CALAVO GROWERS INC
Form 10-Q
March 11, 2010

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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 January 31, 2010

OR

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

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

California	**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 (§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 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 January 31, 2010 was 14,504,833

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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, 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)

	January 31, 2010	October 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	$ 972	$ 875
Accounts receivable, net of allowances of $1,822 (2010) and $2,353 (2009)	29,163	22,314
Inventories, net	13,410	11,731
Prepaid expenses and other current assets	7,177	7,191
Advances to suppliers	6,152	2,329
Income taxes receivable	762	2,178
Deferred income taxes	2,728	2,728
Total current assets	60,364	49,346
Property, plant, and equipment, net	39,232	38,621
Investment in Limoneira Company	23,681	24,200
Investment in unconsolidated subsidiaries	1,504	1,382
Goodwill	3,591	3,591
Other assets	5,992	6,076
	$ 134,364	$ 123,216
Liabilities and shareholders equity		
Current liabilities:		
Payable to growers	$ 1,650	$ 396
Trade accounts payable	2,446	2,223
Accrued expenses	26,153	20,032
Short-term borrowings	14,570	5,520
Dividend payable		7,252
Current portion of long-term obligations	1,367	1,366
Total current liabilities	46,186	36,789
Long-term liabilities:		
Long-term obligations, less current portion	13,891	13,908
Deferred income taxes	2,830	3,032
Total long-term liabilities	16,721	16,940
Commitments and contingencies		
Shareholders equity:		
Common stock, $0.001 par value; 100,000 shares authorized; 14,505 (2010) and (2009) issued and outstanding	14	14
Additional paid-in capital	39,726	39,714
Accumulated other comprehensive income	150	466
Retained earnings	31,567	29,293

Total shareholders equity		71,457		69,487
	$	134,364	$	123,216

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 January 31,	
	2010	**2009**
Net sales	$ 67,320	$ 70,647
Cost of sales	58,445	58,188
Gross margin	8,875	12,459
Selling, general and administrative	5,164	5,300
Operating income	3,711	7,159
Interest expense	(229)	(326)
Other income, net	265	255
Income before provision for income taxes	3,747	7,088
Provision for income taxes	1,473	2,708
Net income	$ 2,274	$ 4,380
Net income per share:		
Basic	$ 0.16	$ 0.30
Diluted	$ 0.16	$ 0.30
Number of shares used in per share computation:		
Basic	14,505	14,419
Diluted	14,572	14,429

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

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CALAVO GROWERS, INC.

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
(in thousands)

	Three months ended January 31, 2010	2009
Net income	$ 2,274	$ 4,380
Other comprehensive loss, before tax:		
Unrealized investment holding losses arising during period	(518)	(2,247)
Income tax benefit related to items of other comprehensive loss	202	870
Other comprehensive loss, net of tax	(316)	(1,377)
Comprehensive income	$ 1,958	$ 3,003

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

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CALAVO GROWERS, INC.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)
(in thousands)

	Three months ended January 31,	
	2010	**2009**
Cash Flows from Operating Activities:		
Net income	$ 2,274	$ 4,380
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	791	749
Provision for losses on accounts receivable		88
Income from Maui Fresh, LLC	(122)	(96)
Interest on deferred consideration	24	45
Stock compensation expense	12	8
Effect on cash of changes in operating assets and liabilities:		
Accounts receivable	(6,849)	(546)
Inventories, net	(1,679)	1,464
Prepaid expenses and other current assets	14	(189)
Advances to suppliers	(3,823)	(2,785)
Income taxes receivable	1,416	999
Other assets	(30)	(21)
Payable to growers	1,254	(1,820)
Income taxes payable		1,618
Trade accounts payable and accrued expenses	6,321	1,333
Net cash provided by (used in) operating activities	(397)	5,227
Cash Flows from Investing Activities:		
Acquisitions of and deposits on property, plant, and equipment	(1,288)	(704)
Net cash used in investing activities	(1,288)	(704)
Cash Flows from Financing Activities:		
Payment of dividend to shareholders	(7,252)	(5,047)
Proceeds from revolving credit facilities, net	9,050	380
Payments on long-term obligations	(16)	(16)
Exercise of stock options		36
Net cash provided by (used in) financing activities	1,782	(4,647)
Net increase (decrease) in cash and cash equivalents	97	(124)
Cash and cash equivalents, beginning of period	875	1,509
Cash and cash equivalents, end of period	$ 972	$ 1,385
Noncash Investing and Financing Activities:		
Tax benefit related to stock option exercise	$	$ 7

Construction in progress included in trade accounts payable	$		$	39
Unrealized investment holding losses	$	(518)	$	(2,247)

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

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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. Our expertise in marketing and distributing avocados, processed avocados, and other perishable foods allows us to deliver a wide array of fresh and processed food products to food distributors, produce wholesalers, supermarkets, and restaurants on a worldwide basis. We procure avocados principally from California, Mexico, and Chile. Through our operating facilities in southern California, Texas, New Jersey, Arizona, and Mexico, we sort, pack, and/or ripen avocados and/or tomatoes for distribution both domestically and internationally. Additionally, we also distribute other perishable foods, such as pineapples and Hawaiian grown papayas, and prepare processed avocado products. We report our operations in two different business segments: (1) fresh products and (2) 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, 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:

- Ø 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.

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

- Ø The disclosures that an entity should make about events or transactions that occurred after the balance sheet date.

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

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

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

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

on each specific business combination. We did not close any business combinations in the first quarter of fiscal 2010. 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 accounting 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 accounting 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 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.

Recently Issued Accounting Standards

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

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

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

2. Information regarding our operations in different segments

We report our operations in two different business segments: fresh products and 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 and other 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. Prior period amounts have been reclassified to conform to the current period presentation. The following table sets forth sales by product category, by segment (in thousands):

	Three months ended January 31, 2010			Three months ended January 31, 2009		
	Fresh products	Processed products	Total	Fresh products	Processed products	Total
Third-party sales:						
Avocados	$ 43,619	$	$ 43,619	$ 48,846	$	$ 48,846
Tomatoes	8,064		8,064	4,028		4,028
Pineapples	1,734		1,734	3,651		3,651
Papayas	2,094		2,094	1,868		1,868
Other Fresh products	1,020		1,020	1,950		1,950
Processed food service		8,257	8,257		8,176	8,176
Processed retail and club		4,587	4,587		4,172	4,172
Total gross sales	56,531	12,844	69,375	60,343	12,348	72,691
Less sales incentives	(194)	(1,861)	(2,055)	(184)	(1,860)	(2,044)
Net sales	$ 56,337	$ 10,983	$ 67,320	$ 60,159	$ 10,488	$ 70,647

	Fresh products	Processed products	Total
	(All amounts are presented in thousands)		
Three months ended January 31, 2010			
Net sales	$ 56,337	$ 10,983	$ 67,320
Cost of sales	51,518	6,927	58,445
Gross margin	$ 4,819	$ 4,056	$ 8,875
Three months ended January 31, 2009			
Net sales	$ 60,159	$ 10,488	$ 70,647
Cost of sales	51,370	6,818	58,188
Gross margin	$ 8,789	$ 3,670	$ 12,459

For the quarters ended January 31, 2010 and 2009, intercompany sales and cost of sales of $5,875 and $6,117 were eliminated.

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

3. Inventories

Inventories consist of the following (in thousands):

	January 31, 2010	October 31, 2009
Fresh fruit	$ 6,443	$ 4,495
Packing supplies and ingredients	2,851	2,652
Finished processed foods	4,116	4,584
	$ 13,410	$ 11,731

During the three month periods ended January 31, 2010 and 2009, 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 January 31, 2010 and 2009, the aggregate amount of avocados procured from entities owned or controlled by members of our Board of Directors was $0.7 million and $0.1 million. Amounts payable to these board members was $0.5 million as of January 31, 2010. We did not have an accounts payable balance to these board members as of October 31, 2009.

During the first quarter of fiscal 2010 and 2009, we received $0.1 million as dividend income from Limoneira.

5. Other assets

At January 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 $1.8 million (accumulated amortization of $0.9 million) and 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 $114,000 for the remainder of fiscal 2010, with $144,000 of amortization expense for fiscal years 2011 and 2012 and $131,000 of amortization expense for fiscal years 2013 and 2014. The remainder of approximately $241,000 will be amortized over fiscal years 2015 through 2018.

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.

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

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	Aggregate Intrinsic Value
Outstanding at October 31, 2009	284	$ 10.23	
Outstanding at January 31, 2010	284	$ 10.23	$ 1,863
Exercisable at January 31, 2010	226	$ 9.41	$ 1,665

At January 31, 2010, outstanding stock options had a weighted-average remaining contractual term of 2.1 years. At January 31, 2009, exercisable stock options had a weighted-average remaining contractual term of 0.9 years. The total recognized stock-based compensation expense was insignificant for the three months ended January 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.

Contingencies

Hacienda Suit We are currently under examination by the Mexican tax authorities (Hacienda) for the tax years 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 subsequently appealed that decision and the case was sent back to the tax court due to administrative error by such jurisdiction. 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, but we do not expect this examination to have a significant impact on our results of operations. We pledged our processed products 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).

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

The following table sets forth our financial assets (there are no liabilities requiring disclosure) as of January 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]	$ 23,681			$ 23,681
Total assets at fair value	$ 23,681	$	$	$ 23,681

(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. Unrealized gain and losses are recognized through other comprehensive income. Unrealized investment holding losses arising during the quarter ended January 31, 2010 was $0.5 million.

9. Subsequent events

We have evaluated events subsequent to January 31, 2010 to assess the need for potential recognition or disclosure in this Quarterly Report on Form 10-Q. Based upon this evaluation, it was determined that no subsequent events occurred that require recognition in the financial statements and that the following items represent events that merit disclosure herein:

Business Acquisition

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 on February 8, 2010. Elizabeth Nicholson and Eric Nicholson, through LSC, hold the remaining 35 percent ownership of Calavo Salsa Lisa. LSC is a respected regional producer in the upper Midwest of Salsa Lisa refrigerated salsas. The Acquisition Agreement provided, among other things, that Calavo make a payment totaling $100,000 for such 65 percent interest, as well a $300,000 payment representing a loan to be repaid from Calavo Salsa Lisa. Calavo made the initial payment on February 8, 2010. The purchase price can increase, subject to certain earn-out payments, as defined.

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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.

Contingencies

Hacienda Suit We are currently under examination by the Mexican tax authorities (Hacienda) for the tax years 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 approx