The

Calavo

2002 Company

PASSPORT

&

Annual Report

A passport permits travel from one country to the next. It also is a proud declaration of your origin. It provides a memoir and record of trips taken: a testament to where you've been. Considered carefully, it may even serve as a roadmap for where you're going next.

This particular passport delivers the written and visual corporate chronicle of Calavo Growers, Inc., and the company's path through fiscal 2002, the most successful year in its 79-year history. It recounts the triumphs and determination, the singular event that sets the company's future course, as well as a glimpse of where we're headed. Our successful journey came amid the obstacles and uncertainties of a flagging U.S. economy.

This is our story and journal, how we have risen from proud California origins to build a brand recognized and respected for the finest avocados in the world.

LEE E. COLE

Name

CHAIRMAN, PRESIDENT & CHIEF EXECUTIVE OFFICER

Title

FIVE

Years at position

2002 GROWTH STORY, CONVERSION TO PUBLIC COMPANY

Notable milestones with company

SANTA ANA, CALIFORNIA

Company headquarters

SEE BELOW

Message for the year

TO OUR SHAREHOLDERS:

Calavo Growers, Inc. completed the most successful year of its 79-year history in fiscal 2002 – the company's first full period as a for-profit corporation. I am pleased to report that significant accomplishments are evident across the company and include:

- Registering record operating results, with revenues, gross profit, net income and earnings per share reaching new highs;
- Delivering grower returns that measurably outstrip the industry and strengthen Calavo's competitive position as the market leader;
- Fortifying our already-strong financial condition by sharply reducing corporate debt;

- Investing in the infrastructure and future performance of our business by purchasing two state-of-the art, ultra high-pressure systems that are intended to reinvigorate our processed-product operations; and
- Listing our common stock last July on the Nasdaq National Market System, which effectively unlocks the value of our shares and offers new alternatives for raising capital to execute our business plan.

RECORD OPERATING PERFORMANCE – ALL KEY METRICS REACH NEW HIGHS

Our fiscal discipline, along with an eye trained closely on growth, enabled Calavo to post record financial results in the fiscal year ended October 31, 2002. Revenues grew by 11.5 percent to $242.7 million from $217.7 million in the prior year. Gross margins rose to $25.8 million, an increase of 37.3 percent or $7.0 million from $18.8 million in fiscal 2001. Net income for the most recent year increased 80.2 percent to $6.9 million, equal to $.60 per diluted share, from $3.8 million, or $0.37 per diluted share, in fiscal 2001.

Enhanced by the robust cash flows from our businesses, Calavo has seen nearly $10 million enter into its treasury over the past two years from operating activities, as well as a successful $5 million shareholder subscription rights offering last summer. As a result, the company measurably improved its balance sheet last year, reducing corporate debt by approximately $13 million. Calavo's financial condition is flexible, liquid and well suited to capitalize on prospective expansion opportunities to drive growth.

In recognition of the company's outstanding financial results, Calavo's board of directors last year declared an annual cash dividend of $0.20 per share, which was paid to shareholders on January 3, 2003. We are confident that the company's strong operating performance provides substantial cash flows that enable both reinvestment in our businesses and contribution to overall shareholder return through a cash dividend.

CALIFORNIA AVOCADOS – UNDISPUTED MARKET LEADERSHIP

The cornerstone of our business remains – and moving forward will continue to be – California avocados. Our leadership position globally is predicated, in large part, on our strength and success at home, where we pack and distribute approximately 40 percent of the domestic avocado crop.

Last year, Calavo packed and distributed approximately 149 million pounds of fruit for California growers. As the volume through our packinghouses increases, it results in better utilization of overhead – effectively spreading our fixed costs over more pounds – and other operating efficiencies. In turn, Calavo leverages these volume gains into a formidable competitive advantage: delivering the highest grower returns in the avocado industry. In fiscal 2002, our company's returns to the growers outpaced the competition by a substantial $0.03 per pound. As significant as that figure is, I believe that through a concerted push, we can widen the gap still further.

With our for-profit conversion and securities listing now complete, I am redirecting a good portion of my own energies and time to Calavo's grower-recruitment initiatives. Showcasing the significant benefits our company offers growers – from resources to returns – we will focus on signing up volume producers, in particular, with an eye toward half-million pound crops and larger. My objective is clear-cut: increasing Calavo domestic market share to approximately 50 percent, which in turn would push volume through our existing packinghouses to their current capacity of 200 million pounds.

I am confident that this is a readily attainable goal. Successfully achieving it would potentially enable us to expand that $0.03 grower-return advantage, in turn channeling even more money “back to the farms” and strengthening the underpinnings of the California avocado industry. At a time when a great many American farmers are suffering financially, we are gratified that Calavo growers are thriving and enjoying unprecedented returns on their avocado crops.

INTERNATIONAL AVOCADOS – TAKING CALAVO TO THE WORLD

Fiscal 2002 witnessed outstanding performance in our international business, namely avocados sourced from Mexico, Chile and New Zealand, where Calavo commands market shares of approximately 31, 22 and 18 percent, respectively. The company’s expanding base of fruit sourced from beyond the United States is an instrumental factor in Calavo’s emergence as the world’s leading avocado brand, providing us with sufficient supply for export and to sustain a stable, year-round domestic supply. Last year, international-avocado volume approximated 70 million pounds and accounted for $43.7 million, or 18.0 percent, of the company’s total revenues.

Globalization continues unabated. It is essential that Calavo participate aggressively on this level – which we are doing with considerable success – or risk being left behind. Expanding our international presence and creating a truly global brand is, simply put, smart business: generating profit to reinvest at home; stimulating greater worldwide avocado demand and consumption; and solidifying industry leadership beyond our borders.

PROCESSED AVOCADOS – EXCELLENCE THROUGH INNOVATION

The past fiscal year is best characterized as a year of investment in and re-energizing of our processed avocado operation, which has encountered challenging market conditions including competitive-pricing pressures. Confronting modestly declining sales, we are acting swiftly and decisively to reinvigorate the processed business to safeguard our market share and industry leadership in the category.

Most notably, we invested in two ultra-high pressure systems used in the manufacture of processed guacamole products. Installed last fall, the first of our two, state-of-the-art machines made possible a genuine product breakthrough – processed guacamole of unprecedented taste and freshness. At long last, we are capable of producing processed product truly commensurate with Calavo’s reputation for quality. In my estimation, the first step toward reinvigorating processed sales is offering a superior product, and, as I write this letter, Calavo has secured its first customer for ultra-high pressure guacamole. The effort is just beginning.

Beyond product innovation, we are conducting a top-down evaluation of all aspects of our processed business. The company is routinely scrutinizing processed cost structures and developing long-term strategies to make these operations highly competitive and profitable. Believing that the entire processed-avocado category is – no pun intended – ripe for consolidation, Calavo’s management team is evaluating numerous strategic alternatives, including prospective acquisitions. In the near term, we expect performance in the processed unit to be lackluster during the first half of fiscal 2003, and look for these new initiatives to begin contributing to improved results in the third and fourth quarters.

CAPITAL INVESTMENT TO SPUR FUTURE GROWTH

Not content to rest on our laurels, Calavo is committed to building future growth and profitability through continuous reinvestment in our businesses, appropriating in the past two fiscal years approximately $4.3 million for capital expenditures. These investments are concentrated on three specific fronts – product quality, operating efficiencies and increased consumption – that can serve as revenue and profit engines. In addition to the aforementioned ultra-high pressure systems, the company’s capital expenditures included:

- Automated equipment upgrades in our packinghouses, an improvement that enhances productivity and contributes to efficiency gains that effectively reduce packing costs.
- Technologically advanced ripening-room systems which have been installed at each of Calavo's packinghouses, as well as at four distribution centers located across the nation.

With respect to ProRipe,™ our proprietary avocado ripening process, we believe that the company's newfound capability for delivering fresh avocados ready to eat is a significant boon for both retailers and consumers and will serve to increase product demand. This promising innovation offers a genuine opportunity to ratchet up fresh-avocado consumption and we are truly encouraged by the implications.

LOOKING AHEAD: BUILDING DEMAND ONE POUND AT A TIME

I have said it before, but it warrants saying again – it is a great time to be in the avocado business. California avocado crop forecasts for the current year anticipate a slight increase from approximately 400 million pound harvest in 2002. Demand remains robust, pricing firm and, at Calavo, we are maintaining a focus on implementing our business plan and the long-term strategies we have set in each of our operating segments. We are optimistic – to the point of pretty darn excited – about the outlook moving forward.

To fully grasp the importance of driving demand, consider this: Presently, annual per capita fresh avocado consumption in the United States is about three pounds. This figure pales in comparison to the estimated 25 pounds of avocados consumed per year by each citizen in Mexico and even lags below the four pounds of fruit per person eaten annually in France. Just an additional pound of annual per capita U.S. avocado consumption would drive up demand and usage by a quarter-billion pounds, of which Calavo – assuming even no increase in market share – would pack and distribute close to 40 percent. That translates to in excess of 60 million pounds per year. How's that for market potential?

NASDAQ LISTING – UNLOCKING SHARE VALUE

The commencement of trading in Calavo common stock over the Nasdaq National Market System last July truly represents both a milestone and turning point for our company. Against a weak economy and the worst downturn in capital markets in nearly 30 years, we successfully brought our company public – fully completing the transition from grower-owned cooperative – without an initial public offering or even the traditional involvement of investment bankers. The significance of this accomplishment cannot be overstated. With over 1600 stockholders – 95 percent of whom we estimate to be Calavo growers – the company unlocked the value of its shares and has now at its disposal an additional currency to finance growth.

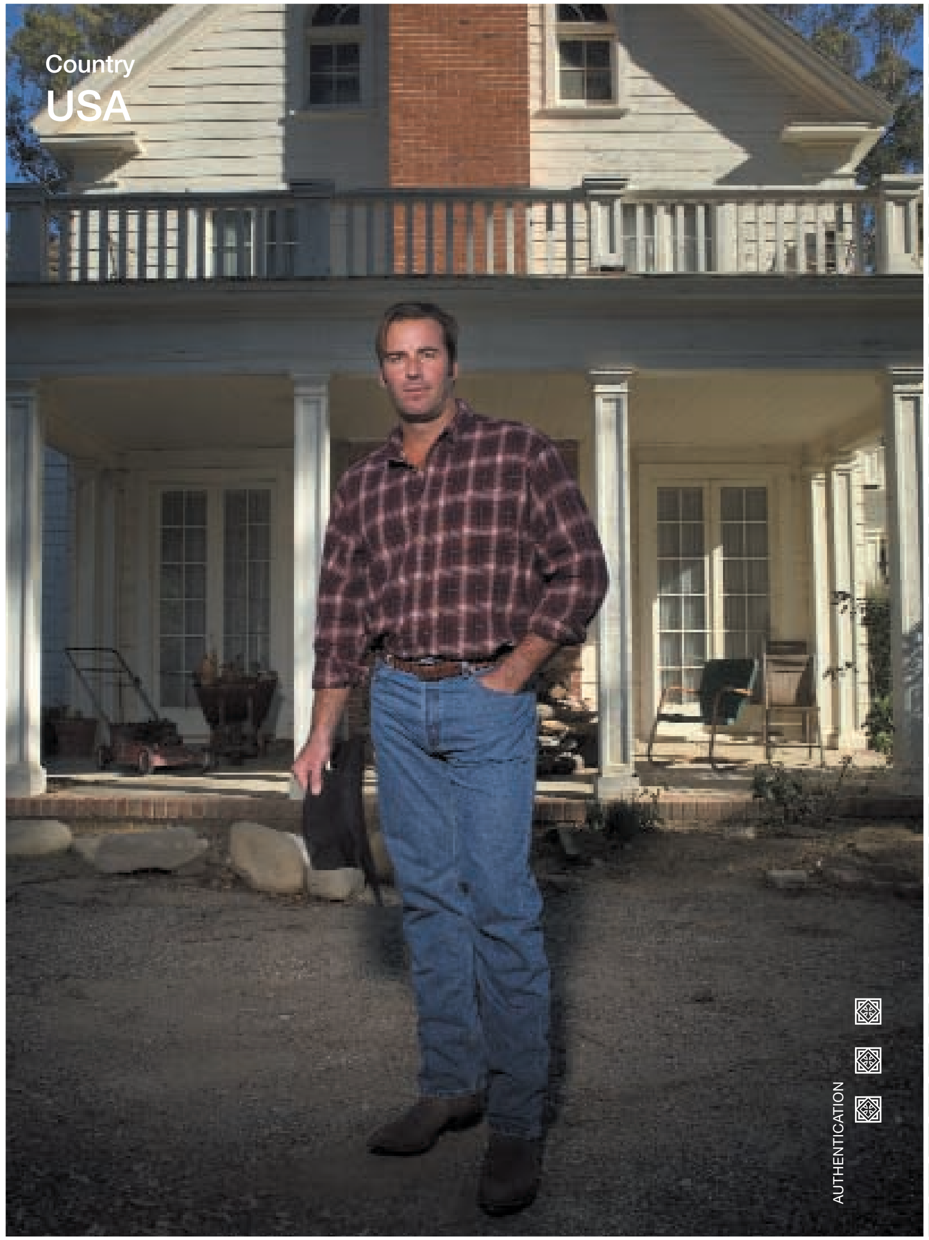
With being a public company come certain new responsibilities and obligations, including standards of reporting and conduct. Suffice to say that we also are guided in this area by the ethical codes, tenets and business practices that have been hallmarks of Calavo's history. Speaking for management and our board of directors, our company will always operate at the highest ethical plane.

In closing, let me extend my sincere thanks to our employees, senior management team and board – all of you have played instrumental roles in our success. To our customers and consumers, I express gratitude for your patronage. And to shareholders, both old and new, I offer deep appreciation for your support.

Sincerely,

Signature

Lee E. Cole
Chairman, President and
Chief Executive Officer
February 7, 2003



HARLAN RUCKER

Name

SPIRIT LAKE, IOWA, U.S.A.

Resides

CORN AND BARLEY FARMER

Occupation

MODELING FOR THE “MEN OF IOWA” CALENDAR, FURNITURE REFINISHING

Hobbies

TWELVE

Years eating avocados

SLICED ON A THICK T-BONE STEAK WITH A LITTLE HEINZ 57™ SAUCE

Favorites

Entries

Just hearing about Calavo’s unsurpassed grower returns makes Harlan avocado green with envy. He would gladly trade his field of dreams for a grove of California Hass.

ALLISON JEAN (A.J.) MACINTOSH

Name

WINNIPEG, MANITOBA, CANADA

Resides

STUDENT, OLYMPIC FIGURE SKATER AND ASPIRING ACTRESS

Occupation

YOGA, COMMUNITY THEATER PRODUCTIONS AND WATCHING HOCKEY

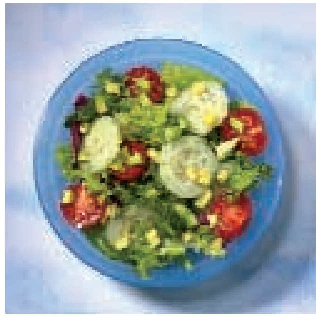
Hobbies

SIXTEEN

Years eating avocados

SLICED FRESH

Favorites



Entries

A.J. loves the freshest ones on salads, sandwiches and as garnish. Periodically, she whips up the avocado facial mask concoction she found in a tabloid article titled *Beauty Secrets of the Stars.*

ANGUS FEENEY

Name

HAMPSHIRESTEAD, ENGLAND, U.K.

Resides

CONSTABLE

Occupation

DARTS, COMPOSING PUB SONGS, ENGLISH-RULES FOOTBALL

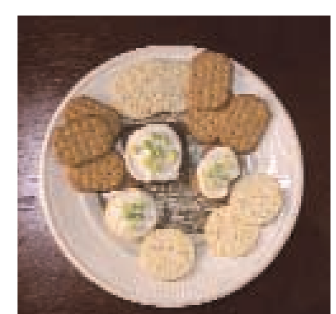
Hobbies

SIX

Years eating avocados

TUNA, AVOCADO AND SPROUTS SANDWICH ON GRAIN BREAD

Favorites



Entries

Forget about the “bangers and mash” or “bubbles and squeak.” This bobby finds that nothing goes better with his pint of stout than Calavo avocados. And now, his mates from the soccer club are all eating them, too.

JEAN-FRANCOIS LECROUSET

Name

SAINT REMY-DE-PROVENCE

Resides

INNKEEPER, CHEF AND BON VIVANT

Occupation

PARTAKING OF THE GOOD LIFE – FINE WINE, FOOD AND FRIENDS

Hobbies

FIFTY-FOUR

Years eating avocados

PAN-SEARED SEA BASS WITH AVOCADO COULIS

Favorites

Entries

Like an old love, Jean-Francois closes his eyes and remembers tasting his first Calavo avocado – on a trip to Santa Barbara, California in 1948 – as if it were yesterday. With an unabashed *joie de vivre*, he believes to this day that nothing surpasses the pleasures of a fine meal prepared using fresh Calavo avocados liberally.

HIROKO YAMAKAWA

Name

OSAKA, JAPAN

Resides

MOLECULAR BIOLOGIST

Occupation

EXTREME SPORTS, ORIGAMI, WATERCOLOR PAINTING

Hobbies

NINE

Years eating avocados

GUACAMOLE WITH SALSA

Favorites

Entries

It doesn't take a Ph.D. like Hiroko to know the health benefits of avocados: low in monounsaturated fat and a great source of potassium. Not to mention, she says that the vivid color and freshness of Calavo fruit inspired her watercolor still life, *Life's Just a Bowl of Avocados.*

SEE BELOW

Name

CALAVO GROWERS, INC. BOARD OF DIRECTORS

Titles

GROWERS, BUSINESS EXECUTIVES AND ENTREPRENEURS

Occupation

BUILDING THE CALAVO BRAND, INCREASING SHAREHOLDER VALUE

Hobbies

SEVENTY NINE

Years eating avocados

ANY WHICH WAY THEY CAN

Favorites

From left to right

SCOTT N. VAN DER KAR
General Manager-Van Der Kar Family Farms (Pinehill Ranch)
Carpinteria, California

JOHN M. HUNT
Manager-
Embarcadero Ranch
Goleta, California

J. LINK LEAVENS
General Manager-
Leavens Ranches
Ventura, California

DORCAS H. MC FARLANE
Owner & Operator-
J.K. Thille Ranches
Santa Paula, California

LECIL E. COLE
Chairman of the Board,
President, Chief Executive Officer-
Calavo Growers, Inc.
Santa Paula, California

ALVA V. SNIDER
Avocado Grower
Fallbrook, California

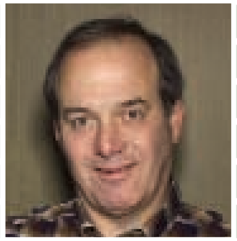
ROY V. KEENAN
Avocado Grower
Temecula, California

DONALD M. SANDERS
President-S&S Grove Management
Escondido, California

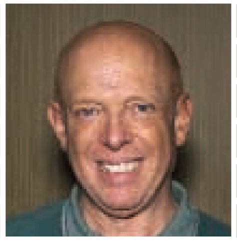
FRED J. FERRAZZANO
President & Chief Executive Officer-Ferrazzano Farms
Escondido, California

EDWARD P. SMITH
Avocado Grower
Valley Center, California

SENIOR MANAGEMENT


Al Ahmer,
Vice President,
Processed Sales


Wolfgang Hombrecher
Vice President, Finance,Corporate
Secretary & Chief Financial Officer


Avi Crane
Vice President,
Calavo international


James M. Wallace
Vice President, Human Resources
& Communications


George W. Hatfield
Vice President,
Processed Products


Gerard J. Watts
Vice President,
North America Operations


Rob Wedin
Vice President,
Fresh Sales & Marketing

CALAVO GROWERS, INC.

Corporate name

SANTA ANA, CALIFORNIA

Headquarters location

INDUSTRY LEADER; MOST WIDELY RECOGNIZED AVOCADO BRAND

Market position

1924

Year founded

2002

Publicly traded since

NASDAQ NATIONAL MARKET; TICKER SYMBOL – CVGW

Stock information

Profile

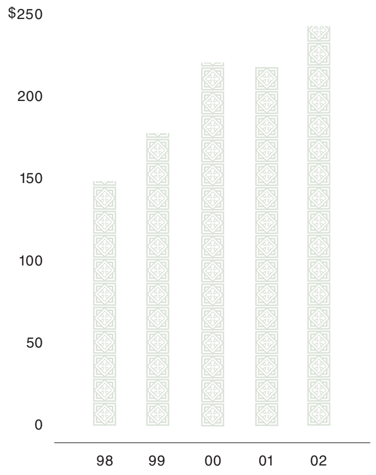
Calavo Growers, Inc. is the leading marketer of fresh and processed avocados throughout the United States and in other locations around the world. Indisputably the world's leading avocado brand, the company has been an influential force in the development of the global avocado market.

Calavo operates in three principal business segments: California Avocados, Processed Products, and International Avocados and Perishable Food Products. The company distributes fresh and processed products to retail, restaurant and institutional food-service customers.

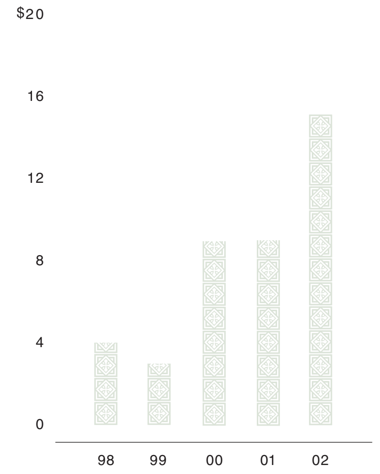
As the "first name" in avocados, the company packs and markets approximately 40 percent of the state's crop. Calavo also sources fruit from Mexico, Chile and New Zealand to satisfy year-round domestic avocado demand, for export and for processed-food products. The company also distributes other commodity produce products, including Hawaiian papayas.

FINANCIAL RESULTS

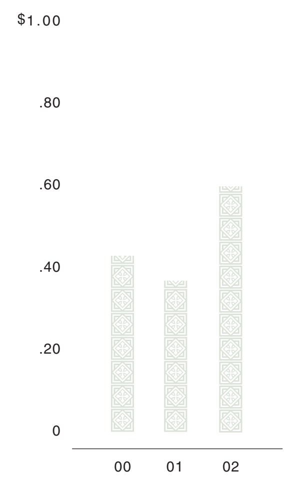
5-Year Sales Trend
in millions:



5-Year EBITDA
in millions:



3-Year Earnings Per Share
in dollars:



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

SELECTED CONSOLIDATED FINANCIAL DATA

The following summary consolidated financial data (other than pounds information) for each of the years in the five-year period ended October 31, 2002 are derived from the audited consolidated financial statements of Calavo Growers, Inc. and our predecessor, Calavo Growers of California. The selected financial data as of and for the years ended October 31, 2000, 1999, and 1998 have been restated to correct an error in the computation of income taxes relating to the member business of Calavo Growers of California. See Note 14 to our consolidated financial statements that are included elsewhere in this Annual Report for additional information about this restatement. Historical results are not necessarily indicative of results that may be expected in any future period. The following data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and notes thereto that are included elsewhere in this Annual Report.

Fiscal Year Ended October 31, (In thousands, except per share data)	*2002*	*2001*	*2000 (Restated)*	*1999 (Restated)*	*1998 (Restated)*
Income Statement Data:					
Net sales (1)	$242,671	$217,704	$220,712	$177,853	$148,522
Gross margin	25,823	18,808	19,554	14,302	16,256
Operating income (loss)	11,942	6,240	7,188	739	3,922
Tax provision (benefit)	5,727	2,744	2,430	229	1,195
Net income	6,915	3,838	4,476	244	1,184
Basic and diluted net income per share(2)	$0.60	$0.37	$0.43	$0.02	$0.12
Balance Sheet Data as of End of Period:					
Working capital	18,833	9,799	12,559	8,824	11,052
Total assets	55,132	52,368	46,537	43,295	33,512
Short-term debt	3,222	16,241	9,486	9,148	475
Long-term debt, less current position	3,180	3,429	3,820	4,331	4,794
Shareholders' equity	30,556	20,029	21,066	16,477	17,055
Cash Flows (Used in) Provided by:					
Operations	8,135	1,161	2,958	(6,624)[3]	1,464
Investing	(2,078)	(2,029)	(1,685)	(1,171)	(3,284)[4]
Financing	(7,193)	1,433	(1,239)	6,920[3]	167
Other Data:					
Dividends per share(2)	$0.20	$0.50[2]	$-	$0.12	$0.17
Net book value per share	$2.38	$2.01	$2.13	$1.67	$1.77
EBIT(5)	$12,998	$7,373	$7,690	$866	$2,681
Depreciation and amortization	1,957	1,988	1,748	1,750	1,456
EBITDA(6)	$14,955	$9,361	$9,438	$2,616	$4,137
Pounds of California avocados delivered	149,217	158,449	119,247	82,227	91,698
Pounds of international avocados sold	69,512	44,935	42,300	32,630	20,957
Pounds of processed avocados sold	14,248	14,788	14,962	9,815	11,644

(1) *As a result of the adoption of EITF 00-14 and EITF 00-25 on November 1, 2000 (codified by EITF 01-9), prior year balances have been reclassified to conform to current year presentation. EITF 00-14 and EITF 00-25 required certain costs related to performance based promotional allowance previously recorded as selling, general and administrative expenses to be reclassified and presented as a reduction of sales. The combined effect of EITF 00-14 and EITF 00-25 was a reduction of approximately $5.9 million, $4.2 million, and $3.6 million, in both net sales and selling, general and administrative expenses, for the previously reported years ended October 31, 2000, 1999 and 1998, respectively.*

(2) *Dividends per share for fiscal 2001 represent the payment of our dividend to shareholders for the results of our fiscal 2000 operations. We did not declare a cash dividend in connection with our fiscal 2001 operating results. In December 2001, we declared a 5% stock dividend payable February 15, 2002 for all shareholders of record as of February 1, 2002. Basic and diluted earnings per share for all periods presented have been restated to reflect the 5% stock dividend. Dividends per share and net book value per share are computed based on the actual shares outstanding.*

(3) *Cash flows used in operations for fiscal 1999 include the effect of higher accounts receivable balances as of October 31, 1999 when compared to October 31, 1998. The increase in accounts receivable during the year is a result principally of higher California and imported avocado sales. Cash flows from financing activities for fiscal 1999 relate principally to amounts borrowed under short-term borrowing agreements to finance our increased operating cash flow needs and fund our fiscal 1998 investing activities.*

(4) *Cash flows used in investing activities for fiscal 1998 reflect amounts expended in purchasing our corporate headquarters building and capital expenditures made to complete construction of our Mexican packinghouse.*

(5) *EBIT represents income before income taxes plus interest expense of approximately $0.3 million, $0.4 million, $0.8 million, $0.8 million and $0.4 million, respectively, for each of the five years in the period ended October 31, 2002.*

(6) *EBITDA is a measure of liquidity used by Calavo and members of the financial community to assess the cash flow generating capabilities of our on-going operations and our ability to service debt.*

FINANCIAL TABLE OF CONTENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations together with "Selected Consolidated Financial Data" and our consolidated financial statements and notes thereto that appear elsewhere in this Annual Report.

Overview

We are a leader in the distribution of avocados, processed avocado products, and other perishable food products throughout the United States and elsewhere in the world. Our history and expertise in handling California grown avocados has allowed us to develop a reputation of delivering quality products, at competitive prices, while providing a superior return to our growers. This reputation has enabled us to expand our product offering to include avocados sourced on an international basis, processed avocado products, and other perishable foods. These operations are reported by us in three business segments: California avocados, processed products, and international avocados and perishable food products. We report our financial results on a November 1 to October 31 fiscal year basis to coincide with the California avocado harvest season.

Our California avocado business grades, sizes, and packs avocados grown in California for distribution and marketing to our customers. We operate two packinghouses in Southern California that handled approximately 37.2% of the California Hass avocado crop during the 2002 fiscal year based on statistics obtained from the California Avocado Commission. Our operating results and the returns we pay our growers are highly dependent on the volume of avocados delivered to our packinghouses as a majority of our costs are fixed. Our strategy calls for continued efforts in aggressively recruiting new growers, retaining existing growers and procuring a larger percentage of the California avocado crop to improve our results from operations.

Our processed products business procures avocados, processes avocados into a wide variety of guacamole products, and distributes the processed product to our customers. We operate a processing plant in Mexico and a second facility in Southern California. Our customers include both food service industry and retail businesses. Our strategy calls for the development of new guacamole recipes and other processed avocado products that address the diverse taste of today's consumers. We also seek to expand our relationships with major food service companies and develop alliances that will allow our products to reach a larger percentage of the marketplace.

Our international and perishable food products business procures avocados grown in Mexico, Chile, and New Zealand, as well as papayas grown in Hawaii. We operate a packinghouse in Mexico that handled approximately 30.6% of the Mexican avocado crop bound for the United States market during the 2001-2002 Mexican harvest season based on internal estimates. Additionally, during the 2001-2002 Chilean avocado harvest season, we handled approximately 22.2% of the Chilean avocado crop based on internal estimates. Our strategy is to procure and sell the internationally grown avocados to complement our distribution efforts in support of California grown avocados. We believe that the introduction of these avocados, although competitive at times with California grown avocados, provides a level of supply stability that may in the long term solidify the demand for avocados among consumers in the United States and elsewhere in the world. Our efforts in distributing papayas grown in Hawaii complement our offerings of avocados. From time to time, we continue to explore distribution of other crops that provide reasonable returns to the business.

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

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

Recent Developments

In January 2002, members of the Board of Directors elected to exercise options to purchase 1,005,000 shares of common stock pursuant to our directors' stock option plan. Some of our directors chose to pay the exercise price of $5.00 per share by executing full-recourse promissory notes and/or delivering cash consideration. The exercise of these stock options and the eventual repayment of these notes will have the effect of increasing our total assets and shareholders' equity by approximately $5.0 million.

On February 15, 2002, we paid a 5% stock dividend to all shareholders of record as of February 1, 2002. Basic and diluted earnings per share for all periods presented have been restated to reflect the stock dividend.

On March 18, 2002, our shareholders approved an employee stock plan whereby employees were granted the opportunity to purchase our common stock. On March 28, 2002, we awarded selected employees the opportunity to purchase approximately 473,000 shares of common stock at $7.00 per share, the closing price of our common stock on the date prior to the grant. The plan also provides for us to advance some, or all, of the purchase price of the purchased stock to the employee upon the execution of a full-recourse promissory note at prevailing interest rates. Through the expiration date of the awards, 84 employees had elected to purchase approximately 279,000 shares of our common stock.

On July 19, 2002, the Nasdaq National Market approved our application for listing our common stock. Our shares began trading on the Nasdaq National Market on July 22, 2002 under the symbol CVGW.

On August 30, 2002, we completed a rights offering to sell 1,000,000 shares of common stock at a price of $5.00 per share to shareholders of record on July 29, 2002. Proceeds from the rights offering to shareholders generated $5,000,000 in cash, less offering costs of approximately $290,000.

On October 22, 2002, our Board of Directors approved the establishment of a new dividend policy. The new policy provides for annual dividend payments of 20 cents per share payable during the first quarter of each fiscal year. Pursuant to this new policy, the Board of Directors authorized an initial dividend payment of 20 cents per share on January 3, 2003 to our shareholders of record on November 15, 2002.

Critical Accounting Policies and Estimates

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

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

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

Grower Advances. We advance funds to third-party growers primarily in California and Mexico for various farming needs. These advances are generally secured with a crop lien or other collateral owned by the grower. We continuously evaluate the ability of these growers to repay advances and the fair value of the collateral in order to evaluate the possible need to record an allowance.

Trade Promotions. Trade promotions are an important component of the sales and marketing of our products, and are critical to the support of our business. Trade promotion costs include amounts paid to encourage retailers and food-service companies to purchase our products. Accruals for trade promotions are recorded primarily at the time of sale of product to the customer based on expected levels of performance. Settlement of the liabilities typically occurs in subsequent periods primarily through an authorized process for deductions taken by a customer from amounts otherwise due to us. As a result, the ultimate cost of a trade promotion program is dependent on the relative success of the events and the actions and level of deductions taken by our customers for amounts they consider due to them. Final determination of the permissible deductions may take extended periods of time.

Results of Operations

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

Year ended October 31,	*2002*	*2001*	*2000*
Net Sales	100.0%	100.0%	100.0%
Gross margins	10.6%	8.6%	8.9%
Selling, general and administrative	5.7%	5.8%	5.6%
Operating income	4.9%	2.9%	3.3%
Other expense (income), net	(0.3)%	(0.2)%	0.1%
Net income	2.8%	1.8%	2.0%

Net Sales

Despite the adverse consequences the general economic downturn has and continues to have on consumer spending in the United States, we believe that the fundamentals for our products continue to be favorable. Government census studies continue to indicate a shift in the demographics of the U.S. population in which larger portions of the population descend from a Hispanic origin. Avocados are considered a staple item purchased by Hispanic consumers and their acceptance as part of American cuisine continues to spur demand for our products. We anticipate avocado products will further penetrate the United States market place driven by growth in the Hispanic community and general acceptance in American cuisine. As the largest marketer of avocado products in the United States we believe that we are well positioned to leverage this trend and to grow all segments of our business.

We recognize sales of perishable products when the product is shipped, title and risk passes, and the market price is known. Service revenue, including freight, ripening, and palletization charges, are recorded when services are performed and/or the product is shipped. We generally recognize sales from processed product sales directly to our customers upon shipment and transfer of title and risk. We provide for sales returns and other allowances at the time of shipment based on our experience. The following table summarizes our net sales by business segment:

(Dollars in thousands)	2002	Change	2001	Change	2000
Net sales:					
California avocados	$165,077	10.7%	$149,158	(0.6)%	$150,016
International avocados and perishable food products	59,083	25.6%	47,048	(1.5)%	47,767
Processed products	29,960	(0.5)%	30,107	(3.2)%	31,104
Eliminations	(11,449)		(8,609)		(8,175)
Total net sales	$242,671	11.5%	$217,704	(1.4)%	$220,712
As a percentage of net sales:					
California avocados	68.0%		68.1%		68.0%
International avocados and perishable food products	22.2%		19.9%		19.8%
Processed products	9.8%		12.0%		12.2%
	100.0%		100.0%		100%

Net sales for the year ended October 31, 2002 when compared to 2001 grew by approximately $25.0 million or 11.5%, principally as a result of growth experienced by our California avocados and International avocados and perishable food products businesses and offset by a decrease in our processed products business. In particular, growth in our net sales reflects an increasing percentage of our business being generated by our International avocados and perishable food product business. We anticipate the continuation of growth in this segment for fiscal 2003 with flat or slightly increasing sales in our processed products business. We also anticipate continued growth in net sales generated from value-added bagging and ripening services, as well as the need to promote our products with additional sales incentives. The following tables set forth sales by product category, freight and other charges and sales incentives, by segment (dollars in thousands):

	Year ended October 31, 2002				Year ended October 31, 2001			
	California Avocados	International Avocados & Perishable Food Products	Processed Products	Total	California Avocados	International Avocados & Perishable Food Products	Processed Products	Total
Third-party sales								
California avocados	$153,878	$–	$–	$153,878	$137,166	$–	$–	$137,166
Imported avocados	–	43,715	–	43,715	–	34,566	–	34,566
Papayas	–	2,658	–	2,658	–	3,378	–	3,378
Miscellaneous	–	42	–	42	–	41	–	41
Processed - food service	–	–	24,964	24,964	–	–	25,912	25,912
Processed - retail and club	–	–	5,141	5,141	–	–	5,625	5,625
Total fruit and product sales to third–parties	153,878	46,415	30,105	230,398	137,166	37,985	31,537	206,688
Freight and other charges	11,381	7,540	217	19,138	11,304	5,256	59	16,619
Total fruit and product sales to third–parties	165,259	53,955	30,322	249,536	148,470	43,241	31,596	223,307
Less sales incentives	(182)	(150)	(6,533)	(6,865)	(276)	(14)	(5,313)	(5,603)
Total net sales to third-parties	165,077	53,805	23,789	242,671	148,194	43,227	26,283	217,704
Intercompany sales	–	5,278	6,171	11,449	964	3,821	3,824	8,609
Net sales	$165,077	$59,083	$29,960	254,120	$149,158	$47,048	$30,107	226,313
Intercompany sales eliminations				(11,449)				(8,609)
Consolidated net sales				$242,671				$217,704

	Year ended October 31, 2001				Year ended October 31, 2000			
	California Avocados	International Avocados & Perishable Food Products	Processed Products	Total	California Avocados	International Avocados & Perishable Food Products	Processed Products	Total
Third-party sales:								
California avocados	$137,166	$–	$–	$137,166	$142,774	$–	$–	$142,774
Imported avocados	–	34,566	–	34,566	–	38,361	–	38,361
Papayas	–	3,378	–	3,378	–	2,061	–	2,061
Miscellaneous	–	41	–	41	–	–	–	–
Processed - food service	–	–	25,912	25,912	–	–	27,225	27,225
Processed - retail and club	–	–	5,625	5,625	–	–	5,518	5,518
Total fruit and product sales to third-parties	137,166	37,985	31,537	206,688	142,774	40,422	32,743	215,939
Freight and other charges	11,304	5,256	59	16,619	7,438	3,332	–	10,770
Total fruit and product sales to third-parties	148,470	43,241	31,596	223,307	150,212	43,754	32,743	226,709
Less sales incentives	(276)	(14)	(5,313)	(5,603)	(209)	(8)	(5,780)	(5,997)
Total net sales to third-parties	148,194	43,227	26,283	217,704	150,003	43,746	26,963	220,712
Intercompany sales	964	3,821	3,824	8,609	13	4,021	4,141	8,175
Net sales	$149,158	$47,048	$30,107	226,313	$150,016	$47,767	$31,104	228,887
Intercompany sales eliminations				(8,609)				(8,175)
Consolidated net sales				$217,704				$220,712

Net sales by segment include intercompany sales of avocados from our Uruapan packinghouse to our Mexicali processing plant, as well as value-added services billed by our Mexicali processing plan to our Santa Paula processing plant in processing fresh avocados in avocado pulp. All intercompany sales are eliminated in our consolidated results of operations.

California Avocados

Net sales delivered by the business increased by approximately $15.9 million, or 10.7%, from fiscal 2001 to 2002. The increase in fiscal 2002 sales reflects a significant improvement in the average selling prices of avocados when compared to fiscal 2001, partially offset by a decrease in avocados delivered by our growers of 5.8% or 9.2 million pounds. The decrease in delivered pounds is consistent with the expected decrease in the overall harvest of the California avocado crop for the 2001/2002 season. Despite this decrease in volume, we have continued to build on our leadership role in packing and marketing California grown avocados and have increased our market share of first grade Hass variety avocados by approximately 1.5% to 37.2% in fiscal 2002 when compared to a 35.7% market share achieved in fiscal 2001.

Average selling prices on a per carton basis for first grade Hass variety avocados for fiscal 2002 were $3.88 higher when compared to fiscal 2001. We attribute some of the increase in these average selling prices to increasing demand for California grown avocados in the U.S. marketplace and a slightly reduced volume of avocados. We believe that our investments in focused marketing activities combined with promotional programs established by the California Avocado Commission have generally had a positive effect on average sales prices. Our strategy is to continue to develop marketing opportunities that favorably position avocados packed by Calavo with our customers by emphasizing existing value-added services such as fruit bagging and ripening. We believe that these and other value added strategies are critical elements in sustaining competitive average selling prices achieved during fiscal 2002.

Net sales delivered by the business decreased by approximately $0.9 million, or 0.6%, from fiscal 2000 to 2001. The modest decrease in sales reflects lower per pound prices offset by an increase in volume. During fiscal 2001, our growers delivered 39.2 million additional pounds of avocados when compared to fiscal 2000, representing a volume increase of 32.9%. Although the quality of the avocados sold remained comparable to those delivered during fiscal 2000, the average size of the avocados delivered was one size smaller. The significant increase in the volume of California grown avocados handled by the industry, coupled with increasing deliveries of Mexican and Chilean grown avocados, resulted in pricing pressures that caused average selling prices to fall proportionally with the volume increase. Furthermore, effective November 1, 2001, the United States Department of Agriculture approved the distribution of Mexican grown avocados into 12 new states which, in the short-term resulted in continued pressure on average selling prices.

In October 2002, the USDA announced the creation of a National Avocado Board to promote the sale of Hass variety avocados in the U.S. marketplace. The California Avocado Commission, which receives its funding from the sale of California grown avocados, has historically shouldered the promotional and advertising costs supporting avocado sales. The new National Avocado Board now provides a basis for a unified funding of promotional activities based on an assessment on all avocados sold in the U.S. marketplace including imported and California grown fruit. We believe that the incremental funding of promotional and advertising programs in the U.S. will, in the long-term, positively impact average selling prices and will favorably impact our California Avocado business.

International and Perishable Food Products

For fiscal 2002 and 2001, net sales include approximately $5.3 million and $3.8 million of intercompany sales between our Uruapan packinghouse and our Mexicali processing plant, which are eliminated in our consolidated financial results. For fiscal 2002, when compared to fiscal 2001, net sales to third-party customers increased by approximately $10.6 million, or 24.5%, from $43.2 million to $53.8 million.

The increased sales to third-parties by our International and Perishable Foods Products business are primarily driven by a greater volume of Chilean and Mexican grown avocados in the U.S. marketplace. The volume of fruit handled increased by 2.4 million pounds of Chilean grown avocados, or 10.2%, and 22.6 million pounds of Mexican grown avocados, or 113.6%, for fiscal 2002 when compared to fiscal 2001.

Our California based competitors and we have historically handled marketing of Chilean grown avocados in the U.S. marketplace. During 2002, many of the Chilean packers realigned the distribution of their avocados amongst California based avocado handlers. The effect of this realignment has resulted in uncertainties in the marketplace despite an overall increase in the Chilean avocado crop. We believe that this uncertainty has resulted in adverse average selling prices for Chilean grown avocados. Furthermore, the recent labor disputes, which have affected the U.S. west-coast port operations in October of 2002, have limited the volume of Chilean avocado sales during this time frame. We believe that in the long-run the realignment of receivers of Chilean avocados and the labor disputes affecting west-coast port operations will not adversely impact our net sales of Chilean grown avocados. However, there can be no assurances that the realignment of receivers of Chilean avocados or the labor disputes affecting west-coast port operations will not detrimentally affect our operations.

During fiscal 2002, we sourced a significantly greater volume of Mexican grown avocados from our Uruapan, Mexico packinghouse. Net sales during 2002 derived from shipments to the U.S. marketplace increased by approximately $7.1 million, or 103.4%, as compared to fiscal 2001. In addition, net sales resulting from the sale of Mexican grown avocados were also favorably impacted by increased demand from Japanese customers. During fiscal 2002, shipments to Japan increased by approximately $0.4 million, or 9.8%, when compared to fiscal 2001. We believe that sales from Mexican grown avocados will continue a growing trend. We intend to leverage our position as the largest packer of Mexican grown avocados for export markets to improve the overall performance of this business.

For fiscal 2001 and 2000, net sales include approximately $3.8 million and $4.0 million of intercompany sales between our Uruapan packinghouse and our Mexicali processing plant, which are eliminated in our consolidated financial results. For fiscal 2001, when compared to fiscal 2000, net sales to third-party customers decreased by approximately $0.5 million, or 1.2%, from $43.7 million to $43.2 million. Although net sales remained essentially flat, the volume of avocados sold increased by 2.6 million pounds, or 6.2%. In particular, the volume of Chilean grown avocados imported into the United States increased by 5.9 million pounds offset by a slightly lower volume of pounds imported from Mexico and New Zealand. The increased volume of avocados arriving from Chile caused pricing pressures that resulted in decreases in average selling prices.

Processed Products

Net sales for fiscal 2002 include approximately $6.2 million of intercompany sales between our Mexicali and Santa Paula processing plants, which are eliminated in our consolidated financial results. Net sales to third-party customers decreased by approximately $2.5 million, or 9.5% from $26.3 million for fiscal 2002 to $23.8 million for fiscal 2001. The decrease in fiscal 2002 net sales to third-party customers is attributable to a decrease in 0.5 million pounds of product sold, or 3.7%, and an increase in sales incentives and promotional activities paid of $1.2 million

or 23.0%. We continue to experience decreases in net sales to retail customers with a larger percentage of our net sale originating from our food service customers. We believe that the decrease in net sales to retail customers is attributable to the introduction by our competitors of new products that have not been frozen.

Our strategy to reverse the decrease in net sales generated by our processed business includes the introduction of new products. During fiscal 2002, we purchased and commissioned new ultra high pressure treatment equipment designed to manufacture processed avocado products that are not frozen. In the fourth quarter of fiscal 2002, we successfully produced samples of this new product group and recorded our first sale during the first fiscal quarter of 2003. We believe that the introduction of these fresh guacamole products will, in the long-term, successfully address a growing market segment and reverse the recent decline in our sales. However, there can be no assurances that we will be successful in continuing to develop competitive products and penetrating a marketplace that is currently dominated by an established competitor.

For fiscal 2001 and 2000, net sales include approximately $3.8 million and $4.1 million of intercompany sales between our Mexicali and Santa Paula processing plants, which are eliminated in our consolidated financial results. The decrease in net sales reflects a decrease in the volume of processed avocado product sold of 0.2 million pounds, or 1.2%, offset by a decrease in promotional costs of $0.5 million or 8.1%. Increases in net sales to retail and club stores only partially offset a decrease in net sales to our food service customers.

Gross Margins

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

(Dollars in thousands)	*2002*	*Change*	*2001*	*Change*	*2000*
Gross Margins:					
California avocados	$17,281	44.9%	$11,926	65.0%	$7,230
International avocados and perishable food products	3,711	404.2%	736	(74.6)%	2,895
Processed products	4,831	(21.4)%	6,146	(34.8)%	9,429
Total gross margins	$25,823	37.3%	$18,808	(3.8)%	$19,554
Gross profit percentages:					
California avocados	10.5%		8.0%		4.8%
International avocados and perishable food products	6.9%		1.7%		6.6%
Processed products	20.3%		23.4%		35.0%
Consolidated	10.6%		8.6%		8.9%

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 $7.0 million, or 37.3%, from fiscal 2001 to 2002, principally as a result of increases in the gross profit percentages realized by our California avocado and international avocado and perishable food products segments, which were partially offset by decreased gross profit percentages achieved by our processed products segment. Gross margins decreased by approximately $0.7 million, or 3.8%, from fiscal 2000 to 2001, principally as a result of lower gross profit percentages achieved by our processed products and international avocados and perishable food products segments, which were offset by an increase in gross profit percentages realized by our California avocado segment.

Gross margins and gross profit percentages for our California avocado business are largely dependent on production yields achieved at our packinghouses, current market prices of avocados, and the volume of avocados packed. During fiscal 2002, our growers received an average return of $0.86 per pound, as compared to $0.73 per pound in fiscal 2001, whereas the volume of avocados delivered by our growers decreased by approximately 9.2 million pounds. During fiscal 2001, our growers received an average return of $0.73 per pound as compared to $1.06 per pound in fiscal 2000, whereas the volume of avocados sold increased by approximately 39.2 million pounds. During fiscal 2002, freight and handling costs decreased by approximately $0.2 million, from $3.0 million in fiscal 2001 to $2.8 million during fiscal 2002. Freight and handling costs increased by approximately $1.2 million, from $1.8 million for fiscal 2000 to $3.0 million for fiscal 2001 primarily as a result of a higher volume of avocado deliveries to our customers. During both fiscal 2002 and 2001, we continued to review our packinghouse processes resulting in greater packing efficiencies and more favorable production yields.

Gross margins and gross profit percentages for our processed product business are largely dependent on the pricing of our final product and the cost of avocados used in preparing guacamole. The cost of avocados used in the preparation of our processed products decreased by 36.9% from fiscal 2001 to 2002, principally due to lower prices for avocados having the necessary quality for preparing processed products. The cost of avocados used in the preparation of our processed products increased by 40.4% from fiscal 2000 to 2001, principally due to a lower volume of Mexican avocados available for processing. The lower volume of Mexican avocados available for processing caused us to purchase higher-priced avocados grown in California to meet the segment's volume sales requirements.

The gross margin and gross profit percentage for our international avocado and perishable food products business are dependent on the volume of fruit we handle and the competitiveness of the returns that we provide to third party domestic packers. For example, the gross margins we earn on avocados procured from Chile and New Zealand, as well as papayas grown in Hawaii, are generally based on a commission agreed to with each packer that is subject to incentive provisions. These provisions provide for us to deliver returns to these domestic packers that are competitive with those delivered by other handlers. Accordingly, the gross margin results for this business are a function of the volume handled and the competitiveness of the sales prices that we realize as compared to others. For fiscal 2002, we generated gross margins of $1.4 million from the sale of fresh produce products that were domestically packed by third parties, whereas gross margins for fiscal 2001 were only $1.2 million. The gross margins of $1.2 million for fiscal 2001 were down $0.4 million from fiscal 2000 principally as a result of unfavorable returns. Our business with Mexican growers differs in that we operate a packinghouse in Mexico and purchase avocados directly from the field. Consequently, the gross margin and gross profit percentages generated by our Mexican operations are significantly impacted by the volume of avocados handled by our packinghouse. During fiscal 2002, our gross margins generated from the sale of Mexican avocados improved from a negative margin of approximately $0.7 million in fiscal 2001 to a positive margin of $1.8 million in fiscal 2002 principally as a result of increases in the pounds packed at our facility. During fiscal 2001, our gross margins decreased from approximately $1.1 million in fiscal 2000 to a negative margin of approximately $0.7 million in fiscal 2001 attributable to a decrease in pounds packed at our facility.

Selling, General and Administrative

(Dollars in thousands)	*2002*	*Change*	*2001*	*Change*	*2000*
Selling, general and administrative	$13,881	10.4%	$12,568	1.6%	$12,366
Percentage of net sales	5.7%		5.8%		5.6%

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 by approximately $1.3 million from fiscal 2001 to 2002. The increase is attributable principally to $0.6 million of additional administrative expenses, $0.6 million in incentives paid to employees, and miscellaneous other net increases of $0.1 million.

Selling, general and administrative expenses increased by $0.2 million from fiscal 2000 to fiscal 2001. The increase is attributable to a $0.3 million increase in corporate expenses related to the process of converting to a for-profit corporation and offset by other net decreases of $0.1 million.

Other Expense (Income), Net

(Dollars in thousands)	*2002*	*Change*	*2001*	*Change*	*2000*
Other expense (income), net	$(700)	104.7%	$(342)	NM	$282
Percentage of net sales	(0.3)%		(0.2)%		0.1%

(NM is Not Meaningful)

Other expense (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. During fiscal 2002, other expense (income) includes interest accrued on notes receivable from directors and officers of approximately $0.2 million. During fiscal 2001, we recovered insurance proceeds related to the settlement of a claim for damages sustained at our Santa Paula processing plant, which resulted in a gain of approximately $0.5 million.

Provision (Benefit) for Income Taxes

(Dollars in thousands)	*2002*	*Change*	*2001*	*Change*	*2000*
Provision (benefit) for income taxes	$5,727	108.7%	$2,744	12.9%	$2,430
Percentage of income before provision (benefit) for income taxes	45.3%		41.7%		35.2%

The effective income tax rate for fiscal 2002 is higher than the federal statutory rate principally due to state taxes, foreign taxes and the non-deductibility of transaction costs related to our conversion from a cooperative to a for-profit corporation. We anticipate that our effective tax rate for fiscal 2003 will be slightly higher than 41.0%.

Prior to the merger, the Cooperative was subject to income taxes for all business activities other than the marketing and distribution of member products. This exemption from taxation for the member business was contingent on the distribution of all available proceeds to the Cooperative's members. Our results for fiscal 2000 were restated in 2001 to correct an error in computing the income tax provision related to the Cooperative's member business. The effective income tax rate for fiscal 2001 is higher than the federal statutory rate principally due to state taxes and nondeductible fines, penalties, and transaction costs relating to the conversion. For additional details pertaining to the components of our income tax provision and the restatement, please refer to Notes 12 and 14 to our consolidated financial statements included in this Annual Report.

Quarterly Results of Operations

The following table presents our operating results for each of the eight fiscal quarters in the period ended October 31, 2002. The information for each of these quarters is derived from our unaudited interim financial statements and should be read in conjunction with our audited consolidated financial statements included in this Annual Report. In our opinion, all necessary adjustments, which consist only of normal and recurring accruals, have been included to fairly present our unaudited quarterly results.

Three months ended

(in thousands, except per share amounts)	*Oct. 31, 2002*	*July 31, 2002*	*Apr. 30, 2002*	*Jan. 31, 2002*	*Oct. 31, 2001*	*July 31, 2001*	*Apr. 30, 2001*	*Jan. 31, 2001*
Statement of Operations Data								
Net sales	$64,384	$76,420	$56,144	$45,723	$66,037	$60,356	$52,278	$39,033
Cost of sales	58,202	67,498	49,006	42,142	61,655	54,062	47,105	36,074
Gross margin	6,182	8,922	7,138	3,581	4,382	6,294	5,173	2,959
Selling, general and administrative	4,278	3,325	3,254	3,024	3,461	2,987	3,298	2,822
Operating income	1,904	5,597	3,884	557	921	3,307	1,875	137
Other expense (income), net	(363)	(184)	(145)	(8)	(121)	(30)	(239)	48
Income before provision (benefit) for income taxes	2,267	5,781	4,029	565	1,042	3,337	2,114	89
Provision (benefit) for income taxes	1,059	2,657	1,758	253	434	1,519	764	27
Net income	$1,208	$3,124	$2,271	$312	$608	$1,818	$1,350	$62
Net income per share:								
Basic	$0.10	$0.26	$0.20	$0.03	$0.06	$0.17	$0.13	$0.01
Diluted	$0.10	$0.26	$0.19	$0.03	$0.06	$0.17	$0.13	$0.01
Number of shares used in per share computation:								
Basic	12,307	11,836	11,637	10,466	10,464	10,461	10,457	10,416
Diluted	12,377	11,906	11,670	10,466	10,464	10,461	10,457	10,416

The quarterly results for fiscal 2001 reflect a revision of previously reported amounts. This revision was made to correct misreporting of certain expenses among quarters within fiscal 2001, primarily occurring prior to our conversion from a non-profit agricultural cooperative to a for-profit public company. In addition, reclassifications have been made to the 2001 financial data to classify certain costs and expenses consistent with the 2002 presentation. Net sales, gross margin, selling, general and administrative expenses, net income and net income per share as previously reported for each of the quarters in the fiscal year ended October 31, 2001 were as follows (in thousands except per share amounts):

	Oct. 31, 2001	*July 31, 2001*	*Apr. 30, 2001*	*Jan. 31, 2001*
Net sales:				
Revised	$66,037	$60,356	$52,278	$39,033
As previously reported	$65,628	$60,342	$52,685	$39,029
Gross Margin:				
Revised	$4,382	$6,294	$5,173	$2,959
As previously reported	$6,972	$6,724	$4,413	$2,902
Selling, general and administrative:				
Revised	$3,461	$2,987	$3,298	$2,822
As previously reported	$5,929	$3,063	$3,062	$2,807
Net income:				
Revised	$608	$1,818	$1,350	$62
As previously reported	$690	$2,173	$938	$37
Net income per share basic and diluted:				
Revised	$0.06	$0.17	$0.13	$0.01
As previously reported	$0.09	$0.21	$0.09	$–

Liquidity and Capital Resources

Operating activities for fiscal 2002, 2001 and 2000 provided cash flows of $8.1 million, $1.2 million, and $3.0 million. Fiscal 2002 operating cash flows reflect our net income of $6.9 million, net noncash charges (depreciation and amortization, provision for losses on accounts receivable and a loss on the disposal of equipment) of $2.0 million and a net increase in the non-cash components of our working capital of approximately $0.8 million.

The fiscal 2002 working capital increases include an increase in inventories of $3.4 million, principally due to a build-up of processed inventories using favorable priced avocado pulp, an increase in prepaid expenses and other assets of $2.0 million, principally due to advances and a deposit on the purchase of equipment, an increase in deferred income taxes of $0.6 million, a decrease in amounts payable to growers of $0.5 million, other miscellaneous net increases of $0.2 million, and offset by an increase in accounts payable and accrued expenses of $3.3 million, a decrease in account receivable of $1.9 million principally and a decrease in loans to growers of $0.7 million.

Cash used in investing activities was $2.1 million, $2.0 million, and $1.7 million for fiscal years 2002, 2001, and 2000. Fiscal 2002 cash flows used in investing activities include capital expenditures of $2.0 million and purchases of investments of $0.1 million, principally acquired to be used in the sinking fund to retire our long-term debt.

Cash flows from financing activities were $1.4 million for fiscal 2001 compared to cash used by financing activities of $7.2 million and $1.2 million for fiscal years 2002 and 2000. Cash flows from financing activities used during fiscal 2002 include repayments of borrowings of $13.3 million and $6.1 million of proceeds from issuance of common stock and repayments of notes from shareholders.

Our principal sources of liquidity are our existing cash reserves, cash generated from operations and amounts available for borrowing under our existing credit facilities. Cash and cash equivalents as of October 31, 2002 and 2001, totaled $0.9 million and $2.1 million. Our working capital at October 31, 2002 was $18.8 million compared to $9.8 million at October 31, 2001. The overall working capital increase reflects our repayment of short-term borrowings and the build-up of inventories in our processed products business.

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. Our largest line of credit which has a borrowing capacity of $23,500,000 was renewed on February 27, 2002 for a two year period.

We will continue to evaluate grower recruitment opportunities and exclusivity arrangements with food service companies to fuel growth in each of our business segments. In order to finance such growth we may seek to obtain additional borrowings or issue shares of our common stock

As of October 31, 2002, we have entered into a commitment to purchase a new piece of equipment for our processed products segment for a total of $2.0 million.

The following table summarizes contractual obligations pursuant to which we are required to make cash payments. The information is presented as of our fiscal year ended October 31, 2002:

	Total	*Less than 1 year*	*1-3 years*	*4-5 years*	*After 5 years*
Long-term obligations	$3,402	$222	$3,142	$21	$17
Operating lease commitments	3,912	1,070	1,447	1,121	274
Total contractual cash obligations	$7,314	$1,292	$4,589	$1,142	$291

Impact of Recently Issued Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143"). SFAS 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS 143 applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and normal use of the asset. SFAS 143 applies to all entities and amends FASB Statement No. 19, "Financial Accounting and Reporting by Oil and Gas Producing Companies". SFAS 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. SFAS 143 is effective for fiscal years beginning after June 15, 2002. We believe that SFAS 143 will not have a material effect on our consolidated financial statements.

In August 2001, the FASB issued Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). While SFAS 144 supersedes FASB Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of", it retains many of the fundamental provisions of that Statement. SFAS 144 is effective for fiscal years beginning after December 15, 2001 and interim periods within those fiscal years. We believe that adoption of SFAS 144 in fiscal 2003 will not have a material effect on our consolidated financial statements.

In April 2002, the FASB issued Statement No. 145, "Rescission of FASB Statement Nos. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" ("SFAS 145"). SFAS 145 rescinds FASB Statement No. 4, "Reporting Gains and Losses from Extinguishment of Debt" ("SFAS 4") and amends other existing authoritative pronouncements. As a result of SFAS 145, gains and losses from extinguishment of debt should be classified as extraordinary items only if they meet the criteria in Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" ("APB 30"). Applying the provisions of APB 30 will distinguish transactions that are part of an entity's recurring operations from those that are unusual or infrequent or that meet the criteria for classification as an extraordinary item. We are currently analyzing SFAS 145; however based on management's current understanding and interpretation, SFAS 145 is not expected to have a material impact on our financial position or results of operations.

In June 2002, the FASB issued Statement No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146". SFAS 146 replaces EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)". SFAS 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. SFAS 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. We believe that adoption of SFAS 146 will not have a material effect on our consolidated financial statements.

In December 2002, the FASB issued Statement of Financial Accounting Standard No. 148 ("SFAS No. 148"), "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FASB Statement No. 123". This statement provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirement of Statement 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. SFAS 148 is effective for fiscal years ending after December 15, 2002. We have not determined whether we will adopt the fair value based method of accounting for stock-based employee compensation.

Quantitative and Qualitative Disclosures About Market Risk

Our financial instruments include cash and cash equivalents, accounts receivable, short and long-term loans to growers, notes receivable from shareholders, United States government bonds with a maturity date of August 15, 2005, accounts payable, current borrowings pursuant to our credit facilities with financial institutions and long-term, fixed-rate obligations. All of our financial instruments are entered into during the normal course of operations and have not been acquired for trading purposes. The table below summarizes interest rate sensitive financial instruments and presents principal cash flows in U.S. dollars, which is our reporting currency, and weighted-average interest rates by expected maturity dates, as of October 31, 2002.

(All amounts in thousands)

Expected maturity date October 31,	*2003*	*2004*	*2005*	*2006*	*2007*	*Thereafter*	*Total*	*Fair Value*
Assets								
Cash and cash equivalents[1]	$921	$–	$–	$–	$–	$–	$921	$921
Accounts receivable[1]	17,907	–	–	–	–	–	17,907	17,907
Short-term loans to growers[1]	467	–	–	–	–	–	467	467
Loans to growers[2]	318	–	797	–	386	–	1,501	1,436
Notes receivable from shareholders[3]	326	323	266	266	4,539	–	5,720	5,720
United States government bonds[4]	–	–	1,979	–	–	–	1,979	2,150
Liabilities								
Accounts payable[1]	$1,708	$–	$–	$–	$–	$–	$1,708	$1,708
Current borrowings pursuant to credit facilities[1]	3,000	–	–	–	–	–	3,000	3,000
Industrial development and revenue bond[1]	–	–	2,800	–	–	–	2,800	2,800
Fixed-rate long-term obligations[5]	222	254	88	13	8	17	602	613

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

(2) *Loans to growers bear fixed interest rates ranging from 0.0% to 10.0% with a weighted-average interest rate of 8.0%. We believe that a portfolio of loans with a similar risk profile would currently yield a return of 9.8%. 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 $40,000.*

(3) *Notes receivable from shareholders bear interest at 7.0%. We believe that a portfolio of loans with a similar risk profile would currently yield a return of 7.0%. We project the impact of an increase or decrease in interest rates of 100 basis points would result in a change of fair value of approximately $259,000.*

(4) *Our investments in United States government bonds are being held in an irrevocable trust which has been designated to be used only to satisfy the scheduled payments of interest and principal related to our industrial development and revenue bonds. As these securities are intended to be held to maturity their carrying value in our financial statements is $1,979,000 reflecting their amortized cost. However, the quoted fair value of these securities as of October 31, 2002 approximates $2,150,000. 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 $62,000. We did not purchase any additional government bonds during fiscal 2002.*

(5) *Fixed rate long-term obligations bear interest rates ranging from 3.3% to 9.9% with a weighted-average interest rate of 4.9%. We believe that loans with a similar risk profile would currently yield a return of 4.1%. 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 $13,000. We retired long-term fixed-rate obligations with a principal amount of $184,000 during fiscal 2002.*

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. Consequently, we do not use any hedging or forward contracts to offset market volatility.

Our Mexican-based operations transact business in Mexican pesos. Funds are transferred by our corporate office to Mexico on a weekly basis to satisfy domestic cash needs. Consequently, the spot rate for the Mexican peso has a moderate impact on our operating results. However, we do not believe that this impact is sufficient to warrant the use of derivative instruments to hedge the fluctuation in the Mexican peso. Total foreign currency gains and losses for each of the three years ended October 31, 2002 do not exceed $0.1 million.

CONSOLIDATED BALANCE SHEETS

(All amounts in thousands, except per share amounts)

October 31,	*2002*	*2001*
Assets		
Current assets:		
Cash and cash equivalents	$921	$2,057
Accounts receivable, net of allowance for doubtful accounts of $25 (2002) and $9 (2001)	17,907	19,797
Inventories, net	12,461	9,075
Prepaid expenses and other current assets	3,945	3,209
Loans to growers	467	1,119
Advances to suppliers	2,535	2,372
Income taxes receivable	225	144
Deferred income taxes	1,252	553
Total current assets	39,713	38,326
Property, plant, and equipment, net	9,497	9,442
Investments held to maturity	1,979	1,874
Other assets	3,943	2,726
	$55,132	$52,368
Liabilities and shareholders' equity		
Current liabilities:		
Payable to growers	$6,368	$6,909
Trade accounts payable	1,708	1,529
Accrued expenses	7,015	3,848
Short-term borrowings	3,000	15,800
Dividend payable	2,567	–
Current portion of long-term obligations	222	441
Total current liabilities	20,880	28,527
Long-term liabilities:		
Long-term obligations, less current portion	3,180	3,429
Deferred income taxes	516	383
Total long-term liabilities	3,696	3,812
Commitments and contingencies		
Shareholders' equity:		
Common stock ($0.001 par value, 100,000 shares authorized; 12,835 and 9,967 shares outstanding at October 31, 2002 and 2001, respectively)	13	10
Additional paid-in capital	24,221	10,158
Notes receivable from shareholders	(5,720)	–
Retained earnings	12,042	9,861
Total shareholders' equity	30,556	20,029
	$55,132	$52,368

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

CONSOLIDATED STATEMENTS OF INCOME

(All amounts in thousands, except per share amounts)

Year Ended October 31,	*2002*	*2001*	*2000 (As restated, see note 14)*
Net sales	$242,671	$217,704	$220,712
Cost of sales	216,848	198,896	201,158
Gross margin	25,823	18,808	19,554
Selling, general and administrative	13,881	12,568	12,366
Operating income	11,942	6,240	7,188
Other expense (income), net	(700)	(342)	282
Income before provision for income taxes	12,642	6,582	6,906
Provision for income taxes	5,727	2,744	2,430
Net income	$6,915	$3,838	$4,476
Net income per share:			
Basic	$0.60	$0.37	$0.43
Diluted	$0.60	$0.37	$0.43
Number of shares used in per share computation:			
Basic	11,562	10,454	10,335
Diluted	11,604	10,454	10,335

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

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(All amounts in thousands)	*Common Stock Shares*	*Common Stock Amount*	*Additional Paid-in Capital*	*Shareholder Notes Receivable*	*Retained Earnings*	*Treasury Stock*	*Total*
Balance, November 1, 1999 (As previously reported)	9,847	$10	$9,947	$–	$7,621	$(1)	$17,577
Prior period adjustment for income taxes (See note 14)	–	–	–	–	(1,101)	–	(1,101)
Balance, November 1, 1999 (As restated, see note 14)	9,847	10	9,947	–	6,520	(1)	16,476
Repurchase and retirement of common stock	(18)	–	(18)	–	–	–	(18)
Issuance of common stock	85	–	131	–	–	–	131
Issuance of treasury stock	–	–	–	–	–	1	1
Net income (As restated, see note 14)	–	–	–	–	4,476	–	4,476
Balance, October 31, 2000 (As restated, see note 14)	9,914	10	10,060	–	10,996	–	21,066
Issuance of common stock	53	–	98	–	–	–	98
Net income	–	–	–	–	3,838	–	3,838
Dividend to shareholders	–	–	–	–	(4,973)	–	(4,973)
Balance, October 31, 2001	9,967	10	10,158	–	9,861	–	20,029
Exercise of stock options, and income tax benefit of $36	1,040	1	5,236	(4,789)	–	–	448
Stock Dividend	549	1	2,166	–	(2,167)	–	–
Issuance of common stock in connection with Employee Stock Purchase Plan	279	–	1,952	(1,952)	–	–	–
Issuance of common stock in connection with Rights Offering, net of offering costs of $290	1,000	1	4,709	–	–	–	4,710
Collections on shareholder notes receivable	–	–	–	1,021	–	–	1,021
Dividend declared to shareholders	–	–	–	–	(2,567)	–	(2,567)
Net income	–	–	–	–	6,915	–	6,915
Balance, October 31, 2002	12,835	$13	$24,221	$(5,720)	$12,042	$–	$30,556

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended October 31,	*2002*	*2001*	*2000 (As restated, see note 14)*
Cash Flows from Operating Activities:			
Net income	$6,915	$3,838	$4,476
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,957	1,988	1,748
Provision for losses on accounts receivable	35	87	717
Loss (gain) on disposal of property, plant, and equipment	29	–	(13)
Gain on settlement of insurance claim	–	(585)	–
Effect on cash of changes in operating assets and liabilities:			
Accounts receivable	1,855	(1,540)	1,128
Inventories, net	(3,386)	(1,349)	(1,730)
Income taxes receivable	(45)	(144)	60
Deferred income taxes	(566)	7	89
Prepaid expenses and other assets	(1,953)	(1,642)	(428)
Advances to suppliers	(163)	53	(1,945)
Loans to growers	652	(33)	(1,059)
Payable to growers	(541)	1,984	(1,870)
Trade accounts payable and accrued expenses	3,346	(1,503)	1,785
Net cash provided by operating activities	8,135	1,161	2,958
Cash Flows from Investing Activities:			
Proceeds from sale of property, plant, and equipment	–	–	26
Proceeds from insurance settlement on facility damage	–	585	–
Acquisitions of property, plant, and equipment	(1,973)	(2,330)	(1,297)
Purchases of investments	(105)	(284)	(414)
Net cash used in investing activities	(2,078)	(2,029)	(1,685)
Cash Flows from Financing Activities:			
Dividend to shareholders	–	(4,973)	(1,180)
Proceeds (repayments) from (on) short-term borrowings, net	(12,800)	6,815	585
Proceeds from issuance of common stock	4,710	98	131
Payments on long-term obligations	(536)	(507)	(758)
Proceeds from stock option exercise	412	–	–
Proceeds from collection of shareholder note receivable	1,021	–	–
Repurchase and retirement of common stock	–	–	(18)
Proceeds from the issuance of treasury stock	–	–	1
Net cash provided by (used in) financing activities	(7,193)	1,433	(1,239)
Net increase (decrease) in cash and cash equivalents	(1,136)	565	34
Cash and cash equivalents, beginning of year	2,057	1,492	1,458
Cash and cash equivalents, end of year	$921	$2,057	$1,492
Supplemental Information -			
Cash paid during the year for:			
Interest	$443	$821	$797
Income taxes	$6,362	$4,291	$696
Noncash Investing and Financing Activities:			
Exercise of stock options using shareholder notes receivable	$4,789	$–	$–
5% Stock dividend	$2,167	$–	$–
Tax receivable increase related to stock option exercise	$36	$–	$–
Stock purchases using shareholder notes receivable	$1,952	$–	$–
Declared dividends payable	$2,567	$–	$–
Acquisition of property under capital lease	$68	$56	$–

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of the business

Business

Calavo Growers, Inc. (Calavo, the Company, we, us or our) procures and markets avocados and other perishable foods 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 world-wide basis. Through our four operating facilities in southern California and two facilities in Mexico, we sort and pack avocados procured in California and Mexico and prepare processed avocado products. Additionally, we procure avocados internationally, principally from Chile and New Zealand, and distribute other perishable foods such as Hawaiian grown papayas. We report these operations in three different business segments: California avocados, processed products, and international avocados and perishable food products.

Conversion to a For-Profit Corporation

On October 9, 2001, we completed a series of transactions whereby common and preferred shareholders of Calavo Growers of California, an agricultural marketing cooperative association, exchanged all of their outstanding shares for shares of our common stock. Concurrent with this transaction, the Cooperative was merged into us, with our company emerging as the surviving entity. These transactions had the effect of converting the legal structure of the business from a not-for-profit cooperative to a for-profit corporation. Accordingly, the accompanying consolidated financial statements give retroactive effect, for all periods presented, to the merger, as a combination of entities with common shareholders, accounted for in a manner similar to a pooling of interests.

The cooperative's historical statement of operations and member proceeds, previously prepared on a basis consistent with practices applicable to other marketing cooperatives, had been revised to reflect our new legal structure as a commercial corporation. Accordingly, the accompanying income statement for fiscal 2000 reflects the reclassification of proceeds distributed to growers and other related accounts maintained by the cooperative to cost of goods sold, consistent with the operations of a commercial corporation.

2. Basis of Presentation and Summary of Significant Accounting Policies

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

Our consolidated financial statements include the accounts of Calavo Growers, Inc. and our wholly owned subsidiaries, Calavo Foods, Inc.; Calavo de Mexico S.A. de C.V.; and Calavo Foods de Mexico S.A. de C.V. All intercompany accounts and transactions have been eliminated.

Cash and Cash Equivalents

We consider all highly liquid financial instruments purchased with an original maturity date of three months or less to be cash equivalents.

Inventories

Inventories are stated at the lower of cost on a weighted-average basis or market.

Loans to Growers

We sponsor a grower loan program. Pursuant to this program, we provide loans to growers, bearing interest at prevailing market rates and repayable generally within a 12-month period. These loans are secured by the growers' avocado crops.

Property, Plant, and Equipment

Property, plant, and equipment are stated at cost and depreciated over their estimated useful lives using the straight-line method. Leasehold improvements are stated at cost and amortized over the lesser of their estimated useful lives or the term of the lease, using the straight-line method. The principal estimated useful lives are: buildings and improvements - 7 to 30 years; leasehold improvements - 7 years; equipment - 7 years; information systems hardware and software - 36 to 60 months.

We capitalize software development costs for internal use in accordance with Statement of Position 98-1, Accounting for Costs of Computer Software Developed or Obtained for Internal Use (SOP 98-1). Capitalization of software development costs begins in the application development stage and ends when the asset is placed into service. We amortize such costs using the straight-line basis over estimated useful lives. Under SOP 98-1, we capitalized $108,000 and $969,000 of software development costs in 2002 and 2001 relating to systems supporting our business infrastructure.

Long-lived Assets

We account for the impairment and disposition of long-lived assets in accordance with Statement of Financial Accounting Standards (SFAS) No. 121, Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of. In accordance with SFAS No. 121, long-lived assets to be held for use are reviewed periodically for events or changes in circumstances which indicate that their carrying value may not be recoverable. We have evaluated our long-lived assets, using estimates of undiscounted future cash flows, and have not identified any impairment as of October 31, 2002.

Investments

We account for our investments in debt securities in accordance with SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities. We have classified our entire investment portfolio as "held-to-maturity." In accordance with SFAS No. 115, investments classified as held-to-maturity are carried at amortized cost.

Net Sales

We recognize sales once they are realizable and earned. Sales of products and related costs of products sold are recognized when persuasive evidence of an arrangement exists, shipment has been made, title passes, the price is fixed or determinable and collectibility is reasonably assured. Perishable product sales are recorded when the product is shipped, title passes, and the market price is known. Sales from processed products are recorded when the product is shipped and title and risk passes. Service revenue, including freight, ripening, storage, bagging and palletization charges, are recorded when services are performed and sales of the related product are recognized.

Promotional Allowances

We provide for promotional allowances at the time of sale, based on our historical experience.

Cash rebates are generally earned by our customers upon achievement of volume purchases or by corporate customers for purchases made by their affiliated subsidiaries.

Sales incentives offered voluntarily by us, without charge to a customer, in a single exchange transaction at the point of sale are accounted for in accordance with Emerging Issues Task Force (EITF) Issue No. 00-14, Accounting for Certain Sales Incentives. Accordingly, all sales incentives that result in a reduction in, or refund of the selling price at the time of sale, have been classified as reduction of sales.

All other cash consideration paid by us to a reseller or distributor of our products is accounted for in accordance with EITF No. 00-25, Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor's Product. This guidance provides that consideration paid by us to a reseller of our products is presumed to be a reduction of our selling price except when (a) the vendor receives an identifiable benefit that is sufficiently separable from the recipient's purchase of our products, and (b) we can reasonably identify the fair value of the benefit.

We believe that we can reasonably estimate allowances for promotional allowances based on our historical experience in providing these sales incentives. Our estimates are generally based on evaluating the average length of time between the product shipment date and the date on which we pay the customer the promotional allowance. The product of this lag factor and our historical promotional allowance payment rate is the basis for the promotional allowance recorded on our balance sheet.

As a result of the adoption of EITF 00-14 and EITF 00-25 on November 1, 2000 (codified by EITF 01-9), prior year balances have been reclassified to conform to our current year presentation. EITF 00-14 and EITF 00-25 required certain costs related to performance based promotional allowance previously recorded as selling, general and administrative expenses to be reclassified and presented as a reduction of sales. The combined effect of EITF 00-14 and EITF 00-25 was a reduction of approximately $2.5 million in both net sales and selling, general and administrative expenses, for the previously reported year ended October 31, 2000.

Consignment Arrangements

We enter into consignment arrangements with avocado growers and packers located outside of the United States and growers of certain perishable products in the United States. Although we generally do not take legal title to avocados and perishable products, we do assume responsibilities (principally assuming credit risk, inventory loss and delivery risk, and limited pricing risk) that are consistent with acting as a principal in the transaction. Accordingly, the accompanying financial statements include sales and cost of sales from the sale of avocados and perishable products procured under consignment arrangements. Amounts recorded for each of the fiscal years ended October 31, 2002, 2001 and 2000 in the financial statements pursuant to consignment arrangements are as follows (in thousands):

	2002	2001	2000
Sales	$27,960	$26,005	$27,300
Cost of Sales	26,442	24,888	25,708
Gross Margin	$1,518	$1,117	$1,592

Advertising Expense

Advertising costs are expensed when incurred. Such costs in fiscal 2002, 2001, and 2000 were approximately $245,000, $326,000, and $318,000.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting periods. Estimates are used principally in determining valuation allowances related to accounts receivable and inventory. Actual results could differ from those estimates.

Income Taxes

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

Basic and Diluted Net Income per Share

We present "basic" earnings per share and "diluted" earnings per share in accordance with SFAS No. 128, Earnings Per Share. Basic net income per share is calculated using the weighted-average number of common shares outstanding during the period without consideration of the dilutive effect of stock options. The basic weighted-average number of common shares outstanding was 11,562,000, 10,454,000, and 10,335,000 for fiscal years 2002, 2001, and 2000. Diluted net income per common share is calculated using the weighted-average number of common shares outstanding during the period after consideration of the dilutive effect of stock options. The dilutive weighted-average number of common shares and equivalents outstanding was 11,604,000, 10,454,000, and 10,335,000 for fiscal years 2002, 2001, and 2000

Foreign Currency Translation and Remeasurement

Our foreign operations are subject to exchange rate fluctuations and foreign currency transaction costs. The functional currency of our foreign subsidiaries is the United States dollar. Monetary assets and liabilities are translated into U.S. dollars at exchange rates as of the balance sheet date and non-monetary assets, liabilities and equity are translated at historical rates. Sales and expenses are translated using a weighted-average exchange rate for the period. Gains and losses resulting from those remeasurements are included in income. Gains and losses resulting from foreign currency transactions are also recognized currently in income.

Fair Value of Financial Instruments

We believe that the carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, current borrowings pursuant to credit facilities and industrial revenue and development bond approximate fair value due to the short maturity of these financial instruments. The following table illustrates long-term financial instruments, their fair value and the carrying value of these instruments on our balance sheet as of October 31, 2002:

Financial Instrument	*Fair Value*	*Carrying Value*
Loans to growers	$1,436	$1,501
Notes receivable from shareholders	5,720	5,720
United States government bonds	2,150	1,979
Fixed-rate long-term obligations	613	602

Derivative Financial Instruments

We do not presently engage in hedging activities. In addition, we have reviewed agreements and contracts and have determined that we have no derivative instruments, nor do any of our agreements and contracts contain embedded derivative instruments as of October 31, 2002. Accordingly, the adoption of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended by SFAS No. 137, Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133, and SFAS No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities, on November 1, 2001, did not have an impact on our financial position or results of operations.

Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143"). SFAS 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS 143 applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and normal use of the asset. SFAS 143 applies to all entities and amends FASB Statement No. 19, "Financial Accounting and Reporting by Oil and Gas Producing Companies". SFAS 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made.

SFAS 143 is effective for fiscal years beginning after June 15, 2002. We believe that SFAS 143 will not have a material effect on our consolidated financial statements.

In August 2001, the FASB issued Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). While SFAS 144 supersedes FASB Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of", it retains many of the fundamental provisions of that Statement. SFAS 144 is effective for fiscal years beginning after December 15, 2001 and interim periods within those fiscal years. We believe that adoption of SFAS 144 in fiscal 2003 will not have a material effect on our consolidated financial statements.

In April 2002, the FASB issued Statement No. 145, "Rescission of FASB Statement Nos. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" ("SFAS 145"). SFAS 145 rescinds FASB Statement No. 4, "Reporting Gains and Losses from Extinguishment of Debt" ("SFAS 4") and amends other existing authoritative pronouncements. As a result of SFAS 145, gains and losses from extinguishment of debt should be classified as extraordinary items only if they meet the criteria in Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" ("APB 30"). Applying the provisions of APB 30 will distinguish transactions that are part of an entity's recurring operations from those that are unusual or infrequent or that meet the criteria for classification as an extraordinary item. We are currently analyzing SFAS 145; however based on management's current understanding and interpretation, SFAS 145 is not expected to have a material impact on our financial position or results of operations.

In June 2002, the FASB issued Statement No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146"). SFAS 146 replaces EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)". SFAS 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. SFAS 146 is to be applied prospectively to exit

or disposal activities initiated after December 31, 2002. We believe that adoption of SFAS 146 will not have a material effect on our consolidated financial statements.

In December 2002, the FASB issued Statement of Financial Accounting Standard No. 148 ("SFAS No. 148"), "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FASB Statement No. 123". This statement provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirement of Statement 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. SFAS 148 is effective for fiscal years ending after December 15, 2002. We have not determined whether we will adopt the fair value based method of accounting for stock-based employee compensation.

Comprehensive Income

Comprehensive income is defined as all changes in a company's net assets, except changes resulting from transactions with shareholders. There was no difference between comprehensive income and net income for the fiscal years ended October 31, 2002, 2001, and 2000.

Reclassifications

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

3. Inventories

Inventories consist of the following (in thousands):

	2002	*2001*
Fresh fruit	$1,534	$1,915
Packing supplies and ingredients	1,958	1,673
Finished processed foods	8,969	5,487
	$12,461	$9,075

Cost of goods sold for fiscal 2002, 2001, and 2000 includes inventory write-downs of $63,000, $35,000 and $0. These write-downs resulted from reduced customer demand for processed avocado products.

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

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

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

4. Property, Plant, and Equipment

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

	2002	2001
Land	$1,177	$1,177
Buildings and improvements	9,800	9,726
Leasehold improvements	176	172
Equipment	23,316	21,720
Information systems - Hardware and software	2,792	2,484
Construction in progress	70	12
	37,331	35,291
Less accumulated depreciation and amortization	(27,834)	(25,849)
	$9,497	$9,442

5. Investments Held-to-Maturity

We have invested funds in United States government bonds yielding interest at 5.67% maturing on August 15, 2005. The interest income generated from the bonds is reinvested in a money market fund. The investments are held in an irrevocable trust to be used solely for the satisfaction of scheduled payments of interest and principal relating to the Industrial Development Revenue Bonds. The cost and fair value of investments held-to-maturity ends consist of the following (in thousands):

	2002	2001
Cost	$1,979	$1,874
Fair value	2,150	2,023

6. Other Assets

During 1999, we established a Grower Development Program whereby funds could be advanced to growers in exchange for their commitment to deliver a minimum volume of avocados on an annual basis. Through October 31, 2002, total cumulative advances made to growers subject to this program totaled approximately $2,000,000. Each advance made is amortized to cost of goods sold over the term of the agreement. The financial statements for fiscal years 2002 and 2001 include a charge of approximately $293,000 for each year representing the amortization of these advances.

7. Short-Term Borrowings

We maintain short-term, noncollateralized, borrowing agreements with various banks, payable in variable annual installments through November 2005. Under the terms of these agreements, we are advanced funds for working capital purposes. Total credit available under the combined short-term borrowing agreements was $26,500,000 at October 31, 2002 and 2001, with interest at a weighted-average rate of 2.84% and 3.18% at October 31, 2002 and 2001. We had outstanding borrowings of $3,000,000 and $15,800,000 as of October 31, 2002 and 2001, under these agreements. The short-term borrowing agreements contain debt-to-equity financial covenants with which we were in compliance at October 31, 2002 and 2001.

8. Long-Term Obligations

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

	2002	2001
Riverside County Variable Rate Demand Industrial Development Revenue Bonds, due in 2005, plus interest at variable rates (1.85% and 1.90% at October 31, 2002and 2001)	$2,800	$2,800
Revolving term loans, noncollateralized, payable in variable annual installments through November 2005, plus interest at variable rates (4.14% and 7.37% at October 31, 2002 and 2001)	471	975
Other	131	95
	3,402	3,870
Less current portion	(222)	(441)
	$3,180	$3,429

The revolving term loans contain debt-to-equity financial covenants with which we were in compliance at October 31, 2002 and 2001.

The Riverside County Variable Rate Demand Industrial Development Revenue Bonds (the Bonds) are collateralized by property and equipment with a net book value of approximately $1,468,000 at October 31, 2002. The lending agreement contains certain financial covenants with which we were in compliance at October 31, 2002 and 2001. As required by the Bonds' lending agreement, we posted a $2,800,000 standby letter of credit from a bank, which matures on September 15, 2003.

At October 31, 2002, annual debt payments are scheduled as follows (in thousands):

Year ending October 31:	Revenue Bond	Revolving Loan	Other	Total
2003	$–	$176	$46	$222
2004	–	230	24	254
2005	2,800	65	23	2,888
2006	–	–	13	13
2007	–	–	8	8
Thereafter	–	–	17	17
	$2,800	$471	$131	$3,402

9. Employee Benefit Plans

We sponsor a defined contribution retirement plan for salaried employees and make contributions to a pension plan for hourly employees. Expenses of the plans approximated $402,000, $399,000, and $362,000 for each of the three years in the period ended October 31, 2002, which are included in selling, general and administrative expenses in the accompanying financial statements.

We also sponsor a non-qualified defined benefit plan for two retired executives. Pension expenses approximated $29,000, $29,000, and $27,000 for the years ended October 31, 2002, 2001, and 2000, which are included in selling, general and administrative expenses in the accompanying financial statements.

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

	2002	2001
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	$428	$435
Service cost	6	5
Interest cost	33	33
Actuarial loss	87	5
Benefits paid	(52)	(50)
Projected benefit obligation at end of year (unfunded)	$502	$428

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

	2002	2001	2000
Projected benefit obligation	$502	$428	$435
Unrecognized net (gain) loss	(22)	74	88
Recorded pension liabilities	$480	$502	$523

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

	2002	2001	2000
Discount rate on projected benefit obligation	6.75%	8.00%	8.00%
Rate of future salary increases	5.00%	5.00%	5.00%

10. Commitments and Contingencies

Lease Commitments

We lease facilities and certain equipment under non-cancelable operating leases expiring at various dates through 2007. We are committed to make minimum cash payments under these agreements as of October 31, 2002 as follows (amounts in thousands):

2003	$1,070
2004	860
2005	587
2006	562
2007	559
Thereafter	274
	$3,912

Rental expenses amounted to approximately $1,296,000, $1,223,000, and $1,155,000 for the years ended October 31, 2002, 2001, and 2000.

Litigation

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 statements.

11. Related-Party Transactions

We sell papayas purchased from an entity owned by the Chairman of our Board of Directors. Sales of papayas amounted to approximately $2,658,000, $3,378,000, and $2,062,000 for the years ended October 31, 2002, 2001, and 2000, resulting in gross margins of approximately $272,000, $340,000 and $198,000. Included in trade accounts payable and accrued liabilities are approximately $119,000, $317,000, and $235,000 at October 31, 2002, 2001, and 2000, due to this entity.

12. Income Taxes

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

	2002	2001	2000
Current:			
Federal	$4,540	$2,019	$2,395
State	1,181	586	522
Foreign	572	132	63
Total current	6,293	2,737	2,980
Deferred	(566)	7	(550)
Total income tax provision	$5,727	$2,744	$2,430

At October 31, 2002 and 2001, gross deferred tax assets totaled approximately $1,489,000 and $776,000, while gross deferred tax liabilities totaled approximately $753,000 and $606,000. Deferred income tax assets and liabilities consist of the tax effects of temporary differences related to the following at October 31 (in thousands):

	2002	2001
Allowance for doubtful accounts	$126	$4
Inventories	772	369
Deferred state taxes	354	179
Other	–	1
Current deferred income taxes	$1,252	$553
Property, plant, and equipment	$(726)	$(606)
Retirement benefits	210	223
Long-term deferred income taxes	$(516)	$(383)

Prior to our conversion to a for-profit corporation, the Cooperative was subject to income taxes on all business activities other than the marketing and distribution of member products. The exemption from taxation for the member business was contingent on the distribution of all available proceeds to the Cooperative's members. Absent the distribution of all proceeds, the Cooperative was subject to income taxes for the portion of proceeds available that exceeded the actual amounts distributed. Amounts paid by the Cooperative to the Internal Revenue Service and state tax authorities for each of the years for which the tax provision was restated were not affected and did not require revision.

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

	2002	2001	2000
Federal statutory tax at 35%	35%	35%	35%
State taxes, net of federal effects	6	6	6
Foreign income taxes greater than U.S	2	–	–
Benefit of lower federal tax brackets	(1)	(1)	(1)
Nondeductible meals and entertainment	–	–	–
Other	3	2	(5)
	45%	42%	35%

13. Segments Information

We operate and track results in three reportable segments - California avocados, international avocados and perishable foods products, and processed products. These three business segments are presented based on our management structure and information used by the president to measure performance and allocate resources. The California avocados segment includes all operations that involve the distribution of avocados procured in California. The international avocados and perishable foods products segment includes both operations related to distribution of fresh avocados procured from Mexico, Chile and New Zealand and distribution of other perishable food items. The processed products segment represents all operations related to the purchase, manufacturing, and distribution of processed avocado products. Those costs that can be specifically identified with a particular product line are charged directly to that product line. Costs that are not segment specific are generally allocated based on five-year average sales dollars. We do not allocate assets or specifically identify them to our operating segments.

(All amounts are presented in thousands)	*California Avocados*	*International Avocados and Perishable Food Products*	*Processed Products*	*Inter-segment Eliminations*	*Total*
Year ended October 31, 2002					
Net sales	$165,077	$59,083	$29,960	$(11,449)	$242,671
Cost of sales	147,796	55,372	25,129	(11,449)	216,848
Gross margin	17,281	3,711	4,831	–	25,823
Selling, general and administrative	6,729	2,779	4,373	–	13,881
Operating income (loss)	10,552	932	458	–	11,942
Other expense (income), net	(523)	(256)	79	–	(700)
Income (loss) before provision (benefit) for income taxes	11,075	1,188	379	–	12,642
Provision (benefit) for income taxes	5,017	538	172	–	5,727
Net income (loss)	$6,058	$650	$207	$–	$6,915
Year ended October 31, 2001					
Net sales	$149,158	$47,048	$30,107	$(8,609)	$217,704
Cost of sales	137,232	46,312	23,961	(8,609)	198,896
Gross margin	11,926	736	6,146	–	18,808
Selling, general and administrative	5,758	2,471	4,339	–	12,568
Operating income (loss)	6,168	(1,735)	1,807	–	6,240
Other expense (income), net	(168)	30	(204)	–	(342)
Income (loss) before provision (benefit) for income taxes	6,336	(1,765)	2,011	–	6,582
Provision (benefit) for income taxes	2,642	(736)	838	–	2,744
Net income (loss)	$3,694	$(1,029)	$1,173	$–	$3,838
Year ended October 31, 2000					
Net sales	$150,016	$47,767	$31,104	$(8,175)	$220,712
Cost of sales	142,786	44,872	21,675	(8,175)	201,158
Gross margin	7,230	2,895	9,429	–	19,554
Selling, general and administrative	4,600	2,533	5,233	–	12,366
Operating income (loss)	2,630	362	4,196	–	7,188
Other expense (income), net	(29)	187	124	–	282
Income (loss) before provision (benefit) for income taxes	2,659	175	4,072	–	6,906
Provision (benefit) for income taxes	935	62	1,433	–	2,430
Net income (loss)	$1,724	$113	$2,639	$–	$4,476

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

Year ended October 31, 2002

(All amounts are presented in thousands)	*California Avocados*	*International Avocados and Perishable Food Products*	*Processed Products*	*Total*
Third-party sales:				
California avocados	$153,878	$–	$–	$153,878
Imported avocados	–	43,715	–	43,715
Papayas	–	2,658	–	2,658
Miscellaneous	–	42	–	42
Processed - food service	–	–	24,964	24,964
Processed - retail and club	–	–	5,141	5,141
Total fruit and product sales to third-parties	153,878	46,415	30,105	230,398
Freight and other charges	11,381	7,540	217	19,138
Total fruit and product sales to third-parties	165,259	53,955	30,322	249,536
Less sales incentives	(182)	(150)	(6,533)	(6,865)
Total net sales to third-parties	165,077	53,805	23,789	242,671
Intercompany sales	–	5,278	6,171	11,449
Net sales	$165,077	$59,083	$29,960	254,120
Intercompany sales eliminations				(11,449)
Consolidated net sales				$242,671

Year ended October 31, 2001

(All amounts are presented in thousands)	*California Avocados*	*International Avocados and Perishable Food Products*	*Processed Products*	*Total*
Third-party sales:				
California avocados	$137,166	$–	$–	$137,166
Imported avocados	–	34,566	–	34,566
Papayas	–	3,378	–	3,378
Miscellaneous	–	41	–	41
Processed - food service	–	–	25,912	25,912
Processed -retail and club	–	–	5,625	5,625
Total fruit and product sales to third-parties	137,166	37,985	31,537	206,688
Freight and other charges	11,304	5,256	59	16,619
Total fruit and product sales to third-parties	148,470	43,241	31,596	223,307
Less sales incentives	(276)	(14)	(5,313)	(5,603)
Total net sales to third-parties	148,194	43,227	26,283	217,704
Intercompany sales	964	3,821	3,824	8,609
Net sales	$149,158	$47,048	$30,107	226,313
Intercompany sales eliminations				(8,609)
Consolidated net sales				$217,704

Year ended October 31, 2000

(All amounts are presented in thousands)	*California Avocados*	*International Avocados and Perishable Food Products*	*Processed Products*	*Total*
Third-party sales:				
California avocados	$142,774	$–	$–	$142,774
Imported avocados	–	38,361	–	38,361
Papayas	–	2,061	–	2,061
Miscellaneous	–	–	–	–
Processed - food service	–	–	27,225	27,225
Processed -retail and club	–	–	5,518	5,518
Total fruit and product sales to third-parties	142,774	40,422	32,743	215,939
Freight and other charges	7,438	3,332	–	10,770
Total fruit and product sales to third-parties	150,212	43,754	32,743	226,709
Less sales incentives	(209)	(8)	(5,780)	(5,997)
Total net sales to third-parties	150,003	43,746	26,963	220,712
Intercompany sales	13	4,021	4,141	8,175
Net sales	$150,016	$47,767	$31,104	228,887
Intercompany sales eliminations				(8,175)
Consolidated net sales				$220,712

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

	United States	*Mexico*	*Consolidated*
2002	$12,654	$2,765	$15,419
2001	$11,692	$2,350	$14,042

14. *Restatement*

Subsequent to the issuance of our financial statements for the year ended October 31, 2000, we determined that errors had been made in computing the income tax provision and related income tax liability and receivable accounts during each of the three years in the period ended October 31, 2000. As a result, the financial statements as of and for the year ended October 31, 2000 have been restated from the amounts previously reported. Amounts paid by the Cooperative to the Internal Revenue Service and state tax authorities for each of the years for which the tax provision was restated were not affected and did not require revision.

A summary of the significant effects of the restatement is as follows:

October 31, 2000	*As Previously Reported*	*As Restated*
Income Statement:		
Provision (benefit) for income taxes	$2,162	$2,430
Net income	4,744	4,476
Basic and diluted net income per share	0.48	0.43
Balance Sheet:		
Accrued expenses	4,031	5,400
Retained earnings	12,365	10,996
Shareholders' equity	22,435	21,066

15. *Stock-Based Compensation*

On November 20, 2001, our Board of Directors approved two new stock-based compensation plans.

The Directors Stock Option Plan

Participation in the directors stock option plan is limited to members of our Board of Directors. The plan makes available to the Board of Directors or a plan administrator the right to grant options to purchase up to 3,000,000 shares of common stock. In connection with the adoption of the plan, the Board of Directors approved an award of fully vested options to purchase 1,240,000 shares of common stock at an exercise price of $5.00 per share.

Prior to the listing of our common stock on a national market, the plan stipulated that the fair value of common stock be determined by our Board of Directors based on current trading patterns in the common stock and other analyzes of fair value. Based on a review of such data, our Board of Directors determined that the fair value of the common stock subject to the above awards at the date of grant was $3.95 per share.

On January 31, 2002, members of our Board of Directors elected to exercise options to purchase approximately 1,005,000 shares of common stock. The exercise price was paid by delivery of full-recourse promissory notes with a face value of $4,789,000 and by cash payments of approximately $236,000. These notes and the related security agreements provide, among other things, that each director pledge as collateral the shares acquired upon exercise of the stock option, as well as additional shares of common stock held by the directors with a value equal to 10% of the loan amount, if the exercise price was paid by means of a full-recourse note. The notes, which bear interest at 7% per annum, provide for annual interest payments with a final principal payment due March 1, 2007. Directors will be allowed to withdraw shares from the pledged pool of common stock prior to repayment of their notes, as long as the fair value of the remaining pledged shares is at least equal to 120% of the outstanding note balance. The notes have been presented as a reduction of shareholders' equity as of October 31, 2002.

From January 31, 2002 through October 31, 2002, directors have made principal payments of $250,000 related to these notes and we have accrued interest income of $245,000. As of October 31, 2002, we have recorded interest receivable of $245,000 which is included in prepaid expenses and other current assets.

A summary of stock option activity follows (shares in thousands):

Year ended October 31, 2002	*Number of Shares*	*Weighted-Average Exercise Price*
Outstanding at beginning of period	–	$–
Granted	1,240	5.00
Exercised	(1,040)	5.00
Cancelled	–	–
Outstanding at end of period	200	$5.00
Exercisable at end of period	200	$5.00

The following table summarizes stock options outstanding and exercisable at October 31, 2002 (shares in thousands):

	Outstanding and Exercisable		
Exercise Price	*Number of Shares*	*Average Remaining Contractual Life (Years)*	*Weighted-Average Exercise Price*
$5.00	200	4.05	$5.00

As permitted under SFAS No. 123, Accounting for Stock–Based Compensation, we have elected to follow Accounting Principles Board ("APB") Opinion 25, Accounting for Stock Issued to Employees, and related interpretations, in accounting for stock–based awards to employees. Under APB No. 25, we generally recognize no compensation expense with respect to awards granted with exercise prices equal to or greater than the fair value of our common stock.

Pro forma information regarding net income and earnings per share is required to be presented in accordance with SFAS No. 123. This information presents financial results as if we had accounted for stock–based awards to our directors under the fair value method of that Statement. Had compensation cost for stock option awards been determined based on the fair value at the grant date for awards, consistent with the provisions of SFAS No. 123, our net income and net income per share would have been the pro forma amounts indicated below (in thousands, except per share amounts):

Pro forma net income	$5,630
Pro forma net earnings per share, basic and diluted	$0.49

For purposes of pro forma disclosures under SFAS No. 123, the estimated fair value of the options is assumed to be amortized to compensation expense over the options' vesting period. The fair value of the options granted has been estimated at the date of grant using the Black–Scholes option pricing model with the following assumptions:

Risk–free interest rate	2.0%
Expected volatility	130%
Dividend yield	–
Expected life (years)	1.1
Weighted-average fair value of options granted	$1.04

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because options held by our directors have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in our opinion, the existing models do not necessarily provide a reliable single measure of the fair value of these options.

The Employee Stock Purchase Plan

The employee stock purchase plan was approved by our Board of Directors and shareholders. Participation in the employee stock purchase plan is limited to employees. The plan provides the Board of Directors, or a plan administrator, the right to make available up to 2,000,000 shares of common stock at a price not less than fair market value. On March 28, 2002 the Board of Directors awarded selected employees the opportunity to purchase up to 474,000 shares of common stock at $7.00 per share, the closing price of our common stock on the date prior to the grant. The plan also permits us to advance all or some of the purchase price of the purchased stock to the employee upon the execution of a full-recourse note at prevailing interest rates. Accordingly, these awards expired on April 26, 2002, with 84 participating employees electing to purchase approximately 279,000 shares.

The purchase price was paid by delivery of full-recourse promissory notes with a face value of $1,352,000 and by cash payments of approximately $600,000. These notes and the related security agreements provide, among other things, that each employee pledge as collateral the shares acquired. The notes, which bear interest at 7% per annum, provide for annual interest and principal payments for a period of two to four years. The notes have been presented as a reduction of shareholders' equity as of October 31, 2002.

From January 31, 2002 through October 31, 2002, employees have made principal and interest payments of $171,000 and $3,000 related to these notes and we have accrued interest income of $52,000. As of October 31, 2002, we have recorded interest receivable of $49,000 which is included in prepaid expenses and other current assets.

16. Stock and Cash Dividends

On February 15, 2002, we issued a 5% stock dividend to all shareholders of record as of February 1, 2002. Basic and diluted earnings per share for all periods presented have been restated to reflect the 5% stock dividend effected on February 15, 2002 for shareholders of record as of February 1, 2002.

On October 24, 2002, we announced the establishment of a new cash dividend policy whereby we would make annual cash dividend payments of 20 cents per share payable during the first quarter of each fiscal year. Pursuant to this new policy our Board of Directors authorized a dividend payment of $2,567,000 on January 3, 2002 to shareholders of record as of November 15, 2002.

17. Subsequent Events

From October 31, 2002 through January 20, 2003, directors made additional interest and principal payments on outstanding promissory notes of approximately $88,000 and $540,000. In addition, we received proceeds of approximately $475,000 from the exercise of stock options.

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Calavo Growers, Inc.
Santa Ana, California

We have audited the accompanying consolidated balance sheets of Calavo Growers, Inc. (the Company) and subsidiaries as of October 31, 2002 and 2001, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended October 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Calavo Growers, Inc. and subsidiaries as of October 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended October 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, on October 9, 2001, the Company consummated a merger with Calavo Growers of California. The consolidated financial statements give retroactive effect, for all periods presented, to the merger as a combination of entities with common shareholders, and has been accounted for in a manner similar to a pooling of interests.

As discussed in Note 14 to the consolidated financial statements, the accompanying consolidated financial statements as of and for the year ending October 31, 2000 have been restated.

Deloitte & Touche LLP

Deloitte & Touche LLP

Costa Mesa, California
December 19, 2002, except for Note 17, as to which the date is January 20, 2003

Report of Management

Our management is responsible for preparing the accompanying financial statements and for ensuring their integrity and objectivity. The statements were prepared in accordance with accounting principles generally accepted in the United States of America and fairly represent the transactions and financial position of the company. The financial statements include amounts that are based on management's best estimates and judgments.

Our statements have been audited by Deloitte & Touche LLP, independent accountants, selected by the Audit Committee and approved by our shareholders. Management has made available to Deloitte & Touche LLP all of our financial records and related data, as well as minutes of stockholder and director meetings.

Our management has established and maintains a system of internal accounting controls that is designed to provide reasonable assurance that assets are safeguarded, transactions are properly recorded and executed in accordance with management's authorization, and the books and records accurately reflect the disposition of assets. The system of internal controls includes appropriate division of responsibility.

The Audit Committee is composed of directors who are not officers or employees. It meets regularly with members of management and the independent accountants to discuss the adequacy of our system of internal controls, financial statements, and the nature, extent and results of the audit effort. Furthermore, our independent accountants have free and direct access to the Audit Committee without the presence of management.

Lee Cole

Lecil E. Cole
Chairman of the Board of Directors,
President and Chief Executive Officer

W. Hombrecher

Wolfgang P. Hombrecher
Vice President –Finance, Secretary
and Chief Financial Officer

Common stock market information

On March 18, 2002, our common stock began trading on the OTC Bulletin Board under the symbol "CVGW." On July 22, 2002, our common stock began trading on the Nasdaq National Market under the symbol "CVGW."

Prior to March 18, 2002, a public trading market did not exist for our common stock. The stock was not listed on a securities exchange, and shares were transferred only if federal and state securities registration exemptions were satisfied. From time to time, we distributed to our shareholders lists of shareholders who had indicated an interest in purchasing or selling shares of stock, and the purchasing and selling shareholders then privately negotiated the terms of such transactions.

The following table sets forth, for the periods indicated, the high and low sales prices per share of our common stock as reported on the OTC Bulletin Board and the Nasdaq National Market.

Fiscal 2002	*High*	*Low*
Second Quarter (from March 18, 2002)	$12.00	$6.00
Third Quarter	$8.60	$7.00
Fourth Quarter	$8.40	$6.85

As of October 31, 2002, there were 1,615 stockholders of record of our common stock.

Dividend policy

On October 22, 2002, our Board of Directors approved the establishment of a new dividend policy. The new policy provides for annual dividend payments of 20 cents per share payable during the first quarter of each fiscal year. Pursuant to this new policy, the Board of Directors authorized an initial dividend payment of 20 cents per share on January 3, 2003 to our shareholders of record on November 15, 2002.

During the year ended October 31, 2001, we paid dividends of approximately $4,973,000, or $0.50 per share, to our shareholders. For additional information pertaining to the Cooperative's historical cash dividend payments, see "Selected Consolidated Financial Data" elsewhere in this Annual Report. On February 15, 2002, we paid a 5% stock dividend to shareholders of record on February 1, 2002.

OFFICERS

Lecil E. Cole
Chairman of the Board, President & Chief Executive Officer

Wolfgang Hombrecher
Vice President, Finance, Corporate Secretary & Chief Financial Officer

Gerard J. Watts
Vice President, North America Operations

George W. Hatfield
Vice President, Processed Products

Rob Wedin
Vice President, Fresh Sales & Marketing

Avi Crane
Vice President, Calavo International

Al Ahmer
Vice President, Processed Sales

James M. Wallace
Vice President, Human Resources & Corporate Communications

Scott H. Runge
Treasurer

Jeremy M. Freimund
Assistant Treasurer

Donna L. Gaab
Assistant Corporate Secretary

PRINCIPAL BOARD COMMITTEES

Executive Committee

Lecil E. Cole
Chairman

Roy V. Keenan
First Vice Chairman

J. Link Leavens
Second Vice Chairman

Alva V. Snider

Audit & Finance Committee

J. Link Leavens
Chairman

Fred Ferrazzano
Chairman

Roy V. Keenan

John M. Hunt

Alva V. Snider

Growers Relations Marketing Committee

Dorcas H. McFarlane
Chairwoman

Mike M. Sanders

Edward P. Smith

Scott N. Van Der Kar

Processed Products Committee

J. Link Leavens
Chairman

Fred J. Ferrazzano

John M. Hunt

Roy V. Keenan

Scott N. Van Der Kar

OPERATING DIRECTORS & MANAGERS

Carlos T. Vasquez
Director, Field Operations

Albert E. Thorne
Director, Packinghouse Operations

Robin Osterhues
Director of Marketing

Randy Rozzatti
Director, Systems Analysis & Planning

Bruce Spurrell
Director of Administrative Services & Purchasing

Diane Valine
Director, Processed Q.A., R&D

Francisco Orozco
Packinghouse Manager, Temecula

Michael L. Derr
Packinghouse Manager, Santa Paula

Dionisio Ortiz
General Manager, Calavo de Mexico

CORPORATE INFORMATION

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General Counsel

Troy & Gould, P.C.
Los Angeles, California

Certified Public Accountants

Deloitte & Touche LLP
Costa Mesa, California

Investor & Corporate Relations Counsel

Foley/Freisleben LLC
Los Angeles, California

Form 10-K

A copy of the company's annual report as filed upon Form 10-K is available upon request to the Vice President, Corporate Communications or online from the Securities and Exchange Commission at www.sec.gov.

Transfer Agent and Registrar

U.S. Stock Transfer Corporation
Glendale, California

Common Stock Listing

Shares of the company's common stock are listed on the Nasdaq National Market System under the symbol CVGW.

Design ◻ McNulty&Co., Thousand Oaks Editorial ◻ Foley/Freisleben LLC, Los Angeles Photography ◻ ZStudios, Ventura Printing ◻ Graphic Press, Los Angeles

Calavo