CALAVO GROWERS INC
Form 10-K
January 14, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

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

For the fiscal year ended October 31, 2008

Commission file number: 000-33385
CALAVO GROWERS, INC.
(Exact name of registrant as specified in its charter)

California	**33-0945304**
(State of incorporation)	**(I.R.S. Employer Identification No.)**
1141-A Cummings Road, Santa Paula, CA	**93060**
(Address of principal executive offices)	**(Zip code)**

Registrant s telephone number, including area code: (805) 525-1245
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name Of Each Exchange On Which Registered**
Common Stock, $0.001 Par Value per Share	**Nasdaq Global Select Market**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark if whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

Based on the closing price as reported on the Nasdaq Global Select Market, the aggregate market value of the Registrant s Common Stock held by non-affiliates on April 30, 2008 (the last business day of the Registrant s most recently completed second fiscal quarter) was approximately $188.4 million. Shares of Common Stock held by each executive officer and director and by each shareholder affiliated with a director or an executive officer have been excluded from this calculation because such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes. The number of outstanding shares of the Registrant s Common Stock as of November 30, 2008 was 14,418,833.

Documents Incorporated by Reference

Portions of the Registrant s Proxy Statement for the 2009 Annual Meeting of Shareholders, which we intend to hold on April 22, 2009 are incorporated by reference into Part III of this Form 10-K. The definitive Proxy Statement will be filed within 120 days after October 31, 2008.

CAUTIONARY STATEMENT

This Annual Report on Form 10-K contains statements relating to future results of Calavo Growers, Inc. (including certain projections and business trends) that are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and are subject to the safe harbor created by those sections. Forward-looking statements frequently are identifiable by the use of words such as believe, anticipate, expect, intend, will, and other similar expressions. Our actual results may d materially from those projected as a result of certain risks and uncertainties. These risks and uncertainties include, but are not limited to: increased competition, general economic and business conditions, energy costs and availability, conducting substantial amounts of business internationally, pricing pressures on agricultural products, adverse weather and growing conditions confronting avocado growers, new governmental regulations, as well as other risks and uncertainties, including those set forth in Item 1A. Risk Factors and elsewhere in this Annual Report on Form 10-K and those detailed from time to time in our other filings with the Securities and Exchange Commission. These forward-looking statements are made only as of the date hereof, and we undertake no obligation to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise.

PART I

Item 1. Business

General development of the business

Calavo Growers, Inc. (Calavo, the Company, we, us or our) procures and markets avocados and other perishable commodities and prepares and distributes processed avocado products. Our expertise in marketing and distributing avocados, processed avocados, and other perishable foods allows us to deliver a wide array of fresh and processed food products to food distributors, produce wholesalers, supermarkets, and restaurants on a worldwide basis. We procure avocados principally from California, Mexico, and Chile. Through our operating facilities in southern California, Texas, New Jersey, Arizona, and Mexico, we sort, pack, and/or ripen avocados for distribution both domestically and internationally. Additionally, we also distribute other perishable foods, such as Hawaiian grown papayas, and prepare processed avocado products. We report our operations in two different business segments: (1) fresh products and (2) processed products. See Note 11 in our consolidated financial statements for further information about our business segments.

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

In August 2006, we entered into a joint venture agreement with San Rafael Distributing (SRD) for the purpose of the 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) 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 our investment.

In June 2007, we entered into a distribution agreement with Agricola Belher (Belher) of Mexico, a well-established quality producer of fresh vegetables, primarily tomatoes, for export to the U.S. market. Pursuant to such distribution agreement, Belher agreed, at their sole cost and expense, to harvest, pack, export, ship, and deliver tomatoes exclusively to our 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, 2008, we have advanced $2.0 million to Belher pursuant to this agreement, which is recorded in advances to suppliers.

We also entered into an infrastructure agreement in June 2007 with Belher in order to significantly increase production yields and fruit quality. Pursuant to this agreement, we are to advance up to $5 million to be used solely for the acquisition, construction, and installation of improvements to and on certain land owned by Belher, as well as packing line equipment. Advances incur interest at 8.8% at October 31, 2008. We advanced $4.8 million as of October 31, 2008 ($1.2 million included in prepaid expenses and other current assets and $3.6 million included in other long-term assets). Belher is to annually repay these advances in no less than 20% increments through July 2012. In addition, the agreement allows for additional $1.0 million advances to take place during the last five months of each of our fiscal years 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 2009 and July 2010. Interest is to be paid monthly or annually, as defined. Belher may prepay, without penalty, all or any portion of the advances at any time.

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

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

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

In May 2008, we purchased all of the outstanding shares of Hawaiian Sweet, Inc. (HS) and all ownership interests of Hawaiian Pride, LLC (HP) from the Chairman of our Board of Directors, Chief Executive Office and President. HS and HP engage in tropical-product packing and processing operations in Hawaii. The Acquisition Agreement provides, among other things, that as a result of the Acquisition Agreement, Calavo shall make an initial purchase price payment in the aggregate amount of $3,500,000 for both entities. We made the initial payment on May 20, 2008. Calavo shall also make two additional annual payments, ranging from $2,500,000 to $4,500,000, based on certain operating results (the Earn-Out Payment(s)), as defined. Pursuant to SFAS 141, *Business Combinations*, we recorded approximately $7.1 million as a liability related to deferred and contingent consideration to the Sellers, of which $3.6 million was recorded in accrued expenses, $3.5 million is recorded in long-term obligations, less current portion, and $0.6 million as deferred tax liabilities. Total liabilities recorded as a result of the acquisition was $7.7 million.

Our principal executive offices are located at 1141-A Cummings Road, Santa Paula, California 93060; telephone (805) 525-1245.

At October 31, 2008, we employed 876 employees worldwide.

Available information

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

Fresh products

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

We sell avocados to a diverse group of supermarket chains, wholesalers, food service and other distributors, under the Calavo family of brand labels, as well as private labels. The consolidation in the supermarket industry has led to fewer, but bigger buyers. From time to time, sales are transacted via e-commerce. We believe that our largest customers will require us and our competitors to implement one or more e-commerce distribution solutions to facilitate their procurement and inventory management programs. In our judgment, the shift to e-commerce by our largest customers will favorably impact larger handlers like us, which have the ability and financial resources to support these strategies. From time to time, some of our larger customers seek short-term sales contracts that formalize their pricing and volume requirements. Generally, these contracts contain provisions that establish a price floor and/or ceiling during the contract duration. Again, in our judgment, the shift by our customers to drafting sales contracts benefits large handlers like us, which have the ability to fulfill the terms of these contracts. During fiscal year 2008, our 5 and 25 largest customers represented approximately 17% and 43% of our total consolidated revenues. During fiscal year 2007, our 5 and 25 largest customers represented approximately 12% and 25% of our total consolidated revenues. During fiscal years 2008, 2007 and 2006 none of our customers represented more than 10% of total consolidated revenues.

The Hass variety is the predominant avocado variety marketed on a worldwide basis. California grown Hass avocados are available year-round, with peak production periods occurring between February through September. Other varieties have a more limited picking season and generally command a lower price. Approximately 2,100 California growers deliver avocados to us, generally pursuant to a standard marketing agreement. Over the past several years, our share of the California avocado crop has remained strong, with approximately 28% of the 2008 shipped California avocado crop handled by us, based on data published by the California Avocado Commission. We attribute our solid foothold in the California industry principally to the competitiveness of the per pound returns we pay and the communication and service we maintain with our growers.

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

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

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

The California avocado market is highly competitive with 9 major avocado handlers. A marketing order enacted by the state legislature is in effect for California grown avocados and provides the financial resource to fund generic advertising and promotional programs. Avocados handled by us are identifiable through packaging and the Calavo brand name sticker.

We also handle avocados from Mexico and Chile, some of which are on a consignment basis for the suppliers. Pursuant to these arrangements, from time to time, we make advances to Mexican growers and Chilean packers. Historically, we made such advances related to both pre-harvest and post-harvest activities, but our focus during fiscal 2007 and 2008 was primarily related to post-harvest activities. Typically, we obtain collateral (i.e. fruit, fixed assets, etc.) that approximates the value at risk, prior to making such advances. Historical experience demonstrates that providing post-harvest advances results in our acquiring full market risk for the product, as it is possible (although unlikely) that our resale proceeds may be less than the amounts we paid to the grower. This is a result of the high level of volatility inherent in the avocado and perishable food markets, which are subject to significant pricing declines based on the availability of fruit in the market. In the event that we do make a pre-season advance, our ability to recover such pre-harvest advance would be largely dependent on the growers ability to deliver avocados to us, as well as the inherent risks of farming, such as weather and pests. We anticipate making moderate pre-season advances during fiscal 2009.

Net sales generated by non-California sourced avocados depend principally on the availability of Mexican and Chilean grown avocados in the U.S. markets. In November 2004, the United States Department of Food and Agriculture (USDA) published a rule allowing Hass avocado imports from Mexico into all 50 states year round (up from 31 states for only a six month period), except for California, Florida, and Hawaii. The restriction on such states was lifted in February 2007. For the remaining 47 states, however, Mexico was able to deliver its fruit for all of fiscal 2008, 2007 and 2006. The implementation of this rule did not result in a significant increase in the sale of Mexican sourced fruit during fiscal 2008, as compared to fiscal 2006. See Item 7 for further details.

We have leveraged our expertise in the handling and marketing of California avocados to our non-California sourced avocados and perishable food products. Non-California sourced avocados primarily include fruit imported from Mexico and Chile. Our strategy is to increase our market share of currently sourced avocados to all accepted marketplaces. We believe our diversified avocado sources provide 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 complement our offerings of avocados.

In 1998, we invested in the Mexican avocado market by building a packinghouse in Uruapan, Mexico. We believe that our continued success in marketing Mexican avocados is largely dependent upon securing a reliable, high-quality supply of avocados at reasonable prices. The Mexican avocado harvest is both complimentary and competitive with the California market, as the Mexican harvest typically runs from September to June. As a result, it is common for Mexican growers to monitor the supply of avocados for export to the United States in order to obtain higher field prices. During 2008, we packed and distributed approximately 22% of the avocados exported from Mexico into the

United States and approximately 15% of the avocados exported from Mexico to countries other than the United States, based on our estimates.

In recent years, the volume of avocados exported by Chilean growers to the United States has continued to increase. Chilean growers continue to increase/monitor avocado plantings to capitalize on returns available in the worldwide avocado markets. Sales of Chilean grown avocados have generally been significant during our 4th and 1st fiscal quarters. Additionally, with the Chilean harvesting season being complimentary to the California season (August through February), Chilean avocados are able to command competitive retail pricing in the market. During 2008, we distributed approximately 6% of the Chilean imports into the United States, based on our estimates.

We have developed a series of marketing and sales initiatives primarily aimed at our largest customers that are designed to differentiate our products and services from those offered by our competitors. Some of these key initiatives are as follows:

We continue to have success with our ProRipeVIP avocado ripening program. This proprietary program allows us to deliver avocados evenly ripened to our customers specifications. We have invested in the Aweta AFS (acoustic firmness sensor) technology and equipment. ProRipeVIP is the next generation of selling conditioned avocados that have firmness determined via soundwaves. This technology is new to avocados. The most significant and compelling reason we invested in the Aweta systems is because the acoustic sensors measure firmness of the entire piece of fruit, as opposed to competitive mechanical tests that use pressure and calculated averages to measure firmness. We believe that ripened avocados help our customers address the consumers immediate needs and accelerate the sale of avocados through their stores. We currently have three Aweta systems in use in the United States, which, we believe, can effectively meet our customers demand for conditioned fruit.

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

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

The acquisition of Maui Fresh International, Inc. expanded our perishable food products to include various commodities, like tomatoes, mushrooms, and pineapples. We leverage our expertise in the handling and marketing of California avocados to these perishable food products as well. While many of these items are purchased, the majority of our sales are generated from tomatoes and pineapples, both of which are handled on a consigned basis. Commission rates for all products generally range from a flat commission rate per dollar sold to a fixed rate per-carton. Sales of our diversified products do not generally experience significant fluctuations related to seasonality.

In June 2007, we entered into a distribution agreement with Agricola Belher (Belher) of Mexico, a well-established quality producer of fresh vegetables, primarily tomatoes, for export to the U.S. market. Pursuant to such distribution agreement, Belher agreed, at their sole cost and expense, to harvest, pack, export, ship, and deliver tomatoes exclusively to our Arizona facility. In exchange, we agreed to sell and distribute such tomatoes, advance $2 million to Belher for operating purposes, provide additional advances as shipments are made during the season (subject to limitations, as defined), and return the proceeds from such tomato sales to Belher, net of our commission and aforementioned advances.

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

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

In May 2008, we purchased all of the outstanding shares of Hawaiian Sweet, Inc. (HS) and all ownership interests of Hawaiian Pride, LLC (HP) from the Chairman of our Board of Directors, Chief Executive Office and President. HS and HP engage in tropical-product packing and processing operations in Hawaii.

Processed Products

The processed product segment was originally conceived as a mechanism to stabilize the price of California avocados by reducing the volume of avocados available to the marketplace. In the 1960 s and early 1970 s, we pioneered the process of freezing avocado pulp and developed a wide variety of guacamole recipes to address the diverse tastes of consumers and buyers in both the retail and food service industries. One of the key benefits of frozen products is its long shelf-life. With the introduction of low cost processed products delivered from Mexican based processors, however, we realigned the segment s strategy by shifting the fruit procurement and pulp processing functions to Mexico. In 1995, we invested in a processing plant in Mexicali, Mexico to derive the benefit of competitive avocado prices available in Mexico.

Through January 2003, the primary function of our Mexicali processed operation was to produce pulp for our Santa Paula plant. Our processing facility in Santa Paula, California would receive the pulp from Mexicali, add ingredients, and package the product in various containers. The product would then be frozen for storage with shipment to warehouses and, ultimately, to our customers. From January 2003 to August 2004, however, our Mexicali processed operations became primarily focused on our individually quick frozen (IQF) avocado half product line and one of our ultra high-pressure lines. Our IQF line provides food service and retail customers with peeled avocado halves that are ripe and suitable for immediate consumption. These halves were frozen, packaged and shipped out of Mexicali to warehouses located in the U.S., and, ultimately, to our customers.

In February 2003, our Board of Directors approved a plan whereby the operations of our processed products business would be relocated. The plan called for the closing of our Santa Paula, California and Mexicali, Baja California Norte (Mexicali) processing facilities and relocating these operations to a new facility in Uruapan, Michoacan, Mexico (Uruapan). This restructuring has provided for cost savings in the elimination of certain transportation costs, duplicative overhead structures, and savings in the overall cost of labor and services. The Uruapan facility commenced operations in February 2004 and the Santa Paula and Mexicali facilities ceased production in February 2003 and August 2004. Net sales of frozen products represented approximately 64% and 63% of total processed segment sales for the years ended October 31, 2008 and 2007.

During fiscal year 2002, we purchased and commissioned a 35-liter (35L) ultra high pressure machine designed to cold pasteurize fresh guacamole. Utilizing ultra high pressure only and without the need of any additives or preservatives, this procedure substantially destroys the cells of any bacteria that could lead to spoilage or oxidation issues. Once the procedure is completed, our guacamole is cased and shipped to various retail and food service customers throughout the United States and Canada.

Our 35L machine discussed above ran near capacity during fiscal year 2003 through the closure date of Mexicali, which was August 2004. During fiscal year 2004, we purchased and commissioned a 215-liter (215L) ultra high pressure machine in Uruapan. This machine was commissioned for operations in July 2004, ran at about 40% capacity during fiscal 2004, increased to approximately 60% capacity during fiscal 2005, and ran at about 80% capacity during fiscal years 2006 and 2007. The 35L machine discussed above was ultimately traded in for credit towards another 215L machine, which was commissioned for operation in September 2007. As such, we currently have two 215L ultra high pressure machines located in Uruapan and estimate we are operating at approximately 50% of the combined machines capacities as of October 31, 2008. We believe the additional capacity provided by the 2nd machine is reasonable given our current sales projections and expected growth. Net sales of our ultra high pressure products represented approximately 36% and 37% of total processed segment sales for the years ended October 31, 2008 and 2007.

Sales are made principally through a commissioned nationwide broker network, which is supported by our regional sales managers. We believe that our marketing strength is distinguished by providing quality products, innovation, year-round product availability, strategically located warehouses, and market relationships. During fiscal year 2008, our 5 and 25 largest customers represented approximately 6% and 11% of our total consolidated revenues. During fiscal year 2007, our 5 and 25 largest customers represented approximately 7% and 12% of our total consolidated revenues. During fiscal years 2008, 2007 and 2006 none of our processed product customers represented more than 10% of total consolidated revenues.

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.

Sales and Other Financial Information by Business Segment and Product Category

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

Patents and Trademarks

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

Working Capital Requirements

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

Non-California sourced avocados and perishable food products often require working capital to finance the payment of advances to suppliers and collection of accounts receivable. These working capital needs are also financed through the use of operating cash flows and bank borrowings.

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

Backlog

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

Research and Development

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

Compliance with Government Regulations

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

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

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

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

Employees

As of October 31, 2008, we had 876 employees, of which 216 were located in the United States and 660 were located in Mexico. None of Calavo s United States employees are covered by a collective bargaining agreement. Approximately 550 of Calavo s Mexican employees are represented by a union. We consider the relationship with our employees to be good and we have never experienced a significant work stoppage.

The following is a summary of the number of salaried and hourly employees as of October 31, 2008.

Location	Salaried	Hourly
United States	98	118
Mexico	110	550
TOTAL	208	668

Item 1A. Risk Factors

Risks Related to Our Business

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

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

California avocados are impacted by an increasing volume of foreign grown avocados being imported into the United States. Recently, there have been significant plantings of avocados in Mexico, Chile, the Dominican Republic, Peru and other parts of the world, which have had, and will continue to have, the effect of increasing the volume of foreign grown avocados entering the United States market.

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

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

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

We are subject to the risks of doing business internationally.

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

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

Local economic and political conditions, including disruptions in trading and capital markets;

Restrictive foreign governmental actions, such as restrictions on transfers of funds and trade protection measures, including export duties and quotas and customs duties and tariffs;

Changes in legal or regulatory requirements affecting foreign investment, loans, taxes, imports, and exports; and

Currency exchange rate fluctuations which, depending upon the nature of the changes, may make our domestic-sourced products more expensive compared to foreign grown products or may increase our cost of obtaining foreign-sourced products.

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

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

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

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

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

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

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

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

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

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

We use multiple forms of transportation to bring our products to market. They include ocean, truck, and air-cargo. Disruption to the timely supply of these services or dramatic increases in the cost of these services for any reason including availability of fuel for such services, labor disputes, or governmental restrictions limiting specific forms of transportation could have an adverse effect on our ability to serve our customers and consumers and could have an adverse effect on our financial performance.

The value of our common stock may be adversely affected by market volatility.

The trading price of our common stock fluctuates and may be influenced by many factors, including:

- Our operating and financial performance and prospects;
- The depth and liquidity of the market for our common stock;
- Investor perception of us and the industry and markets in which we operate;
- Our inclusion in, or removal from, any equity market indices;
- Changes in earnings estimates or buy/sell recommendations by analysts; and
- General financial, domestic, international, economic and other market conditions;

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We lease our corporate headquarters building. Additionally, we own two packinghouses and one distribution and ripening facility (our former processing facility) in California, lease one facility in Arizona, lease one facility in New Jersey, operate in a distribution center in Texas, own one processing facility and own one packinghouse in Mexico.

In March 2005, we completed the sale of our corporate headquarters building (located in Santa Ana, CA) for $3.4 million. In conjunction with such sale, we relocated our corporate offices to Santa Paula, California in March 2005. We currently lease our corporate headquarters from Limoneira.

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

Our Santa Paula, California processing facility was built in 1975 and had a major expansion in 1988. In conjunction with our restructuring plan, which was approved in February 2003, this facility ceased operating as a processed product avocado processing facility and now functions primarily as a ripening, storage and shipping facility for our fresh avocado operations. Additionally, it also serves to store and ship certain processed avocado as well. Also, effective December 2005, we sort and pack certain tropical commodities as well. We believe that the annual capacity of this facility will be sufficient to pack and ripen, if necessary, the expected annual volume of avocados and specialty commodities delivered to us.

Our leased Nogales, Arizona facility primarily sorts, packs, ripens, and ships, tomatoes, avocados, and other tropical commodities as well. We believe that the annual capacity of this facility will be sufficient to handle our budgeted annual production needs.

Our leased Swedesboro, New Jersey facility primarily sorts, packs, ripens, and ships avocados. Additionally, it also serves to store and ship certain tropical commodities as well. We believe that the annual capacity of this facility will be sufficient to handle our budgeted annual production needs.

Our distribution center located in San Antonio, Texas is neither leased nor owned, but rather operates pursuant to a usage agreement whereby we pay handling and distribution fees. This facility primarily ripens, sorts, packs and ships fresh avocados under our supervision. Effective 2nd quarter of fiscal 2009, we expect to cease operating in such facility and transfer our operations to our newly leased facility located in Garland, Texas. See Note 8 to our consolidated financial statements for further discussion. We believe that the annual capacity of this new facility will be sufficient to handle our budgeted annual production needs.

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

During fiscal 2008, we purchased our previously leased fresh avocado packinghouse located in Uruapan, Michoacan, Mexico for $4.0 million, plus acquisition costs. This facility was built to our specifications. We believe that the annual capacity of this facility will be sufficient to process our budgeted annual production needs.

Item 3. Legal Proceedings

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

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

No matters were submitted to a vote of our shareholders during the quarter ended October 31, 2008.

Executive Officers of the Registrant

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

Name	Age	Position
Lecil E. Cole	69	Chairman of the Board, Chief Executive Officer and President
Arthur J. Bruno	58	Chief Operating Officer, Chief Financial Officer and Corporate Secretary
Robert J. Wedin	59	Vice President, Sales and Fresh Marketing
Alan C. Ahmer	60	Vice President, Processed Product Sales and Production
Michael A. Browne	50	Vice President, Fresh Operations

Lecil E. Cole has been a member of our board of directors since February 1982 and has served as Chairman of the Board since 1988. Mr. Cole has also served as our Chief Executive Officer and President since February 1999. He served as an executive of Safeway Stores from 1964 to 1976 and as Chairman of Central Coast Federal Land Bank from 1986 to 1996. Mr. Cole has served as Chairman and President of Hawaiian Sweet, Inc. and Tropical Hawaiian Products, Inc. since 1996. Mr. Cole farms approximately 4,400 acres in California and Hawaii on which avocados, papayas, and cattle are produced and raised.

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

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

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

Michael A. Browne has served as our Vice President since 2005. From 1997 until joining us, Mr. Browne served as the founder and co-owner of Fresh Directions International, a closely held multinational fresh produce company, which marketed fresh avocados from Mexico, Chile, and the Dominican Republic. Mr. Browne joined us in May 2005.

PART II

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

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

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

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

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

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

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

Dividend Policy

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

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

On January 2, 2008, we paid a $0.35 per share dividend in the aggregate amount of $5,030,000 to shareholders of record on December 15, 2007.

Item 6. Selected Financial Data

SELECTED CONSOLIDATED FINANCIAL DATA

The following summary consolidated financial data (other than pounds information) for each of the years in the five-year period ended October 31, 2008 are derived from the audited consolidated financial statements of Calavo Growers, Inc.

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

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

(1) Operating results for fiscal 2008 include the acquisitions of Hawaiian Sweet (HS) and Hawaiian Pride

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

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

(3) Total assets, short-term debt, long-term debt, equity, cash flows used in investing

activities, and cash flows provided by financing activities for fiscal 2005 and subsequent periods include the effect of the stock purchase agreement with Limoneira Company.

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

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

You should read the following discussion and analysis of our financial condition and results of operations together with Selected Consolidated Financial Data and our consolidated financial statements and notes thereto that appear elsewhere in this Annual Report. This discussion and analysis contains forward-looking statements that involve risks, uncertainties, and assumptions. Actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including, but not limited to, those presented under Risks related to our business included in Item 1A and elsewhere in this Annual Report.

Overview

We are a leader in the distribution of avocados, prepared avocado products, and other perishable food products throughout the United States and elsewhere in the world. Our history and expertise in handling California grown avocados has allowed us to develop a reputation of delivering quality products, at competitive prices, while providing competitive returns to our growers. This reputation has enabled us to expand our product offerings to include avocados sourced on an international basis, prepared avocado products, and other perishable foods. We report our operations in two different business segments: (1) fresh products and (2) processed products. See Note 11 to our consolidated financial statements for further discussion. We report our financial results on a November 1 to October 31 fiscal year basis to coincide with the California avocado harvest season.

On October 9, 2001, we completed a series of transactions whereby common and preferred shareholders of Calavo Growers of California, an agricultural marketing cooperative association, exchanged all of their outstanding shares for shares of our common stock. Concurrently with this transaction, the Cooperative was merged into us with Calavo emerging as the surviving entity. These transactions had the effect of converting the legal structure of the business from a non-profit cooperative to a for-profit corporation. The merger and the conversion were approved on an overwhelming basis by both the Cooperative s shareholders and our board of directors. Prior to the merger, the Cooperative reported results of operations as constituting either member (the packing and distribution of avocados procured from either members or associate members) or non-member business (non-member business included both the processed product business and the sourcing and distribution of all crops that were not procured from the Cooperative s members).

Our Fresh Products business grades, sizes, packs, cools, and ripens (if desired) avocados for delivery to our customers. We presently operate three packinghouses in Southern California. These packinghouses handled approximately 28% of the California avocado crop during the 2008 fiscal year, based on data obtained from the California Avocado Commission. Our operating results and the returns we pay our growers are highly dependent on the volume of avocados delivered to our packinghouses, as a significant portion of our costs are fixed. Our strategy calls for continued efforts to retain and recruit growers that meet our business model.

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

Our processed products business procures avocados, processes avocados into a wide variety of guacamole products, and distributes the processed product to our customers. Customers include both food service industry and retail businesses and our products primarily include both frozen and cold pasteurized fresh guacamole. Cold pasteurized fresh guacamole refers to fresh guacamole product that has been treated by one of our ultra high pressure machines. We currently have two 215-liter ultra high pressure machines located in Uruapan, Michoacán, Mexico

(Uruapan). These machines utilize ultra high pressure only (i.e. without additives or preservatives) and destroy the cells of any bacteria that could lead to spoilage or oxidation issues.

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

Net sales of frozen products represented approximately 64% and 63% of total processed segment sales for the years ended October 31, 2008 and 2007. Net sales of our ultra high pressure products represented approximately 36 % and 37% of total processed segment sales for the years ended October 31, 2008 and 2007.

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

Recent Developments

Dividend Payment

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

Fresh Packinghouse acquisition

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

Capital Lease

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

Contingencies

Hacienda Suit We are currently under examination by the Mexican tax authorities (Hacienda) for the tax year ended December 31, 2000 and December 31, 2004. We have received assessments totaling approximately $2.0 million and $4.5 million from Hacienda related to the amount of income at our Mexican subsidiary. Subsequent to that initial assessment, the Hacienda offered a settlement of approximately $400,000 related to the tax year 2000 assessment, which we declined. Based primarily on discussions with legal counsel and the evaluation of our claim, we maintain our belief that the Hacienda s position has no merit and that we will prevail. Accordingly, no amounts have been provided for in the financial statements as of October 31, 2008. We pledged our processed products building located in Uruapan, Michoacan, Mexico as collateral to Hacienda in regards to this assessment.

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

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

Term Revolving Credit Agreement

In May 2008, we entered into a Term Revolving Credit Agreement (the Agreement) with Farm Credit West, PCA. Under the terms of the Agreement, we are advanced funds for the purchase and installation of capital items and other corporate needs of the Company. Total credit available under the Agreement, which expires in February 2012, is now $30 million, up from $20 million. The credit facility contains various financial covenants, the most significant relating to working capital, tangible net worth (as defined), and Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) (as defined). We were in compliance with all such covenants at October 31, 2008.

Business Acquisitions

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

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

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

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

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

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

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

Critical Accounting Estimates

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

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

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

Promotional allowances. We provide for promotional allowances at the time of sale, based on our historical experience. Our estimates are generally based on evaluating the relationship between promotional allowances and gross sales. The derived percentage is then applied to the current period s sales revenues in order to arrive at the appropriate debit to sales allowances for the period. The offsetting credit is made to accrued liabilities. When certain amounts of specific customer accounts are subsequently identified as promotional, they are written off against this allowance. Actual amounts may differ from these estimates and such differences are recognized as an adjustment to net sales in the period they are identified. A 1% change in the derived percentage would impact results of operations by approximately $0.1 million.

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

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

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

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

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

Goodwill and acquired intangible assets. Goodwill is tested for impairment on an annual basis and between annual tests whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*. Under SFAS No. 142, goodwill is tested at the reporting unit level, which is defined as an operating segment or one level below the operating segment. Goodwill impairment testing is a two-step process. The first step of the goodwill impairment test, used to identify potential impairment, compares the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired, and the second step of the impairment test would be unnecessary. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test must be performed to measure the amount of impairment loss, if any. The second step of the goodwill impairment test, used to measure the amount of impairment loss, compares the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss must be recognized in an amount equal to that excess. Goodwill impairment testing requires significant judgment and management estimates, including, but not limited to, the determination of (i) the number of reporting units, (ii) the goodwill and other assets and liabilities to be allocated to the reporting units and (iii) the fair values of the reporting units. The estimates and assumptions described above, along with other factors such as discount rates, will significantly affect the outcome of the impairment tests and the amounts of any resulting impairment losses. We performed our annual assessment of goodwill and determined that no impairment existed as of October 31, 2008.

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

Results of Operations

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

	Year ended October 31,		
	2008	**2007**	**2006**
Net sales	100.0%	100.0%	100.0%
Gross margins	9.2%	10.5%	10.6%
Selling, general and administrative	5.8%	6.5%	7.2%
Operating income	3.4%	4.0%	3.4%
Interest Income	0.1%	0.1%	0.1%
Interest Expense	(0.4)%	(0.4)%	(0.3)%
Other income, net	0.2%	0.2%	0.2%
Net income	2.1%	2.4%	2.1%

Net Sales

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

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

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

In October 2002, the USDA announced the creation of a Hass Avocado Board to promote the sale of Hass variety avocados in the U.S. marketplace. This board provides a basis for a unified funding of promotional activities based on an assessment on all avocados sold in the U.S. marketplace, including imported and California grown fruit. The California Avocado Commission, which receives its funding from California avocado growers, has historically shouldered the promotional and advertising costs supporting avocado sales. We believe that the incremental funding of promotional and advertising programs in the U.S. will, in the long term, positively impact average selling prices and will favorably impact our California avocado and international avocado businesses. During fiscal 2008, 2007 and 2006, on behalf of avocado growers, we remitted approximately $2.2 million, $1.7 million and $1.7 million to the California

Avocado Commission. During fiscal 2008, 2007 and 2006, we remitted approximately $2.2 million, $2.2 million and $4.7 million to the Hass Avocado Board related to California avocados.

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

	2008	Change	2007	Change	2006
		(Dollars in thousands)			
Net sales:					
Fresh products	$ 315,667	20.8%	$ 261,325	10.3%	$ 236,889
Processed products	45,807	10.0%	41,659	13.1%	36,834
Total net sales	$ 361,474	19.3%	$ 302,984	10.7%	$ 273,723
As a percentage of net sales:					
Fresh products	87.3%		86.3%		86.5%
Processed products	12.7%		13.7%		13.5%
	100.0%		100.0%		100.0%

Net sales for the year ended October 31, 2008, when compared to 2007, increased by approximately $58.5 million, or 19.3%, principally as a result of an increase in both our fresh products and processed products segments. The increase in sales related to our fresh products segment was primarily driven by an increase in sales related to Mexico and California sourced avocados, tomatoes, and pineapples. Such sales increases were partially offset, however, by a decrease in sales related to Chilean sourced avocados. The increase related to our processed products segment was primarily related to an increase in our average selling price per pound.

The following tables set forth sales by product category, freight and other charges and sales incentives, by segment (dollars in thousands):

	Year ended October 31, 2008			Year ended October 31, 2007		
	Fresh products	Processed products	Total	Fresh products	Processed products	Total
Third-party sales:						
California avocados	$ 102,461	$	$ 102,461	$ 95,130	$	$ 95,130
Imported avocados	135,977		135,977	120,588		120,588
Tomatoes	19,609		19,609	8,837		8,837
Pineapples	15,944		15,944	24		24
Papayas	8,120		8,120	5,887		5,887
Diversified products	2,364		2,364	4,062		4,062
Processed food service		38,233	38,233		38,338	38,338
Processed retail and club		13,924	13,924		10,706	10,706
Total fruit and product sales to third-parties	284,475	52,157	336,632	234,528	49,044	283,572
Freight and other charges	31,263	1,397	32,660	26,816	739	27,555
Total third-party sales	315,738	53,554	369,292	261,344	49,783	311,127

Less sales incentives	(71)	(7,747)	(7,818)	(19)	(8,124)	(8,143)
Total net sales to third-parties	315,667	45,807	361,474	261,325	41,659	302,984
Intercompany sales	13,881	9,585	23,466	13,020	8,123	21,143
Net sales	$ 329,548	$ 55,392	384,940	$ 274,345	$ 49,782	324,127
Intercompany sales eliminations			(23,466)			(21,143)
Consolidated net sales			$ 361,474			$ 302,984

	Year ended October 31, 2007			Year ended October 31, 2006		
	Fresh products	**Processed products**	**Total**	**Fresh products**	**Processed products**	**Total**
Third-party sales:						
California avocados	$ 95,130	$	$ 95,130	$ 140,995	$	$ 140,995
Imported avocados	120,588		120,588	51,191		51,191
Tomatoes	8,837		8,837			
Pineapples	24		24			
Papayas	5,887		5,887	4,822		4,822
Diversified products	4,062		4,062	9,543		9,543
Processed food service		38,338	38,338		34,021	34,021
Processed retail and club		10,706	10,706		10,454	10,454
Total fruit and product sales to third-parties	234,528	49,044	283,572	206,551	44,475	251,026
Freight and other charges	26,816	739	27,555	30,383	637	31,020
Total third-party sales	261,344	49,783	311,127	236,934	45,112	282,046
Less sales incentives	(19)	(8,124)	(8,143)	(45)	(8,278)	(8,323)
Total net sales to third-parties	261,325	41,659	302,984	236,889	36,834	273,723
Intercompany sales	13,020	8,123	21,143	9,532	6,227	15,759
Net sales	$ 274,345	$ 49,782	324,127	$ 246,421	$ 43,061	289,482
Intercompany sales eliminations			(21,143)			(15,759)
Consolidated net sales			$ 302,984			$ 273,723

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

Fresh Products

Fiscal 2008 vs. Fiscal 2007:

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

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

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

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

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

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

For fiscal year 2008, average selling prices, on a per carton basis, for California avocados were 6.1% higher when compared to the same prior year period. We attribute some of this increase to the small California avocado crop for the 2007/2008 season. For fiscal year 2009, we believe that the demand for California avocados will remain strong in the U.S. marketplace, and, as a result, such is expected to have a positive impact on sales prices.

California avocados are primarily sold in the U.S. marketplace. We anticipate that sales of California grown avocados will decrease in fiscal 2009.

Fiscal 2007 vs. Fiscal 2006:

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

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

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

The volume of non-brokered tomatoes increased by approximately 25.6 million pounds during fiscal 2007, when compared to the same prior year period. This increase, which accounted for the majority of the fluctuation, was primarily related to a new supplier relationship.

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

For fiscal year 2007, average selling prices, on a per carton basis, for California avocados were 56.2% higher when compared to the same prior year period. We attribute some of this increase to the aforementioned smaller California avocado crop for the 2006/2007 season.

Processed Products

Fiscal 2008 vs. Fiscal 2007:

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

We currently have two 215L ultra high pressure machines located in Uruapan and estimate we are operating at approximately 50% of the combined machines capacities as of October 31, 2008. We believe the additional capacity provided by the 2nd machine is reasonable given our current sales projections and expected growth. Net sales of our ultra high pressure products represented approximately 36% and 37% of total processed segment sales for the years ended October 31, 2008 and 2007.

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

Fiscal 2007 vs. Fiscal 2006:

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

Gross Margins

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

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

Our cost of sales consists predominantly of fruit costs, packing materials, freight and handling, labor and overhead (including depreciation) associated with preparing food products, and other direct expenses pertaining to products sold. Consolidated gross margin, as a percent of sales, decreased 1.3% for fiscal year 2008 when compared to fiscal year 2007. This decrease was principally attributable to decreases in both our fresh and processed product segments for fiscal year 2008. Consolidated gross margin, as a percent of sales, remained consistent for fiscal year 2007 when compared to fiscal year 2006. This consistency was principally attributable to decreased profitability in our processed product segment, substantially offset by an increase in profitability from our fresh products segment.

Gross margins and gross profit percentages related to California avocados are largely dependent on production yields achieved at our packinghouses, current market prices of avocados, our packing and marketing fee, and the volume of avocados packed. Our gross margin percentage increased during fiscal year 2008 when compared to the same prior year period. Such increase is primarily related to a 1.2% increase in pounds of avocados sold, an increase in our packing and marketing fee, and a 6.1% increase in the average sales price of California avocados. Combined, these had the effect of decreasing our per pound costs, which, as a result, positively impacted gross margins.

The decrease in our gross margin percentage related to California avocados during fiscal year 2007, as compared to fiscal 2006, was primarily related to a significant decrease in pounds of fruit sold, as well as an increase in the market price of avocados. During fiscal year 2007, when compared to fiscal year 2006, we experienced a 58.3% decrease in pounds of avocados sold. Additionally, we also experienced a 56.2% increase in the average sales price of California avocados. Combined, these had the effect of increasing our per pound costs, which, as a result, negatively impacted gross margins.

The gross margin and gross profit percentage for consignment sales, including Chilean avocados, pineapples, and tomatoes, are dependent on the volume of fruit we handle, the average selling prices, and the competitiveness of the returns that we provide to third-party packers. The gross margin we earn is generally based on a commission agreed to with each party, which varies from a fixed rate per box to a percent of the overall selling price. Although we generally do not take legal title to such avocados and perishable products, we do assume responsibilities (principally assuming credit risk, inventory loss and delivery risk, and limited pricing risk) that are consistent with acting as a principal in the transaction. Accordingly, our results of operations include sales and cost of sales from the sale of avocados and perishable products procured under consignment arrangements. For fiscal years 2008, 2007, and 2006, we generated gross margins of $3.5 million, $1.7 million, and $1.2 million from the sale of fresh produce products that were packed by third parties.

Our business with Mexican growers differs in that we operate a packinghouse in Mexico and purchase avocados directly from the field. Alternatively, we may also purchase Mexican avocados directly from co-packers located in Mexico as well. In either case, the gross margin and gross profit percentages generated by our Mexican operations are significantly impacted by the volume of avocados handled by our packinghouse and the cost of the fruit. During fiscal year 2008, our gross margins generated from the sale of Mexican avocados decreased from approximately $14.0 million in fiscal year 2007 to $11.1 million in fiscal year 2008. Such decrease was primarily related to a 2.2% decrease in the volume of Mexican avocados sold, as well as higher fruit costs. Collectively, these items negatively affected gross margins.

During fiscal year 2007, our gross margins generated from the sale of Mexican avocados increased from approximately $1.6 million in fiscal year 2006 to $14.0 million in fiscal year 2007. Such increase was primarily related to a 106.2% increase in the volume of Mexican avocados sold, as well as higher sales prices of Mexican fruit. Collectively, these items positively affected gross margins.

Gross margins and gross profit percentages for our processed products business are largely dependent on the pricing of our final product and the cost of avocados used in preparing guacamole. During fiscal year 2008, the processed products gross profit percentages marginally decreased, primarily as a result of higher fruit costs, as well as increased packaging costs, both of which had the effect of increasing our per pound costs. In addition, there was a marginal decrease in total pounds produced, which had the effect of increasing our per pound costs. These increases were partially offset, however, by a decrease in the production and sale of less profitable items. We anticipate that the gross profit percentage for our processed product segment will continue to experience fluctuations during the next fiscal year primarily due to the uncertainty of the cost of fruit that will be used in the production process.

During fiscal year 2007, the processed products gross profit percentages decreased primarily as a result of higher fruit costs, as well as increased packaging costs, both of which had the effect of increasing our per pound costs. Such were partially offset, however, by an increase in total pounds produced, which had the effect of reducing our per pound costs.

Selling, General and Administrative

	2008	Change	2007	Change	2006
		(Dollars in thousands)			
Selling, general and administrative	$20,914	5.8%	$19,759	NM	$19,767
Percentage of net sales	5.8%		6.5%		7.2%

NM-Not meaningful

Selling, general and administrative expenses include costs of marketing and advertising, sales expenses, and other general and administrative costs. For fiscal year 2008, selling, general and administrative expenses increased $1.2 million or 5.8% when compared to the same period for fiscal 2007. This increase was primarily related to higher corporate costs, including, but not limited to, costs related to an increase in salaries and benefits (totaling approximately $1.0 million), an increase in broker sales commissions (totaling approximately $0.4 million), and an increase in repairs and maintenance (totaling approximately $0.2 million). Such higher corporate costs were partially offset, however, by a decrease in bad debt expense (totaling approximately $0.4 million).

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

Interest income

	2008	Change	2007	Change	2006
		(Dollars in thousands)			
Interest income	$516	108.1%	$248	(30.3)%	$356
Percentage of net sales	0.1%		0.1%		0.1%

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

Interest expense

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

Interest expense is primarily generated from our line of credit borrowings, as well as our term loan agreement with Farm Credit West, PCA. For fiscal 2008, as compared to fiscal 2007, the increase in interest expense was primarily related to a higher average outstanding balance under our non-collateralized, revolving credit facilities with Farm Credit West, PCA and Bank of America, N.A.

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

Other Income, Net

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

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

Provision for Income Taxes

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

The effective income tax rate for fiscal years 2008, 2007, and 2006 is higher than the federal statutory rate principally due to state taxes. Our effective income tax rate increased from 36.8% in fiscal year 2007 to 37.2% in fiscal year 2008 primarily as a result of an increase in foreign taxes, partially offset by a decrease in our average state tax rate. Our effective income tax rate decreased from 38.5% in fiscal year 2006 to 36.8% in fiscal year 2007 primarily as a result of an increase in pre-tax income in a foreign jurisdiction with favorable tax rates.

Quarterly Results of Operations

The following table presents our operating results for each of the eight fiscal quarters in the period ended October 31, 2008. The information for each of these quarters is derived from our unaudited interim financial statements and should be read in conjunction with our audited consolidated financial statements included in this Annual Report. In our opinion, all necessary adjustments, which consist only of normal and recurring accruals, have been included to fairly present our unaudited quarterly results. The California crop is highly seasonal and is characterized by crop volume and price changes. Historically, we receive and sell a substantially lesser number of California avocados in our first fiscal quarter. Certain items in the prior period amounts have been reclassified to conform to the current period presentation.

	Three months ended							
	Oct. 31, 2008	July 31, 2008	Apr. 30, 2008	Jan. 31, 2008	Oct. 31, 2007	July 31, 2007	Apr. 30, 2007	Jan. 31, 2007
	(in thousands, except per share amounts)							
Statement of Operations Data								
Net sales	$ 93,553	$ 96,903	$ 98,777	$ 72,241	$ 85,286	$ 91,307	$ 69,147	$ 57,244
Cost of sales	81,387	89,211	91,483	66,212	78,214	82,680	59,993	