Board of Directors, was $23.9 million, $7.2 million, and $11.9 million. Accounts payable to these Board members was $1.3 million as of October 31, 2010. We did not have an accounts payable balance to these Board member as of October 31, 2009.

During fiscal 2010, 2009 and 2008, we received $0.2 million, $0.1 million, and $0.6 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):

	2010	2009	2008
Current:			
Federal	$ 7,988	$ 6,305	$ 2,639
State	1,868	1,522	615
Foreign	153	160	251
Total current	10,009	7,987	3,505
Deferred	1,332	290	1,062
Total income tax provision	$ 11,341	$ 8,277	$ 4,567

At October 31, 2010 and 2009, gross deferred tax assets totaled approximately $3.0 million and $3.0 million, while gross deferred tax liabilities totaled approximately $9.0 million and $3.3 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 assets (liabilities) as of October 31, 2010 and 2009 are as follows (in thousands):

	2010	2009
Allowances for accounts receivable	$ 609	$ 1,568
Inventories	662	283
State taxes	470	342
Intangible assets	—	73
Accrued liabilities	595	462
Current deferred income taxes	$ 2,336	$ 2,728
Property, plant, and equipment	(3,775)	(2,732)
Intangible assets	(76)	(178)
Unrealized gain, Limoneira investment	(4,586)	(292)
Retirement benefits	—	(83)
Stock-based compensation	125	250
Other	46	3
Long-term deferred income taxes	$ (8,266)	$ (3,032)

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:

	2010	2009	2008
Federal statutory tax rate	35.0%	35.0%	35.0%
State taxes, net of federal effects	4.8	4.9	4.3
Foreign income taxes greater (less) than U.S.	(0.9)	(1.1)	(1.2)
Benefit of lower federal tax brackets	—	—	(0.6)
Other	0.2	(1.0)	(0.3)
	39.1%	37.8%	37.2%

We intend to reinvest our accumulated foreign earnings, which approximated $6.2 million at October 31, 2010, indefinitely. As a result, we have not provided any deferred income taxes on such unremitted earnings. For fiscal years 2010, 2009 and 2008, income before income taxes related to domestic operations was approximately $28.3 million, $21.0 million, and $10.9 million. For fiscal years 2010, 2009 and 2008, income before income taxes related to foreign operations was approximately $0.7 million, $0.9 million and $1.4 million.

As of October 31, 2010 and 2009, 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, 2008	$	107
Additions for tax positions of prior years		(4)
Balance October 31, 2009		103
Balance at October 31, 2010	$	103

We recognize accrued interest and penalties related to unrecognized tax benefits in income tax expense. For fiscal 2010 and 2009, we did not record any significant accrued interest and penalties. We do not expect any unrecognized tax benefits to reverse in fiscal 2011.

We are subject to U.S. federal income tax as well as income of multiple state tax jurisdictions. We are no longer subject to U.S. income tax examinations for the fiscal years prior to fiscal year October 31, 2007, and are no longer subject to state income tax examinations for years prior to October 31, 2006.

Note 11

SEGMENT INFORMATION

During the second quarter of fiscal 2010, we renamed our "processed products" business segment to "CalavoFoods." Such name was changed to better describe the segment. As such, we now report our operations in two different business segments: Fresh products and CalavoFoods. 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 CalavoFoods 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.

	Fresh products	Calavo-Foods	Total
(All amounts are presented in thousands)			
Year ended October 31, 2010			
Net sales	$348,052	$ 50,299	$ 398,351
Cost of sales	309,609	37,212	346,821
Gross margin	$ 38,443	$ 13,087	$ 51,530
Year ended October 31, 2009			
Net sales	$300,235	$ 44,530	$ 344,765
Cost of sales	271,159	29,073	300,232
Gross margin	$ 29,076	$ 15,457	$ 44,533
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

For fiscal years 2010, 2009 and 2008, inter-segment sales and cost of sales of $21.1 million, $21.9 million, and $23.5 million were eliminated in consolidation.

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

	YEAR ENDED OCTOBER 31, 2010			YEAR ENDED OCTOBER 31, 2009		
	Fresh products	**Calavo-Foods**	**Total**	Fresh products	Calavo-Foods	Total
Third-party sales:						
Avocados	**$ 287,808**	**$ —**	**$ 287,808**	$ 259,558	$ —	$ 259,558
Tomatoes	**41,595**	**—**	**41,595**	14,067	—	14,067
Papayas	**11,278**	**—**	**11,278**	9,118	—	9,118
Pineapples	**3,838**	**—**	**3,838**	13,341	—	13,341
Other Fresh products	**3,617**	**—**	**3,617**	4,219	—	4,219
CalavoFoods - food service	**—**	**40,654**	**40,654**	—	36,493	36,493
CalavoFoods - retail and club	**—**	**17,473**	**17,473**	—	15,554	15,554
Total gross sales	**348,136**	**58,127**	**406,263**	300,303	52,047	352,350
Less sales incentives	**(84)**	**(7,828)**	**(7,912)**	(68)	(7,517)	(7,585)
Net sales	**$ 348,052**	**$ 50,299**	**$ 398,351**	$ 300,235	$ 44,530	$ 344,765

	YEAR ENDED OCTOBER 31, 2009			YEAR ENDED OCTOBER 31, 2008		
	Fresh products	Calavo-Foods	Total	Fresh products	Calavo-Foods	Total
Third-party sales:						
Avocados	$ 259,558	$ —	$ 259,558	$ 268,674	$ —	$ 268,674
Tomatoes	14,067	—	14,067	19,666	—	19,666
Papayas	9,118	—	9,118	8,392	—	8,392
Pineapples	13,341	—	13,341	16,442	—	16,442
Other Fresh products	4,219	—	4,219	2,564	—	2,564
CalavoFoods - food service	—	36,493	36,493	—	38,919	38,919
CalavoFoods - retail and club	—	15,554	15,554	—	14,634	14,634
Total gross sales	300,303	52,047	352,350	315,738	53,553	369,291
Less sales incentives	(68)	(7,517)	(7,585)	(71)	(7,746)	(7,817)
Net sales	$ 300,235	$ 44,530	$ 344,765	$ 315,667	$ 45,807	$ 361,474

For fiscal years 2010, 2009, and 2008, inter-segment sales and cost of sales for Fresh products totaling $11.7 million, $14.1 million and $13.9 million were eliminated. For fiscal years 2010, 2009, and 2008, inter-segment sales and cost of sales for CalavoFoods totaling $9.4 million $7.8 million, and $9.6 million were eliminated.

Sales to customers outside the United States were approximately $24.3 million, $16.3 million and $27.3 million for fiscal years 2010, 2009, and 2008.

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

	United States	Mexico	Consolidated
2010	$ 24,816	$ 16,243	$ 41,059
2009	$ 22,748	$ 15,873	$ 38,621

Note 12

LONG-TERM OBLIGATIONS

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

	2010	2009
Farm Credit West, PCA, term loan, bearing interest at 5.7%	**$ 6,500**	$ 7,800
Farm Credit West, PCA, long-term portion of revolving credit facility (Note 6)	**—**	6,450
Capital Lease, bearing interest at 4.3% at October 31, 2010 and 2009	**958**	1,024
	7,458	15,274
Less current portion	**(1,369)**	(1,366)
	$ 6,089	$13,908

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 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, 2010.

At October 31, 2010, annual debt payments are scheduled as follows (in thousands):

YEAR ENDING OCTOBER 31:	Total
2011	$ 1,369
2012	1,373
2013	1,376
2014	1,380
2015	1,383
Thereafter	577
	$ 7,458

Note 13

STOCK-BASED COMPENSATION

The Directors Stock Option Plan

Participation in the director's stock option plan, which was approved by our Board of Directors in 2001, 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, 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 than 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, 2010 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, 2010 was approximately $95,000, which will be recognized over the remaining service period of 31 months

In December 2008, our Board of Directors approved the issuance of options to acquire a total of 10,000 shares of our common stock to one member of our Board of Directors. Such grant vests in equal increments over a five-year period and has an exercise price of $8.05 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 $8.05. The estimated fair market value of such option grant was approximately $37,000. The total compensation cost not yet recognized as of October 31, 2010 was approximately $23,000, which will be recognized over the remaining service period of 37 months.

In August 2010, our Board of Directors approved the issuance of options to acquire a total of 10,000 shares of our common stock to one member of our Board of Directors. Such grant vests in equal increments over a five-year period and has an exercise price of $19.20 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 $19.20. The estimated fair market value of such option grant was approximately $64,000. The total compensation cost not yet recognized as of October 31, 2010 was approximately $60,000, which will be recognized over the remaining service period of 57 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, 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		
Granted	10	$ 8.05	$ 3.67 / share	
Exercised	(86)	$ 9.10		
Outstanding at October 31, 2009	284	$ 10.23		
Granted	10	$ 19.20	$ 6.36 / share	
Exercised	(207)	$ 9.13		
Outstanding at October 31, 2010	87	$ 13.89		$ 696
Exercisable at October 31, 2010	28	$ 13.53		$ 236

The weighted average remaining life of such outstanding options is 5.7 years and the total intrinsic value of options exercised during fiscal 2010 was $2.6 million. The fair value of shares vested during the year ended October 31, 2010 and 2009 was approximately $0.7 million and $0.2 million. The fair value of shares vested during the year ended October 31, 2008 was not significant.

Note 14

DIVIDENDS

On December 13, 2010, we paid a $0.55 per share dividend in the aggregate amount of $8,092,000 to shareholders of record on December 1, 2010. On December 11, 2009, we paid a $0.50 per share dividend in the aggregate amount of $7,252,000 to shareholders of record on December 1, 2009.

Note 15

FAIR VALUE MEASUREMENTS

A fair value measurement is determined based on the assumptions that a market participant would use in pricing an asset or liability. A three-tiered hierarchy draws distinctions between market participant assumptions based on (i) observable inputs such as quoted prices in active markets (Level 1), (ii) inputs other than quoted prices in active markets that are observable either directly or indirectly (Level 2) and (iii) unobservable inputs that require the Company to use present value and other valuation techniques in the determination of fair value (Level 3).

The following table sets forth our financial assets (there are no liabilities requiring disclosure) as of October 31, 2010 that are measured on a recurring basis during the period, segregated by level within the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
(All amounts are presented in thousands)				
Assets at Fair Value:				
Investment in Limoneira Company(1)	$ 34,986	—	—	$ 34,986
Total assets at fair value	$ 34,986	$ —	$ —	$ 34,986

(1) The investment in Limoneira Company consists of marketable securities in the Limoneira Company stock. We currently own approximately 15% of Limoneira's outstand -ing common stock. These securities are measured at fair value by quoted market prices. Limoneira's stock price at October 31, 2010 and October 31, 2009 equaled $20.24 per share and $14.00 per share (adjusted for a 10 to 1 stock split). Unrealized gain and losses are recognized through other comprehensive income. Unrealized investment holding gains arising during the year ended October 31, 2010 was $10.8 million. Unrealized investment holding losses arising during the year ended October 31, 2009 was $5.7 million.

	Level 1	Level 2	Level 3	Total
(All amounts are presented in thousands)				
Liabilities at Fair Value:				
Salsa Lisa contingent consideration(2)	—	—	$ 1,521	$ 1,521
Total liabilities at fair value	$ —	$ —	$ 1,521	$ 1,521

(2) See Note 16 for further discussion.

Notes 16

BUSINESS ACQUISITION

On February 8, 2010, Calavo Growers, Inc. ("Calavo"), Calavo Salsa Lisa, LLC ("Calavo Salsa Lisa"), Lisa's Salsa Company ("LSC") and Elizabeth Nicholson and Eric Nicholson, entered into an Asset Purchase and Contribution Agreement, dated February 8, 2010 (the "Acquisition Agreement"), which sets forth the terms and conditions pursuant to which Calavo acquired a 65 percent ownership interest in newly created Calavo Salsa Lisa which acquired substantially all of the assets of LSC. Elizabeth Nicholson and Eric Nicholson, through LSC, hold the remaining 35 percent ownership of Calavo Salsa Lisa. LSC is a regional producer in the upper Midwest United States of Salsa Lisa refrigerated salsas. We believe that this new line of salsas will further diversify our product offerings and will be a natural complement to our ultra-high-pressure guacamole, as well as our recently introduced Calavo tortilla chips.

The Acquisition Agreement provided that, among other things, Calavo make a payment totaling $100,000 for the 65 percent interest, as well a $300,000 payment representing a loan to be repaid from Calavo Salsa Lisa to Calavo. Calavo made these initial payments on February 8, 2010.

The purchase price can increase, subject to earn-out payments. These earn-out payments are based on net annual sales (as defined) achievements, through fiscal year October 31, 2016, which are as follows:

NET SALES OF:	Then Earn-out Payment shall be:
$30,000,000	$ 1,000,000
$40,000,000	$ 1,000,000
$50,000,000	$ 1,000,000
Maximum earn-out payment possible	$ 3,000,000

More than one of the earn-out payments may be earned in a particular fiscal year through October 31, 2016, but in no event shall more than an aggregate of $3,000,000 in earn-out payments be made.

Concurrently with the execution of the Acquisition Agreement, Calavo, Calavo Salsa Lisa, LSC and Elizabeth Nicholson and Eric Nicholson entered into an Amended and Restated Limited Liability Company Agreement. Among other things, such agreement calls for the establishment and maintenance of capital accounts, how profits and losses are to be allocated, as well as a buy-out option for Calavo.

Such buy-out option grants Calavo the right to cause LSC to transfer to Calavo all of LSC's membership interest for an amount equal to $5 million at any time until October 31, 2016. If the buy-out option has not been exercised by Calavo as of

October 31, 2016, however, then Calavo is required to deliver a binding offer to LSC to purchase LSC's membership interest for a price no less than an amount equal to (A) LSC's percentage interest, multiplied by (B) the EBTDA multiple of 8.0, multiplied by (C) Calavo Salsa Lisa's earnings before taxes, depreciation, and amortization (EBTDA) for the year ending

October 31, 2016. LSC may then elect to either accept such offer or reject such offer and submit a counter offer to purchase Calavo's membership interest for a price no less than an amount equal to (A) Calavo's membership interest, multiplied by (B) the EBTDA multiple of 8.0, plus 0.5, or 8.5, multiplied by (C) the Company EBTDA for the year ending October 31, 2016. LSC may not reject the buy-out offer without making a counter offer.

If LSC makes a counter offer to Calavo, Calavo may either accept such offer or reject such offer and submit a counter offer to purchase LSC's membership interest for a price no less than an amount equal to (A) LSC's membership interest, multiplied by (B) the EBTDA multiple of 8, plus 0.5, plus an additional 0.5, or 9.0 total, multiplied by (C) the Company EBTDA for the year ending October 31, 2016. The process cited above shall continue, with the EBTDA multiple increasing 0.5% at each counter offer, until either LSC or Calavo accepts the counter offer made to them.

Based on the buy-out option, as well as the initial binding offer to be made to LSC, we recorded the noncontrolling interest outside of permanent equity to highlight the potential future cash obligation related to this instrument.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition (in thousands). We obtained preliminary third-party valuations for the long-term assets acquired and incurred approximately $0.2 million in acquisition costs, which have been expensed in selling, general and administrative expenses in the period incurred.

AT FEBRUARY 8, 2010		
Current assets	$	263
Property, plant, and equipment		321
Goodwill		88
Intangible assets		1,950
Total assets acquired		2,622
Current liabilities		(55)
Noncontrolling interest		(699)
Contingent consideration		(1,468)
Net cash paid as of February 8, 2010	$	400

Of the $1,950,000 of intangible assets, $240,000 was assigned to customer relationships with a life of 7 years, $360,000 to trademarks and trade names with a life of 10 years and $1,350,000 to trade secrets with a life of 13 years. We determined the fair value of the non-controlling interest in Calavo Salsa Lisa taking into consideration discounts for lack of control and lack of marketability. The fair value of the $5.0 million purchase option was determined using a Black-Scholes option pricing model. Significant inputs include the risk free rate, volatility factor, time to expiration, underlying stock price, and exercise price. As discussed above, we will be required to pay up to an additional $3.0 million if Calavo Salsa Lisa achieves specified revenue targets during the first seven years, post transaction. The fair value of this contingent consideration was determined based on a probability weighted method, which incorporates management's forecasted revenue, the likelihood of the $5.0 million purchase option being exercised, and the likelihood of the revenue targets being achieved.

The following table reconciles shareholders' equity attributable to noncontrolling interest (in thousands):

YEAR ENDED OCTOBER 31, 2010		
Noncontrolling interest, beginning	$	—
Net loss attributable to noncontrolling interest		(124)
Capital contributions		699
Noncontrolling interest, ending	$	575

Note 17

SUBSEQUENT EVENTS

We have evaluated subsequent events to assess the need for potential recognition or disclosure in this Annual Report on Form 10-K. Such events were evaluated till the date these financial statements were issued. Based upon this evaluation, it was determined that no subsequent events occurred that require recognition in the financial statements.

Our unaudited quarterly results of operations for the eight fiscal quarters ended October 31, 2010 are set forth above under "Management's Discussion and Analysis of Financial Condition and Results of Operations."

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, 2010 and 2009, 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, 2010. 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, 2010 and 2009, and the consolidated results of their operations and their cash flows for each of the three years in the period ended October 31, 2010, 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, 2010, 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, 2011 expressed an unqualified opinion thereon.

Ernst + Young LLP

Los Angeles, California
January 13, 2011

REPORT OF MANAGEMENT

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, 2010. Our internal control over financial reporting as of October 31, 2010 has been audited by Ernst and Young LLP, an independent registered public accounting firm, as stated in their report which is included herein.

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 2010	**High**	Low
First Quarter	**$ 18.58**	$ 14.99
Second Quarter	**$ 18.74**	$ 15.85
Third Quarter	**$ 21.06**	$ 15.25
Fourth Quarter	**$ 21.83**	$ 18.68

FISCAL 2009	High	Low
First Quarter	$ 13.34	$ 5.93
Second Quarter	$ 14.49	$ 10.22
Third Quarter	$ 20.01	$ 11.82
Fourth Quarter	$ 20.30	$ 16.29

As of November 30, 2010, there were approximately 1,095 stockholders of record of our common stock.

During the year ended October 31, 2010, 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.

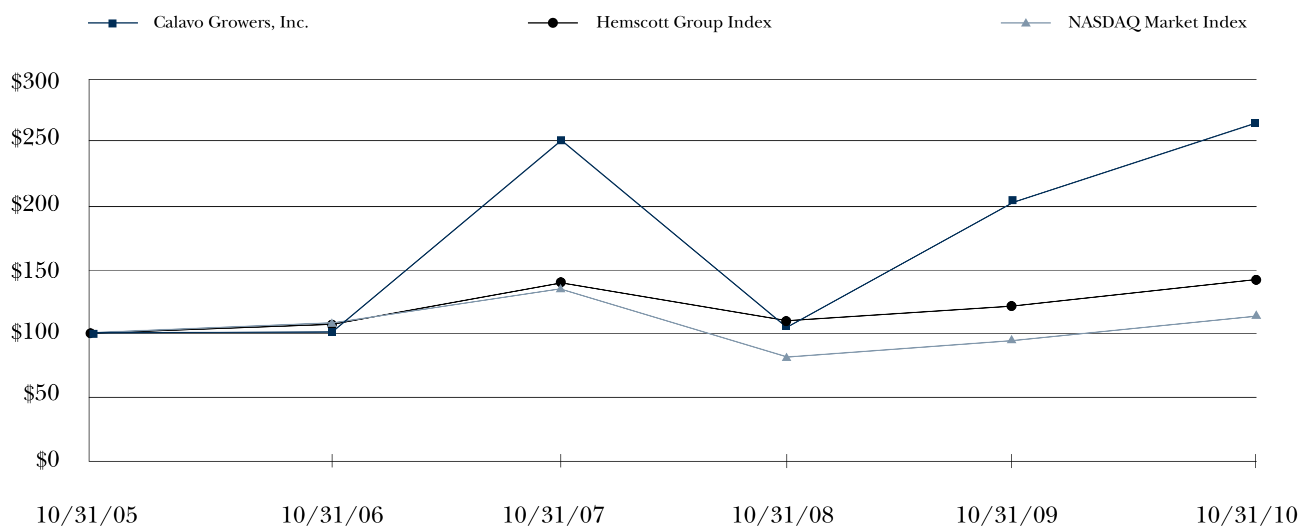
On December 13, 2010, we paid a $0.55 per share dividend in the aggregate amount of $8,092,000 to shareholders of record on December 1, 2010.

On December 11, 2009, we paid a $0.50 per share dividend in the aggregate amount of $7,252,000 to shareholders of record on December 1, 2009.

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, 2005 and ending October 31, 2010. 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, 2005. 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, 2005
Assumes Dividend Reinvested
Fiscal Year Ending Oct. 31, 2010

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

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.

George H. Barnes

Steven W. Hollister

NOMINATING AND GOVERNANCE COMMITTEE

John M. Hunt
Chairman

George H. Barnes

Michael D. Hause

Alva V. Snider

COMPENSATION COMMITTEE

Steven W. Hollister
Chairman

Michael D. Hause

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

Francisco Orozco
Packinghouse Manager
Temecula

HEADQUARTERS

Calavo Growers, Inc.
1141A Cummings Road
Santa Paula, CA 93060
Telephone 805.525.1245
Fax 805.921.3219
www.calavo.com

GENERAL COUNSEL

Troy Gould PC
Los Angeles, California

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Ernst & Young LLP
Los Angeles, California

INVESTOR & CORPORATE RELATIONS COUNSEL

FoleyFreisleben 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.

SENIOR MANAGEMENT

Mike Browne
Vice President
Fresh Operations

Rob Wedin
Vice President
Fresh Sales and
Marketing

Al Ahmer
Vice President
Processed Product
Sales and Operations

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

Calavo Growers, Inc. ✣ 1141A Cummings Road, Santa Paula, California 93060 ✣ www.calavo.com