

CALAVO GROWERS INC  
Form 10-K  
January 14, 2011

**Table of Contents**

**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, 2010  
OR**

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

**Commission file number: 000-33385**

**CALAVO GROWERS, INC.**

(Exact name of registrant as specified in its charter)

**California**

(State of incorporation)

**33-0945304**

(I.R.S. Employer Identification No.)

**1141-A Cummings Road, Santa Paula, CA**

(Address of principal executive offices)

**93060**

(Zip code)

**Registrant's telephone number, including area code: (805) 525-1245**

**Securities registered pursuant to Section 12(b) of the Act:**

| <b>Title of Each Class</b>                       | <b>Name Of Each Exchange<br/>On Which Registered</b> |
|--------------------------------------------------|------------------------------------------------------|
| <b>Common Stock, \$0.001 Par Value per Share</b> | <b>Nasdaq Global Select Market</b>                   |

**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 ☐ No ☒

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 ☐ No ☒

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 ☒ No ☐

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☒

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

Indicate by check mark whether the registrant is 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 ☐

Accelerated filer ☒

Non-accelerated filer ☐

Smaller reporting  
company ☐

(Do not check if a smaller  
reporting company)

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

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, 2010 (the last business day of the Registrant's most recently completed second fiscal quarter) was approximately \$207.0 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, 2010 was 14,711,833.

#### **Documents Incorporated by Reference**

Portions of the Registrant's Proxy Statement for the 2011 Annual Meeting of Shareholders, which we intend to hold on April 27, 2011 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, 2010.

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**TABLE OF CONTENTS**

**PART I**

Item 1. Business

Item 1A. Risk Factors

Item 1B. Unresolved Staff Comments

Item 2. Properties

Item 3. Legal Proceedings

Item 4. [Removed and Reserved.]

**PART II**

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

Item 6. Selected Financial Data

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Item 8. Financial Statements and Supplementary Data

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

Item 9A. Controls and Procedures

Item 9B. Other Information

**PART III**

Item 10. Directors, Executive Officers, and Corporate Governance

Item 11. Executive Compensation

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Item 13. Certain Relationships and Related Transactions, and Director Independence

Item 14. Principal Accountant's Fees and Services

**Part IV**

Item 15. Exhibits and Financial Statement Schedules

**SIGNATURES**

EX-10.18

EX-23.1

EX-31.1

EX-31.2

EX-32

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**Table of Contents**

**CAUTIONARY STATEMENT**

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

**Table of Contents**

**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 Arizona, California, Hawaii, New Jersey, Texas, and Mexico, we sort, pack, and/or ripen avocados, tomatoes and/or Hawaiian grown papayas for distribution both domestically and internationally. We also have an operating facility in Minnesota that produces salsa. We report our operations in two different business segments: (1) Fresh products and (2) CalavoFoods. See Note 11 in our consolidated financial statements for further information about our business segments. Our principal executive offices are located at 1141-A Cummings Road, Santa Paula, California 93060; telephone (805) 525-1245.

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.

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.

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.

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 \$5.0 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 6.5% and 6.8% at October 31, 2010 and 2009. We advanced \$2.4 million and \$4.2 million as of October 31, 2010 and 2009 (\$1.2 million and \$1.8 million included in prepaid expenses and other current assets and \$1.2 million and \$2.4 million included in other long-term assets). Belher is to annually repay these advances in no less than 20% increments through July 2012. 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.

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 Officer and President. HS and HP engage in tropical-product packing and processing operations in Hawaii. Pursuant to the acquisition agreement, we made an initial purchase price payment in the aggregate amount of \$3,500,000 for both entities on May 20, 2008. We then made two additional annual payments, based on certain operating results (the Earn-Out Payment(s) ), as defined. The first Earn-Out payment, which was made on September 23, 2009, totaled approximately

\$2.4 million. The second, and final, Earn-Out payment, which was made on July 9, 2010, totaled approximately \$4.5 million.

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

## **Table of Contents**

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

### **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. 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. 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 2010, our 5 and 25 largest fresh customers represented approximately 24% and 48% of our total consolidated revenues. During fiscal year 2009, our 5 and 25 largest fresh customers represented approximately 20% and 46% of our total consolidated revenues. During fiscal year 2010, one fresh customer represented approximately 11% of our total consolidated revenues. During fiscal years 2009 and 2008 none of our fresh customers represented more than 10% of total consolidated revenues.

The Hass variety is the predominant avocado variety marketed on a worldwide basis. Generally, California grown Hass avocados are available year-round, with peak production periods occurring between January through October. Other varieties have a more limited picking season and generally command a lower price. Approximately 1,950 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 30% of the 2010 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, frequently, 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 California avocado handling costs is 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 determined by our Chief

## **Table of Contents**

Executive Officer and is revised from time to time based on our estimated per pound packing and operating costs, as well as our operating profit. This fee is a fixed rate per pound packed. Significant competitive pressures dictate that our grower returns are set at the highest possible level to attract new and retain existing grower business. We believe that, if net proceeds paid ceased to be competitive, growers would simply 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 import avocados from Mexico, Chile and Peru. 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 all the markets we distribute to.

We typically purchase Mexican avocados from growers and packers located in Mexico. The purchase price we pay for fruit acquired from Mexican growers is generally negotiated for substantially all the fruit in a particular grove. Once a purchase price is agreed to, the fruit is then harvested and delivered to our packinghouse located in Uruapan, Michoacán, Mexico. Once delivered, such fruit is weighed, graded, sized, packed, and cooled for shipment, primarily to the United States. Fruit purchased directly from Mexican packers, however, is already packed for shipment to either our customers or operating facilities. This fruit is packed pursuant to our standards and is generally for additional, specific sizes we require. In either case, the purchase price of Mexican avocados is generally based on our estimated selling prices of such fruit, less anticipated packing and/or selling costs and our desired margin. We believe these two sources allow us to maximize both the timely acquisition, as well as purchase price, of Mexican fruit.

Similar to California avocados, a significant portion of our handling costs for Mexican avocados are fixed. As a result, significant fluctuations in the volume of Mexican avocados delivered to our packinghouse can 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 for Mexican avocados is geared to optimally handle larger avocado crops.

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, and keeping the handling costs low as we ship the Mexican avocados to our packinghouses. We are subject to USDA and other regulatory inspections to ensure the safety and the quality of the fruit being delivered from Mexico. The Mexican avocado harvest, which is often considerably larger than the California avocado harvest, is both complimentary and competitive with the California market, as the Mexican harvest is near year round (most significant 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 2010, we packed and distributed approximately 21% of the avocados exported from Mexico into the United States and approximately 5% of the avocados exported from Mexico to countries other than the United States, based on our estimates.

We also handle avocados from Chile and Peru, most of which are on a consignment basis with the suppliers. Pursuant to our joint venture agreement with M5, Calavo de Chile is now the primary contact with our Chilean avocado sources. Our commission percentages often range from 8% to 10%. Additionally, from time to time, we may purchase Chilean sourced avocados. Pursuant to our consignment arrangements, we occasionally make advances to both Chilean and Peruvian growers. Historically, we made such advances related to both pre-harvest and post-harvest activities, but our focus during fiscal 2009 and 2010 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.

Sales of Chilean grown avocados have generally been significant during our 4<sup>th</sup> and 1<sup>st</sup> 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 2010, we distributed approximately 5% of the total Chilean avocados imported 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:

## **Table of Contents**

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 fairly 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.

Perishable food products include various commodities, including tomatoes, papayas, mushrooms, and pineapples. The majority of our sales are generated from tomatoes and papayas. Tomatoes are primarily handled on a consigned basis, while papayas are handled on a pool basis, similar to the California avocado pool previously described. Sales of our diversified products do not generally experience significant fluctuations related to seasonality. We believe our efforts in distributing our other various commodities complement our offerings of avocados.

### **CalavoFoods**

The CalavoFoods 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 their 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 CalavoFoods 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, typically sold to foodservices customers, represented approximately 54% and 53% of total CalavoFoods segment sales for the years ended October 31, 2010 and 2009.

We utilize ultra high pressure machines which are designed to cold pasteurize our guacamole products. Using high pressure only, this procedure substantially destroys the cells of any bacteria that could lead to spoilage, food safety, or oxidation issues. Once the procedure is complete, our guacamole is packaged and shipped to various retail and food service customers throughout the markets we service. In fiscal year 2010, we put a second 215L ultra high pressure machine into service. These machines, which are located in Uruapan, pressurize all product lines within CalavoFoods, including all frozen products, which begun in fiscal 2010. We estimate

## **Table of Contents**

our operating capacity for these two machines to be approximately 80% as of October 31, 2010. A 3<sup>rd</sup> ultra high pressure machine, with a larger capacity of 350L, has been ordered and is expected to be put into service during our second fiscal quarter of 2011. We believe our operating capacity with three high pressure machines will be reasonable given our current sales projections and expected growth. Net sales of our ultra high pressure (fresh) products, typically sold to retail customers, represented approximately 46% and 47% of total CalavoFoods segment sales for the years ended October 31, 2010 and 2009.

Sales are made principally through a commissioned nationwide broker network, which is supported by our regional sales managers. Our guacamole hummus is being sold on an exclusive basis through a leading national grocery chain under a one-year agreement. 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 2010, our 5 and 25 largest processed product customers represented approximately 6% and 11% of our total consolidated revenues. During fiscal year 2009, our 5 and 25 largest processed product customers represented approximately 7% and 12% of our total consolidated revenues. During fiscal years 2010, 2009 and 2008 none of our processed product customers represented more than 10% of total consolidated revenues.

In February 2010, we entered into an Acquisition Agreement, which sets forth the terms and conditions pursuant to which we acquired a 65 percent ownership interest in newly created Calavo Salsa Lisa which acquired substantially all of the assets of LSC. Elizabeth Nicholson and Eric Nicholson, through LSC, hold the remaining 35 percent ownership of Calavo Salsa Lisa. LSC is a regional producer in the upper Midwest of Salsa Lisa refrigerated salsas. We believe that this new line of salsas will further diversify our product offerings and will be a natural complement to our ultra-high-pressure guacamole, as well as our recently introduced Calavo tortilla chips.

### **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, Calavo Salsa Lisa, Salsa Lisa, Celebrate the Taste, El Dorado, Fresh Ripe, Select, Taste of Paradise, The First Name in Avocados, Tico, Mfresh, Maui Fresh International and Triggered Avocados, and ProRipeVIP .

### **Working Capital Requirements**

Generally, we make payments to our 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.

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 CalavoFoods 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 CalavoFoods 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 CalavoFoods operations and the handling, ripening, storage, and packing of fresh avocados.



**Table of Contents****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, 2010, we had 1,157 employees, of which 428 were located in the United States and 729 were located in Mexico. We do not have a significant number of United States employees covered by a collective bargaining agreement. 603 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, 2010.

|               | <b>Location</b> | <b>Salaried</b> | <b>Hourly</b> | <b>Total</b> |
|---------------|-----------------|-----------------|---------------|--------------|
| United States |                 | 116             | 312           | 428          |
| Mexico        |                 | 126             | 603           | 729          |
| <b>TOTAL</b>  |                 | <b>242</b>      | <b>915</b>    | <b>1,157</b> |

**Table of Contents**

**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 is 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. In the most recent years, there has been an increase in organized crime in Mexico. This has not had an impact on our operations, but this does increase the risk of doing business in Mexico. We are also subject to regulations imposed by the Mexican government, and also to examinations by the Mexican tax authorities (See Note 8 in the consolidated financial statements). Significant changes to these government regulations and to assessments by the Mexican tax authorities can have a negative impact on our operations and operating results 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; and

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

*Currency exchange fluctuations may impact the results of our operations.*

Currency exchange rate fluctuations, 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. Because we do not hedge against our foreign currency exposure, our business has increased susceptibility to foreign currency fluctuations.

*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.

*Our earnings are sensitive to fluctuations in market prices and demand for our products.*

Excess supplies often cause severe price competition in our industry. Growing conditions in various parts of the world, particularly weather conditions such as windstorms, floods, droughts and freezes, as well as diseases and pests, are primary factors affecting market prices because of their influence on the supply and quality of product.

## **Table of Contents**

Fresh produce is highly perishable and generally must be brought to market and sold soon after harvest. The selling price received for each type of produce depends on all of these factors, including the availability and quality of the produce item in the market, and the availability and quality of competing types of produce.

In addition, general public perceptions regarding the quality, safety or health risks associated with particular food products could reduce demand and prices for some of our products. To the extent that consumer preferences evolve away from products that we produce for health or other reasons, and we are unable to modify our products or to develop products that satisfy new consumer preferences, there will be a decreased demand for our products.

*Increases in commodity or raw product costs, such as fuel, and paper, could adversely affect our operating results.*

Many factors may affect the cost and supply of fresh produce, including external conditions, commodity market fluctuations, currency fluctuations, changes in governmental laws and regulations, agricultural programs, severe and prolonged weather conditions and natural disasters. Increased costs for purchased fruit have in the past negatively impacted our operating results, and there can be no assurance that they will not adversely affect our operating results in the future.

The price of various commodities can significantly affect our costs. Fuel and transportation cost is a significant component of the price of much of the produce that we purchase from growers, and there can be no assurance that we will be able to pass on to our customers the increased costs we incur in these respects.

The cost of paper is also significant to us because some of our products are packed in cardboard boxes. If the price of paper increases and we are not able to effectively pass these price increases along to our customers, then our operating income will decrease.

*We are subject to the risk of product liability claims.*

The sale of food products for human consumption involves the risk of injury to consumers. Such injuries may result from tampering by unauthorized third parties, product contamination or spoilage, including the presence of foreign objects, substances, chemicals, other agents, or residues introduced during the growing, storage, handling or transportation phases. While we are subject to governmental inspection and regulations and believe our facilities comply in all material respects with all applicable laws and regulations, we cannot be sure that consumption of our products will not cause a health-related illness in the future or that we will not be subject to claims or lawsuits relating to such matters. Even if a product liability claim is unsuccessful or is not fully pursued, the negative publicity surrounding any assertion that our products caused illness or injury could adversely affect our reputation with existing and potential customers and our corporate and brand image.

*We are subject to possible 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, such as the new Food Safety Modernization Act, which implements mandatory preventive controls for food facilities and compliance with mandatory produce safety standards. Our results of operations may be adversely affected if we are unable to comply with these existing and modified regulations.

## **Table of Contents**

*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.

*We depend on our key personnel and if we lose the services of any of these individuals, or fail to attract and retain additional key personnel, we may not be able to implement our business strategy or operate our business effectively.*

Our future success largely depends on the contributions of our senior management team. We believe that these individuals' expertise and knowledge about our industry and their respective fields and their relationships with other individuals in our industry are critical factors to our continued growth and success. We do not carry key person insurance. The loss of the services of any member of our senior management team could have a material adverse effect on our business and prospects. Our success also depends upon our ability to attract and retain additional qualified sales, marketing and other personnel.

*A portion of our workforce is unionized and labor disruptions could decrease our profitability.*

While we believe that our relations with our employees are good, we cannot assure you that we will be able to negotiate collective bargaining agreements on favorable terms, or at all, and without production interruptions, including labor stoppages. A prolonged labor dispute, which could include a work stoppage, could have a material adverse effect on the portion of our business affected by the dispute, which could impact our business, results of operations and financial condition.

### **Risks Related to Our Common Stock**

*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;

*Our ability to raise capital in the future may be limited, and our failure to raise capital when needed could prevent us from executing our growth strategy.*

The timing and amount of our working capital and capital expenditure requirements may vary significantly depending on many factors, including:

Market acceptance of our products; and

The existence of opportunities for expansion.

If our capital resources are not sufficient to satisfy our liquidity needs, we may seek to sell additional equity or obtain additional debt financing. The sale of additional equity would result in dilution to our shareholders. Additional debt would result in increased

## **Table of Contents**

expenses and could result in covenants that would restrict our operations. With the exception of our existing credit facility, we have not made arrangements to obtain additional financing. We may not be able to obtain additional financing, if required, in amounts or on terms acceptable to us, or at all.

### **Item 1B. Unresolved Staff Comments**

None.

### **Item 2. Properties**

We lease our corporate headquarters building from Limoneira located in Santa Paula, California. Additionally, we own two packinghouses and one distribution and ripening facility (our former processing facility) in California, and lease one facility in the following states: Arizona, Hawaii, New Jersey, Texas, and Minnesota. Also, we own one processing facility and one packinghouse in Mexico.

#### *United States Locations*

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 products 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 leased Garland, Texas primarily ripens, sorts, packs and ships fresh avocados. We believe that the annual capacity of this facility will be sufficient to handle our budgeted annual production needs.

Our leased Hawaiian facility primarily sorts, packs, and ships papayas. We believe that the annual capacity of this facility will be sufficient to handle our budgeted annual production needs.

During fiscal 2010, through the acquisition of Calavo Salsa Lisa, we now have a 65 percent ownership interest in a Minnesota facility that produces salsa. We believe that the annual capacity of this facility will be sufficient to handle our budgeted annual production needs.

#### *Mexico Locations*

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

Our fresh avocado packinghouse located in Uruapan, Michoacan, Mexico sorts, packs, and ships avocados delivered to us by Mexican growers. We believe that the annual capacity of this facility will be sufficient to process our budgeted annual production needs.

**Table of Contents****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. [Removed and Reserved.]****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.

| <b>Name</b>       | <b>Age</b> | <b>Position</b>                                                          |
|-------------------|------------|--------------------------------------------------------------------------|
| Lecil E. Cole     | 71         | Chairman of the Board, Chief Executive Officer and President             |
| Arthur J. Bruno   | 60         | Chief Operating Officer, Chief Financial Officer and Corporate Secretary |
| Robert J. Wedin   | 61         | Vice President, Sales and Fresh Marketing                                |
| Alan C. Ahmer     | 62         | Vice President, Processed Product Sales and Production                   |
| Michael A. Browne | 52         | 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 on which avocados 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 CalavoFoods business. In September 2003, Mr. Ahmer's new title became Vice-President, CalavoFoods 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.

**Table of Contents**

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.

|                | <b>Fiscal 2010</b> | <b>High</b> | <b>Low</b> |
|----------------|--------------------|-------------|------------|
| First Quarter  |                    | \$ 18.58    | \$ 14.99   |
| Second Quarter |                    | \$ 18.74    | \$ 15.85   |
| Third Quarter  |                    | \$ 21.06    | \$ 15.25   |
| Fourth Quarter |                    | \$ 21.83    | \$ 18.68   |

|                | <b>Fiscal 2009</b> | <b>High</b> | <b>Low</b> |
|----------------|--------------------|-------------|------------|
| First Quarter  |                    | \$ 13.34    | \$ 5.93    |
| Second Quarter |                    | \$ 14.49    | \$ 10.22   |
| Third Quarter  |                    | \$ 20.01    | \$ 11.82   |
| Fourth Quarter |                    | \$ 20.30    | \$ 16.29   |

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

During the year ended October 31, 2010, we did not issue any shares of common stock that were not registered under the Securities Act of 1933 and we did not repurchase any shares of our common stock.

**Dividend Policy**

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

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

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

**Table of Contents****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, 2010 are derived from the audited consolidated financial statements of Calavo Growers, Inc.

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

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

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

- (3) For fiscal years 2010 and 2009, we have not made any infrastructure advances to Agricola Belher. Agricola Belher paid \$1.8 million and \$0.5 million in fiscal years 2010 and 2009 related to infrastructure advances.

## **Table of Contents**

### **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. Our history and expertise in handling California grown avocados has allowed us to develop a reputation of delivering quality products, at competitive prices, while providing competitive returns to our growers. This reputation has enabled us to expand our product offerings to include avocados sourced on an international basis, prepared avocado products, and other perishable foods. We report our operations in two different business segments: (1) Fresh products and (2) CalavoFoods. See Note 11 to our consolidated financial statements for further discussion.

Our Fresh products business grades, sizes, packs, cools, and ripens (if desired) avocados for delivery to our customers. We presently operate three packinghouses in Southern California. These packinghouses handled approximately 30% of the California avocado crop during the 2010 fiscal year, based on data obtained from the California Avocado Commission. Our operating results and the returns we pay our growers are highly dependent on the volume of avocados delivered to our packinghouses, as a significant portion of our costs are fixed. Our strategy calls for continued efforts to retain and recruit growers that meet our business model. Additionally, our Fresh products business also procures avocados grown in Chile, Mexico and Peru, as well as other various commodities, including tomatoes, papayas, mushrooms, and pineapples. We operate a packinghouse in Mexico that, together with certain co-packers that we frequently purchase fruit from, handled approximately 21% of the Mexican avocado crop bound for the United States market and approximately 5% of the avocados exported from Mexico to countries other than the United States during the 2009-2010 Mexican season, based on our estimates. Additionally, during the 2009-2010 Chilean avocado season, we handled approximately 5% of the Chilean avocado crop, based on our estimates. Our strategy is to increase our market share of currently sourced avocados to all accepted marketplaces. We believe our diversified avocado sources provides a level of supply stability that may, over time, help solidify the demand for avocados among consumers in the United States and elsewhere in the world. We believe our efforts in distributing our other various commodities, such as those shown above, complement our offerings of avocados. From time to time, we continue to explore distribution of other crops that provide reasonable returns to the business.

Our CalavoFoods business procures avocados, processes avocados into a wide variety of guacamole products, and distributes the processed product to our customers. All of our prepared avocado products are now cold pasteurized and include both frozen and fresh guacamole. Additionally, we also prepare various fresh salsa products. Customers include both food service industry and retail businesses. Due to the long shelf-life of our frozen guacamole and the purity of our fresh guacamole, we believe that we are well positioned to address the diverse taste and needs of today's customers. We continue to seek to expand our relationships with major food service companies and develop alliances that will allow our products to reach a larger percentage of the marketplace.

Net sales of frozen products represented approximately 54% and 53% of total processed segment sales for the years ended October 31, 2010 and 2009. Net sales of our ultra high pressure products represented approximately 46% and 47% of total processed segment sales for the years ended October 31, 2010 and 2009.

Our Fresh products business is characterized by crop volume and price changes. Furthermore, the operating results of all of our businesses, including our CalavoFoods business, have been, and will continue to be, affected by quarterly and annual fluctuations and market downturns due to a number of factors, such as pests and disease, weather patterns, changes in demand by consumers, the timing of the receipt, reduction, or cancellation of significant customer orders, the gain or loss of significant customers, market acceptance of our products, our ability to develop, introduce, and market new products on a timely basis, availability and cost of avocados and supplies from growers and vendors, new product introductions by our competitors, change in the mix of avocados and CalavoFoods we sell, and general

economic conditions. We believe, however, that we are currently positioned to address these risks and deliver favorable operating results for the foreseeable future.

***Recent Developments***

***Dividend Payment***

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

## **Table of Contents**

### *Earn-Out Payment*

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

### *Contingencies*

**Hacienda Suits** We are currently under examination by the Mexican tax authorities (Hacienda) for the tax year ended December 31, 2000. We have received an assessment totaling approximately \$2.0 million from Hacienda related to the amount of income at our Mexican subsidiary. Subsequent to that initial assessment, the Hacienda offered a settlement of approximately \$400,000, which we declined. In the second quarter of 2009, we won our appeal case. The Hacienda subsequently appealed that decision and the case was sent back to the tax court due to administrative error by such jurisdiction. During the second quarter of 2010, we once again won our appeal and, once again, the Hacienda appealed the decision and the case has been sent back to the tax court. We do not believe that the resolution of this examination will have a significant impact on our results of operations.

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

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

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

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

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

### *Acquisition*

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

### **Critical Accounting Estimates**

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments

that affect the reported amounts of assets,

## **Table of Contents**

liabilities, revenues and expenses. On an ongoing basis, we re-evaluate all of our estimates, including those related to the areas of customer and grower receivables, inventories, useful lives of property, plant and equipment, promotional allowances, income taxes, retirement benefits, and commitments and contingencies. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may materially differ from these estimates under different assumptions or conditions as additional information becomes available in future periods.

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

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

*Promotional allowances.* We provide for promotional allowances at the time of sale, based on our historical experience. Our estimates are generally based on evaluating the relationship between promotional allowances and gross sales. The derived percentage is then applied to the current period's sales revenues in order to arrive at the appropriate debit to sales allowances for the period. The offsetting credit is made to accrued liabilities. When certain amounts of specific customer accounts are subsequently identified as promotional, they are written off against this allowance. Actual amounts may differ from these estimates and such differences are recognized as an adjustment to net sales in the period they are identified. A 1% change in the derived percentage for the entire year would impact results of operations by approximately \$0.5 million.

*Income Taxes.* We account for deferred tax liabilities and assets for the future consequences of events that have been recognized in our consolidated financial statements or tax returns. Measurement of the deferred items is based on enacted tax laws. In the event the future consequences of differences between financial reporting bases and tax bases of our assets and liabilities result in a deferred tax asset, we perform an evaluation of the probability of being able to realize the future benefits indicated by such asset. A valuation allowance related to a deferred tax asset is recorded when it is more likely than not that some portion or all of the deferred tax asset will not be realized.

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

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

*Goodwill and acquired intangible assets.* Goodwill, defined as unidentified asset(s) acquired in conjunction with a business acquisition, is tested for impairment on an annual basis and between annual tests whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill is tested at the reporting unit level, which is defined as an operating segment or one level below the operating segment. Goodwill impairment testing is a two-step process. The first step of the goodwill impairment test, used to identify potential impairment, compares the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired, and the second step of the impairment test would be unnecessary. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test must be performed to measure the amount of impairment loss, if any. The second step of the goodwill impairment test, used to measure the amount of impairment loss, compares the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss must be recognized in an amount equal to that

excess. Goodwill impairment testing requires significant judgment and management estimates, including, but not limited to, the determination of (i) the number of reporting units, (ii) the goodwill and other assets and liabilities to be allocated to the reporting units and (iii) the fair values of the reporting units. The estimates and assumptions described above, along with other factors such as discount rates, will significantly affect the outcome of the impairment tests and the amounts of any resulting impairment losses. We performed our annual assessment of goodwill and determined that no impairment existed as of October 31, 2010.

**Table of Contents**

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

**Results of Operations**

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

|                                     | Year ended October 31, |        |        |
|-------------------------------------|------------------------|--------|--------|
|                                     | 2010                   | 2009   | 2008   |
| Net sales                           | 100.0%                 | 100.0% | 100.0% |
| Gross margins                       | 12.9%                  | 12.9%  | 9.2%   |
| Selling, general and administrative | 5.8%                   | 6.6%   | 5.8%   |
| Operating income                    | 7.1%                   | 6.3%   | 3.4%   |
| Interest income                     | 0.1%                   | 0.1%   | 0.1%   |
| Interest expense                    | (0.2)%                 | (0.3)% | (0.4)% |
| Other income, net                   | 0.1%                   | 0.1%   | 0.2%   |
| Net income                          | 4.4%                   | 3.9%   | 2.1%   |

**Net Sales**

We believe that the fundamentals for our products continue to be favorable. Firstly, Americans are eating more avocados. Over the last 10 years, United States (U.S.) consumption of avocados has expanded at a compounded annual growth rate of 7.3% and we do not anticipate this growth significantly changing. We believe that the healthy eating trend that has been developing in the United States contributes to such growth, as avocados, which are cholesterol and sodium free, are dense in fiber, vitamin B6, antioxidants, potassium, folate, and contain unsaturated fat, which help lower cholesterol. Also, a growing number of research studies seem to suggest that phytonutrients, which avocados are rich in, help fight chronic illnesses, such as heart disease and cancer.

Additionally, we believe that the demographic changes in the U.S. will greatly impact the consumption of avocados and avocado-based products. The Hispanic community currently accounts for approximately 16% of the U.S. population, and the total number of Hispanics is estimated to triple by the year 2050. Avocados are considered a staple item purchased by Hispanic consumers, as the per-capita avocado consumption in Mexico is estimated to be more than seven-fold that of the U.S.

We anticipate avocado products will further penetrate the United States marketplace driven by year-round availability of fresh avocados due to imports, a rapid growing Hispanic population, and the promotion of the health benefits of avocados. As the largest marketer of avocado products in the United States, we believe that we are well positioned to leverage this trend and to grow all segments of our business. Additionally, we also believe that avocados and avocado based products will further penetrate other marketplaces that we currently operate in, as interest in avocados continues to expand.

In October 2002, the USDA announced the creation of a Hass Avocado Board to promote the sale of Hass variety avocados in the U.S. marketplace. This board provides a basis for a unified funding of promotional activities based on an assessment on all avocados sold in the U.S. marketplace. The California Avocado Commission, which receives its funding from California avocado growers, has historically shouldered the promotional and advertising costs supporting avocado sales. We believe that the incremental funding of promotional and advertising programs in the U.S. will, in the long term, positively impact average selling prices and will favorably impact our avocado businesses. During fiscal 2010, 2009 and 2008, on behalf of avocado growers, we remitted approximately \$2.0 million, \$0.6 million and \$2.2 million to the California Avocado Commission. During fiscal 2010, 2009 and 2008, we remitted approximately \$5.6 million, \$3.8 million and \$4.2 million to the Hass Avocado Board related to avocados.

Sales of products and related costs of products sold are recognized when persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable and collectability is reasonably assured. Service revenue, including freight, ripening, storage, bagging and palletization charges, is recorded when services are

performed and sales of the related products are delivered. We provide for sales returns and promotional allowances at the time of shipment, based on our experience.

**Table of Contents**

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

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

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

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

The following table summarizes our net sales by business segment:

|            | <b>2010</b>                   | <b>Change</b> | <b>2009</b> | <b>Change</b> | <b>2008</b> |
|------------|-------------------------------|---------------|-------------|---------------|-------------|
|            | <b>(Dollars in thousands)</b> |               |             |               |             |
| Net sales: |                               |               |             |               |             |

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

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

## *Fresh products*

Fiscal 2010 vs. Fiscal 2009:

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

## **Table of Contents**

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

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

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

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

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

Mexican and Chilean grown avocados are primarily sold in the U.S., Japanese, and/or European marketplace. We anticipate that the combined sales of Mexican and Chilean grown avocados will increase in fiscal 2011.

### **Fiscal 2009 vs. Fiscal 2008:**

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

For fiscal year 2009, California sourced avocado sales (which are primarily sold in the U.S. marketplace) reflect a 42.5% decrease in pounds of avocados sold, when compared to the same prior year period. This decrease in pounds sold is primarily related to the corresponding decrease in the California avocado crop for fiscal 2008/2009. Such decrease is believed to be primarily related to poor weather conditions. Our market share of California avocados

increased to 31% for fiscal year 2009, when compared to a 28% market share for the same prior year period. The average selling price, on a per carton basis, of California avocados sold increased approximately 13.8% when compared to the same prior year period. We attribute some of this increase to the lower overall volume of California avocados in the marketplace.

Sales of tomatoes decreased \$5.6 million, or 28.5%, for fiscal year 2009, when compared to the same prior year period. The decrease in sales for tomatoes is primarily due to the decrease in the average carton selling price by 38.0%. This was partially offset by an increase in the volume of tomatoes by approximately 0.3 million cartons, or 15.3%, when compared to the same prior year

## **Table of Contents**

period. We attribute most of this decrease in the per carton selling price to the out of season production from the U.S. east coast that increased the volume of tomatoes in the U.S. marketplace at the very beginning of the Mexican tomato season.

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

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

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

### *CalavoFoods*

#### **Fiscal 2010 vs. Fiscal 2009:**

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

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

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

**Table of Contents**

Fiscal 2009 vs. Fiscal 2008:

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

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

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

**Gross Margins**

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

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

Our cost of sales consists predominantly of fruit costs, packing materials, freight and handling, labor and overhead (including depreciation) associated with preparing food products, and other direct expenses pertaining to products sold. Consolidated gross margin, as a percent of sales, stayed consistent at 12.9% for fiscal year 2010 when compared to fiscal year 2009. Gross margins increased by approximately \$7.0 million, or 15.7%, for fiscal year 2010, when compared to the same prior year period. This increase was attributable primarily to an increase in our Fresh products segment, partially offset by a decrease in our CalavoFoods segment.

**Fresh products**

Fiscal 2010 vs. Fiscal 2009:

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

exchange rate weakened during fiscal 2010, when compared to the same prior period. All of these combined had the effect of increasing our per pound costs, which, as a result, negatively impacted gross margins.

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

The gross margin and gross profit percentage for consignment sales, including certain Chilean avocados and tomatoes, are dependent on the volume of fruit we handle, the average selling prices, and the competitiveness of the returns that we provide to

## **Table of Contents**

third-party growers/packers. The gross margin we earn is generally based on a commission agreed to with each party, which usually is a percent of the overall selling price. Although we generally do not take legal title to such avocados and perishable products, we do assume responsibilities (principally assuming credit risk, inventory loss and delivery risk, and limited pricing risk) that are consistent with acting as a principal in the transaction. Accordingly, our results of operations include sales and cost of sales from the sale of avocados and perishable products procured under consignment arrangements. For fiscal years 2010, we generated gross margins of \$6.0 million from the sale of fresh produce products that were packed by third parties. This is a \$3.2 million increase in gross margin for consigned sales compared to previous year. This increase is due to an increase in tomato sales of 195.7% for fiscal 2010, when compared to the same prior year period. The increase in sales for tomatoes is due to an increase in the average per carton selling price of 128.1%, in addition to a 29.6% increase in the number of units sold. We attribute most of the increase in the per carton selling price to the lower volume of tomatoes in the U.S. marketplace (due to weather conditions in Florida) for fiscal 2010, as compared to the same prior period. We attribute most of the increase in units sold to growers supplying us with significantly more volume, due primarily to market conditions.

### **Fiscal 2009 vs. Fiscal 2008:**

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

The gross margin and gross profit percentage for consignment sales, including Chilean avocados, pineapples, and tomatoes, are dependent on the volume of fruit we handle, the average selling prices, and the competitiveness of the returns that we provide to third-party growers/packers. The gross margin we earn is generally based on a commission agreed to with each party, which varies from a fixed rate per box to a percent of the overall selling price. Although we generally do not take legal title to such avocados and perishable products, we do assume responsibilities (principally assuming credit risk, inventory loss and delivery risk, and limited pricing risk) that are consistent with acting as a principal in the transaction. Accordingly, our results of operations include sales and cost of sales from the sale of avocados and perishable products procured under consignment arrangements. For fiscal years 2009, we generated gross margins of \$2.8 million from the sale of fresh produce products that were packed by third parties.

Gross margin percentages related to California avocados are largely dependent on production yields achieved at our packinghouses, current market prices of avocados, our packing and marketing fee, and the volume of avocados packed. A significant portion of our costs are fixed. As such, a lower volume of fruit going through our packinghouses will decrease our gross margin percentage. Pounds of California avocados sold decreased 42.5% in fiscal 2009 as compared to fiscal 2008. This had the effect of increasing our per pound costs, which, as a result, negatively impacted gross margins.

### ***CalavoFoods***

#### **Fiscal 2010 vs. Fiscal 2009:**

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



**Table of Contents**

Fiscal 2009 vs. Fiscal 2008:

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

***Selling, General and Administrative***

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

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

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

***Interest income***

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

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

***Interest expense***

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

Interest expense is primarily generated from our line of credit borrowings, as well as our term loan agreement with Farm Credit West, PCA. For fiscal 2010, as compared to fiscal 2009, the decrease in interest expense was primarily related to a lower average outstanding balance and an overall decrease in interest rates under our non-collateralized, revolving credit facilities with Farm Credit West, PCA and Bank of America, N.A.

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

**Table of Contents*****Other Income, Net***

|                         | <b>2010</b>                   | <b>Change</b> | <b>2009</b> | <b>Change</b> | <b>2008</b> |
|-------------------------|-------------------------------|---------------|-------------|---------------|-------------|
|                         | <b>(Dollars in thousands)</b> |               |             |               |             |
| Other income, net       | \$430                         | 63.5          | \$263       | (63.2%)       | \$715       |
| Percentage of net sales | 0.1%                          |               | 0.1%        |               | 0.2%        |

Other income, net includes dividend income, as well as certain other transactions that are outside of the normal course of operations. During fiscal 2010, 2009, and 2008, we received \$0.2 million, \$0.1 million, and \$0.6 million as dividend income from Limoneira.

***Provision for Income Taxes***

|                                                        | <b>2010</b>                   | <b>Change</b> | <b>2009</b> | <b>Change</b> | <b>2008</b> |
|--------------------------------------------------------|-------------------------------|---------------|-------------|---------------|-------------|
|                                                        | <b>(Dollars in thousands)</b> |               |             |               |             |
| Provision for income taxes                             | \$11,341                      | 35.4%         | \$8,277     | 81.2%         | \$4,567     |
| Percentage of income before provision for income taxes | 39.1%                         |               | 37.8%       |               | 37.2%       |

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

***Quarterly Results of Operations***

The following table presents our operating results for each of the eight fiscal quarters in the period ended October 31, 2010. The information for each of these quarters is derived from our unaudited interim financial statements and should be read in conjunction with our audited consolidated financial statements included in this Annual Report. In our opinion, all necessary adjustments, which consist only of normal and recurring accruals, have been included to fairly present our unaudited quarterly results. Historically, we receive and sell a substantially lesser number of California avocados in our first fiscal quarter. Certain items in the prior period amounts have been reclassified to conform to the current period presentation.

|                                     | <b>Three months ended</b>                       |                          |                          |                          |                          |                          |                          |                          |
|-------------------------------------|-------------------------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
|                                     | <b>Oct. 31,<br/>2010</b>                        | <b>July 31,<br/>2010</b> | <b>Apr. 30,<br/>2010</b> | <b>Jan. 31,<br/>2010</b> | <b>Oct. 31,<br/>2009</b> | <b>July 31,<br/>2009</b> | <b>Apr. 30,<br/>2009</b> | <b>Jan. 31,<br/>2009</b> |
|                                     | <b>(in thousands, except per share amounts)</b> |                          |                          |                          |                          |                          |                          |                          |
| <b>Statement of Operations Data</b> |                                                 |                          |                          |                          |                          |                          |                          |                          |
| Net sales                           | \$ 107,234                                      | \$ 114,578               | \$ 109,219               | \$ 67,320                | \$ 80,942                | \$ 106,347               | \$ 86,829                | \$ 70,647                |
| Cost of sales                       | 92,940                                          | 99,303                   | 96,133                   | 58,445                   | 71,713                   | 96,441                   | 73,890                   | 58,188                   |
| Gross margin                        | 14,294                                          | 15,275                   | 13,086                   | 8,875                    | 9,229                    | 9,906                    | 12,939                   | 12,459                   |
| Selling, general and administrative | 7,035                                           | 5,514                    | 5,455                    | 5,164                    | 6,134                    | 5,822                    | 5,535                    | 5,300                    |
| Operating income                    | 7,259                                           | 9,761                    | 7,631                    | 3,711                    | 3,095                    | 4,084                    | 7,404                    | 7,159                    |
| Other income (expense), net         | 169                                             | 181                      | 233                      | 36                       | 164                      | (22)                     | 75                       | (71)                     |

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|                                                 |          |          |          |          |          |          |          |          |
|-------------------------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|
| Income before provision for income taxes        | 7,428    | 9,942    | 7,864    | 3,747    | 3,259    | 4,062    | 7,479    | 7,088    |
| Provision for income taxes                      | 2,733    | 4,045    | 3,090    | 1,473    | 955      | 1,597    | 3,017    | 2,708    |
| Net income                                      | 4,695    | 5,897    | 4,774    | 2,274    | 2,304    | 2,465    | 4,462    | 4,380    |
| Add: Net loss-noncontrolling interest           | 55       | 50       | 19       |          |          |          |          |          |
| Net income-Calavo Growers, Inc                  | \$ 4,750 | \$ 5,947 | \$ 4,793 | \$ 2,274 | \$ 2,304 | \$ 2,465 | \$ 4,462 | \$ 4,380 |
| Basic                                           | \$ 0.32  | \$ 0.41  | \$ 0.33  | \$ 0.16  | \$ 0.16  | \$ 0.17  | \$ 0.31  | \$ 0.30  |
| Diluted                                         | \$ 0.32  | \$ 0.41  | \$ 0.33  | \$ 0.16  | \$ 0.16  | \$ 0.17  | \$ 0.31  | \$ 0.30  |
| Number of shares used in per share computation: |          |          |          |          |          |          |          |          |
| Basic                                           | 14,710   | 14,651   | 14,572   | 14,505   | 14,505   | 14,457   | 14,423   | 14,419   |
| Diluted                                         | 14,722   | 14,676   | 14,598   | 14,572   | 14,582   | 14,529   | 14,508   | 14,429   |

### Liquidity and Capital Resources

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

**Table of Contents**

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

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

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

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

Our principal sources of liquidity are our existing cash reserves, cash generated from operations and amounts available for borrowing under our existing credit facilities. Cash and cash equivalents as of October 31, 2010 and 2009 totaled \$1.1 million and \$0.9 million. Our working capital at October 31, 2010 was \$14.8 million, compared to \$12.1 million at October 31, 2009.

We believe that cash flows from operations and available credit facilities will be sufficient to satisfy our future capital expenditures, grower recruitment efforts, working capital and other financing requirements. We will continue to evaluate grower recruitment opportunities and exclusivity arrangements with food service companies to fuel growth in each of our business segments. Effective July 31, 2009, we entered into a new loan agreement with Bank of America, N.A. which increased our existing non-collateralized, revolving credit facility to \$15.0 million, from \$10.0 million. This new agreement expires July 1, 2011. Our non-collateralized, revolving credit facilities with Farm Credit West, PCA expires in February 2012. Under the terms of these agreements, we are advanced funds for both working capital and long-term productive asset purchases. Total credit available under these combined borrowing agreements was \$45 million, with a weighted-average interest rate of 2.3% and 2.4% at October 31, 2010 and 2009. Under these credit facilities, we had \$8.2 million and \$12.0 million outstanding as October 31, 2010 and 2009, of which \$6.5 million was classified as a long-term liability as October 31, 2009. These credit facilities contain various financial covenants, the most significant relating to tangible net worth (as defined), and Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) (as defined). We were in compliance with all such covenants at October 31, 2010.

The following table summarizes contractual obligations pursuant to which we are required to make cash payments. The information is presented as of our fiscal year ended October 31, 2010:

| Contractual Obligations | Total | Payments due by<br>period |
|-------------------------|-------|---------------------------|
|-------------------------|-------|---------------------------|

|                                                 |           | <b>Less than 1<br/>year</b> | <b>1-3<br/>years</b> | <b>3-5<br/>years</b> | <b>More than 5<br/>years</b> |
|-------------------------------------------------|-----------|-----------------------------|----------------------|----------------------|------------------------------|
| Long-term debt obligations (including interest) | \$ 8,768  | \$ 1,781                    | \$ 3,340             | \$ 3,045             | \$ 602                       |
| Revolving credit facilities                     | 8,150     | 8,150                       |                      |                      |                              |
| Defined benefit plan                            | 275       | 42                          | 84                   | 84                   | 65                           |
| Operating lease commitments                     | 11,492    | 1,480                       | 2,743                | 2,513                | 4,756                        |
| Total                                           | \$ 28,685 | \$ 11,453                   | \$ 6,167             | \$ 5,642             | \$ 5,423                     |

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

## **Table of Contents**

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

### ***Recently Adopted Accounting Pronouncements***

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

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

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

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

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

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

Effective the first quarter of fiscal 2010, we adopted revised accounting guidance for business combinations, which changed its previous accounting practices regarding business combinations. The statement requires a number of changes, to be applied prospectively, to the purchase method of accounting for acquisitions, including changes in the way assets and liabilities are recognized in the purchase accounting. It also changes the recognition of assets acquired and liabilities assumed arising from contingencies, requires the capitalization of in-process research and development at fair value, and requires the expensing of acquisition-related costs as incurred. The impact of this accounting guidance and its relevant updates on our results of operations or financial position will vary depending on each specific business combination. See Note 16 for a business combination we closed in February 2010.

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

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

Effective the first quarter of fiscal 2010, we adopted revised accounting guidance related to the accounting and reporting for minority interests. Minority interests are now re-characterized as noncontrolling interests and in most cases are reported as a component of equity separate from the parent's equity, and purchases or sales of equity interests that do not result in a change in control will be accounted for as equity transactions. In addition, net income attributable to the noncontrolling interest is now included in consolidated net income on the face of the income

statement and, upon a loss of control, the interest sold, as well as any interest retained, will be recorded at fair value with any gain or loss recognized in earnings. See Note 16 for a business combination we closed in February 2010.

**Table of Contents*****Recently Issued Accounting Standards***

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

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

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

Our financial instruments include cash and cash equivalents, accounts receivable, payable to growers, accounts payable, current and long-term borrowings pursuant to our credit facilities with financial institutions, and long-term, fixed-rate obligations. All of our financial instruments are entered into during the normal course of operations and have not been acquired for trading purposes. The table below summarizes interest rate sensitive financial instruments and presents principal cash flows in U.S. dollars, which is our reporting currency, and weighted-average interest rates by expected maturity dates, as of October 31, 2010.

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

- (1) We believe the carrying amounts of cash and cash equivalents, accounts receivable, advances to suppliers, payable to growers, accounts payable, and current borrowings pursuant to credit facilities approximate their fair value due to the short maturity of these financial instruments.
- (2) Current long-term borrowings pursuant to our credit facility bears interest at 6.5%. We believe that a portfolio of loans with a similar risk profile would currently yield a return of 4.0%. We project the impact of an increase or decrease in interest rates of 100 basis points would result in a change of fair value by approximately \$10,000.

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

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

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

**Table of Contents****Item 8. Financial Statements and Supplementary Data**

**CALAVO GROWERS, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(in thousands)

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

|                            |            |            |
|----------------------------|------------|------------|
| Total shareholders' equity | 88,257     | 69,487     |
|                            | \$ 150,198 | \$ 122,749 |

*See accompanying notes to consolidated financial statements.*

30

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**Table of Contents**

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

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

*See accompanying notes to consolidated financial statements.*

Table of Contents

**CALAVO GROWERS, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
(in thousands)

|                                                                                    |             | <b>Year ended<br/>October 31,</b> |             |
|------------------------------------------------------------------------------------|-------------|-----------------------------------|-------------|
|                                                                                    | <b>2010</b> | <b>2009</b>                       | <b>2008</b> |
| Net income                                                                         | \$ 17,640   | \$ 13,611                         | \$ 7,725    |
| Other comprehensive income (loss), before tax:                                     |             |                                   |             |
| Unrealized holding gains (losses) arising during period                            | 10,786      | (5,704)                           | (19,058)    |
| Income tax benefit (expense) related to items of other comprehensive income (loss) | (4,293)     | 2,227                             | 7,337       |
| Other comprehensive income (loss), net of tax                                      | 6,493       | (3,477)                           | (11,721)    |
| Comprehensive income (loss)                                                        | 24,133      | 10,134                            | (3,996)     |
| Add: Net loss attributable to noncontrolling interest                              | 124         |                                   |             |
| Comprehensive income (loss) Calavo Growers, Inc.                                   | \$ 24,257   | \$ 10,134                         | \$ (3,996)  |

*See accompanying notes to consolidated financial statements.*

Table of Contents

**CALAVO GROWERS, INC.**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
(in thousands)

|                                                           | Common<br>Shares | Stock<br>Amount | Additional<br>Paid-in<br>Capital | Accumulated<br>Other<br>Comprehensive<br>Income | Retained<br>Earnings | Total     |
|-----------------------------------------------------------|------------------|-----------------|----------------------------------|-------------------------------------------------|----------------------|-----------|
| <b>Balance, October 31, 2007</b>                          | 14,371           | 14              | 38,068                           | 15,664                                          | 20,257               | 74,003    |
| Exercise of stock options and income tax benefit of \$147 | 48               |                 | 534                              |                                                 |                      | 534       |
| Stock compensation expense                                |                  |                 | 24                               |                                                 |                      | 24        |
| Unrealized loss on Limoneira investment, net              |                  |                 |                                  | (11,721)                                        |                      | (11,721)  |
| Dividend declared to shareholders                         |                  |                 |                                  |                                                 | (5,048)              | (5,048)   |
| Net income                                                |                  |                 |                                  |                                                 | 7,725                | 7,725     |
| <b>Balance, October 31, 2008</b>                          | 14,419           | 14              | 38,626                           | 3,943                                           | 22,934               | 65,517    |
| Exercise of stock options and income tax benefit of \$261 | 86               |                 | 1,044                            |                                                 |                      | 1,044     |
| Stock compensation expense                                |                  |                 | 44                               |                                                 |                      | 44        |
| Unrealized loss on Limoneira investment, net              |                  |                 |                                  | (3,477)                                         |                      | (3,477)   |
| Dividend declared to shareholders                         |                  |                 |                                  |                                                 | (7,252)              | (7,252)   |
| Net income                                                |                  |                 |                                  |                                                 | 13,611               | 13,611    |
| <b>Balance, October 31, 2009</b>                          | 14,505           | 14              | 39,714                           | 466                                             | 29,293               | 69,487    |
| Exercise of stock options and income tax benefit of \$664 | 207              |                 | 2,553                            |                                                 |                      | 2,553     |
| Stock compensation expense                                |                  |                 | 52                               |                                                 |                      | 52        |
| Unrealized gain on Limoneira investment, net              |                  |                 |                                  | 6,493                                           |                      | 6,493     |
| Dividend declared to shareholders                         |                  |                 |                                  |                                                 | (8,092)              | (8,092)   |
| Net income attributable to Calavo Growers, Inc.           |                  |                 |                                  |                                                 | 17,764               | 17,764    |
|                                                           | 14,712           | \$ 14           | \$ 42,319                        | \$ 6,959                                        | \$ 38,965            | \$ 88,257 |

**Balance, October 31,  
2010**

*See accompanying notes to consolidated financial statements.*

33

---

Table of Contents

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

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

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|                                                                                   |           |            |             |
|-----------------------------------------------------------------------------------|-----------|------------|-------------|
| Cash and cash equivalents, end of year                                            | \$ 1,064  | \$ 875     | \$ 1,509    |
| <b>Supplemental Information -</b>                                                 |           |            |             |
| Cash paid during the year for:                                                    |           |            |             |
| Interest                                                                          | \$ 850    | \$ 1,195   | \$ 1,455    |
| Income taxes                                                                      | \$ 8,845  | \$ 8,803   | \$ 2,504    |
| <b>Noncash Investing and Financing Activities:</b>                                |           |            |             |
| Tax receivable increase related to stock option exercise                          | \$ 664    | \$ 261     | \$ 147      |
| Declared dividends payable                                                        | \$ 8,092  | \$ 7,252   | \$ 5,047    |
| Construction in progress included in trade accounts payable and accrued expenses  | \$ 32     | \$ 245     | \$ 259      |
| Capital lease obligations                                                         | \$        | \$         | \$ 1,125    |
| Fixed asset acquired with long term debt                                          | \$        | \$         | \$ 4,000    |
| Minimum earnout adjustment related to the acquisition of Hawaiian Sweet and Pride | \$        | \$ 902     | \$          |
| Unrealized holding gains (losses)                                                 | \$ 10,786 | \$ (5,704) | \$ (19,058) |

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

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

**Table of Contents**

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

In May 2008, we acquired all of the outstanding shares of Hawaiian Sweet, Inc. and all ownership interests of Hawaiian Pride, LLC for approximately \$5.0 million, as well as approximately \$7.7 million in deferred and contingent consideration, plus acquisition costs of approximately \$0.2 million. The following table summarizes the estimated fair values of the non-cash assets acquired and liabilities assumed at the date of acquisition.

| <b>(in thousands)</b>                 | <b>2008</b>  |
|---------------------------------------|--------------|
| Current assets                        | \$ 1,303     |
| Fixed assets                          | 10,947       |
| Intangible assets                     | 1,310        |
| <br>Total non-cash assets acquired    | <br>13,560   |
| Current liabilities assumed           | 809          |
| Deferred and contingent consideration | 7,721        |
| <br>Net non-cash assets acquired      | <br>\$ 5,030 |

*See accompanying notes to consolidated financial statements.*

**Table of Contents**

**CALAVO GROWERS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Description of the business**

***Business***

Calavo Growers, Inc. (Calavo, the Company, we, us or our) procures and markets avocados and other perishable commodities and prepares and distributes processed avocado products. Our expertise in marketing and distributing avocados, processed avocados, and other perishable foods allows us to deliver a wide array of fresh and processed food products to food distributors, produce wholesalers, supermarkets, and restaurants on a worldwide basis. We procure avocados principally from California, Mexico, and Chile. Through our operating facilities in Arizona, California, Hawaii, New Jersey, Texas, and Mexico, we sort, pack, and/or ripen avocados, tomatoes and/or Hawaiian grown papayas for distribution both domestically and internationally. We also have an operating facility in Minnesota that produces salsa. We report our operations in two different business segments: (1) Fresh products and (2) CalavoFoods. See Note 11 in our consolidated financial statements for further information about our business segments. See Note 16 for discussion regarding our acquisition of Calavo Salsa Lisa.

**2. Basis of Presentation and Significant Accounting Policies**

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

Our consolidated financial statements include the accounts of Calavo Growers, Inc. and our wholly owned subsidiaries, Calavo de Mexico S.A. de C.V., Calavo Foods de Mexico S.A. de C.V., Maui Fresh International, Inc. (Maui), Calavo Inversiones (Chile) Limitada, Hawaiian Sweet, Inc. ( HS ) and Hawaiian Pride, LLC ( HP ). In addition, we consolidate our newly acquired entity Calavo Salsa Lisa, in which we have a 65 percent ownership interest. See Note 16 for discussion regarding our acquisition of Calavo Salsa Lisa. Such dissolution did not have any impact on our financial position or our results of operations. All intercompany accounts and transactions have been eliminated in consolidation. Effective July 2009, we formed Calavo Inversiones (Chile) Limitada, a wholly owned subsidiary.

***Cash and Cash Equivalents***

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

***Prepaid Expenses and Other Current Assets***

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

***Inventories***

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

***Property, Plant, and Equipment***

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

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

Note 4 for further information.

**Table of Contents*****Goodwill and Acquired Intangible Assets***

Goodwill is tested for impairment on an annual basis and between annual tests whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill is tested at the reporting unit level, which is defined as an operating segment or one level below the operating segment. Goodwill impairment testing is a two-step process. The first step of the goodwill impairment test, used to identify potential impairment, compares the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired, and the second step of the impairment test would be unnecessary. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test must be performed to measure the amount of impairment loss, if any. The second step of the goodwill impairment test, used to measure the amount of impairment loss, compares the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss must be recognized in an amount equal to that excess. Goodwill impairment testing requires significant judgment and management estimates, including, but not limited to, the determination of (i) the number of reporting units, (ii) the goodwill and other assets and liabilities to be allocated to the reporting units and (iii) the fair values of the reporting units. The estimates and assumptions described above, along with other factors such as discount rates, will significantly affect the outcome of the impairment tests and the amounts of any resulting impairment losses. We performed our annual assessment of goodwill and determined that no impairment existed as of October 31, 2010.

***Long-lived Assets***

Long-lived assets, including fixed assets and intangible assets (other than goodwill), are continually monitored and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of any such asset may not be recoverable. The determination of recoverability is based on an estimate of undiscounted cash flows expected to result from the use of an asset and its eventual disposition. The estimate of undiscounted cash flows is based upon, among other things, certain assumptions about future operating performance, growth rates and other factors. Estimates of undiscounted cash flows may differ from actual cash flows due to, among other things, technological changes, economic conditions, changes to the business model or changes in operating performance. If the sum of the undiscounted cash flows (excluding interest) is less than the carrying value, an impairment loss will be recognized, measured as the amount by which the carrying value exceeds the fair value of the asset. We have evaluated our long-lived assets and determined that no impairment existed as of October 31, 2010.

***Investments***

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

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

Commencing on the first anniversary of this agreement and continuing thereafter during the term of the agreement, Calavo has the unconditional right, but not the obligation, to purchase the one-half interest in Maui Fresh owned by SRD at a purchase price to be determined pursuant to the agreement. The term of the agreement is for five years, which may be extended, or terminated early, as defined. As of October 31, 2010, we have no advances outstanding to Maui Fresh. As of October 31, 2009, we have advanced Maui Fresh approximately \$0.4 million (included in prepaid expenses and other current assets) for working capital purposes. Per the agreement, these advances were made at our

own discretion and are expected to be paid back in cash.

In June 2009, we (through a newly created wholly owned subsidiary: Calavo Inversiones (Chile) Limitada) entered into a joint venture agreement with Exportadora M5, S.A. (M5) for the purpose of selling and distributing Chilean sourced avocados. Such joint venture operates under the name of Calavo de Chile and commenced operations in July 2009. M5 and Calavo each have an equal

## **Table of Contents**

one-half ownership interest in Calavo de Chile, but M5 has overall management responsibility for the operations of Calavo De Chile. We use the equity method to account for this investment.

### ***Marketable Securities***

Our marketable securities consist of our investment in Limoneira Company (Limoneira) stock. We currently own approximately 15% of Limoneira's outstanding common stock. These securities are carried at fair value as determined from quoted market prices. The estimated fair value, cost, and gross unrealized gain related to such investment was \$35.0 million, \$23.5 million and \$11.5 million as of October 31, 2010. The estimated fair value, cost, and gross unrealized gain related to such investment was \$24.2 million, \$23.5 million and \$0.7 million as of October 31, 2009.

### ***Advances to Suppliers***

We advance funds to third-party growers primarily in Chile and Mexico for various farming needs. Typically, we obtain collateral (i.e. fruit, fixed assets, etc.) that approximates the value at risk, prior to making such advances. We continuously evaluate the ability of these growers to repay advances in order to evaluate the possible need to record an allowance. No such allowance was required at October 31, 2010, nor October 31, 2009.

In June 2007, we entered into a distribution agreement with Agricola Belher (Belher) of Mexico, a producer of fresh vegetables, primarily tomatoes, for export to the U.S. market. Pursuant to such distribution agreement, Belher agreed, at their sole cost and expense, to harvest, pack, export, ship, and deliver tomatoes exclusively to our company, primarily our Arizona facility. In exchange, we agreed to sell and distribute such tomatoes, advance \$2 million to Belher for operating purposes, provide additional advances as shipments are made during the season (subject to limitations, as defined), and return the proceeds from such tomato sales to Belher, net of our commission and aforementioned advances. The agreement also allows for us to advance additional amounts to Belher at our sole discretion. As of October 31, 2010 and 2009, we have advanced \$1.0 million and \$2.0 million to Belher pursuant to this agreement, which is recorded in advances to suppliers.

### ***Infrastructure Advances***

We entered into an infrastructure agreement in June 2007 with Belher in order to significantly increase production yields and fruit quality. Pursuant to this agreement, we advanced \$2.4 million and \$4.2 million as of October 31, 2010 and 2009 (\$1.2 million and \$1.8 million included in prepaid expenses and other current assets and \$1.2 million and \$2.4 million included in other long-term assets). Belher is to annually repay these advances in no less than 20% increments through July 2012. Agricola Belher paid \$1.8 million and \$0.5 million in fiscal years 2010 and 2009 related to infrastructure advances. For fiscal year 2010 and 2009, we have not made any infrastructure advances to Agricola Belher. In addition, the agreement allows for additional \$1.0 million advances to take place during the last five months of each of our fiscal years 2009 and 2010, but they are subject to certain conditions and are to be made at our sole discretion. Belher is to annually repay these advances in full on or before each of July 2010 and July 2011. For fiscal 2010 and 2009, no additional advances were made to Belher. Interest is to be paid monthly or annually, as defined. Belher may prepay, without penalty, all or any portion of the advances at any time.

### ***Accrued Expenses***

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

### ***Revenue Recognition***

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

### ***Shipping and Handling***

We include shipping and handling fees billed to customers in net revenues. Amounts incurred by us for freight are included in cost of goods sold.

**Table of Contents*****Promotional Allowances***

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

***Allowance for Accounts Receivable***

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

***Consignment Arrangements***

We frequently enter into consignment arrangements with avocado and tomato growers and packers located outside of the United States and growers of certain perishable products in the United States. Although we generally do not take legal title to these avocados and perishable products, we do assume responsibilities (principally assuming credit risk, inventory loss and delivery risk, and limited pricing risk) that are consistent with acting as a principal in the transaction. Accordingly, the accompanying financial statements include sales and cost of sales from the sale of avocados and perishable products procured under consignment arrangements. Amounts recorded for each of the fiscal years ended October 31, 2010, 2009 and 2008 in the financial statements pursuant to consignment arrangements are as follows (in thousands):

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

***Advertising Expense***

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

***Other income, net***

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

***Use of Estimates***

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

***Income Taxes***

We account for deferred tax liabilities and assets for the future consequences of events that have been recognized in our consolidated financial statements or tax returns. Measurement of the deferred items is based on enacted tax laws. In the event the future consequences of differences between financial reporting bases and tax bases of our assets and liabilities result in a deferred tax asset, we perform an evaluation of the probability of being able to realize the future benefits indicated by such asset. A valuation allowance related to a deferred tax asset is recorded when it is more likely than not that some portion or all of the deferred tax asset will not be realized.

We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

**Table of Contents**

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

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

***Basic and Diluted Net Income per Share***

Basic earnings per share is calculated using the weighted-average number of common shares outstanding during the period without consideration of the dilutive effect of stock options. The basic weighted-average number of common shares outstanding was 14,610,000, 14,451,000, and 14,398,000 for fiscal years 2010, 2009, and 2008. Diluted earnings per common share is calculated using the weighted-average number of common shares outstanding during the period after consideration of the dilutive effect of stock options, which were 9,000, 52,000, and 83,000 for fiscal years 2010, 2009 and 2008. There were no significant anti-dilutive options for fiscal years 2010, 2009 and 2008.

***Stock-Based Compensation***

We account for awards of equity instruments issued to employees under the fair value method of accounting and recognize such amounts in their statements of operations. We measure compensation cost for all stock-based awards at fair value on the date of grant and recognize compensation expense in our consolidated statements of operations over the service period that the awards are expected to vest.

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

We measure the fair value of our stock option awards on the date of grant. The following assumptions were used in the estimated grant date fair value calculations for stock options:

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

For the years ended October 31, 2010, 2009 and 2008, we recognized compensation expense of \$52,000, \$44,000, and \$24,000 related to stock-based compensation.

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

The Black-Scholes-Merton and lattice-based option valuation models were developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. Because options held by our

directors and employees have characteristics significantly different from those of traded options, in our opinion, the existing models do not necessarily provide a reliable single measure of the fair value of these options.

## **Table of Contents**

### ***Foreign Currency Translation and Remeasurement***

Our foreign operations are subject to exchange rate fluctuations and foreign currency transaction costs. The functional currency of our foreign subsidiaries is the United States dollar. As a result, monetary assets and liabilities are translated into U.S. dollars at exchange rates as of the balance sheet date and non-monetary assets, liabilities and equity are translated at historical rates. Sales and expenses are translated using a weighted-average exchange rate for the period. Gains and losses resulting from those remeasurements are included in income. Gains and losses resulting from foreign currency transactions are also recognized currently in income. Total foreign currency losses for fiscal 2010, net of gains was \$0.1 million. Total foreign currency gains for fiscal 2009, and 2008, net of losses, was less than \$0.1 million and \$0.5 million.

### ***Fair Value of Financial Instruments***

We believe that the carrying amounts of cash and cash equivalents, accounts receivable, and accounts payable approximates fair value based on either their short-term nature or on terms currently available to the Company in financial markets. We believe that our fixed-rate long-term obligations have a fair value of approximately \$8.1 million as of October 31, 2010, with a corresponding carrying value of approximately \$7.5 million. In addition, our long-term borrowings pursuant to credit facilities have a fair value and a corresponding carrying value of approximately of \$1.0 million.

### ***Derivative Financial Instruments***

Except as disclosed in Note 16, we were not a party to any derivative instruments during the fiscal year 2010. It is currently our intent not to use derivative instruments for speculative or trading purposes. Additionally, we do not use any hedging or forward contracts to offset market volatility.

### ***Recently Adopted Accounting Pronouncements***

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

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

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

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

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

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

Effective the first quarter of fiscal 2010, we adopted revised accounting guidance for business combinations, which changed its previous accounting practices regarding business combinations. The statement requires a number of changes, to be applied prospectively, to the purchase method of accounting for acquisitions, including changes in the way assets and liabilities are recognized in the purchase accounting. It also changes the recognition of assets acquired and liabilities assumed arising from contingencies, requires the capitalization of in-process research and development at fair value, and requires the expensing of acquisition-related costs as incurred. The impact of this accounting guidance and its relevant updates on our results of operations or financial position will vary depending on each specific business combination. See Note 16 for a business combination we closed in February 2010.

Effective the first quarter of fiscal 2010, we adopted revised accounting guidance for the determination of the useful life of intangible assets. This accounting guidance amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. This change is intended to improve the consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset. The requirement for determining useful lives must be applied

prospectively to intangible assets acquired after the effective date and the disclosure requirements must be applied prospectively to all intangible assets recognized as of, and subsequent to, the effective date. Our adoption of this guidance did not have a material impact on its financial position, results of operations or liquidity.

**Table of Contents**

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

Effective the first quarter of fiscal 2010, we adopted revised accounting guidance related to the accounting and reporting for minority interests. Minority interests are now re-characterized as noncontrolling interests and in most cases are reported as a component of equity separate from the parent's equity, and purchases or sales of equity interests that do not result in a change in control will be accounted for as equity transactions. In addition, net income attributable to the noncontrolling interest is now included in consolidated net income on the face of the income statement and, upon a loss of control, the interest sold, as well as any interest retained, will be recorded at fair value with any gain or loss recognized in earnings. See Note 16 for a business combination we closed in February 2010.

***Recently Issued Accounting Standards***

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

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

***Comprehensive Income (Loss)***

Comprehensive income (loss) is defined as all changes in a company's net assets, except changes resulting from transactions with shareholders. For the fiscal year ended October 31, 2010, other comprehensive income includes the unrealized gain on our Limoneira investment totaling \$6.5 million, net of income taxes. Limoneira's stock price at October 31, 2010 equaled \$20.24 per share, after a 10 for 1 stock split in the second quarter of fiscal year 2010. For the fiscal year ended October 31, 2009, other comprehensive loss includes the unrealized loss on our Limoneira investment totaling \$3.5 million, net of income taxes. Limoneira's stock price at October 31, 2009 equaled \$14.00 per share (adjusted for the above mentioned stock split). For the fiscal year ended October 31, 2008, other comprehensive loss includes the unrealized loss on our Limoneira investment totaling \$11.7 million, net of income taxes. Limoneira's stock price at October 31, 2008 equaled \$17.30 per share (adjusted for the above mentioned stock split).

***Reclassifications***

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

**Table of Contents****3. Inventories**

Inventories consist of the following (in thousands):

|                                  | <b>October 31,</b> |             |
|----------------------------------|--------------------|-------------|
|                                  | <b>2010</b>        | <b>2009</b> |
| Fresh fruit                      | \$ 8,630           | \$ 4,495    |
| Packing supplies and ingredients | 3,069              | 2,652       |
| Finished processed foods         | 3,132              | 4,584       |
|                                  | \$ 14,831          | \$ 11,731   |

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

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

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

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

**4. Property, Plant, and Equipment**

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

|                                                | <b>October 31,</b> |             |
|------------------------------------------------|--------------------|-------------|
|                                                | <b>2010</b>        | <b>2009</b> |
| Land                                           | \$ 7,023           | \$ 6,923    |
| Buildings and improvements                     | 18,039             | 17,694      |
| Leasehold improvements                         | 1,104              | 828         |
| Equipment                                      | 48,725             | 45,812      |
| Information systems Hardware and software      | 5,175              | 5,209       |
| Construction in progress                       | 2,265              | 648         |
|                                                | 82,331             | 77,114      |
| Less accumulated depreciation and amortization | (41,272)           | (38,493)    |
|                                                | \$ 41,059          | \$ 38,621   |

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

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



**Table of Contents****5. Other Assets**

Other assets consist of the following (in thousands):

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

At October 31, 2010, other assets in the accompanying consolidated financial statements included the following intangible assets: customer list, trade name and non-competition agreements of \$2.2 million (accumulated amortization of \$1.1 million), brand name intangibles of \$0.3 million, trade secrets of \$1.4 million (accumulated amortization of \$0.1 million) and a customer list of \$0.2 million. The customer-related, trade name and non-competition agreements are being amortized over periods up to 10 years, the trade secrets are being amortized over 13 years and the customer list is being amortized over 7 years. The intangible asset related to the brand name currently has an indefinite life and, as a result, is not currently subject to amortization. We recorded amortization expense of approximately \$291,000, \$171,000, and \$247,000 for fiscal years 2010, 2009, and 2008. We anticipate recording amortization expense of approximately \$318,000 of amortization expense for fiscal year 2011 and \$305,000 of amortization expense for fiscal years 2012 through 2015. The remainder of approximately \$1,058,000 will be amortized over fiscal years 2016 through 2023.

**6. Revolving Credit Facilities**

In July 2009 and May 2008, we renewed and/or extended our non-collateralized, revolving credit facilities with Bank of America, N.A. and Farm Credit West, PCA. These two credit facilities expire in July 2011 and February 2012. Under the terms of these agreements, we are advanced funds for working capital, the purchase and installation of capital items, and/or other corporate needs of the Company. In July 2009, our credit available under these combined borrowing agreements was increased from \$40 million to \$45 million, with a weighted-average interest rate of 2.3% at October 31, 2010 and 2.4% at October 31, 2009. Under these credit facilities, we had \$8.2 million and \$12.0 million outstanding at October 31, 2010 and 2009, of which \$6.5 million was classified as a long-term liability as October 31, 2009. These credit facilities contain various financial covenants, the most significant relating to tangible net worth (as defined), and Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) (as defined). We were in compliance with all such covenants at October 31, 2010.

**7. Employee Benefit Plans**

We sponsor two defined contribution retirement plans for salaried and hourly employees. Expenses for these plans approximated \$639,000, \$557,000, and \$604,000 for fiscal years 2010, 2009 and 2008, which are included in selling, general and administrative expenses in the accompanying financial statements.

We also sponsor a non-qualified defined benefit plan for two retired executives. Pension expenses, including actuarial losses, approximated \$34,000 and \$48,000 for the year ended October 31, 2010, and 2009. Pension income, including actuarial gains approximated \$36,000 for the years ended October 31, 2008. These amounts are included in selling, general and administrative expenses in the accompanying financial statements.

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

|                                                   | 2010   | 2009   |
|---------------------------------------------------|--------|--------|
| Change in projected benefit obligation:           |        |        |
| Projected benefit obligation at beginning of year | \$ 283 | \$ 279 |

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|                                                        |        |        |
|--------------------------------------------------------|--------|--------|
| Interest cost                                          | 16     | 18     |
| Actuarial loss                                         | 18     | 30     |
| Benefits paid                                          | (42)   | (44)   |
| Projected benefit obligation at end of year (unfunded) | \$ 275 | \$ 283 |

44

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**Table of Contents**

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

|                              | <b>2010</b> | <b>2009</b> |
|------------------------------|-------------|-------------|
| Projected benefit obligation | \$ 275      | \$ 283      |
| Unrecognized net (gain) loss |             |             |
| Recorded pension liabilities | \$ 275      | \$ 283      |

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

|                                               | <b>2010</b> | <b>2009</b> |
|-----------------------------------------------|-------------|-------------|
| Discount rate on projected benefit obligation | 5.00%       | 5.25%       |

**8. Commitments and Contingencies*****Commitments and guarantees***

We lease facilities and certain equipment under non cancelable operating leases expiring at various dates through 2021. We are committed to make minimum cash payments under these agreements as of October 31, 2010 as follows (in thousands):

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

Total rent expense amounted to approximately \$1.7 million, \$1.8 million and \$1.7 million for the years ended October 31, 2010, 2009, and 2008. Rent to Limoneira, for our corporate office, amounted to approximately \$0.2 million for fiscal years 2010, 2009, and 2008. We are committed to rent our corporate facility through fiscal 2015 at an annual rental of \$0.2 million per annum (subject to annual CPI increases, as defined).

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

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

***Litigation***

**Hacienda Suits** We are currently under examination by the Mexican tax authorities (Hacienda) for the tax year ended December 31, 2000. We have received an assessment totaling approximately \$2.0 million from Hacienda related to the amount of income at our Mexican subsidiary. Subsequent to that initial assessment, the Hacienda offered a settlement of approximately \$400,000, which we declined. In the second quarter of 2009, we won our appeal case. The Hacienda subsequently appealed that decision and the case was sent back to the tax court due to administrative error by such jurisdiction. During the second quarter of 2010, we once again won our appeal and, once again, the Hacienda appealed the decision and the case has been sent back to the tax court. We do not believe that the resolution of this examination will have a significant impact on our results of operations.

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

**Table of Contents**

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

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

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

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

**9. Related-Party Transactions**

We sell papayas obtained from an entity previously owned by our Chairman of the Board of Directors, Chief Executive Officer and President. On May 30, 2008, we acquired all of the outstanding shares of this entity. Sales of papayas through the acquisition date amounted to approximately \$4,383,000, resulting in gross margins of approximately \$323,000.

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

During fiscal 2010, 2009 and 2008, we received \$0.2 million, \$0.1 million, and \$0.6 million as dividend income from Limoneira.

**10. Income Taxes**

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

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

At October 31, 2010 and 2009, gross deferred tax assets totaled approximately \$3.0 million and \$3.0 million, while gross deferred tax liabilities totaled approximately \$9.0 million and \$3.3 million. Deferred income taxes reflect the net of temporary differences between the carrying amount of assets and liabilities for financial reporting and income tax purposes.

Significant components of our deferred taxes assets (liabilities) as of October 31, 2010 and 2009 are as follows (in thousands):

|                                    | 2010   | 2009     |
|------------------------------------|--------|----------|
| Allowances for accounts receivable | \$ 609 | \$ 1,568 |
| Inventories                        | 662    | 283      |
| State taxes                        | 470    | 342      |
| Intangible assets                  |        | 73       |

|                                       |            |            |
|---------------------------------------|------------|------------|
| Accrued liabilities                   | 595        | 462        |
| Current deferred income taxes         | \$ 2,336   | \$ 2,728   |
| Property, plant, and equipment        | (3,775)    | (2,732)    |
| Intangible assets                     | (76)       | (178)      |
| Unrealized gain, Limoneira investment | (4,586)    | (292)      |
| Retirement benefits                   |            | (83)       |
| Stock-based compensation              | 125        | 250        |
| Other                                 | 46         | 3          |
| Long-term deferred income taxes       | \$ (8,266) | \$ (3,032) |

**Table of Contents**

A reconciliation of the significant differences between the federal statutory income tax rate and the effective income tax rate on pretax income is as follows:

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

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

As of October 31, 2010 and 2009, we provided a liability of \$0.1 million for unrecognized tax benefits related to various federal and state income tax matters. The tax effected amount would reduce our effective income tax rate if recognized.

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

|                                            |        |
|--------------------------------------------|--------|
| Balance at November 1, 2008                | \$ 107 |
| Additions for tax positions of prior years | (4)    |
| Balance at October 31, 2009                | 103    |
| Balance at October 31, 2010                | \$ 103 |

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

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

**11. Segment Information**

During the second quarter of fiscal 2010, we renamed our processed products business segment to CalavoFoods. Such name was changed to better describe the segment. As such, we now report our operations in two different business segments: Fresh products and CalavoFoods. These two business segments are presented based on how information is used by our president to measure performance and allocate resources. The Fresh products segment includes all operations that involve the distribution of avocados grown both inside and outside of California, as well as the distribution of other non-processed, perishable food products. The CalavoFoods segment represents all operations related to the purchase, manufacturing, and distribution of processed avocado products. Additionally, selling, general and administrative expenses and non-operating line items are not charged directly, nor allocated to, a specific product line. These items are now evaluated by our president only in aggregate. We do not allocate assets, or specifically identify them to, our operating segments.

**Table of Contents**

|                                    | <b>Fresh<br/>products</b>                           | <b>Calavo-<br/>Foods</b> | <b>Total</b> |
|------------------------------------|-----------------------------------------------------|--------------------------|--------------|
|                                    | <b>(All amounts are presented in<br/>thousands)</b> |                          |              |
| <b>Year ended October 31, 2010</b> |                                                     |                          |              |
| Net sales                          | \$ 348,052                                          | \$ 50,299                | \$ 398,351   |
| Cost of sales                      | 309,609                                             | 37,212                   | 346,821      |
| Gross margin                       | \$ 38,443                                           | \$ 13,087                | \$ 51,530    |
| <b>Year ended October 31, 2009</b> |                                                     |                          |              |
| Net sales                          | \$ 300,235                                          | \$ 44,530                | \$ 344,765   |
| Cost of sales                      | 271,159                                             | 29,073                   | 300,232      |
| Gross margin                       | \$ 29,076                                           | \$ 15,457                | \$ 44,533    |
| <b>Year ended October 31, 2008</b> |                                                     |                          |              |
| Net sales                          | \$ 315,667                                          | \$ 45,807                | \$ 361,474   |
| Cost of sales                      | 293,444                                             | 34,849                   | 328,293      |
| Gross margin                       | \$ 22,223                                           | \$ 10,958                | \$ 33,181    |

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

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

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

**Year ended October 31, 2009**

**Year ended October 31, 2008**

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

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

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

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

|      | <b>United<br/>States</b> | <b>Mexico</b> | <b>Consolidated</b> |
|------|--------------------------|---------------|---------------------|
| 2010 | \$ 24,816                | \$ 16,243     | \$ 41,059           |
| 2009 | \$ 22,748                | \$ 15,873     | \$ 38,621           |

**Table of Contents****12. Long-Term Obligations**

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

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

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

Such term loan contains various financial covenants, the most significant relating to tangible net worth (as defined), and Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) (as defined). We were in compliance with all such covenants at October 31, 2010.

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

|                         | <b>Total</b> |
|-------------------------|--------------|
| Year ending October 31: |              |
| 2011                    | \$ 1,369     |
| 2012                    | 1,373        |
| 2013                    | 1,376        |
| 2014                    | 1,380        |
| 2015                    | 1,383        |
| Thereafter              | 577          |
|                         | \$ 7,458     |

**13. Stock-Based Compensation*****The Directors Stock Option Plan***

Participation in the director's stock option plan, which was approved by our Board of Directors in 2001, was limited to members of our Board of Directors. The plan made available to the Board of Directors the right to grant options to purchase up to 3,000,000 shares of common stock. In connection with the adoption of the plan, the Board of Directors approved an award of fully vested options to purchase 1,240,000 shares of common stock at an exercise price of \$5.00 per share.

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

|                                 | <b>Number of<br/>Shares</b> | <b>Weighted-Average<br/>Exercise Price</b> |
|---------------------------------|-----------------------------|--------------------------------------------|
| Outstanding at October 31, 2007 | 49                          | \$ 7.00                                    |
| Exercised                       | (25)                        | \$ 7.00                                    |

|                                 |      |    |      |
|---------------------------------|------|----|------|
| Forfeited                       | (24) | \$ | 7.00 |
| Outstanding at October 31, 2008 |      |    |      |

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

***The Employee Stock Purchase Plan***

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

**Table of Contents**

84 participating employees electing to purchase approximately 279,000 shares. There was no activity related to such plan since this award.

***The 2005 Stock Incentive Plan***

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

Incentive stock options that are intended to satisfy the requirements of Section 422 of the Internal Revenue Code of 1986, as amended, and the regulations thereunder;

Non-qualified stock options that are not intended to be incentive stock options; and

Shares of common stock that are subject to specified restrictions

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

In December 2006, our Board of Directors approved the issuance of options to acquire a total of 20,000 shares of our common stock to two members of our Board of Directors. Each grant to acquire 10,000 shares vests in increments of 2,000 per annum over a five-year period and has an exercise price of \$10.46 per share. Vested options have a term of five years from the vesting date. The market price of our common stock at the grant date was \$10.46. The estimated fair market value of such option grant was approximately \$40,000. The total compensation cost not yet recognized as of October 31, 2010 was not significant.

In May 2008, our Board of Directors approved the issuance of options to acquire a total of 58,000 shares of our common stock to three members of our Board of Directors. Each grant vests in equal increments over a five-year period and has an exercise price of \$14.58 per share. Vested options have a term of five years from the vesting date. The market price of our common stock at the grant date was \$14.58. The estimated fair market value of such option grants were approximately \$184,000. The total compensation cost not yet recognized as of October 31, 2010 was approximately \$95,000, which will be recognized over the remaining service period of 31 months

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

In August 2010, our Board of Directors approved the issuance of options to acquire a total of 10,000 shares of our common stock to one member of our Board of Directors. Such grant vests in equal increments over a five-year period and has an exercise price of \$19.20 per share. Vested options have a term of five years from the vesting date. The market price of our common stock at the grant date was \$19.20. The estimated fair market value of such option grant was approximately \$64,000. The total compensation cost not yet recognized as of October 31, 2010 was approximately \$60,000, which will be recognized over the remaining service period of 57 months.

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

|                                 | Number of<br>Shares | Weighted-Average<br>Exercise Price | Weighted-Average<br>Fair-Value | Aggregate<br>Intrinsic<br>Value |
|---------------------------------|---------------------|------------------------------------|--------------------------------|---------------------------------|
| Outstanding at October 31, 2007 | 333                 | \$ 9.18                            |                                |                                 |
| Granted                         | 58                  | \$ 14.58                           | \$3.18/share                   |                                 |
| Forfeited                       | (8)                 | \$ 10.46                           |                                |                                 |
| Exercised                       | (23)                | \$ 9.22                            |                                |                                 |

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|                                 |       |    |       |              |     |
|---------------------------------|-------|----|-------|--------------|-----|
| Outstanding at October 31, 2008 | 360   | \$ | 10.02 |              |     |
| Granted                         | 10    | \$ | 8.05  | \$3.67/share |     |
| Exercised                       | (86)  | \$ | 9.10  |              |     |
| Outstanding at October 31, 2009 | 284   | \$ | 10.23 |              |     |
| Granted                         | 10    | \$ | 19.20 | \$6.36/share |     |
| Exercised                       | (207) | \$ | 9.13  |              |     |
| Outstanding at October 31, 2010 | 87    | \$ | 13.89 | \$           | 696 |
| Exercisable at October 31, 2010 | 28    | \$ | 13.53 | \$           | 236 |

50

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**Table of Contents**

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

**14. Dividends**

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

**15. Fair value measurements**

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

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

|                                                | Level 1                                  | Level 2 | Level 3 | Total     |
|------------------------------------------------|------------------------------------------|---------|---------|-----------|
|                                                | (All amounts are presented in thousands) |         |         |           |
| <b>Assets at Fair Value:</b>                   |                                          |         |         |           |
| Investment in Limoneira Company <sup>(1)</sup> | \$ 34,986                                |         |         | \$ 34,986 |
| Total assets at fair value                     | \$ 34,986                                | \$      | \$      | \$ 34,986 |

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

|                                                    | Level 1                                  | Level 2 | Level 3  | Total    |
|----------------------------------------------------|------------------------------------------|---------|----------|----------|
|                                                    | (All amounts are presented in thousands) |         |          |          |
| <b>Liabilities at Fair Value:</b>                  |                                          |         |          |          |
| Salsa Lisa contingent consideration <sup>(2)</sup> |                                          |         | \$ 1,521 | \$ 1,521 |
| Total assets at fair value                         | \$                                       | \$      | \$ 1,521 | \$ 1,521 |

- <sup>(2)</sup> See Note 16 for further discussion.

**16. Business Acquisition**

On February 8, 2010, Calavo Growers, Inc. ( "Calavo" ), Calavo Salsa Lisa, LLC ( "Calavo Salsa Lisa" ), Lisa's Salsa Company ( "LSC" ) and Elizabeth Nicholson and Eric Nicholson, entered into an Asset Purchase and Contribution Agreement, dated February 8, 2010 (the "Acquisition Agreement" ), which sets forth the terms and conditions pursuant

to which Calavo acquired a 65 percent ownership interest in newly created Calavo Salsa Lisa which acquired substantially all of the assets of LSC. Elizabeth Nicholson and Eric Nicholson, through LSC, hold the remaining 35 percent ownership of Calavo Salsa Lisa. LSC is a regional producer in the upper Midwest United States of Salsa Lisa refrigerated salsas. We believe that this new line of salsas will further diversify our product offerings and will be a natural complement to our ultra-high-pressure guacamole, as well as our recently introduced Calavo tortilla chips.

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

**Table of Contents**

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

|                                   | Then Earn-out<br>Payment shall<br>be: |
|-----------------------------------|---------------------------------------|
| Net Sales of:                     |                                       |
| \$30,000,000                      | \$ 1,000,000                          |
| \$40,000,000                      | \$ 1,000,000                          |
| \$50,000,000                      | \$ 1,000,000                          |
| Maximum earn-out payment possible | \$ 3,000,000                          |

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

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

Such buy-out option grants Calavo the right to cause LSC to transfer to Calavo all of LSC's membership interest for an amount equal to \$5 million at any time until October 31, 2016. If the buy-out option has not been exercised by Calavo as of October 31, 2016, however, then Calavo is required to deliver a binding offer to LSC to purchase LSC's membership interest for a price no less than an amount equal to (A) LSC's percentage interest, multiplied by (B) the EBTDA multiple of 8.0, multiplied by (C) Calavo Salsa Lisa's earnings before taxes, depreciation, and amortization (EBTDA) for the year ending October 31, 2016. LSC may then elect to either accept such offer or reject such offer and submit a counter offer to purchase Calavo's membership interest for a price no less than an amount equal to (A) Calavo's membership interest, multiplied by (B) the EBTDA multiple of 8.0, plus 0.5, or 8.5, multiplied by (C) the Company EBTDA for the year ending October 31, 2016. LSC may not reject the buy-out offer without making a counter offer.

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

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

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

**At February 8, 2010**

|                                |         |
|--------------------------------|---------|
| Current assets                 | \$ 263  |
| Property, plant, and equipment | 321     |
| Goodwill                       | 88      |
| Intangible assets              | 1,950   |
| Total assets acquired          | 2,622   |
| Current liabilities            | (55)    |
| Noncontrolling interest        | (699)   |
| Contingent consideration       | (1,468) |

Net cash paid as of February 8, 2010

\$ 400

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

**Table of Contents**

weighted method, which incorporates management's forecasted revenue, the likelihood of the \$5.0 million purchase option being exercised, and the likelihood of the revenue targets being achieved.

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

|                                                  | <b>Year ended<br/>October 31,<br/>2010</b> |
|--------------------------------------------------|--------------------------------------------|
| Noncontrolling interest, beginning               | \$                                         |
| Net loss attributable to noncontrolling interest | (124)                                      |
| Capital contributions                            | 699                                        |
| Noncontrolling interest, ending                  | \$ 575                                     |

**17. Subsequent Events**

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

\* \* \*

Our unaudited quarterly results of operations for the eight fiscal quarters ended October 31, 2010 are set forth above under Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

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

We have audited the accompanying consolidated balance sheets of Calavo Growers, Inc. and subsidiaries (the Company ) as of October 31, 2010 and 2009, and the related consolidated statements of income, comprehensive income (loss), shareholders' equity, and cash flows for each of the three years in the period ended October 31, 2010. Our audits also included the financial statement schedule listed at Item 15(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Calavo Growers, Inc. and subsidiaries at October 31, 2010 and 2009, and the consolidated results of their operations and their cash flows for each of the three years in the period ended October 31, 2010, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Calavo Growers Inc.'s internal control over financial reporting as of October 31, 2010, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated January 13, 2011 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Los Angeles, California  
January 13, 2011

**Table of Contents**

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

Not applicable.

**Item 9A. Controls and Procedures**

**Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures**

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act), as of the end of the period covered by this report. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of October 31, 2010.

**Changes in Internal Control Over Financial Reporting**

There were no changes in our internal control over financial reporting during the quarter ended October 31, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Management's Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of the end of the period covered by this report based on the framework set forth in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework set forth in *Internal Control – Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of October 31, 2010. Our internal control over financial reporting as of October 31, 2010 has been audited by Ernst and Young LLP, an independent registered public accounting firm, as stated in their report which is included herein.

**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

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

We have audited Calavo Growers, Inc.'s internal control over financial reporting as of October 31, 2010, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Calavo Growers, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Calavo Growers, Inc. maintained, in all material respects, effective internal control over financial reporting as of October 31, 2010, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Calavo Growers, Inc. as of October 31, 2010 and 2009 and the related consolidated statements of income, comprehensive income (loss), shareholders' equity, and cash flows for each of the three years in the period ended October 31, 2010 of Calavo Growers Inc., and our report dated January 13, 2011 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Los Angeles, California  
January 13, 2011

**Table of Contents**

**Item 9B. Other Information**

None.

**PART III**

Certain information required by Part III is omitted from this Annual Report because we will file a definitive Proxy Statement for the Annual Meeting of Shareholders pursuant to Regulation 14A of the Securities Exchange Act of 1934 (the Proxy Statement ), not later than 120 days after the end of the fiscal year covered by this Annual Report, and the applicable information included in the Proxy Statement is incorporated herein by reference.

**Item 10. Directors, Executive Officers, and Corporate Governance**

The names of our executive officers and their ages, titles and biographies are incorporated by reference from Part I, above.

The following information is included in our Notice of Annual Meeting of Shareholders and Proxy Statement to be filed within 120 days after our fiscal year end of October 31, 2010 (the Proxy Statement ) and is incorporated herein by reference:

Information regarding our directors who are standing for reelection and any persons nominated to become our directors is set forth under Election of Directors.

Information regarding our Audit Committee and designated audit committee financial expert is set forth under Corporate Governance Principles and Board Matters Board Structure and Committee Composition Audit Committee.

Information on our code of ethics for directors, officers and employees and our Corporate Governance Guidelines is set forth under Corporate Governance Principles and Board Matters.

Information regarding Section 16(a) beneficial ownership reporting compliance is set forth under Section 16(a) Beneficial Ownership Reporting Compliance.

**Item 11. Executive Compensation**

The information required by this Item is incorporated herein by reference to the sections entitled Executive Compensation and Directors Compensation in the Proxy Statement.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information required by this Item is incorporated herein by reference to the sections entitled Security Ownership of Certain Beneficial Owners and Management and Equity Compensation Plan Information in the Proxy Statement.

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information required by this Item is incorporated herein by reference to the section entitled Certain Relationships and Related Transactions in the Proxy Statement.

**Item 14. Principal Accountant's Fees and Services**

Information required by this Item is incorporated herein by reference to the section of the Proxy Statement entitled Principal Accountant Fees and Services.

**Table of Contents**

**Part IV**

**Item 15. Exhibits and Financial Statement Schedules**

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

The following consolidated financial statements as of October 31, 2010 and 2009 and for each of the three years in the period ended October 31, 2010 are included herewith:

Consolidated Balance Sheets, Consolidated Statements of Income, Consolidated Statements of Comprehensive Income (Loss), Consolidated Statements of Cash Flows, Consolidated Statements of Shareholders' Equity, Notes to Consolidated Financial Statements, and Report of Ernst & Young LLP, Independent Registered Public Accounting Firm.

**(2) Supplemental Schedules**

Schedule II Valuation and Qualifying Accounts

All other schedules have been omitted since the required information is not present in amounts sufficient to require submission of the schedule, or because the required information is included in the consolidated financial statements or notes thereto.

**(3) Exhibits**

**Exhibit  
Number**

**Description**

- |      |                                                                                                                                                                                                                                                                                                                                                                                                                       |
|------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2.1  | Agreement and Plan of Merger and Reorganization dated as of February 20, 2001 between Calavo Growers, Inc. and Calavo Growers of California. <sup>1</sup>                                                                                                                                                                                                                                                             |
| 2.2  | Agreement and Plan of Merger dated as of November 7, 2003 Among Calavo Growers, Inc., Calavo Acquisition, Inc., Maui Fresh International, Inc. and Arthur J. Bruno, Robert J. Bruno and Javier J. Badillo <sup>2</sup>                                                                                                                                                                                                |
| 2.3  | Stock Purchase Agreement dated as of June 1, 2005, between Limoneira Company and Calavo Growers, Inc. <sup>3</sup>                                                                                                                                                                                                                                                                                                    |
| 2.4  | Acquisition Agreement between Calavo Growers, Inc., a California corporation and Lecil E. Cole, Eric Weinert, Suzanne Cole-Savard, Guy Cole, and Lecil E. Cole and Mary Jeanette Cole, acting jointly and severally as trustees of the Lecil E. and Mary Jeanette Cole Revocable Trust dated October 19, 1993, also known as the Lecil E. and Mary Jeanette Cole Revocable 1993 Trust dated May 19, 2008 <sup>4</sup> |
| 2.5  | Acquisition Agreement between Calavo Growers, Inc., Calavo Salsa Lisa, LLC, Lisa's Salsa Company and Elizabeth Nicholson and Eric Nicholson dated February 8, 2010 <sup>5</sup>                                                                                                                                                                                                                                       |
| 3.1  | Articles of Incorporation of Calavo Growers, Inc. <sup>1</sup>                                                                                                                                                                                                                                                                                                                                                        |
| 3.2  | Amended and Restated Bylaws of Calavo Growers, Inc. <sup>6</sup>                                                                                                                                                                                                                                                                                                                                                      |
| 10.1 | Form of Marketing Agreement for Calavo Growers, Inc. <sup>7</sup>                                                                                                                                                                                                                                                                                                                                                     |
| 10.2 | Marketing Agreement dated as of April 1, 1996 between Tropical Hawaiian Products, Inc., a Hawaiian corporation, and Calavo Growers of California. <sup>1</sup>                                                                                                                                                                                                                                                        |

- 10.3 Lease Agreement dated as of November 21, 1997, between Tede S.A. de C.V., a Mexican corporation, and Calavo de Mexico, S.A. de C.V., a Mexican corporation, including attached Guaranty of Calavo Growers of California dated December 16, 1996.<sup>1</sup>
- 10.4 Lease agreement dated as of February 15, 2005, between Limoneira Company and Calavo Growers, Inc.<sup>3</sup>
- 10.5 Standstill agreement dated June 1, 2005, between Limoneira Company and Calavo Growers, Inc.<sup>3</sup>
- 10.6 Standstill agreement dated June 1, 2005 between Calavo Growers, Inc. And Limoneira Company<sup>3</sup>
- 10.7 Term Loan Agreement dated April 9, 2008 (effective date May 1, 2008) between Farm Credit West, PCA, and Calavo Growers, Inc.<sup>8</sup>
- 10.8 2005 Stock Incentive Plan Of Calavo Growers, Inc.<sup>9</sup>

**Table of Contents**

| <b>Exhibit<br/>Number</b>                     | <b>Description</b>                                                                                                                                                                          |
|-----------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.9                                          | Calavo Supplemental Executive Retirement Agreement dated March 11, 1989 between Egidio Carbone, Jr. and Calavo Growers of California. <sup>1</sup>                                          |
| 10.10                                         | Amendment to the Calavo Growers of California Supplemental Executive Retirement Agreement dated November 9, 1993 Between Egidio Carbone, Jr. and Calavo Growers of California. <sup>1</sup> |
| 10.11                                         | 2001 Stock Option Plan for Directors. <sup>10</sup>                                                                                                                                         |
| 10.12                                         | 2001 Stock Purchase Plan for Officers and Employees. <sup>10</sup>                                                                                                                          |
| 10.13                                         | Business Loan Agreement between Bank of America, N.A. and Calavo Growers, Inc., dated October 15, 2007 <sup>11</sup>                                                                        |
| 10.14                                         | First Amendment Agreement between Bank of America, N.A. and Calavo Growers, Inc., dated August 28, 2008 <sup>12</sup>                                                                       |
| 10.15                                         | Form of Stock Option Agreement <sup>13</sup>                                                                                                                                                |
| 10.16                                         | Amendment No. 2 to Loan Agreement dated as of July 31, 2009 between Calavo Growers, Inc. and Bank of America, N.A. <sup>14</sup>                                                            |
| 10.17                                         | Amendment to Term Loan Agreement between Farm Credit West, PCA, and Calavo Growers, Inc. <sup>15</sup>                                                                                      |
| 10.18                                         | 2011 Management Incentive Plan of Calavo Growers, Inc.*                                                                                                                                     |
| 21.1                                          | Subsidiaries of Calavo Growers, Inc. <sup>1</sup>                                                                                                                                           |
| 23.1                                          | Consent of Ernst & Young LLP.*                                                                                                                                                              |
| 31.1                                          | Certification of Chief Executive Officer Pursuant to Rule 13a-15(e) or Rule 15d-15(e)*                                                                                                      |
| 31.2                                          | Certification of Chief Financial Officer Pursuant to Rule 13a-15(e) or Rule 15d-15(e)*                                                                                                      |
| 32                                            | Certification of Chief Executive Officer and Chief Financial Officer of Periodic Report Pursuant to 18 U.S.C. Section 1350*                                                                 |
| * Filed with this Annual Report on Form 10-K. |                                                                                                                                                                                             |
| 1                                             | Previously filed on April 24, 2001 as an exhibit to the Registrant's Registration Statement on Form S-4, File No. 333-59418, and incorporated herein by reference.                          |
| 2                                             | Previously filed on January 23, 2004 as an exhibit to the Registrant's Report on Form 10-K and incorporated herein by reference.                                                            |
| 3                                             | Previously filed on June 9, 2005 as an exhibit to the Registrant's Report on Form 10-Q and incorporated herein by reference.                                                                |

- 4 Previously filed on May 29, 2008 as an exhibit to the Registrant's Report on Form 8-K and incorporated herein by reference.
- 5 Previously filed on February 8, 2010 as an exhibit to the Registrant's Report on Form 8-K and incorporated herein by reference.
- 6 Previously filed on December 19, 2002 as an exhibit to the Registrant's Report on Form 8-K, and incorporated herein by reference.
- 7 Previously filed on January 28, 2003 as an exhibit to the Registrant's Report on Form 10-K and incorporated herein by reference.
- 8 Previously filed on May 8, 2008 as an exhibit to the Registrant's Report on Form 8-K and incorporated herein by reference.
- 9 Previously filed on March 21, 2005 as an exhibit to the Registrant's Definitive Proxy Statement on Form DEF14A and incorporated herein by reference.
- 10 Previously filed on December 18, 2001 as an exhibit to the Registrant's Registration Statement on Form S-8, File No. 333-75378, and incorporated herein by reference.
- 11 Previously filed on October 19, 2007 as an exhibit to the Registrant's Report on Form 8-K and incorporated herein by reference.
- 12 Previously filed on January 27, 2009 as an exhibit to the Registrant's Report on Form 10-K/A and incorporated herein by reference.
- 13 Previously filed on September 11, 2006 as an exhibit to the Registrant's Report on Form 10-Q and incorporated herein by reference.
- 14 Previously filed on August 6, 2009 as an exhibit to the Registrant's Report on Form 8-K and incorporated herein by reference.
- 15 Previously filed on January 11, 2010 as an exhibit to the Registrant's Report on Form 10-K and incorporated herein by reference.

(b) Exhibits

See subsection (a) (3) above.

**Table of Contents**

**(c) Financial Statement Schedules**

See subsection (a) (1) and (2) above.

60

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**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on January 13, 2011.

CALAVO GROWERS, INC

By: /s/ Lecil E. Cole  
 Lecil E. Cole  
*Chairman of the Board of Directors,  
 Chief Executive Officer and President*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on January 13, 2011 by the following persons on behalf of the registrant and in the capacities indicated:

| <b>Signature</b>      | <b>Title</b>                                                                 |
|-----------------------|------------------------------------------------------------------------------|
| /s/ Lecil E. Cole     | Chairman of the Board of Directors,<br>Chief Executive Officer and President |
| Lecil E. Cole         | (Principal Executive Officer)                                                |
| /s/ Arthur J. Bruno   | Chief Operating Officer, Chief Financial Officer and<br>Corporate Secretary  |
| Arthur J. Bruno       | (Principal Financial Officer)                                                |
| /s/ James E. Snyder   | Corporate Controller                                                         |
| James E. Snyder       | (Principal Accounting Officer)                                               |
| /s/ Donald M. Sanders | Director                                                                     |
| Donald M. Sanders     |                                                                              |
| /s/ Marc L. Brown     | Director                                                                     |
| Marc L. Brown         |                                                                              |
| /s/ John M. Hunt      | Director                                                                     |
| John M. Hunt          |                                                                              |
| /s/ George H. Barnes  | Director                                                                     |
| George H. Barnes      |                                                                              |
| /s/ J. Link Leavens   | Director                                                                     |
| J. Link Leavens       |                                                                              |
| /s/ Alva V. Snider    | Director                                                                     |

Alva V. Snider

/s/ Michael D. Hause

Director

Michael D. Hause

/s/ Dorcas H. McFarlane

Director

Dorcas H. McFarlane

/s/ Egidio Carbone, Jr

Director

Egidio Carbone, Jr

/s/ Steven W. Hollister

Director

Steven W. Hollister

/s/ Harold Edwards

Director

Harold Edwards

/s/ Scott Van Der Kar

Director

Scott Van Der Kar

Table of Contents**SCHEDULE II**

**CALAVO GROWERS, INC.**  
**VALUATION AND QUALIFYING ACCOUNTS (in thousands)**

|                                   | <b>Fiscal<br/>year<br/>ended<br/>October<br/>31:</b> | <b>Balance<br/>at<br/>beginning<br/>of year</b> | <b>Additions(1)</b> | <b>Deductions(2)</b> | <b>Balance<br/>at<br/>end<br/>of year</b> |
|-----------------------------------|------------------------------------------------------|-------------------------------------------------|---------------------|----------------------|-------------------------------------------|
| Allowance for customer deductions | 2008                                                 | 1,329                                           | 7,065               | 7,163                | 1,231                                     |
|                                   | 2009                                                 | 1,231                                           | 6,080               | 6,058                | 1,253                                     |
|                                   | 2010                                                 | 1,253                                           | 6,474               | 6,912                | 815                                       |
| Allowance for doubtful accounts   | 2008                                                 | 942                                             | 93                  | 53                   | 982                                       |
|                                   | 2009                                                 | 982                                             | 122                 | 4                    | 1,100                                     |
|                                   | 2010                                                 | 1,100                                           | 127                 | 670                  | 557                                       |

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

(2) Customer deductions taken or write off of accounts receivables.

**Table of Contents**

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| 2.3                       | Stock Purchase Agreement dated as of June 1, 2005, between Limoneira Company and Calavo Growers, Inc. <sup>3</sup>                                                                                                                                                                                                                                                                                                    |
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| 2.5                       | Acquisition Agreement between Calavo Growers, Inc., Calavo Salsa Lisa, LLC, Lisa s Salsa Company and Elizabeth Nicholson and Eric Nicholson dated February 8, 2010 <sup>5</sup>                                                                                                                                                                                                                                       |
| 3.1                       | Articles of Incorporation of Calavo Growers, Inc. <sup>1</sup>                                                                                                                                                                                                                                                                                                                                                        |
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| 10.10                     |                                                                                                                                                                                                                                                                                                                                                                                                                       |

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- 21.1 Subsidiaries of Calavo Growers, Inc. <sup>1</sup>
- 23.1 Consent of Ernst & Young LLP. \*
- 31.1 Certification of Chief Executive Officer Pursuant to Rule 13a-15(e) or Rule 15d-15(e) \*
- 31.2 Certification of Chief Financial Officer Pursuant to Rule 13a-15(e) or Rule 15d-15(e) \*

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