

CALAVO GROWERS INC
Form 10-Q
September 09, 2010

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

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

For the quarterly period ended July 31, 2010

OR

**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, California 93060**
(Address of principal executive offices) (Zip code)

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

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 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 whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Registrant's number of shares of common stock outstanding as of July 31, 2010 was 14,656,833

CAUTIONARY STATEMENT

This Quarterly Report on Form 10-Q contains statements relating to our future results (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, 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 but not limited to those set forth in Part I., Item 1A, *Risk Factors*, in our Annual Report on Form 10-K for the fiscal year ended October 31, 2009, 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.

**CALAVO GROWERS, INC.
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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

	July 31, 2010	October 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,393	\$ 875
Accounts receivable, net of allowances of \$1,978 (2010) and \$2,353 (2009)	35,114	22,314
Inventories, net	15,881	11,731
Prepaid expenses and other current assets	5,368	6,430
Advances to suppliers	658	2,623
Income taxes receivable		2,178
Deferred income taxes	2,728	2,728
Total current assets	61,142	48,879
Property, plant, and equipment, net	40,448	38,621
Investment in Limoneira Company	31,529	24,200
Investment in unconsolidated entities	1,889	1,382
Goodwill	3,679	3,591
Other assets	6,396	6,076
	\$ 145,083	\$ 122,749
Liabilities and shareholders equity		
Current liabilities:		
Payable to growers	\$ 16,969	\$ 4,343
Trade accounts payable	3,124	2,223
Accrued expenses	15,102	16,123
Income taxes payable	2,546	
Short-term borrowings	3,920	5,520
Dividend payable		7,252
Current portion of long-term obligations	1,369	1,366
Total current liabilities	43,030	36,827
Long-term liabilities:		
Long-term obligations, less current portion	7,106	13,908
Deferred income taxes	5,386	2,527
Total long-term liabilities	12,492	16,435
Commitments and contingencies		
Noncontrolling interest	630	
Shareholders equity:		
Common stock, \$0.001 par value; 100,000 shares authorized; 14,657 (2010) and 14,505 (2009) issued and outstanding	14	14
Additional paid-in capital	41,674	39,714

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Accumulated other comprehensive income	4,936	466
Retained earnings	42,307	29,293
Total shareholder s equity	88,931	69,487
	\$ 145,083	\$ 122,749

The accompanying notes are an integral part of these consolidated condensed financial statements.

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

	Three months ended July 31,		Nine months ended July 31,	
	2010	2009	2010	2009
Net sales	\$ 114,578	\$ 106,347	\$ 291,117	\$ 263,823
Cost of sales	99,303	96,441	253,881	228,519
Gross margin	15,275	9,906	37,236	35,304
Selling, general and administrative	5,514	5,822	16,133	16,657
Operating income	9,761	4,084	21,103	18,647
Interest expense	(181)	(268)	(644)	(885)
Other income, net	362	246	1,094	867
Income before provision for income taxes	9,942	4,062	21,553	18,629
Provision for income taxes	4,045	1,597	8,608	7,322
Net income	5,897	2,465	12,945	11,307
Add: Net loss attributable to noncontrolling interest	50		69	
Net income attributable to Calavo Growers, Inc.	\$ 5,947	\$ 2,465	\$ 13,014	\$ 11,307
Calavo Growers, Inc. s net income per share:				
Basic	\$ 0.41	\$ 0.17	\$ 0.89	\$ 0.78
Diluted	\$ 0.41	\$ 0.17	\$ 0.89	\$ 0.78
Calavo Growers, Inc. s shares used in per share computation:				
Basic	14,651	14,457	14,576	14,433
Diluted	14,676	14,529	14,601	14,511

The accompanying notes are an integral part of these consolidated condensed financial statements.

CALAVO GROWERS, INC.
CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
(in thousands)

	Three months ended		Nine months ended	
	July 31,		July 31,	
	2010	2009	2010	2009
Net income	\$ 5,947	\$ 2,465	\$ 13,014	\$ 11,307
Other comprehensive income (loss), before tax:				
Unrealized holding gains (losses) arising during period	2,057	3,111	7,329	(3,975)
Income tax benefit (expense) related to items of other comprehensive income (loss)	(803)	(1,213)	(2,859)	1,544
Other comprehensive income (loss), net of tax	1,254	1,898	4,470	(2,431)
Comprehensive income	7,201	4,363	17,484	8,876
Add: Net loss attributable to noncontrolling interest	50		69	
Comprehensive income Calavo Growers, Inc.	\$ 7,251	\$ 4,363	\$ 17,553	\$ 8,876

The accompanying notes are an integral part of these consolidated condensed financial statements.

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

	Nine months ended July 31,	
	2010	2009
Cash Flows from Operating Activities:		
Net income	\$ 12,945	\$ 11,307
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,491	2,275
Provision for losses on accounts receivable		93
Income from unconsolidated entities	(507)	(379)
Interest on deferred consideration	62	129
Stock compensation expense	36	32
Effect on cash of changes in operating assets and liabilities:		
Accounts receivable	(12,686)	(9,584)
Inventories, net	(4,056)	(119)
Prepaid expenses and other current assets	512	(316)
Advances to suppliers	1,965	1,449
Income taxes receivable	2,728	444
Other assets	(23)	(113)
Payable to growers	12,626	11,637
Income taxes payable	2,546	
Trade accounts payable and accrued expenses	2,763	1,827
Net cash provided by operating activities	21,402	18,682
Cash Flows from Investing Activities:		
Acquisitions of and deposits on property, plant, and equipment	(3,537)	(3,603)
Acquisition of Hawaiian Sweet and Pride, net of cash acquired	(4,500)	
Loan to Agricola Belher		(1,000)
Collections from Agricola Belher	1,781	507
Acquisition of Calavo Salsa Lisa LLC, net of cash acquired	(351)	
Net cash used in investing activities	(6,607)	(4,096)
Cash Flows from Financing Activities:		
Payment of dividend to shareholders	(7,252)	(5,047)
Payments on revolving credit facilities, net	(1,650)	(8,430)
Payments on long-term obligations	(6,749)	(1,347)
Exercise of stock options	1,374	783
Net cash used in financing activities	(14,277)	(14,041)
Net increase in cash and cash equivalents	518	545
Cash and cash equivalents, beginning of period	875	1,509
Cash and cash equivalents, end of period	\$ 1,393	\$ 2,054

Noncash Investing and Financing Activities:

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Tax benefit related to stock option exercise	\$ 550	\$ 310
Construction in progress included in trade accounts payable	\$ 32	\$ 10
Minimum earnout adjustment related to the acquisition of Hawaiian Sweet and Pride	\$	\$ 1,010
Unrealized investment holding gains (losses)	\$ 7,329	\$ (3,975)

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. The following table summarizes the estimated fair values of the non-cash assets acquired and liabilities assumed at the date of acquisition (in thousands):

At February 8, 2010

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

The accompanying notes are an integral part of these consolidated condensed financial statements.

CALAVO GROWERS, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)

1. Description of the business

Business

Calavo Growers, Inc. (Calavo, the Company, we, us or our) procures and markets avocados, as well as prepares and distributes processed avocado products. Additionally, we also distribute other fresh produce items, such as tomatoes, pineapples, and Hawaiian grown papayas. Our expertise allows us to deliver a wide array of fresh and prepared food products to food distributors, produce wholesalers, supermarkets, and restaurants on a worldwide basis. We procure avocados principally from California, Mexico, and Chile. Through our operating facilities in southern California, Texas, New Jersey, Arizona, and Mexico, we sort, pack, and/or ripen avocados and/or tomatoes 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. See Note 2 for further information regarding our business segments. See Note 9 for discussion regarding our acquisition of Calavo Salsa Lisa, LLC.

The accompanying unaudited condensed consolidated financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments, consisting of adjustments of a normal recurring nature necessary to present fairly the Company's financial position, results of operations and cash flows. The results of operations for interim periods are not necessarily indicative of the results that may be expected for a full year. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended October 31, 2009.

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

CALAVO GROWERS, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (CONTINUED)
(UNAUDITED)

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 9 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 9 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

CALAVO GROWERS, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (CONTINUED)
(UNAUDITED)

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.

Reclassifications

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

2. Information regarding our operations in different segments

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 Chief Executive Officer to measure performance and allocate resources. The fresh products segment includes all operations that involve the distribution of avocados and other fresh produce products. The CalavoFoods segment represents all operations related to the purchase, manufacturing, and distribution of prepared products, including guacamole, tortilla chips, and salsa products. Additionally, selling, general and administrative expenses, as well as other non-operating income/expense items, are evaluated by our Chief Executive Officer in the aggregate. We do not allocate assets, or specifically identify them to, our operating segments. The following table sets forth sales by product category, by segment (in thousands):

	Nine months ended July 31, 2010			Nine months ended July 31, 2009		
	Fresh products	Calavo-Foods	Total	Fresh products	Calavo-Foods	Total
Third-party sales:						
Avocados	\$ 199,717	\$	\$ 199,717	\$ 197,589	\$	\$ 197,589
Tomatoes	41,226		41,226	13,851		13,851
Papayas	8,406		8,406	10,160		10,160
Pineapples	3,483		3,483	5,560		5,560
Other Fresh products	2,279		2,279	4,208		4,208
CalavoFoods food service		29,180	29,180		27,084	27,084
CalavoFoods retail and club		13,838	13,838		11,836	11,836
Total gross sales	255,111	43,018	298,129	231,368	38,920	270,288
Less sales incentives	(846)	(6,166)	(7,012)	(442)	(6,023)	(6,465)
Net sales	\$ 254,265	\$ 36,852	\$ 291,117	\$ 230,926	\$ 32,897	\$ 263,823

	Three months ended July 31, 2010			Three months ended July 31, 2009		
	Fresh products	Calavo-Foods	Total	Fresh products	Calavo-Foods	Total
Third-party sales:						
Avocados	\$ 88,464	\$	\$ 88,464	\$ 87,220	\$	\$ 87,220
Tomatoes	7,359		7,359	1,268		1,268
Papayas	3,388		3,388	3,209		3,209
Pineapples	828		828	1,909		1,909
Other Fresh products	936		936	1,248		1,248

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CalavoFoods	food service		10,883	10,883		9,686	9,686
CalavoFoods	retail and club		5,181	5,181		4,111	4,111
Total gross sales		100,975	16,064	117,039	94,854	13,797	108,651
Less sales incentives		(294)	(2,167)	(2,461)	(127)	(2,177)	(2,304)
Net sales		\$ 100,681	\$ 13,897	\$ 114,578	\$ 94,727	\$ 11,620	\$ 106,347

CALAVO GROWERS, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (CONTINUED)
(UNAUDITED)

	Fresh products	Calavo- Foods	Total
	(All amounts are presented in thousands)		
Nine months ended July 31, 2010			
Net sales	\$ 254,265	\$ 36,852	\$ 291,117
Cost of sales	226,960	26,921	253,881
Gross margin	\$ 27,305	\$ 9,931	\$ 37,236
Nine months ended July 31, 2009			
Net sales	\$ 230,926	\$ 32,897	\$ 263,823
Cost of sales	206,705	21,814	228,519
Gross margin	\$ 24,221	\$ 11,083	\$ 35,304

For nine months ended July 31, 2010 and 2009, inter-company sales and cost of sales for fresh products totaling \$9.6 million and \$11.1 million were eliminated. For nine months ended July 31, 2010 and 2009, inter-company sales and cost of sales for CalavoFoods totaling \$6.9 million and \$5.7 million were eliminated.

	Fresh products	Calavo- Foods	Total
	(All amounts are presented in thousands)		
Three months ended July 31, 2010			
Net sales	\$ 100,681	\$ 13,897	\$ 114,578
Cost of sales	87,936	11,367	99,303
Gross margin	\$ 12,745	\$ 2,530	\$ 15,275
Three months ended July 31, 2009			
Net sales	\$ 94,727	\$ 11,620	\$ 106,347
Cost of sales	88,319	8,122	96,441
Gross margin	\$ 6,408	\$ 3,498	\$ 9,906

For three months ended July 31, 2010 and 2009, inter-company sales and cost of sales for fresh products totaling \$2.1 million and \$2.9 million were eliminated. For three months ended July 31, 2010 and 2009, inter-company sales and cost of sales for CalavoFoods totaling \$2.5 million and \$1.9 million were eliminated.

3. Inventories

Inventories consist of the following (in thousands):

July 31, October 31,

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	2010	2009
Fresh fruit	\$ 9,481	\$ 4,495
Packing supplies and ingredients	3,019	2,652
Finished products CalavoFoods	3,381	4,584
	\$ 15,881	\$ 11,731

During the three and nine month periods ended July 31, 2010 and 2009, we did not record any provisions to reduce our inventories to the lower of cost or market.

CALAVO GROWERS, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (CONTINUED)
(UNAUDITED)

4. Related party transactions

Certain members of our Board of Directors market avocados through Calavo pursuant to marketing agreements substantially similar to the marketing agreements that we enter into with other growers. During the three months ended July 31, 2010 and 2009, the aggregate amount of avocados procured from entities owned or controlled by members of our Board of Directors was \$11.5 million and \$5.1 million. During the nine months ended July 31, 2010 and 2009, the aggregate amount of avocados procured from entities owned or controlled by members of our Board of Directors was \$16.1 million and \$6.4 million. Amounts payable to these board members was \$4.9 million as of July 31, 2010. We did not have an accounts payable balance to these board members as of October 31, 2009.

During the three months ended July 31, 2010, we received \$0.1 million as dividend income Limoneira Company. During the nine months ended July 31, 2010 and July 31, 2009, we received \$0.2 million and \$0.1 million as dividend income from Limoneira Company.

5. Other assets

Other assets consist of the following (in thousands):

	July 31, 2010	October 31, 2009
Grower advances	\$ 1,901	\$ 2,123
Intangibles, net	2,954	1,205
Loan to Agricola Belher	1,225	2,450
Other	316	298
	\$ 6,396	\$ 6,076

At July 31, 2010, other assets in the accompanying consolidated condensed financial statements included the following intangible assets: customer-related, trade name and non-competition agreements of \$2.2 million (accumulated amortization of \$0.9 million), brand name intangibles of \$0.3 million, trade secrets of \$1.4 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 anticipate recording amortization expense of approximately \$82,000 for the remainder of fiscal 2010, with \$318,000 of amortization expense for fiscal years 2011 and \$305,000 of amortization expense for fiscal years 2012 through 2014. The remainder of approximately \$1,364,000 will be amortized over fiscal years 2015 through 2023.

6. Stock-Based Compensation

We have one active stock-based compensation plan, the 2005 Stock Incentive Plan, under which employees and directors may be granted options to purchase shares of our common stock. Stock options are granted with exercise prices of not less than the fair market value at grant date, generally vest over one to five years and generally expire five years after the grant date. We settle stock option exercises with newly issued shares of common stock.

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. We measure the fair value of our stock based compensation awards on the date of grant.

A summary of stock option activity, related to our 2005 Stock Incentive Plan, is as follows (in thousands, except for per share amounts):

CALAVO GROWERS, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (CONTINUED)
(UNAUDITED)

	Number of Shares	Weighted-Average Exercise Price	Aggregate Intrinsic Value
Outstanding at October 31, 2009	284	\$ 10.23	
Exercised	(152)	\$ 9.11	
Outstanding at July 31, 2010	132	\$ 11.49	\$ 1,320
Exercisable at July 31, 2010	85	\$ 10.60	\$ 928

At July 31, 2010, outstanding stock options had a weighted-average remaining contractual term of 3.4 years. At July 31, 2009, exercisable stock options had a weighted-average remaining contractual term of 2.6 years. The total recognized stock-based compensation expense was insignificant for the three months and nine months ended July 31, 2010.

7. Other events

Dividend payment

On December 11, 2009 we paid a \$0.50 per share dividend in the aggregate amount of \$7.3 million to shareholders of record on December 1, 2009.

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. The Acquisition Agreement provides, among other things, that as a result of the Acquisition Agreement, Calavo shall make an initial purchase price payment in the aggregate amount of \$3,500,000 for both entities. Calavo made the initial payment on May 20, 2008. Calavo made two additional annual payments, ranging from \$2,500,000 to \$4,500,000, based on certain operating results (the

Earn-Out Payment(s)), as defined. On September 23, 2009, we remitted the first annual Earn-Out payment, totaling approximately \$2.4 million. On July 9, 2010, we remitted the final annual Earn-Out payment, totaling 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. We do not believe that the resolution of this examination will have a significant impact on our results of operations.

CALAVO GROWERS, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (CONTINUED)
(UNAUDITED)

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.

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.

8. 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 July 31, 2010 that are measured on a recurring basis during the period, segregated by level within the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
	(All amounts are presented in thousands)			
Assets at Fair Value:				
Investment in Limoneira Company ⁽¹⁾	\$ 31,529			\$ 31,529
Total assets at fair value	\$ 31,529	\$	\$	\$ 31,529

⁽¹⁾ 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

July 31, 2010 and October 31, 2009 equaled \$18.24 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 quarter ended July 31, 2010 was \$2.1 million.

Unrealized investment holding gain arising during the nine months ended July 31, 2010 was \$7.3 million.

Level	Level 1	Level 2	Level 3	Total
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(All amounts are presented in thousands)

Liabilities at Fair Value:

Salsa Lisa contingent consideration ⁽²⁾			\$ 1,468	\$ 1,468
Total assets at fair value	\$	\$	\$ 1,468	\$ 1,468

⁽²⁾ See Note 9 for further discussion.

9. 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 of Salsa Lisa refrigerated salsas. We believe that this new line of salsas will further diversify our product offerings and will

CALAVO GROWERS, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (CONTINUED)
(UNAUDITED)

be a natural complement to our ultra-high-pressure guacamole, as well as our recently introduced Calavo tortilla chips.

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

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

	Then Earn-out Payment shall 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.

CALAVO GROWERS, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (CONTINUED)
(UNAUDITED)

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

At February 8, 2010

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

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

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

	Three months ended July 31, 2010	Nine months ended July 31, 2010
Noncontrolling interest, beginning	\$ 680	\$
Net loss attributable to noncontrolling interest	(50)	(69)
Capital contributions		699
Noncontrolling interest, ending	\$ 630	\$ 630

10. Subsequent events

We have evaluated subsequent events to assess the need for potential recognition or disclosure in this Quarterly Report on Form 10-Q. 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.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This information should be read in conjunction with the unaudited consolidated condensed financial statements and the notes thereto included in this Quarterly Report, and the audited consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in the Annual Report on Form 10-K for the year ended October 31, 2009 of Calavo Growers, Inc. (we, Calavo, or the Company).

Recent Developments

Dividend payment

On December 11, 2009 we paid a \$0.50 per share dividend in the aggregate amount of \$7.3 million to shareholders of record on December 1, 2009.

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. The Acquisition Agreement provides, among other things, that as a result of the Acquisition Agreement, Calavo shall make an initial purchase price payment in the aggregate amount of \$3,500,000 for both entities. Calavo made the initial payment on May 20, 2008. Calavo made two additional annual payments, ranging from \$2,500,000 to \$4,500,000, based on certain operating results (the Earn-Out Payment(s)), as defined. On September 23, 2009, we remitted the first annual Earn-Out payment, totaling approximately \$2.4 million. On July 9, 2010, we remitted the final annual Earn-Out payment, totaling 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. We do not believe that the resolution of this examination will have a significant impact on our results of operations.

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

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 9 to the consolidated condensed financial statements that are included in this Quarterly Report on Form 10-Q.

Net Sales

The following table summarizes our net sales by business segment for each of the three and nine month periods ended July 31, 2010 and 2009:

(in thousands)	Three months ended July 31,			Nine months ended July 31,		
	2010	Change	2009	2010	Change	2009
Net sales to third-parties:						
Fresh products	\$ 100,681	6.3%	\$ 94,727	\$ 254,265	10.1%	\$ 230,926
CalavoFoods	13,897	19.6%	11,620	36,852	12.0%	32,897
Total net sales	\$ 114,578	7.7%	\$ 106,347	\$ 291,117	10.3%	\$ 263,823
As a percentage of net sales:						
Fresh products	87.9%		89.1%	87.3%		87.5%
CalavoFoods	12.1%		10.9%	12.7%		12.5%
	100.0%		100.0%	100.0%		100.0%

Net sales for the third quarter of fiscal 2010, compared to fiscal 2009, increased by \$8.2 million, or 7.7%, whereas net sales for the nine months ended July 31, 2010, compared to fiscal 2009, increased by \$27.3 million, or 10.3%. The increase in fresh product sales during the three and nine-month periods of fiscal 2010 was primarily related to increased sales of California sourced avocados, as well as tomatoes. These increases were partially offset, however, by decreased sales from Mexican sourced avocados, as well as pineapples. While the procurement of fresh avocados related to our fresh products segment is seasonal, our CalavoFoods segment is generally not subject to a seasonal effect. For the related three and nine-month periods, our CalavoFoods segment sales increased when compared to the corresponding prior year period. This was primarily due to an increase in total pounds of product sold and an increase in the per-unit, net sales price.

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

Fresh products

Third Quarter 2010 vs. Third Quarter 2009

Net sales delivered by the fresh products business increased by approximately \$6.0 million, or 6.3%, for the third quarter of fiscal 2010, when compared to the same period for fiscal 2009. As discussed above, this increase in fresh product sales during the third quarter of fiscal 2010 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 sales price per unit). 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), as well as pineapples (due primarily to a decrease in units sold).

Sales of California sourced avocados increased \$21.5 million, or 48.0%, for the third quarter of 2010, when compared to the same prior year period. The volume of California fruit sold increased to 71.9 million pounds from 30.7 million pounds in the same prior year period. The increase in California sourced avocados was primarily related to the larger California avocado crop for fiscal 2010. Partially offsetting this increase in pounds sold, is the decrease in the per carton sales prices of 36.7%. We attribute much of this decrease in the per carton sales price to the size of the California Avocado crop, which resulted in a significant increase in the supply of California avocados in the U.S. marketplace during the third quarter of fiscal 2010, as compared to the same prior year period.

Sales of tomatoes increased \$6.1 million, or 467.3%, for the third quarter of fiscal 2010, when compared to the same period for fiscal 2009. The increase in sales for tomatoes is due to a 225.6% increase in the number of units sold, in addition to an increase in the average per carton selling price of 74.2%. We attribute most of the increase in units sold to growers supplying us with significantly more volume, due primarily to market conditions. We attribute most of the increase in the per carton selling price to the lower volume of tomatoes in the U.S. marketplace during the third quarter of our fiscal 2010, as compared to the same prior period.

Partially offsetting such increases was a decrease in sales of Mexican sourced avocados of \$18.5 million, or 45.8%, for the third quarter of 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 10.2 million pounds, or 35.3%, 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 16.2%, when compared to the same prior year 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 the third quarter of 2010, as compared to the same prior year period.

Sales of pineapples decreased \$2.4 million, or 74.2% for the third quarter of fiscal 2010, when compared to the same period for fiscal 2009. The decrease in sales for pineapples was primarily due to a decrease in volume by 77.4% when compared to the same prior year period. This decrease is primarily related to our agreement with Maui Pineapple Company (Maui) ending in December 2009, which was primarily related to Maui exiting the pineapple business, as well as a significant decrease in pineapple production in Hawaii. We believe, however, that we have secured an additional Hawaiian source of pineapples and are currently pursuing other sources as well.

Nine Months Ended 2010 vs. Nine Months Ended 2009

Net sales delivered by the fresh products business increased by approximately \$23.3 million, or 10.1%, for the nine months ended July 31, 2010, when compared to the same period for fiscal 2009. As discussed above, this increase in fresh product sales during the nine months ended July 31, 2010, was primarily related to an increase in sales of California sourced avocados (due primarily to an increase in units sold) as well as tomatoes (due primarily to an increase in sales price per unit and an increase in units sold). These increases were partially offset, however, by decreased sales from Mexican sourced avocados (due primarily to a decrease in units sold and a decrease in sales price per unit), as well as pineapples (due primarily to a decrease in units sold see comment above).

Sales of California sourced avocados increased \$32.9 million, or 55.3%, for the nine months ended July 31, 2010, when compared to the same prior year period. The volume of California fruit sold increased to 100.6 million pounds from 43.8 million pounds in the same prior year period. The increase in California sourced avocados was primarily related to the larger California avocado crop for fiscal 2010. Partially offsetting this increase in pounds sold, is the decrease in the per carton sales prices of 32.5%. We attribute much of this decrease in the per carton sales price to the size of the California Avocado crop, which resulted in a significant increase in the supply of California avocados in the U.S. marketplace during the first nine months of fiscal 2010, as compared to the same prior year period.

Sales of tomatoes increased \$27.4 million, or 197.6%, for the nine months ended July 31, 2010, when compared to the same period for fiscal 2009. The increase in sales for tomatoes is primarily due to a significant increase in the average per carton selling price of 131.3%, in addition to the increase in units sold of 28.2%. 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) during the nine months ended July 31, 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.

Partially offsetting such increases was a decrease in sales of Mexican sourced avocados of \$33.1 million, or 24.7%, for the nine months ended July 31, 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 19.1 million pounds, or 16.1%, 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 10.3%, 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 the nine months ended July 31, 2010, as compared to the same prior year period.

Sales of pineapples decreased \$6.7 million, or 65.7% for nine months ended July 31, 2010, when compared to the same period for fiscal 2009. The decrease in sales for pineapples was primarily due to a decrease in volume by 62.3% when compared to the same prior year period. As mentioned above, this decrease is primarily related to our agreement with Maui Pineapple Company (Maui) ending in December 2009, which was primarily related to Maui exiting the pineapple business, as well as a significant decrease in pineapple production in Hawaii. We believe, however, that we have secured an additional Hawaiian source of pineapples and are currently pursuing other sources as well.

We anticipate that California avocado sales will experience a marginal seasonal and cyclical decrease during our fourth fiscal quarter of 2010, as compared to the third quarter of 2010.

We anticipate that net sales related to tomatoes will decrease during our fourth fiscal quarter of 2010, as compared to the third fiscal quarter of 2010 due to seasonality.

We anticipate that net sales related to Mexican sourced avocados will increase during our fourth fiscal quarter of 2010, as compared to the third fiscal quarter of 2010 due to seasonality.

*CalavoFoods***Third Quarter 2010 vs. Third Quarter 2009**

CalavoFoods sales for the quarter ended July 31, 2010, when compared to the same period for fiscal 2009, increased \$2.3 million, or 19.6%. This increase was primarily related to an 11.3% net increase in total pounds sold. The increase in pounds sold primarily related to an increase in the pounds sold of our high-pressure guacamole products, which increased approximately 18.9%, in addition to an increase in the sale of our frozen guacamole products, which increased approximately 5.3% when compared to the same prior year period. The average net selling price per pound increased 7.2% from the corresponding prior year period. This increase is primarily related to a change in sales mix, where by the volume sold of certain lower-margin items decreased.

In addition, the recently acquired Calavo Salsa Lisa LLC contributed approximately \$0.3 million in sales for the third quarter ended July 31, 2010.

Nine Months Ended 2010 vs. Nine Months Ended 2009

CalavoFoods sales for the nine months ended July 31, 2010, when compared to the same period for fiscal 2009, increased \$4.0 million, or 12.0%. This increase was primarily related to a 7.0% net increase in total pounds sold. The increase in pounds sold primarily related to an increase in the pounds sold of our high-pressure guacamole products, which increased approximately 13.6%, in addition to an increase in the sale of our frozen guacamole products, which increased approximately 1.9% when compared to the same prior year period. The average net selling price per pound increased 1.9% from the corresponding prior year period. This increase is primarily related to a change in sales mix, where by the volume sold of certain lower-margin items decreased.

In addition, the recently acquired Calavo Salsa Lisa LLC contributed approximately \$0.5 million in sales for the nine months ended July 31, 2010.

Gross Margins

The following table summarizes our gross margins and gross profit percentages by business segment for each of the three and nine month periods ended July 31, 2010 and 2009:

(in thousands)	Three months ended July 31,			Nine months ended July 31,		
	2010	Change	2009	2010	Change	2009
Gross margins:						
Fresh products	\$ 12,745	98.9%	\$ 6,408	\$ 27,305	12.7%	\$ 24,221
CalavoFoods	2,530	(27.7)%	3,498	9,931	(10.4)%	11,083
Total gross margins	\$ 15,275	54.2%	\$ 9,906	\$ 37,236	5.5%	\$ 35,304
Gross profit percentages:						
Fresh products	12.7%		6.8%	10.7%		10.5%
CalavoFoods	18.2%		30.1%	26.9%		33.7%
Consolidated	13.3%		9.3%	12.8%		13.4%

Our cost of goods sold 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. Gross margins increased by approximately \$5.4 million, or 54.2%, for the third quarter of fiscal 2010, when compared to the same period for fiscal 2009. This increase is mostly attributable to our fresh products segment. Gross margins increased by approximately \$1.9 million, or 5.5%, for the first nine months of fiscal 2010 when compared to the same period for fiscal 2009. This increase was attributable primarily to an increase in our fresh products segment, partially offset by a decrease in our CalavoFoods segment.

During our third fiscal quarter of 2010, as compared to the same prior year period, the increase in our fresh products segment 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 133.8%. This increase was primarily related to the larger California avocado crop, as discussed above. This had the effect of decreasing our per pound costs, which, as a result, positively impacted gross margins. Partially offsetting this increase, was a decrease in margin for Mexican sourced avocados, due primarily to a decrease in the volume of Mexican sourced avocados sold by 10.2 million pounds or 35.3%, which we believe was primarily related to the increase in the availability of California sourced fruit. In addition, the U.S. Dollar to Mexican Peso exchange rate weakened in the third fiscal quarter of 2010, when compared to the same prior period. All of these combined had the effect of increasing our per pound costs related to Mexican sourced avocados, which, as a result, negatively impacted gross margins.

During the first nine months of 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 129.9%. This increase was primarily related to the larger California avocado crop, as discussed above. 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 19.1 million pounds or 16.1%, which we believe was primarily related to the aforementioned pricing pressure. In addition, the U.S. Dollar to Mexican Peso exchange rate weakened during the first nine months of 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.

The CalavoFoods gross profit percentage for the first three and nine months of fiscal 2010, when compared to the same prior year period, decreased primarily as a result of higher fruit costs. Such was partially offset, however, by an increase in total pounds sold, as well as a shift in the sales mix to more profitable products. We anticipate that the gross profit percentage for our CalavoFoods segment will continue to experience significant fluctuations during the next fiscal quarter primarily due to the uncertainty of the cost of fruit that will be used in the production process.

Selling, General and Administrative

(in thousands)	Three months ended July 31,			Nine months ended July 31,		
	2010	Change	2009	2010	Change	2009
Selling, general and administrative	\$5,514	(5.3)%	\$5,822	\$16,133	(3.1)%	\$16,657
Percentage of net sales	4.8%		5.5%	5.5%		6.3%

Selling, general and administrative expenses include costs of marketing and advertising, sales expenses and other general and administrative costs. Selling, general and administrative expenses decreased \$0.3 million, or 5.3%, for the three months ended July 31, 2010, when compared to the same period for fiscal 2009. This decrease was primarily related to lower corporate costs, including, but not limited to, salaries (totaling approximately \$0.4 million) and professional fees (totaling approximately \$0.2 million), partially offset by increases in management bonuses (totaling approximately \$0.3 million).

Selling, general and administrative expenses decreased \$0.5 million, or 3.1%, for the nine months ended July 31, 2010, when compared to the same period for fiscal 2009. This decrease was primarily related to lower corporate costs, including, but not limited to, professional fees (totaling approximately \$0.4 million), salaries (totaling approximately \$0.3 million), and bad debt expense (totaling approximately \$0.2 million), partially offset by

increases in director fees (totaling approximately \$0.2 million), management bonuses (totaling approximately \$0.1 million), and employee benefits (totaling approximately \$0.1 million).

Provision for Income Taxes

(in thousands)	Three months ended July 31,			Nine months ended July 31,		
	2010	Change	2009	2010	Change	2009
Provision for						