CALAVO GROWERS INC
Form 10-Q
June 08, 2009

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

# FORM 10-Q

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

**For the quarterly period ended April 30, 2009**

**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** | **33-0945304** |
| (State of incorporation) | (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 þ No o

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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

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

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

Registrant s number of shares of common stock outstanding as of April 30, 2009 was 14,422,833

## 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 d materially from those projected as a result of certain risks and uncertainties. These risks and uncertainties include, but are not limited to: increased competition, 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, 2008, 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)**
**(All amounts in thousands, except per share amounts)**

| | April 30, 2009 | October 31, 2008 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 4,975 | $ 1,509 |
| Accounts receivable, net of allowances of $2,331 (2009) and $2,213 (2008) | 36,712 | 27,717 |
| Inventories, net | 15,616 | 14,889 |
| Prepaid expenses and other current assets | 6,038 | 5,155 |
| Advances to suppliers | 11,349 | 2,927 |
| Income tax receivable | | 992 |
| Deferred income taxes | 1,826 | 1,826 |
| Total current assets | 76,516 | 55,015 |
| Property, plant, and equipment, net | 38,223 | 37,709 |
| Investment in Limoneira Company | 22,817 | 29,904 |
| Investment in Maui Fresh, LLC | 907 | 682 |
| Goodwill | 3,591 | 3,591 |
| Other assets | 7,543 | 7,785 |
| | $ 149,597 | $ 134,686 |
| **Liabilities and shareholders equity** | | |
| Current liabilities: | | |
| Payable to growers | $ 6,219 | $ 2,392 |
| Trade accounts payable | 7,545 | 4,567 |
| Accrued expenses | 28,949 | 16,104 |
| Income tax payable | 1,887 | |
| Short-term borrowings | 6,720 | 10,130 |
| Dividend payable | | 5,047 |
| Current portion of long-term obligations | 1,365 | 1,362 |
| Total current liabilities | 52,685 | 39,602 |
| Long-term liabilities: | | |
| Long-term obligations, less current portion | 25,362 | 25,351 |
| Deferred income taxes | 1,458 | 4,216 |
| Total long-term liabilities | 26,820 | 29,567 |
| Commitments and contingencies | | |
| Shareholders equity: | | |
| Common stock, $0.001 par value; 100,000 shares authorized; 14,423 (2009) and 14,419 (2008) issued and outstanding | 14 | 14 |
| Additional paid-in capital | 38,689 | 38,626 |

| | | |
|---|---|---|
| Accumulated other comprehensive income (loss) | (387) | 3,943 |
| Retained earnings | 31,776 | 22,934 |
| Total shareholders equity | 70,092 | 65,517 |
| | $ 149,597 | $ 134,686 |

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

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

| | Three months ended April 30, | | Six months ended April 30, | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| Net sales | $ 86,829 | $ 98,777 | $ 157,476 | $ 171,018 |
| Cost of sales | 73,890 | 91,483 | 132,078 | 157,695 |
| Gross margin | 12,939 | 7,294 | 25,398 | 13,323 |
| Selling, general and administrative | 5,535 | 4,701 | 10,835 | 9,451 |
| Operating income | 7,404 | 2,593 | 14,563 | 3,872 |
| Interest expense | (291) | (346) | (617) | (694) |
| Other income, net | 366 | 398 | 621 | 659 |
| Income before provision for income taxes | 7,479 | 2,645 | 14,567 | 3,837 |
| Provision for income taxes | 3,017 | 1,033 | 5,725 | 1,493 |
| Net income | $ 4,462 | $ 1,612 | $ 8,842 | $ 2,344 |
| Net income per share: | | | | |
| Basic | $ 0.31 | $ 0.11 | $ 0.61 | $ 0.16 |
| Diluted | $ 0.31 | $ 0.11 | $ 0.61 | $ 0.16 |
| Number of shares used in per share computation: | | | | |
| Basic | 14,423 | 14,403 | 14,421 | 14,389 |
| Diluted | 14,508 | 14,514 | 14,495 | 14,504 |

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

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

| | Three months ended April 30, | | Six months ended April 30, | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| Net income | $ 4,462 | $ 1,612 | $ 8,842 | $ 2,344 |
| Other comprehensive income (loss), before tax: | | | | |
| Unrealized holding gains (losses) arising during period | (4,840) | 5,186 | (7,087) | (5,748) |
| Income tax benefit (expense) related to items of other comprehensive income (loss) | 1,888 | (2,235) | 2,757 | 2,218 |
| Other comprehensive income (loss), net of tax | (2,952) | 2,951 | (4,330) | (3,530) |
| Comprehensive income (loss) | $ 1,510 | $ 4,563 | $ 4,512 | $ (1,186) |

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

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

| | Six months ended April 30, 2009 | 2008 |
|---|---|---|
| **Cash Flows from Operating Activities:** | | |
| Net income | $ 8,842 | $ 2,344 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 1,489 | 1,120 |
| Provision for losses on accounts receivable | 79 | |
| Income from Maui Fresh LLC | (225) | (137) |
| Interest on deferred consideration | 91 | |
| Stock compensation expense | 20 | 4 |
| Effect on cash of changes in operating assets and liabilities: | | |
| Accounts receivable | (9,074) | (10,601) |
| Inventories, net | (727) | (6,574) |
| Prepaid expenses and other current assets | (883) | (1,016) |
| Advances to suppliers | (8,422) | (8,881) |
| Income taxes receivable | 999 | 1,364 |
| Other assets | (19) | 91 |
| Payable to growers | 3,827 | 7,189 |
| Trade accounts payable and accrued expenses | 15,776 | 16,379 |
| Income taxes payable | 1,887 | |
| Net cash provided by operating activities | 13,660 | 1,282 |
| **Cash Flows from Investing Activities:** | | |
| Loan to Agricola Belher | | (450) |
| Acquisitions of and deposits on property, plant, and equipment | (1,742) | (990) |
| Net cash used in investing activities | (1,742) | (1,440) |
| **Cash Flows from Financing Activities:** | | |
| Payment of dividend to shareholders | (5,047) | (5,032) |
| Proceeds from (payments on) revolving credit facilities, net | (3,410) | 6,620 |
| Exercise of stock options | 36 | 275 |
| Payments on long-term obligations | (31) | (14) |
| Net cash provided by (used in) financing activities | (8,452) | 1,849 |
| Net increase in cash and cash equivalents | 3,466 | 1,691 |
| Cash and cash equivalents, beginning of period | 1,509 | 967 |
| Cash and cash equivalents, end of period | $ 4,975 | $ 2,658 |
| **Noncash Investing and Financing Activities:** | | |
| Tax benefit related to stock option exercise | $ 7 | $ 118 |
| Capital lease obligations | $ | $ 1,125 |

| | | |
|---|---|---|
| Unrealized investment holding losses | $ (7,087) | $ (5,748) |

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

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, 2008.

***Recently Adopted Accounting Pronouncements***

In March 2008, we adopted Statement of Financial Accounting Standard (SFAS) No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (SFAS 161). SFAS 161 requires expanded disclosures regarding the location and amount of derivative instruments in an entity s financial statements, how derivative instruments and related hedged items are accounted for under SFAS 133 and how derivative instruments and related hedged items affect an entity s financial position, operating results and cash flows. The adoption of SFAS No. 161 did not have an impact on our condensed consolidated financial statements and related disclosures.

In November 2008, we adopted SFAS No. 157, *Fair Value Measurements* (SFAS No. 157), for our financial assets and liabilities. Our adoption of SFAS No. 157 did not have a material impact on our financial position, results of operations or liquidity.

SFAS No. 157 provides a framework for measuring fair value and requires expanded disclosures regarding fair value measurements.

SFAS No. 157 defines fair value as the price that would be received for an asset or the exit price that would be paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. SFAS No. 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs, where available. The following summarizes the three levels of inputs required by the standard that we use to measure fair value:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the related assets or liabilities

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

SFAS No. 157 requires the use of observable market inputs (quoted market prices) when measuring fair value and requires a Level 1 quoted price to be used to measure fair value whenever possible.

In accordance with FASB Staff Position (FSP) No. FAS 157-2, *Effective Date of FASB Statement No. 157* (FSP FAS 157-2), we elected to defer, until November 2009, the adoption of SFAS No. 157 for all nonfinancial assets and liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis. The adoption of SFAS No. 157 for those assets and liabilities within the scope of FSP FAS 157-2 is not expected to have a material impact on our financial position, results of operations, or liquidity.

Under the SFAS 157 hierarchy, an entity is required to maximize the use of quoted market prices and minimize the use of unobservable inputs. The following table sets forth our financial assets (there are no liabilities requiring disclosure) as of April 30, 2009 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] | $ 22,817 | | | $ 22,817 |
| Total assets at fair value | $ 22,817 | $ | $ | $ 22,817 |

(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 April 30, 2009 and October 31, 2008, equaled $132.00 per share and $173.00 per share.

Unrealized gain and losses are recognized through other comprehensive income. Unrealized pre-tax investment holding losses arising during the three and six month period ended April 30, 2009 was $4.8 million and $7.1 million.

In November 2008, we adopted SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115* (SFAS No. 159), which permits entities to choose to measure many financial instruments and certain other items at fair value. We already record our marketable securities at fair value in accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. The adoption of SFAS No. 159 did not have an impact on our condensed consolidated financial statements, as management did not elect the fair value option for any other financial instruments or certain other assets and liabilities.

***Recently Issued Accounting Standards***

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

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

In December 2008, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB 51*, which changes the accounting and reporting for minority interests. Minority interests will be re-characterized as noncontrolling interests and will be reported as a component of equity separate from the parent s equity, and purchases or sales of equity interests that do not result in a change in control will be accounted for as equity transactions. In addition, net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement and, upon a loss of control, the interest sold, as well as any interest retained, will be recorded at fair value with any gain or loss recognized in earnings. We will adopt SFAS No. 160 no later than the first quarter of fiscal 2010. We are currently assessing the potential impact that adoption of SFAS No. 160 would have on our financial position and results of operations.

In December 2008, the FASB issued SFAS No. 141 (revised 2008), *Business Combinations* (SFAS No. 141R), which replaces SFAS No 141. The statement retains the purchase method of accounting for acquisitions, but requires a number of changes, including changes in the way assets and liabilities are recognized in the purchase accounting. It also changes the recognition of assets acquired and liabilities assumed arising from contingencies, requires the capitalization of in-process research and development at fair value, and requires the expensing of acquisition-related costs as incurred. We will adopt SFAS No. 141R no later than the first quarter of fiscal 2010 and it will apply prospectively to business combinations completed on or after that date.

**2. Information regarding our operations in different segments**

We report our operations in two different business segments: (1) fresh products and (2) processed products. These two business segments are presented based on how information is used by our president to measure performance and allocate resources. The fresh products segment includes all operations that involve the distribution of avocados grown both inside and outside of California, as well as the distribution of other non-processed, perishable food products. The processed products segment represents all operations related to the purchase, manufacturing, and distribution of processed avocado products. Additionally, selling, general and administrative expenses, as well as other non-operating income/expense items, are evaluated by our president 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):

| | Six months ended April 30, 2009 | | | Six months ended April 30, 2008 | | |
|---|---|---|---|---|---|---|
| | Fresh products | Processed products | Total | Fresh products | Processed products | Total |
| Third-party sales: | | | | | | |
| Avocados | $ 91,899 | $ | $ 91,899 | $ 106,020 | $ | $ 106,020 |
| Tomatoes | 12,536 | | 12,536 | 17,005 | | 17,005 |
| Pineapples | 6,729 | | 6,729 | 7,854 | | 7,854 |
| Papayas | 4,246 | | 4,246 | 3,795 | | 3,795 |
| Diversified products | 2,245 | | 2,245 | 691 | | 691 |
| Processed food service | | 17,141 | 17,141 | | 18,719 | 18,719 |
| Processed retail and club | | 7,455 | 7,455 | | 5,868 | 5,868 |
| Total fruit and product sales to third-parties | 117,655 | 24,596 | 142,251 | 135,365 | 24,587 | 159,952 |
| Freight and other charges | 18,586 | 528 | 19,114 | 14,736 | 577 | 15,313 |
| Total third-party sales | 136,241 | 25,124 | 161,365 | 150,101 | 25,164 | 175,265 |
| Less sales incentives | (42) | (3,847) | (3,889) | (18) | (4,229) | (4,247) |
| Total net sales to third-parties | 136,199 | 21,277 | 157,476 | 150,083 | 20,935 | 171,018 |
| Intercompany sales | 8,171 | 3,803 | 11,974 | 8,104 | 4,806 | 12,910 |
| Net sales before eliminations | $ 144,369 | $ 25,081 | 169,450 | $ 158,187 | $ 25,741 | 183,928 |
| Intercompany sales eliminations | | | (11,974) | | | (12,910) |
| Consolidated net sales | | | $ 157,476 | | | $ 171,018 |

| | Three months ended April 30, 2009 | | | Three months ended April 30, 2008 | | |
|---|---|---|---|---|---|---|
| | Fresh products | Processed products | Total | Fresh products | Processed products | Total |
| Third-party sales: | | | | | | |
| Avocados | $ 52,201 | $ | $ 52,201 | $ 62,217 | $ | $ 62,217 |
| Tomatoes | 8,531 | | 8,531 | 10,895 | | 10,895 |
| Pineapples | 3,202 | | 3,202 | 4,781 | | 4,781 |
| Papayas | 2,039 | | 2,039 | 2,033 | | 2,033 |
| Diversified products | 697 | | 697 | 305 | | 305 |
| Processed food service | | 9,104 | 9,104 | | 9,357 | 9,357 |
| Processed retail and club | | 3,429 | 3,429 | | 2,843 | 2,843 |
| Total fruit and product sales to third-parties | 66,670 | 12,533 | 79,203 | 80,231 | 12,200 | 92,431 |
| Freight and other charges | 9,389 | 243 | 9,632 | 8,109 | 337 | 8,446 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total third-party sales | 76,059 | 12,776 | 88,835 | 88,340 | 12,537 | 100,877 |
| Less sales incentives | (19) | (1,987) | (2,006) | (17) | (2,083) | (2,100) |
| Total net sales to third-parties | 76,040 | 10,789 | 86,829 | 88,323 | 10,454 | 98,777 |
| Intercompany sales | 4,061 | 1,796 | 5,857 | 3,798 | 2,351 | 6,149 |
| Net sales before eliminations | $ 80,100 | $ 12,586 | 92,686 | $ 92,121 | $ 12,805 | 104,926 |
| Intercompany sales eliminations | | | (5,857) | | | (6,149) |
| Consolidated net sales | | | $ 86,829 | | | $ 98,777 |

The following table sets forth net sales, cost of sales, and gross margins by segment (in thousands):

| | Fresh products | Processed products | Total |
|---|---|---|---|
| **Six months ended April 30, 2009** | | | |
| Net sales | $ 136,199 | $ 21,277 | $ 157,476 |
| Cost of sales | 118,386 | 13,692 | 132,078 |
| Gross margin | $ 17,813 | $ 7,585 | $ 25,398 |
| **Six months ended April 30, 2008** | | | |
| Net sales | $ 150,083 | $ 20,935 | $ 171,018 |
| Cost of sales | 142,008 | 15,687 | 157,695 |
| Gross margin | $ 8,075 | $ 5,248 | $ 13,323 |

For six months ended April 30, 2009 and 2008, inter-segment sales and cost of sales of $12.0 million and $12.9 million were eliminated.

| | Fresh products | Processed products | Total |
|---|---|---|---|
| **Three months ended April 30, 2009** | | | |
| Net sales | $ 76,040 | $ 10,789 | $ 86,829 |
| Cost of sales | 67,016 | 6,874 | 73,890 |
| Gross margin | $ 9,024 | $ 3,915 | $ 12,939 |
| **Three months ended April 30, 2008** | | | |
| Net sales | $ 88,323 | $ 10,454 | $ 98,777 |
| Cost of sales | 83,679 | 7,804 | 91,483 |
| Gross margin | $ 4,644 | $ 2,650 | $ 7,294 |

For three months ended April 30, 2009 and 2008, inter-segment sales and cost of sales of $5.9 million and $6.1 million were eliminated.

**3. Inventories**

Inventories consist of the following (in thousands):

| | April 30, 2009 | October 31, 2008 |
|---|---|---|
| Fresh fruit | $ 7,417 | $ 6,019 |
| Packing supplies and ingredients | 2,941 | 3,059 |
| Finished processed foods | 5,258 | 5,811 |

| | | |
|---|---|---|
| | $ 15,616 | $ 14,889 |

During the three and six month periods ended April 30, 2009 and 2008, we were not required to, and did not, record any provisions to reduce our inventories to the lower of cost or market.

**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 April 30, 2009 and 2008, the aggregate amount of avocados procured from entities owned or controlled by members of our Board of Directors was $1.2 million and $1.4 million. During the six months ended April 30, 2009 and 2008, the aggregate amount of avocados procured from entities owned or controlled by members of our Board of Directors was $1.2 million and $1.6 million. Amounts payable to these board members were $0.6 million and $0.4 million as of April 30, 2009 and October 31, 2008.

During the three months ended April 30, 2008, we received $0.1 million as dividend income from Limoneira. During the six months ended April 30, 2009 and 2008, we received $0.1 million as dividend income from Limoneira.

**5. Other assets**

At April 30, 2009, 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 $0.8 million), including brand name intangibles of $0.3 million. The customer-related, trade name and non-competition agreements are being amortized over periods up to ten years. The intangible asset related to the brand name currently has an indefinite life and, as a result, is not currently subject to amortization. We anticipate recording amortization expense of approximately $83,000 for the remainder of fiscal 2009, with $166,000, $157,000, 143,000, and $143,000 of amortization expense for fiscal years 2010 through 2013. The remainder of approximately $405,000 will be amortized over fiscal years 2014 through 2018.

**6. Stock-Based Compensation**

We have one active stock-based compensation 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 account for our stock option plans in accordance with SFAS No. 123(R), *Share-Based Payment*. Under SFAS No. 123(R), we are required to measure compensation cost for all stock-based awards at fair value on the date of grant and recognize compensation expense in our consolidated statements of operations over the service period that the awards are expected to vest. We measure the fair value of our stock based compensation awards on the date of grant.

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 April 30, 2009 was approximately $34,000, which will be recognized over the remaining service period of 55 months.

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 such stock options:

| | **2009** |
|---|---|
| Risk-free interest rate | 2.02% |
| Expected volatility | 67.95% |
| Dividend yield | 4.3% |
| Expected life (years) | 4.0 |

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.

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

| | Number of Shares | Weighted-Average Exercise Price | Weighted-Average Fair-Value | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding at October 31, 2008 | 360 | $ 10.02 | | |
| Granted | 10 | $ 8.05 | $ 3.67 | |
| Exercised | (4) | $ 9.10 | | |
| Outstanding at April 30, 2009 | 366 | $ 9.98 | | $ 1,488 |
| Exercisable at April 30, 2009 | 290 | $ 9.11 | | $ 1,412 |

At April 30, 2009, outstanding stock options had a weighted-average remaining contractual term of 2.5 years. At April 30, 2009, exercisable stock options had a weighted-average remaining contractual term of 1.3 years. The total cash received from employees/directors as a result of stock option exercises during the three and six month periods ended April 30, 2009 totaled less than $0.1 million. The total recognized stock-based compensation expense was insignificant for the three months and six months ended April 30, 2009.

**7. Other events**

*Dividend payment*

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

*Contingencies*

*Hacienda Suit* We are currently under examination by the Mexican tax authorities (Hacienda) for the tax year ended December 31, 2000 and December 31, 2004. We have received assessments totaling approximately $2.0 million and $4.5 million from Hacienda related to the amount of income at our Mexican subsidiary. Subsequent to that initial assessment, the Hacienda offered a settlement of approximately $400,000 related to the tax year 2000 assessment, which we declined. In the second quarter of 2009, we won our most recent appeal case for the tax year ended December 31, 2000. The Hacienda, however, is expected to appeal that decision.

In the second quarter of 2009, the Hacienda initiated an examination related to tax year ended December 31, 2007 as well. Based on our success from the most recent appeal case, discussions with legal counsel and the evaluation of our claim, we maintain our belief that the Hacienda s position has no merit and that we will prevail. Accordingly, no amounts have been provided in the financial statements as of April 30, 2009. We pledged our processed products building located in Uruapan, Michoacan, Mexico as collateral to the Hacienda in regards to this assessment.

*IRS examination* The Internal Revenue Service has concluded their examination for the year ended October 31, 2005. No changes noted.

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.

## 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, 2008 of Calavo Growers, Inc. (we, Calavo, or the Company).

***Recent Developments***

*Dividend payment*

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

*Contingencies*

*Hacienda Suit* We are currently under examination by the Mexican tax authorities (Hacienda) for the tax year ended December 31, 2000 and December 31, 2004. We have received assessments totaling approximately $2.0 million and $4.5 million from Hacienda related to the amount of income at our Mexican subsidiary. Subsequent to that initial assessment, the Hacienda offered a settlement of approximately $400,000 related to the tax year 2000 assessment, which we declined. In the second quarter of 2009, we won our most recent appeal case for the tax year ended December 31, 2000. The Hacienda, however, is expected to appeal that decision.

In the second quarter of 2009, the Hacienda initiated an examination related to tax year ended December 31, 2007 as well. Based on our success from the most recent appeal case, discussions with legal counsel and the evaluation of our claim, we maintain our belief that the Hacienda s position has no merit and that we will prevail. Accordingly, no amounts have been provided in the financial statements as of April 30, 2009. We pledged our processed products building located in Uruapan, Michoacan, Mexico as collateral to the Hacienda in regards to this assessment.

*IRS examination* The Internal Revenue Service has concluded their examination for the year ended October 31, 2005. No changes noted.

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.

***Net Sales***

The following table summarizes our net sales by business segment for each of the three and six month periods ended April 30, 2009 and 2008:

| | Three months ended April 30, | | | Six months ended April 30, | | |
|---|---|---|---|---|---|---|
| **(in thousands)** | **2009** | **Change** | **2008** | **2009** | **Change** | **2008** |
| Net sales to third-parties: | | | | | | |
| Fresh products | $ 76,040 | (13.9)% | $ 88,323 | $ 136,199 | (9.3)% | $ 150,083 |
| Processed products | 10,789 | 3.2% | 10,454 | 21,277 | 1.6% | 20,935 |
| Total net sales | $ 86,829 | (12.1)% | $ 98,777 | $ 157,476 | (7.9)% | $ 171,018 |
| As a percentage of net sales: | | | | | | |
| Fresh products | 87.6% | | 89.4% | 86.5% | | 87.8% |
| Processed products | 12.4% | | 10.6% | 13.5% | | 12.2% |
| | 100.0% | | 100.0% | 100.0% | | 100.0% |

*Overview*

Net sales for the second quarter of fiscal 2009, compared to fiscal 2008, decreased by $11.9 million, or 12.1%; whereas net sales for the six months ended April 30, 2009, compared to fiscal 2008, decreased by $13.5 million, or 7.9%. The decrease in fresh product sales during the three and six-month periods of fiscal 2009 was primarily related to decreased sales of California and Chilean sourced avocados, as well as tomatoes and pineapples. These decreases were partially offset, however, by increased sales from Mexican sourced avocados. While the procurement of fresh avocados related to our fresh products segment is seasonal, our processed products business is generally not subject to a seasonal effect. For the related three and six-month periods, the increase in net sales delivered by our processed products business was due primarily to 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. Intercompany sales are eliminated in our consolidated results of operations.

*Fresh products*

Second Quarter 2009 vs. Second Quarter 2008

Net sales delivered by the fresh products business decreased by approximately $12.3 million, or 13.9%, for the second quarter of fiscal 2009, when compared to the same period for fiscal 2008. As discussed above, this decrease in fresh product sales during the second quarter of fiscal 2009 was primarily related to decreased sales of California and Chilean sourced avocados (due to the decrease in size of the California and Chilean avocado crop for 2008/2009 due primarily to poor weather conditions), as well as tomatoes (the increase in units sold was offset by the decrease in sales price due to high volume) and pineapples (decrease in pounds sold). These decreases were partially offset, however, by increased sales from Mexican sourced avocados.

California sourced avocado sales reflect a 50.2% decrease in pounds of avocados sold, for the second quarter of 2009, when compared to the same prior year period. This decrease in pounds sold is primarily related to five to seven consecutive days of 100-degree weather in June 2008, which damaged the fruit that was just beginning to mature on the trees. Our market share of California avocados increased to 30.0% for second quarter of 2009, when compared to a 26.1% market share for the same prior year period. The average selling price, on a per carton basis, of California avocados sold increased approximately 4.7% when compared to the same prior year period. We attribute some of this increase to the lower overall volume of avocados in the marketplace.

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Sales of Chilean sourced avocados decreased $2.2 million, or 96.9%, for the second quarter of 2009, when compared to the same prior year period. This decrease was primarily related to the decrease in the volume of Chilean fruit sold. This decrease was primarily related to the significantly smaller size of the Chilean avocado crop.

Sales of tomatoes decreased $2.4 million, or 21.7%, for the second quarter of fiscal 2009, when compared to the same period for fiscal 2008. The decrease in sales for tomatoes is primarily due to the decrease in the average carton selling price by 35.7%. This was partially offset by an increase in the volume of tomatoes by approximately 0.2 million cartons, or 17.6%, when compared to the same prior year period. We attribute most of this decrease in the per carton selling price to the volume of tomatoes in the U.S. marketplace.

Sales of pineapples decreased $1.6 million, or 33.1%, for the second quarter of fiscal 2009, when compared to the same period year period for fiscal 2008. The decrease in sales for pineapples is primarily due to the decrease in the units sold by 42.8%. This was partially offset by an increase in the average sales price by 17.7%, when compared to the same prior year period.

Partially offsetting such decreases was an increase in sales of Mexican sourced avocados, which increased $5.5 million, or 11.8%, for the second quarter of 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 11.4 million pounds, or 34.7%, 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 selling price per carton of Mexican avocados, which decreased approximately 17.6% when compared to the same prior year period. We attribute much of this decrease on the realized and expected size of the Mexican avocado crop.

Six Months Ended 2009 vs. Six Months Ended 2008

Net sales delivered by the business decreased by approximately $13.9 million, or 9.3%, for the six months ended April 30, 2009, when compared to the same prior year period for fiscal 2008. This decrease was primarily driven by decreased sales of California and Chilean sourced avocados, as well as tomatoes, partially offset by increased sales related to avocados sourced from Mexico.

California sourced avocado sales reflect a 45.6% decrease in pounds of avocados sold, when compared to the same six-month prior period. This decrease in pounds sold is primarily related to five to seven consecutive days of 100-degree weather in June 2008, which damaged the fruit that was just beginning to mature on the trees. The average selling price, on a per carton basis, of California avocados sold increased approximately 2.5% when compared to the same prior year period. We attribute some of this increase to the lower overall volume of avocados in the marketplace.

Sales of Chilean sourced avocados decreased $4.4 million, or 69.9%, when compared to the same six-month prior period. This decrease was primarily related to the decrease in the volume of Chilean fruit sold. This decrease was primarily related to the significantly smaller size of the Chilean avocado crop.

Sales of tomatoes decreased $4.5 million, or 26.3%, when compared to the same six-month prior period. The decrease in sales for tomatoes is primarily due to the decrease in the average carton selling price by 42.8%. This was partially offset by an increase in the volume of tomatoes by approximately 0.5 million cartons, or 28.6%, when compared to the same prior year period. We attribute some of this decrease in the per carton selling price to the volume of tomatoes in the U.S. marketplace.

Partially offsetting such decreases was an increase in sales of Mexican sourced avocados, which increased $6.1 million, or 6.4%, for the six month period ending April 30, 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 21.2 million pounds, or 30.9%, 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 22.9% when compared to the same prior year period. We attribute much of this decrease on the realized and expected size of the Mexican avocado crop.

We anticipate that net sales related to California sourced avocados, as well as pineapples, to experience a seasonal increase during our third fiscal quarter of 2009, as compared to the second fiscal quarter of 2009.

We anticipate that net sales related to non-California sourced avocados, as well as tomatoes, to experience a seasonal decrease in the third fiscal quarter of 2009, as compared to the second fiscal quarter of 2009.

*Processed products*

Second Quarter 2009 vs. Second Quarter 2008

For the quarter ended April 30, 2009, when compared to the same period for fiscal 2008, net sales increased by approximately $0.3 million, or 3.2%. This increase is primarily related to a 2.5% increase in total pounds sold during our second quarter of 2009, when compared to the same prior year period. The average net selling price per pound stayed relatively consistent compared to prior year.

Six Months Ended 2009 vs. Six Months Ended 2008

For the first six-months ended April 30, 2009, when compared to the same period for fiscal 2008, net sales increased by approximately $0.3 million, or 1.6%. This increase is primary related to the increase in the average net sales prices of 6.9%, partially offset by a decrease in pounds sold of 5.7%. The decrease in pounds sold primarily related to a decrease in the sales of our frozen guacamole product, which decreased approximately 11.9%, but was partially offset by an increase in the pounds sold of our high-pressure guacamole products, which increased approximately 4.2% when compared to the same prior year period.

Based primarily on the slowing economy in the United States, we believe that retail sales, as a percentage of total net processed product sales, may increase in the future.

***Gross Margins***

The following table summarizes our gross margins and gross profit percentages by business segment for each of the three and six month periods ended April 30, 2009 and 2008:

| | **Three months ended April 30,** | | | **Six months ended April 30,** | | |
|---|---|---|---|---|---|---|
| **(in thousands)** | **2009** | **Change** | **2008** | **2009** | **Change** | **2008** |
| Gross margins: | | | | | | |
| Fresh products | $ 9,024 | 94.3% | $ 4,644 | $ 17,813 | 120.6% | $ 8,075 |
| Processed products | 3,915 | 47.7% | 2,650 | 7,585 | 44.5% | 5,248 |
| Total gross margins | $ 12,939 | 77.4% | $ 7,294 | $ 25,398 | 90.6% | $ 13,323 |
| Gross profit percentages: | | | | | | |
| Fresh products | 11.9% | | 5.3% | 13.1% | | 5.4% |
| Processed products | 36.3% | | 25.3% | 35.6% | | 25.1% |
| Consolidated | 14.9% | | 7.4% | 16.1% | | 7.8% |

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 $5.6 million, or 77.4%, and $12.1 million, or 90.6%, for the second quarter and first six months of fiscal 2009, when compared to the same periods for fiscal 2008. These increases were attributable to improvements in both our fresh products and our processed products segment.

During the related three and six-month periods of fiscal 2009, as compared to the same prior year periods, 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 anticipated and realized large Mexican avocado crop, as well as the considerable strengthening of the U.S. Dollar compared to the Mexican Peso. Additionally, during our second quarter of 2009 and the six months period of fiscal 2009, when compared to the prior year periods, we experienced an increase in the volume of Mexican sourced avocados sold by 11.4 million pounds or 34.7% and 21.2 million pounds or 30.9%. Combined, these had the effect of decreasing our per pound costs, which, as a result, positively impacted gross margins. For the related three and six month periods of fiscal 2009, these decreases were partially offset by a decrease in per carton sales prices for Mexican avocados of 17.6% and 22.9%.

The processed products gross profit percentages for the three and six month periods of fiscal 2009, when compared to the same prior year period, increased primarily as a result of lower fruit and operating costs, partially offset by a decrease in total pounds sold. As discussed above, the anticipated 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.

***Selling, General and Administrative***

| | Three months ended April 30, | | | Six months ended April 30, | | |
|---|---|---|---|---|---|---|
| **(in thousands)** | **2009** | **Change** | **2008** | **2009** | **Change** | **2008** |
| Selling, general and administrative | $5,535 | 17.7% | $4,701 | $10,835 | 14.7% | $9,451 |
| Percentage of net sales | 6.4% | | 4.8% | 6.9% | | 5.5% |

Selling, general and administrative expenses include costs of marketing and advertising, sales expenses and other general and administrative costs. Selling, general and administrative expenses increased $0.8 million, or 17.7%, for the three months ended April 30, 2009, when compared to the same period for fiscal 2008. This increase was primarily related to higher corporate costs, including, but not limited to, management bonuses (totaling approximately $0.5 million), salaries and benefits (totaling approximately $0.2 million), and general insurance (totaling approximately $0.1 million).

Selling, general and administrative expenses increased $1.4 million, or 14.7%, for the six months ended April 30, 2009, when compared to the same period for fiscal 2008. This increase was primarily related to higher corporate costs, including, but not limited to, management bonuses (totaling approximately $0.7 million), salaries and benefits (totaling approximately $0.5 million), general insurance (totaling approximately $0.1 million) and bad debt expense (totaling approximately $0.1 million).

***Other Income, net***

| | Three months ended April 30, | | | Six months ended April 30, | | |
|---|---|---|---|---|---|---|
| **(in thousands)** | **2009** | **Change** | **2008** | **2009** | **Change** | **2008** |
| Other income, net | $366 | (8.0)% | $398 | $621 | (5.8)% | $659 |
| Percentage of net sales | 0.4% | | 0.4% | 0.4% | | 0.4% |

Other income, net, includes interest income and expense generated in connection with our financing and operating activities, as well as certain other transactions that are outside of the course of normal operations. For the three and six months ended April 30, 2009, other income, net, includes dividend income of $0.1 million from Limoneira Company. For the three and six months ended April 30, 2009, other income, net, includes $0.1 million and $0.2 million of income from Maui Fresh, LLC.

***Provision for Income Taxes***

| | Three months ended April 30, | | | Six months ended April 30, | | |
|---|---|---|---|---|---|---|
| **(in thousands)** | **2009** | **Change** | **2008** | **2009** | **Change** | **2008** |
| Provision for income taxes | $3,017 | 192.1% | $1,033 | $5,725 | 283.5% | $1,493 |
| Percentage of income before provision for income taxes | 40.3% | | 39.1% | 39.3% | | 38.9% |

For the second quarter of fiscal 2009, our provision for income taxes was $3.0 million, as compared to $1.0 million recorded for the comparable prior year period.

For the first six months of fiscal 2009, our provision for income taxes was $5.7 million, as compared to $1.5 million recorded for the comparable prior year period. We expect our effective tax rate to approximate 39% during fiscal 2009.

**Liquidity and Capital Resources**

Cash provided by operating activities was $13.7 million for the six months ended April 30, 2009, compared to $1.3 million used in operations for the similar period in fiscal 2008. Operating cash flows for the six months ended April 30, 2009 reflect our net income of $8.8 million, net non-cash charges (depreciation and amortization, stock compensation expense, provision for losses on accounts receivable, interest on deferred consideration, and income from Maui, LLC) of $1.5 million and a net increase in the noncash components of our operating capital of approximately $3.4 million.

Our operating capital increase includes a net increase in trade accounts payable and accrued expenses of $15.8 million, an increase in income tax payable of $2.9 million, and an increase in payable to growers of $3.8 million, partially offset by an increase in accounts receivable of $9.1 million, an increase in advances to suppliers of $8.4 million, an increase in prepaid expenses and other current assets of $0.9 million and an increase in inventory of $0.7 million.

The increase in our advances to suppliers, as of April 30, 2009, when compared to October 31, 2008, primarily reflects advances made to Agricola Belher related to the receipt of tomatoes. The increase in payable to our growers primarily reflects an increase in California fruit delivered in the month of April 2009, as compared to the month of October 2008. The increase in inventory is primarily related to an increase in the fresh fruit on hand at April 30, 2009. This was primarily driven by more fruit being delivered for California sourced avocados in the month of April 2009. The decrease in income tax receivable and the increase in income tax payable primarily relates to income from operations through the six months ended April 30, 2009.

Cash used in investing activities was $1.7 million for the six months ended April 30, 2009 and related principally to the purchase of property, plant and equipment items.

Cash used by financing activities was $8.5 million for the six months ended April 30, 2009, which related principally to the payment of our $5.0 million dividend, and $3.4 million in payments on our net borrowings on our lines of credit.

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 April 30, 2009 and October 31, 2008 totaled $5.0 million and $1.5 million. Our working capital at April 30, 2009 was $23.8 million, compared to $15.4 million at October 31, 2008.

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. Our non-collateralized, revolving credit facilities with Farm Credit West, PCA and Bank of America, N.A. expire in February 2012 and July 2009. Under the terms of these agreements, we are advanced funds for both working capital and long-term productive asset purchases. Total credit available under these combined borrowing agreements was $40 million, with a weighted-average interest rate of 2.5% and 4.8% at April 30, 2009 and October 31, 2008. Under these credit facilities, we had $19.7 million and $23.1 million outstanding as April 30, 2009 and October 31, 2008, of which $13.0 million was classified as a long-term liability as April 30, 2009 and October 31, 2008. These credit facilities contain various financial covenants, the most significant relating to working capital, tangible net worth (as defined), and Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) (as defined). We were in compliance with all such covenants at April 30, 2009. We are currently working with Bank of America to renew our line of credit and expect to complete such renewal before its expiration date.

**Contractual Obligations**

There have been no material changes to our contractual commitments from those previously disclosed in our Annual Report on Form 10-K for our fiscal year ended October 31, 2008. For a summary of the contractual commitments at October 31, 2008, see Part II, Item 7, page 27 in our 2008 Annual Report on Form 10-K.

**Impact of Recently Issued Accounting Pronouncements**

See footnote 1 to the consolidated condensed financial statements that are included in this Quarterly Report on Form 10-Q.

**ITEM 3. 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 April 30, 2009.

| | Expected maturity date April 30, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| (All amounts in thousands) | 2009 | 2010 | 2011 | 2012 | 2013 | Thereafter | Total | Fair Value |
| Assets | | | | | | | | |
| Cash and cash equivalents (1) | $ 4,975 | $ | $ | $ | $ | $ | $ 4,975 | $ 4,975 |
| Accounts receivable (1) | 36,712 | | | | | | 36,712 | 36,712 |
| Liabilities | | | | | | | | |
| Payable to growers (1) | $ 6,219 | $ | $ | $ | $ | $ | $ 6,219 | $ 6,219 |
| Accounts payable (1) | 7,545 | | | | | | 7,545 | 7,545 |
| Current borrowings pursuant to credit facilities (1) | 6,720 | | | | | | 6,720 | 6,720 |
| Long-term borrowings pursuant to credit facilities (2) | | | | 13,000 | | | 13,000 | 13,082 |
| Fixed-rate long-term obligations (3) | 1,365 | 4,937 | 1,370 | 1,373 | 1,376 | 3,306 | 13,727 | 14,744 |

(1) We believe the carrying amounts of cash and cash equivalents, accounts receivable, advances to suppliers, payable to growers, accounts payable, and current borrowings pursuant to credit facilities approximate their fair value due to the short maturity of these financial instruments.

(2)

Long-term borrowings pursuant to our credit facility bears interest at 1.8%. We believe that a portfolio of loans with a similar risk profile would currently yield a return of 1.4%. 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 $494,000.

(3) Fixed-rate long-term obligations bear interest rates ranging from 3.8% to 5.7% with a weighted-average interest rate of 5.1%. We believe that loans with a similar risk profile would currently yield a return of 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 $470,000.

We were not a party to any derivative instruments during the fiscal year. It is currently our intent not to use derivative instruments for speculative or trading purposes. Additionally, we do not currently 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. Based on the recent and significant decrease in the valuation of the Mexican peso to the U.S. dollar, however, we are currently considering the use of derivative instruments to hedge the fluctuation in the Mexican peso in our fiscal 2009. Total foreign currency translation gains and losses for each of the three years in the period ended October 31, 2008, as well as the six-months ended April 30, 2009, do not exceed $0.5 million.

**ITEM 4. 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.

There were no changes in the Company s internal control over financial reporting during the quarter ended April 30, 2009 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

We are involved in litigation in the ordinary course of business, none of which we believe will have a material adverse impact on our financial position or results from operations.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

On April 22, 2009, we held the annual meeting of shareholders of Calavo Growers, Inc. at 15765 W. Telegraph Road, Santa Paula, California, 93060. At the meeting, the holders of our outstanding common stock acted on the following matters:

(1) The shareholders voted on a cumulative basis for 13 directors, each to serve for a term of one year. Each nominee received the following votes:

| Name of Nominee | Votes For | Votes Withheld |
|---|---|---|
| Lecil E. Cole | 26,896,395 | 1,728,752 |
| George H. Barnes | 8,689,208 | 220,692 |
| Michael D. Hause | 9,149,079 | 216,522 |
| Donald M. Sanders | 10,228,710 | 1,834,821 |
| Fred J. Ferrazzano | 8,572,105 | 337,795 |
| Alva V. Snider | 8,611,130 | 350,770 |
| Scott Van Der Kar | 9,453,829 | 1,858,471 |
| J. Link Leavens | 12,971,482 | 1,909,123 |
| Dorcas H. McFarlane | 8,936,571 | 1,853,013 |
| John M. Hunt | 7,134,956 | 2,408,083 |
| Egidio Carbone, Jr. | 8,598,922 | 310,978 |
| Harold Edwards | 7,049,385 | 1,909,038 |
| Steven Hollister | 8,722,901 | 216,522 |

(2) The shareholders voted for the ratification of the appointment of Ernst & Young LLP as our independent accountants for fiscal 2009. Votes cast were as follows:

| | |
|---|---|
| For | 11,462,851 |
| Against | 70,846 |
| Abstain | 17,784 |

**ITEM 6. EXHIBITS**

31.1 Certification of Chief Executive Officer Pursuant to 15 U.S.C. § 7241, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Principal Financial Officer Pursuant to 15 U.S.C. § 7241, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32 Certification by Chief Executive Officer and Chief Financial Officer of Periodic Report Pursuant to 18 U.S.C. Section 1350

**SIGNATURES**

Pursuant to the requirements 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.

| | |
|---|---|
| | Calavo Growers, Inc.<br>(Registrant) |
| Date: June 5, 2009 | By /s/ Lecil E. Cole<br>Lecil E. Cole<br>Chairman of the Board of Directors,<br>Chief Executive Officer and President<br>(Principal Executive Officer) |
| Date: June 5, 2009 | By /s/ Arthur J. Bruno<br>Arthur J. Bruno<br>Chief Operating Officer, Chief Financial<br>Officer and<br>Corporate Secretary<br>(Principal Financial Officer) |

INDEX TO EXHIBITS

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| --- | --- |
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