

CALAVO GROWERS INC
Form 10-K
January 14, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended October 31, 2012

OR

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

Commission file number: 000-33385

CALAVO GROWERS, INC.

(Exact name of registrant as specified in its charter)

Edgar Filing: CALAVO GROWERS INC - Form 10-K

California
(State of incorporation)

33-0945304
(I.R.S. Employer Identification No.)

1141-A Cummings Road, Santa Paula, CA
(Address of principal executive offices)

93060
(Zip code)

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

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

Title of Each Class	Name Of Each Exchange On Which Registered
Common Stock, \$0.001 Par Value per Share	Nasdaq Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

Edgar Filing: CALAVO GROWERS INC - Form 10-K

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

Based on the closing price as reported on the Nasdaq Global Select Market, the aggregate market value of the Registrant's Common Stock held by non-affiliates on April 30, 2012 (the last business day of the Registrant's most recently completed second fiscal quarter) was approximately \$360.4 million. Shares of Common Stock held by each executive officer and director and by each shareholder affiliated with a director or an executive officer have been excluded from this calculation because such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes. The number of outstanding shares of the Registrant's Common Stock as of November 30, 2012 was 14,829,033.

Documents Incorporated by Reference

Portions of the Registrant's Proxy Statement for the 2013 Annual Meeting of Shareholders, which we intend to hold on April 24, 2013 are incorporated by reference into Part III of this Form 10-K. The definitive Proxy Statement will be filed within 120 days after October 31, 2012.

CAUTIONARY STATEMENT

This Annual Report on Form 10-K, including Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7, contains forward-looking statements that involve risks, uncertainties and assumptions. If the risks or uncertainties ever materialize or the assumptions prove incorrect, the results of Calavo Growers, Inc. and its consolidated subsidiaries (CG) may differ materially from those expressed or implied by such forward-looking statements and assumptions. All statements, other than statements of historical fact, are statements that could be deemed forward-looking statements, including, but not limited to, any projections of revenue, margins, expenses, earnings, earnings per share, tax provisions, cash flows, currency exchange rates, the impact of acquisitions or other financial items; any statements of the plans, strategies and objectives of management for future operations, including execution of restructuring and integration plans; any statements regarding current or future macroeconomic trends or events and the impact of those trends and events on CG and its financial performance; any statements regarding pending investigations, claims or disputes; any statements of expectation or belief; and any statements of assumptions underlying any of the foregoing. Risks, uncertainties and assumptions include the impact of macroeconomic trends and events; the competitive pressures faced by CG's businesses; the development and transition of new products and services (and the enhancement of existing products and services) to meet customer needs; integration and other risks associated with business combinations; the hiring and retention of key employees; the resolution of pending investigations, claims and disputes; and other risks that are described herein, including, but not limited to, the items discussed in Risk Factors in Item 1A of this report, and that are otherwise described or updated from time to time in CG's Securities and Exchange Commission reports. CG assumes no obligation and does not intend to update these forward-looking statements.

PART I

Item 1. Business

General development of the business

Calavo Growers, Inc. (Calavo, the Company, we, us or our), is a global leader in the avocado industry and an expanding provider of value-added fresh food. Our expertise in marketing and distributing avocados, prepared avocados, and other perishable foods allows us to deliver a wide array of fresh and prepared food products to food distributors, produce wholesalers, supermarkets, convenience stores, and restaurants on a worldwide basis. We procure avocados principally from California, Mexico, and Chile. Through our various operating facilities, we sort, pack, and/or ripen avocados, tomatoes and/or Hawaiian grown papayas. Additionally, we also produce salsa and prepare ready-to-eat produce and deli products. We distribute our products both domestically and internationally and report our operations in three different business segments: Fresh products, Calavo Foods and RFG. See Note 11 in our consolidated financial statements for further information about our business segments. Our principal executive offices are located at 1141-A Cummings Road, Santa Paula, California 93060; telephone (805) 525-1245.

On October 9, 2001, we completed a series of transactions whereby common and preferred shareholders of Calavo Growers of California (the Cooperative), an agricultural marketing cooperative association, exchanged all of their outstanding shares for shares of our common stock. Concurrent with this transaction, the Cooperative was merged into us with Calavo Growers, Inc. (Calavo) emerging as the surviving entity. These transactions had the effect of converting the legal structure of the business from a non-profit cooperative to a for-profit corporation.

In October 2012, we entered into a sale agreement with San Rafael Distributing (SRD), pursuant to which the Company agreed to sell to SRD all of our interest, representing one-half ownership, in Maui Fresh International, LLC (Maui Fresh) for \$2.6 million. Maui Fresh was originally created in 2006 when we entered into a joint venture agreement with SRD for the purpose of marketing sale and the distribution of fresh produce at the Los Angeles Wholesale Produce Market. This transaction resulted in a gain on sale of approximately \$0.5 million. See Note 17 in our consolidated financial statements for further information about the sale of Maui Fresh.

In June 2011, Calavo, CG Mergersub LLC (Newco), Renaissance Food Group, LLC (RFG) and Liberty Fresh Foods, LLC, Kenneth Catchot, Cut Fruit, LLC, James Catchot, James Gibson, Jose O. Castillo, Donald L. Johnson and RFG Nominee Trust (collectively, the Sellers) entered into an Agreement and Plan of Merger dated May 25, 2011 (the Acquisition Agreement), which sets forth the terms and conditions pursuant to which Calavo would acquire a 100 percent ownership interest in RFG. Pursuant to the Acquisition Agreement, Newco, a newly formed Delaware limited liability company and wholly-owned subsidiary of Calavo, merged with and into RFG, with RFG as the surviving entity. RFG is a fresh-food company that produces, markets, and distributes nationally a portfolio of healthy, high quality products for consumers via the retail and foodservice channels. See Note 16 in our consolidated financial statements for further information.

In February 2010, Calavo, Calavo Salsa Lisa, LLC (CSL), Lisa's Salsa Company (LSC) and Elizabeth Nicholson and Eric Nicholson, entered into an Asset Purchase and Contribution Agreement, dated February 8, 2010 (the Acquisition Agreement), which sets forth the terms and conditions pursuant to which Calavo acquired a 65 percent ownership interest in newly created CSL which acquired substantially all of the assets of LSC. Elizabeth Nicholson and Eric Nicholson, through LSC, hold the remaining 35 percent ownership of CSL. LSC is a regional producer in the upper Midwest of Salsa Lisa refrigerated salsas. This line of salsas has further diversified our product offerings and is a natural complement to our ultra-high-pressure guacamole, as well as our Calavo tortilla chips.

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

In June 2007, we entered into a distribution agreement with Agricola Belher (Belher) of Mexico, a well-established quality producer of fresh vegetables, primarily tomatoes, for export to the U.S. market. Pursuant to such distribution agreement, Belher agreed, at their sole cost and expense, to harvest, pack, export, ship, and deliver tomatoes exclusively to our company, primarily our Arizona facility. In exchange, we agreed to sell and distribute such tomatoes, make advances to Belher for operating purposes, provide additional advances as shipments are made during the season (subject to limitations, as defined), and return the proceeds from such tomato sales to Belher, net of our commission and aforementioned advances. The agreement also allows for us to advance additional amounts to Belher at our sole discretion. In June 2011, we entered into an addendum that extended the distribution agreement with Belher. This agreement expires in July 2019.

We also entered into an infrastructure agreement in June 2007 with Belher, which was extended through the addendum in June 2011, in order to significantly increase production yields and fruit quality. Pursuant to this agreement, we made advances to be used solely for the acquisition, construction, and installation of improvements to and on certain land owned/controlled by Belher, as well as packing line equipment. Advances incur interest at 4.7% at October 31, 2012 and 2011. We have advanced a total of \$4.2 million as of October 31, 2012 and 2011 (\$0.8 million included in prepaid expenses and other current assets and \$3.4 million included in other long-term assets). Belher is to annually repay these advances in no less than 20% increments through July 2016. For fiscal 2012, the 2012 payment was not made and both parties agreed to defer the payment until 2013. Interest is to be paid monthly or annually, as defined. Belher may prepay, without penalty, all or any portion of the advances at any time. In order to secure their obligations pursuant to both agreements discussed above, Belher granted us a first-priority security interest in certain assets, including cash, inventory and fixed assets, as defined.

Available information

We maintain an Internet website at <http://www.calavo.com>. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to such reports filed or furnished pursuant to section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and other information related to us, are available, free of charge, on our website as soon as reasonably practicable after we electronically file those documents with, or otherwise furnish them to, the Securities and Exchange Commission. Our Internet website and the information contained therein, or connected thereto, is not and is not intended to be incorporated into this Annual Report on Form 10-K.

Fresh products

Calavo was founded in 1924 to market California avocados. In California, the growing area stretches from San Diego County to Monterey County, with the majority of the growing areas located approximately 100 miles north and south of Los Angeles County. The storage life of fresh avocados is limited. It generally ranges from one to four weeks, depending upon the maturity of the fruit, the growing methods used, and the handling conditions in the distribution chain.

We sell avocados to a diverse group of supermarket chains, wholesalers, food service and other distributors, under the Calavo family of brand labels, as well as private labels. From time to time, some of our larger customers seek short-term sales contracts that formalize their pricing and volume requirements. Generally, these contracts contain provisions that establish a price floor and/or ceiling during the contract duration. In our judgment, the shift by our customers to drafting sales contracts benefits large handlers like us, which have the ability to fulfill the terms of these contracts. During fiscal year 2012, our 5 and 25 largest fresh customers represented approximately 18% and 36% of our total consolidated revenues. During fiscal year 2011, our 5 and 25 largest fresh customers represented approximately 22% and 44% of our total consolidated revenues. During fiscal year 2012 none of our fresh customers represented more than 10% of total consolidated revenues. During fiscal year 2011 none of our fresh customers represented more than 10% of total consolidated revenues. During fiscal year 2010, one fresh customer represented approximately 11% of our total consolidated revenues.

The Hass variety is the predominant avocado variety marketed on a worldwide basis. Generally, California grown Hass avocados are available year-round, with peak production periods occurring between January through October. Other varieties have a more limited picking season and generally command a lower price. Approximately 1,900 California growers deliver avocados to us, generally pursuant to a standard marketing agreement. Over the past several years, our share of the California avocado crop has remained strong, with approximately 26% of the 2012 shipped California avocado crop handled by us, based on data published by the California Avocado Commission. We attribute our solid foothold in the California industry principally to the competitiveness of the per pound returns we pay and the communication and service we maintain with our growers.

California avocados delivered to our packinghouses are graded, sized, packed, cooled and, frequently, ripened for delivery to customers. Our ability to estimate the size, as well as the timing of the delivery of the annual avocado crop, has a substantial impact on both our costs and the sales price we receive for the fruit. To that end, our field personnel maintain direct contact with growers and farm managers and coordinate harvest plans. The feedback from our field-managers is used by our sales department to prepare sales plans used by our direct sales force.

A significant portion of our California avocado handling costs is fixed. As a result, significant fluctuations in the volume of avocados delivered have a considerable impact on the per pound packing costs of avocados we handle. Generally, larger crops will result in a lower per pound handling cost. We believe that our cost structure is geared to optimally handle larger avocado crops. Our strategy calls for continued efforts in aggressively recruiting new growers, retaining existing growers, and procuring a larger percentage of the California avocado crop.

California avocados delivered to us are grouped as a homogenous pool on a weekly basis based on the variety, size, and grade. The proceeds we receive from the sale of each separate avocado pool, net of a packing and marketing fee to cover our costs and a profit, are paid back to the growers once each month. The packing and marketing fee we withhold is determined by our Chief Executive Officer and is revised from time to time based on our estimated per pound packing and operating costs, as well as our operating profit. This fee is a fixed rate per pound packed. Significant competitive pressures dictate that our grower returns are set at the highest possible level to attract new and retain existing grower business. We believe that, if net proceeds paid ceased to be competitive, growers would simply choose to deliver their avocados to alternate competitive handlers. Consequently, we strive to deliver growers the highest return possible on avocados delivered to our packinghouses.

The California avocado market is highly competitive with 9 major avocado handlers. A marketing order enacted by the state legislature is in effect for California grown avocados and provides the financial resource to fund generic advertising and promotional programs. Avocados handled by us are identifiable through packaging and the Calavo brand name sticker.

We also import avocados from Mexico, Chile, Peru, New Zealand and the Dominican Republic. Our strategy is to increase our market share of currently sourced avocados to all accepted marketplaces. We believe our diversified avocado sources provide a level of supply stability that may, over time, help solidify the demand for avocados among consumers in all markets we distribute to.

We typically purchase Mexican avocados from growers and packers located in Mexico. The purchase price we pay for fruit acquired from Mexican growers is generally negotiated for substantially all the fruit in a particular grove. Once a purchase price is tentatively agreed to, the fruit is then harvested and delivered to our packinghouse located in Uruapan, Michoacán, Mexico. Once delivered, such fruit is weighed, graded, sized, packed, and cooled for shipment, primarily to the United States. Payment of such fruit can be changed from what was initially agreed to if the actual pickout doesn't reach levels assumed by the grower. Fruit purchased directly from Mexican packers is used as a supplemental source and is packed to our standards for shipment to either our customers or our operating facilities. In either case, the purchase price of Mexican avocados is generally based on our estimated selling prices of such fruit, less anticipated packing and/or selling costs and our desired margin. We believe these two sources allow us to maximize both the timely acquisition, as well as purchase price, of Mexican fruit.

Similar to California avocados, a significant portion of our handling costs for Mexican avocados are fixed. As a result, significant fluctuations in the volume of Mexican avocados delivered to our packinghouse can have a considerable impact on the per pound packing costs of avocados we handle. Generally, larger crops will result in a lower per pound handling cost. In fiscal year 2012, we completed an expansion of our Uruapan packinghouse. This expansion more than doubled our capacity to handle Mexican avocados. We believe that our cost structure for Mexican avocados is geared to optimally handle larger avocado crops.

We believe that our continued success in marketing Mexican avocados is largely dependent upon securing a reliable, high-quality supply of avocados at reasonable prices, and keeping the handling costs low as we ship the Mexican avocados to our packinghouses and distribution centers. We are subject to USDA and other regulatory inspections to ensure the safety and the quality of the fruit being delivered from Mexico. The Mexican avocado harvest, which is often considerably larger than the California avocado harvest, is both complimentary and competitive with the California market, as the Mexican harvest is near year round (most significant from September to June). As a result, it is common for Mexican growers to monitor the supply of avocados for export to the United States in order to obtain higher field prices. During 2012, we packed and distributed approximately 22% of the avocados exported from Mexico into the United States and approximately 5% of the avocados exported from Mexico to countries other than the United States, based on our estimates.

We also handle avocados from Chile, Peru and New Zealand, most of which are on a consignment basis with our growers. Pursuant to our joint venture agreement with M5, Calavo de Chile is now the primary contact with our Chilean avocado sources. Our commission percentage is approximately 8%. Additionally, from time to time, we may purchase Chilean sourced avocados. Pursuant to our consignment arrangements, we occasionally make advances to both Chilean and Peruvian growers. Historically, we made such advances related to both pre-harvest and post-harvest activities, but our focus during fiscal years 2010 through 2012 was primarily related to post-harvest activities. Typically, we obtain collateral (i.e. fruit, fixed assets, etc.) that approximates the value at risk, prior to making such advances. Historical experience demonstrates that providing post-harvest advances results in our acquiring full market risk for the product, as it is possible (although unlikely) that our sale proceeds may be less than the amounts we paid to the grower. This is a result of the high level of volatility inherent in the avocado and perishable food markets, which are subject to significant pricing declines based on the availability of fruit in the market. In the event that we do make a pre-season advance, our ability to recover such pre-harvest advance would be largely dependent on the growers' ability to deliver avocados to us, as well as the inherent risks of farming, such as weather and pests.

Sales of Chilean grown avocados have generally been significant during our 4th and 1st fiscal quarters. Additionally, with the Chilean harvesting season being complimentary to the California season (August through February), Chilean avocados are able to command competitive retail pricing in the market. During 2012, we distributed approximately 6% of the total Chilean avocados imported into the United States, based on our estimates.

We have developed a series of marketing and sales initiatives primarily aimed at our largest customers that are designed to differentiate our products and services from those offered by our competitors. Some of these key initiatives are as follows:

We continue to have success with our ProRipeVIP avocado ripening program. This proprietary program allows us to deliver avocados evenly ripened to our customers' specifications. We have invested in the Aweta AFS (acoustic firmness sensor) technology and equipment. The most significant reason we invested in the Aweta systems is because the acoustic sensors measure firmness of the entire piece of fruit, as opposed to competitive mechanical tests that use pressure and calculated averages to measure firmness. We believe that ripened avocados help our customers address the consumers' immediate needs and accelerate the sale of avocados through their stores. We currently have three Aweta systems in use in the United States, which, we believe, can effectively meet our customers' demand for conditioned fruit.

We have developed various display techniques and packages that appeal to consumers and, in particular, impulse buyers. Some of our techniques include the bagging of avocados and the strategic display of the bags within the produce section of retail stores. Our research has demonstrated that consumers generally purchase a larger quantity of avocados when presented in a bag as opposed to the conventional bulk displays. We also believe that the value proposition of avocados in a bag provides for a higher level of sales to grocery stores.

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

Calavo Foods

The Calavo Foods segment was originally conceived as a mechanism to stabilize the price of California avocados by reducing the volume of avocados available to the marketplace. In the 1960's and early 1970's, we pioneered the process of freezing avocado pulp and developed a wide variety of guacamole recipes to address the diverse tastes of consumers and buyers in both the retail and food service industries. One of the key benefits of frozen products is their long shelf-life. With the introduction of low cost processed products delivered from Mexican based processors, however, we realigned the segment's strategy by shifting the fruit procurement and pulp processing functions to Mexico. In 1995, we invested in a processing plant in Mexicali, Mexico to derive the benefit of competitive avocado prices available in Mexico.

Through January 2003, the primary function of our Mexicali processed operation was to produce pulp for our Santa Paula plant. Our processing facility in Santa Paula, California would receive the pulp from Mexicali, add ingredients, and package the product in various containers. The product would then be frozen for storage with shipment to warehouses and, ultimately, to our customers. From January 2003 to August 2004, however, our Mexicali processed operations became primarily focused on our individually quick frozen (IQF) avocado half product line and one of our ultra high-pressure lines. Our IQF line provides food service and retail customers with peeled avocado halves that are ripe and suitable for immediate consumption. These halves were frozen, packaged and shipped out of Mexicali to warehouses located in the U.S., and, ultimately, to our customers.

In February 2003, our Board of Directors approved a plan whereby the operations of our Calavo Foods business would be relocated. The plan called for the closing of our Santa Paula, California and Mexicali, Baja California Norte (Mexicali) processing facilities and relocating these operations to a new facility in Uruapan, Michoacan, Mexico (Uruapan). This restructuring has provided for cost savings in the elimination of certain transportation costs, duplicative overhead structures, and savings in the overall cost of labor and services. The Uruapan facility commenced operations in February 2004 and the Santa Paula and Mexicali facilities ceased production in February 2003 and August 2004.

We utilize ultra high pressure machines which are designed to cold pasteurize our guacamole products. Using high pressure only, this procedure substantially destroys the cells of any bacteria that could lead to spoilage, food safety, or oxidation issues. Once the procedure is complete, our packaged guacamole is cased and shipped to various retail and food service customers throughout the markets we service. By fiscal year 2010, we had two 215L ultra high pressure machine into service. These machines, which are located in Uruapan, pressurize all guacamole product lines, including all frozen products, which begun in fiscal 2010. A 3rd ultra high pressure machine, with a larger capacity of 350L, was put into service during our second fiscal quarter of 2011, but experienced a serious mechanical failure shortly after installation. In the first quarter of 2012, this machine was replaced with a new 350L capacity machine. We estimate that our operating capacity for all three ultra high pressure machines at year end to be approximately 49% and we believe this reasonable given our current sales projections and expected growth. Net sales of our ultra high pressure (fresh) products, typically sold to retail customers, represented approximately 50% and 49% of total guacamole products within the Calavo Foods segment sales for the years ended October 31, 2012 and 2011.

Sales in the U.S. and Canada are made principally through a commissioned nationwide broker network, which is supported by our regional sales managers. We believe that our marketing strength is distinguished by providing quality products, innovation, year-round product availability, strategically located warehouses, and market relationships. During fiscal year 2012, our 5 and 25 largest processed product customers represented approximately 4% and 8% of our total consolidated revenues. During fiscal year 2011, our 5 and 25 largest processed product customers represented approximately 3% and 8% of our total consolidated revenues. During fiscal years 2012, 2011 and 2010 none of our processed product customers represented more than 10% of total consolidated revenues.

In February 2010, we acquired a 65 percent ownership interest in newly created CSL which acquired substantially all of the assets of LSC. LSC is a regional producer in the upper Midwest of Salsa Lisa refrigerated salsas. We believe that this line of salsa will further diversify our product offerings and will be a natural complement to our ultra-high-pressure guacamole, as well as our Calavo tortilla chips.

RFG

In June 2011, Calavo, CG Mergersub LLC (Newco), Renaissance Food Group, LLC (RFG) and Liberty Fresh Foods, LLC, Kenneth Catchot, Cut Fruit, LLC, James Catchot, James Gibson, Jose O. Castillo, Donald L. Johnson and RFG Nominee Trust (collectively, the Sellers) entered into an Agreement and Plan of Merger dated May 25, 2011 (the Acquisition Agreement), which sets forth the terms and conditions pursuant to which Calavo would acquire a 100 percent ownership interest in RFG. Pursuant to the Acquisition Agreement, Newco, a newly formed Delaware limited liability company and wholly-owned subsidiary of Calavo, merged with and into RFG, with RFG as the surviving entity. RFG is a fresh-food company that produces, markets, and distributes nationally a portfolio of healthy, high quality products for consumers via the retail channel.

RFG products range from fresh-cut fruit, ready-to-eat vegetables, recipe-ready vegetables and deli meat products. RFG sells under the popular labels of Garden Highway Fresh Cut, Garden Highway, and Garden Highway Chef Essentials to a wide range of customers. During fiscal year 2012, our 5 and 25 largest RFG product customers represented approximately 17% and 28% of our total consolidated revenues. During fiscal year 2011, our 5 and 25 largest RFG product customers represented approximately 6% and 11% of our total consolidated revenues. During fiscal years 2012 and 2011 none of our RFG product customers represented more than 10% of total consolidated revenues.

Sales and Other Financial Information by Business Segment and Product Category

Sales and other financial information by business segment are provided in Note 11 to our consolidated financial statements that are included in this Annual Report.

Patents and Trademarks

Our trademarks include the Calavo and RFG brand name and related logos. We also utilize the following trademarks in conducting our business: Avo Fresco, Bueno, Calavo Gold, Calavo Salsa Lisa, Salsa Lisa, Celebrate the Taste, El Dorado, Fresh Ripe, Select, Taste of Paradise, The First Name in Avocados, Tico, Triggered Avocados, ProRipeVIP, Garden Highway Fresh Cut, Garden Highway, and Garden Highway Chef Essentials.

Working Capital Requirements

Generally, we make payments to our avocado growers and other suppliers in advance of collecting all of the related accounts receivable. We generally bridge the timing between vendor payments and customer receipts by using operating cash flows and commercial bank borrowings. In addition, we provide crop loans and other advances to some of our growers, which are also funded through operating cash flows and borrowings.

Non-California sourced avocados and perishable food products often require working capital to finance the payment of advances to suppliers and collection of accounts receivable. These working capital needs are also financed through the use of operating cash flows and bank borrowings.

With respect to our Calavo Foods business, we require working capital to finance the production of our processed avocado products, building and maintaining an adequate supply of finished product, and collecting our accounts receivable balances. These working capital needs are financed through the use of operating cash flows and bank borrowings.

Backlog

Our customers do not place product orders significantly in advance of the requested product delivery dates. Customers typically order perishable products two to ten days in advance of shipment, and typically order Calavo Foods within thirty days in advance of shipment.

Research and Development

Prior to the acquisition of RFG, we did not undertake significant research and development efforts. Research and development programs, if any, were limited to the continuous process of refining and developing new techniques to enhance the effectiveness and efficiency of our Calavo Foods operations and the handling, ripening, storage, and packing of fresh avocados. With the acquisition of RFG, however, we have an increased emphasis on research and development for new and improved products which is driven by customer requests, changes in product specifications, customer and market research and/or innovative ideas generated by our own team of experts with food processing and culinary backgrounds. We solicit customer and supplier input, review process and product trends and conduct sensory and shelf life testing, all to expand the category and drive new sales for our customers. Research and development costs are charged to cost of sales when incurred. Total research and development costs for fiscal years 2012, 2011, and 2010, were less than \$0.1 million.

Compliance with Government Regulations

The California State Department of Food and Agriculture oversees the packing and processing of California avocados and conducts tests for fruit quality and packaging standards. All of our packages are stamped with the state seal as meeting standards. Various states have instituted regulations providing differing levels of oversight with respect to weights and measures, as well as quality standards.

As a manufacturer and marketer of processed avocado products, our operations are subject to extensive regulation by various federal government agencies, including the Food and Drug Administration (FDA), the USDA and the Federal Trade Commission (FTC), as well as state and local agencies, with respect to production processes, product attributes, packaging, labeling, storage and distribution. Under various statutes and regulations, these agencies prescribe requirements and establish standards for safety, purity and labeling. In addition, advertising of our products is subject to regulation by the FTC, and our operations are subject to certain health and safety regulations, including those issued under the Occupational Safety and Health Act. Our manufacturing facilities and products are subject to periodic inspection by federal, state and local authorities.

As a result of our agricultural and food processing activities, we are subject to numerous environmental laws and regulations. These laws and regulations govern the treatment, handling, storage and disposal of materials and waste and the remediation of contaminated properties.

We seek to comply at all times with all such laws and regulations and to obtain any necessary permits and licenses, and we are not aware of any instances of material non-compliance. We believe our facilities and practices are sufficient to maintain compliance with applicable governmental laws, regulations, permits and licenses.

Employees

As of October 31, 2012, we had 1,531 employees, of which 705 were located in the United States and 826 were located in Mexico. We do not have a significant number of United States employees covered by a collective bargaining agreement. 704 of Calavo's Mexican employees are represented by a union. We consider the relationship with our employees to be good and we have never experienced a significant work stoppage.

The following is a summary of the number of salaried and hourly employees as of October 31, 2012.

Location	Salaried	Hourly	Total
United States	179	526	705
Mexico	122	704	826
TOTAL	301	1,230	1,531

Item 1A. Risk Factors

Risks Related to Our Business

We are subject to increasing competition that may adversely affect our operating results.

The market for avocados and processed avocado products is highly competitive and affects each of our businesses. Each of our businesses is subject to competitive pressures, including the following:

California avocados are impacted by an increasing volume of foreign grown avocados being imported into the United States. Recently, there have been significant plantings of avocados in Mexico, Chile, the Dominican Republic, Peru and other parts of the world, which have had, and will continue to have, the effect of increasing the volume of foreign grown avocados entering the United States market.

California avocados are subject to competition from other California avocado handlers. If we are unable to consistently pay California growers a competitive price for their avocados, these growers may choose to have their avocados marketed by alternate handlers.

Non-California sourced avocados and perishable food products are impacted by competitors operating in Mexico. Generally, handlers of Mexican grown avocados operate facilities that are substantially smaller than our facility in Uruapan, Mexico. If we are unable to pack and market a sufficient volume of Mexican grown avocados, smaller handlers will have a lower per unit cost and be able to offer Mexican avocados at a more competitive price to our customers.

Non-California sourced avocados and perishable food products are also subject to competition from other California avocado handlers that market Chilean grown avocados. If we are unable to consistently pay Chilean packers a competitive price for their avocados, these packers may choose to have their avocados marketed by alternate handlers.

We are subject to the risks of doing business internationally.

We conduct a substantial amount of business with growers and customers who are located outside the United States. We purchase avocados from foreign growers and packers, sell fresh avocados and processed avocado products to foreign customers, and operate a packinghouse and a processing plant in Mexico. In the most recent years, there has been an increase in organized crime in Mexico. This has not had an impact on our operations, but this does increase the risk of doing business in Mexico. We are also subject to regulations imposed by the Mexican government, and also to examinations by the Mexican tax authorities (See Note 8 in the consolidated financial statements). Significant changes to these government regulations and to assessments by the Mexican tax authorities can have a negative impact on our operations and operating results in Mexico. For additional information about our non-California sourced fruit, see the **Business** section included in this Annual Report.

Our current international operations are subject to a number of inherent risks, including:

Local economic and political conditions, including disruptions in trading and capital markets;

Restrictive foreign governmental actions, such as restrictions on transfers of funds and trade protection measures, including export duties and quotas and customs duties and tariffs; and

Changes in legal or regulatory requirements affecting foreign investment, loans, taxes, imports, and exports
Currency exchange fluctuations may impact the results of our operations.

Edgar Filing: CALAVO GROWERS INC - Form 10-K

Currency exchange rate fluctuations, depending upon the nature of the changes, may make our domestic-sourced products more expensive compared to foreign grown products or may increase our cost of obtaining foreign-sourced products. Because we do not hedge against our foreign currency exposure, our business has increased susceptibility to foreign currency fluctuations.

We and our growers are subject to the risks that are inherent in farming.

Our results of operations may be adversely affected by numerous factors over which we have little or no control and that are inherent in farming, including reductions in the market prices for our products, adverse weather and growing conditions, pest and disease problems, and new government regulations regarding farming and the marketing of agricultural products.

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

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

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

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

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

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

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

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

We are subject to the risk of product liability claims.

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

We are subject to possible changing USDA and FDA regulations which govern the importation of foreign avocados into the United States and the processing of processed avocado products.

The USDA has established, and continues to modify, regulations governing the importation of avocados into the United States. Our permits that allow us to import foreign-sourced avocados into the United States generally are contingent on our compliance with these regulations. Our results of operations may be adversely affected if we are unable to comply with existing and modified regulations and are unable to secure avocado import permits in the future.

The FDA establishes, and continues to modify, regulations governing the production of processed avocado products, such as the new Food Safety Modernization Act, which implements mandatory preventive controls for food facilities and compliance with mandatory produce safety standards. Our results of operations may be adversely affected if we are unable to comply with these existing and modified regulations.

The acquisition of other businesses could pose risks to our operating income.

We intend to review acquisition prospects that would complement our business. While we are not currently a party to any agreement with respect to any acquisitions, we may acquire other businesses in the future. Future acquisitions by us could result in accounting charges, potentially dilutive issuances of equity securities, and increased debt and contingent liabilities, any of which could have a material adverse effect on our business and the market price of our common stock. Acquisitions entail numerous risks, including the assimilation of the acquired operations, diversion of management's attention to other business concerns, risks of entering markets in which we have limited prior experience, and the potential loss of key employees of acquired organizations. We may be unable to successfully integrate businesses or the personnel of any business that might be acquired in the future, and our failure to do so could have a material adverse effect on our business and on the market price of our common stock.

Our ability to competitively serve our customers is a function of reliable and low cost transportation. Disruption of the supply of these services and/or significant increases in the cost of these services could impact our operating income.

We use multiple forms of transportation to bring our products to market. They include ocean, truck, and air-cargo. Disruption to the timely supply of these services or dramatic increases in the cost of these services for any reason including availability of fuel for such services, labor disputes, or governmental restrictions limiting specific forms of transportation could have an adverse effect on our ability to serve our customers and consumers and could have an adverse effect on our financial performance.

We depend on our infrastructure to have sufficient capacity to handle our annual production needs.

We have an infrastructure that has sufficient capacity for our production needs, but if we lose machinery or facilities due to natural disasters or mechanical failure, we may not be able to operate at a sufficient capacity to meet our production needs. This could have a material adverse effect on our business, which could impact our results of operations and our financial condition.

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

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

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

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

System security risks, data protection breaches, cyber-attacks and systems integration issues could disrupt our internal operations or services provided to customers, and any such disruption could reduce our expected revenue, increase our expenses, damage our reputation and adversely affect our stock price.

Experienced computer programmers and hackers may be able to penetrate our network security and misappropriate or compromise our confidential information or that of third parties, create system disruptions or cause shutdowns. Computer programmers and hackers also may be able to develop and deploy viruses, worms, and other malicious software programs that attack our products or otherwise exploit any security vulnerabilities of our products. In addition, sophisticated hardware and operating system software and applications that we produce or procure from third parties may contain defects in design or manufacture, including bugs and other problems that could unexpectedly interfere with the operation of the system. The costs to us to eliminate or alleviate cyber or other security problems, bugs, viruses, worms, malicious software programs and security vulnerabilities could be significant, and our efforts to address these problems may not be successful and could result in interruptions, delays, cessation of service and loss of existing or potential customers that may impede our sales, manufacturing, distribution or other critical functions.

Portions of our IT infrastructure also may experience interruptions, delays or cessations of service or produce errors in connection with systems integration or migration work that takes place from time to time. We may not be successful in implementing new systems and transitioning data, which could cause business disruptions and be more expensive, time consuming, disruptive and resource-intensive. Such disruptions could

Edgar Filing: CALAVO GROWERS INC - Form 10-K

adversely impact our ability to fulfill orders and interrupt other processes. Delayed sales, lower margins or lost customers resulting from these disruptions have adversely affected in the past, and in the future could adversely affect, our financial results, stock price and reputation.

Risks Related to Our Common Stock

The value of our common stock may be adversely affected by market volatility.

The trading price of our common stock fluctuates and may be influenced by many factors, including:

Our operating and financial performance and prospects;

The depth and liquidity of the market for our common stock;

Investor perception of us and the industry and markets in which we operate;

Our inclusion in, or removal from, any equity market indices;

Changes in earnings estimates or buy/sell recommendations by analysts; and

General financial, domestic, international, economic and other market conditions;

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

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

Market acceptance of our products; and

The existence of opportunities for expansion.

If our capital resources are not sufficient to satisfy our liquidity needs, we may seek to sell additional equity or obtain additional debt financing. The sale of additional equity would result in dilution to our shareholders. Additional debt would result in increased expenses and could result in covenants that would restrict our operations. With the exception of our existing credit facility, we have not made arrangements to obtain additional financing. We may not be able to obtain additional financing, if required, in amounts or on terms acceptable to us, or at all.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We lease our corporate headquarters building from Limoneira Company (Limoneira) located in Santa Paula, California. In addition, RFG leases their corporate office in Ranch Cordova, California. We have numerous facilities throughout the United States, and two facilities in Mexico. See the following table for a summary of our locations:

United States Locations:

Packinghouses:

Edgar Filing: CALAVO GROWERS INC - Form 10-K

Leased or Owned:	City	State	Description
Owned	Santa Paula	California	Handles California, Mexican and Chilean avocados. The facility was purchased in 1955 and has had equipment improvements substantially equivalent to our Temecula facility. We believe that the annual capacity of this facility will be sufficient to handle our forecasted annual production needs.
Owned	Temecula	California	Handles California, Mexican and Chilean avocados. The facility was built in 1985 and has been improved in capacity and efficiency since then. We believe that the annual capacity of this facility will be sufficient to handle our forecasted annual production needs.

Operating and Distributing Facilities:

Leased or Owned:	City	State	Description
Owned	Santa Paula	California	Operates as a ripening, storage and shipping facility for our fresh avocado operations. Additionally, it also serves to store and ship certain processed avocado products as well. We sort and pack certain diversified commodities as well. We believe that the annual capacity of this facility will be sufficient to pack and ripen, if necessary, the expected annual volume of avocados and specialty commodities delivered to us.
Leased	Swedesboro	New Jersey	Primarily ripens, sorts, packs, and ships avocados. Additionally, it also serves to store and ship certain tropical commodities as well. We believe that the annual capacity of this facility will be sufficient to handle our forecasted annual production needs.
Leased	Garland	Texas	Primarily ripens, sorts, packs and ships fresh avocados. We believe that the annual capacity of this facility will be sufficient to handle our forecasted annual production needs.
Leased	Nogales	Arizona	Primarily ripens, sorts, packs and ships, tomatoes, and other diversified commodities as well. We believe that the annual capacity of this facility will be sufficient to handle our forecasted annual production needs.
Leased	Hilo	Hawaii	Primarily sorts, packs, and ships papayas. We believe that the annual capacity will be sufficient to handle our forecasted annual production needs.
Owned	Hilo	Hawaii	Primarily provides irradiation services for produce grown in Hawaii. We believe that the annual capacity will be sufficient to handle our forecasted annual production needs.
Leased	St. Paul	Minnesota	CSL facility that produces salsa. We believe that the annual capacity of this facility will be sufficient to handle our forecasted annual production needs.
Leased	Houston	Texas	RFG facility that primarily processes cut fruits and vegetables, salads, sandwiches, and wraps. We believe that the annual capacity of this facility will be sufficient to handle our forecasted annual production needs.
Leased	Sacramento	California	RFG facility that primarily processes cut fruits and vegetables, salads, sandwiches, and wraps. We believe that the annual capacity of this facility will be sufficient to handle our forecasted annual production needs.

Mexico Locations:

Packinghouse and Processing Facility:

Leased or Owned:	City	State	Description
Owned	Uruapan	Michoacan	Our processing facility was constructed pursuant to our restructuring plan approved in February 2003 and has undergone improvements since then. We believe that the annual capacity of this facility will be sufficient to process our forecasted annual production needs.
Owned	Uruapan	Michoacan	Handles avocados delivered to us by Mexican growers. The facility, which was previously leased, was built in 1985 and has been significantly improved in capacity and efficiency since then. We believe that the annual capacity of this facility will be sufficient to process our forecasted annual production needs.

Item 3. Legal Proceedings

From time to time, we become involved in legal proceedings that are related to our business operations. We are not currently a party to any legal proceedings that could have a material adverse effect upon our financial position or results of operations.

Item 4. Mine Safety Disclosures

Not applicable

Executive Officers of the Registrant

The following table sets forth the name, age and position of individuals who hold positions as executive officers of our company. There are no family relationships between any director or executive officer and any other director or executive officer of our company. Executive officers are elected by the Board of Directors and serve at the discretion of the Board.

Name	Age	Position
Lecil E. Cole	73	Chairman of the Board, Chief Executive Officer and President
Arthur J. Bruno	62	Chief Operating Officer, Chief Financial Officer and Corporate Secretary
Robert J. Wedin	63	Vice President, Sales and Fresh Marketing
Alan C. Ahmer	64	Vice President, Processed Product Sales and Production
Michael A. Browne	54	Vice President, Fresh Operations

Lecil E. Cole has been a member of our board of directors since February 1982 and has served as Chairman of the Board since 1988. Mr. Cole has also served as our Chief Executive Officer and President since February 1999. He served as an executive of Safeway Stores from 1964 to 1976 and as Chairman of Central Coast Federal Land Bank from 1986 to 1996. Mr. Cole has served as Chairman and President of Hawaiian Sweet, Inc. and Tropical Hawaiian Products, Inc. since 1996. Mr. Cole farms approximately 4,400 acres in California on which avocados and cattle are produced and raised.

Arthur J. Bruno has served as our Chief Financial Officer and Corporate Secretary since October 2003. During fiscal 2004, Mr. Bruno also assumed the title and responsibilities of Chief Operating Officer. From 1988 to 2003, Mr. Bruno served as the president and co-founder of Maui Fresh International, Inc. Mr. Bruno is a Certified Public Accountant.

Robert J. Wedin has served as our Vice President since 1993. Mr. Wedin joined us in 1973 at our then Santa Barbara packinghouse. Beginning in 1990, Mr. Wedin served as a director of the California Avocado Commission for a period of ten years. Mr. Wedin currently is a board member of ProduceSupply.org and serves as a member of that organization's executive committee.

Alan C. Ahmer has served as our Vice President since 1989. Mr. Ahmer joined us in 1979 as a regional sales manager in our Calavo Foods business. In September 2003, Mr. Ahmer's new title became Vice-President, Calavo Foods Sales and Production.

Michael A. Browne has served as our Vice President since 2005. From 1997 until joining us, Mr. Browne served as the founder and co-owner of Fresh Directions International, a closely held multinational fresh produce company, which marketed fresh avocados from Mexico, Chile, and the Dominican Republic. Mr. Browne joined us in May 2005.

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

In March 2002, our common stock began trading on the OTC Bulletin Board under the symbol CVGW. In July 2002, our common stock began trading on the Nasdaq National Market under the symbol CVGW and currently trades on the Nasdaq Global Select Market.

The following tables set forth, for the periods indicated, the high and low sales prices per share of our common stock as reported on the Nasdaq Global Select Market.

Fiscal 2012	High	Low
First Quarter	\$ 27.06	\$ 21.33
Second Quarter	\$ 28.73	\$ 24.88
Third Quarter	\$ 29.34	\$ 22.98
Fourth Quarter	\$ 27.17	\$ 21.17
Fiscal 2011	High	Low
First Quarter	\$ 23.80	\$ 20.99
Second Quarter	\$ 23.55	\$ 19.70
Third Quarter	\$ 21.74	\$ 18.70
Fourth Quarter	\$ 22.88	\$ 17.90

As of November 30, 2012, there were approximately 1,014 stockholders of record of our common stock.

During the year ended October 31, 2012, we did not issue any shares of common stock that were not registered under the Securities Act of 1933, except for the shares issued with the acquisition of RFG, which is discussed in Note 16 of the Consolidated Financial Statements. We did not repurchase any shares of our common stock.

Dividend Policy

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

On December 12, 2012, we paid a \$0.65 per share dividend in the aggregate amount of \$9.6 million to shareholders of record on November 28, 2012.

On December 12, 2011, we paid a \$0.55 per share dividend in the aggregate amount of \$8.1 million to shareholders of record on December 2, 2011.

Item 6. Selected Financial Data**SELECTED CONSOLIDATED FINANCIAL DATA**

The following summary consolidated financial data (other than pounds information) for each of the years in the five-year period ended October 31, 2012 are derived from the audited consolidated financial statements of Calavo Growers, Inc.

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

	2012	Fiscal Year Ended October 31,			2008
		2011	2010	2009	
	(In thousands, except per share data)				
Income Statement Data: (1)(2)(3)					
Net sales	\$ 551,119	\$ 522,529	\$ 398,351	\$ 344,765	\$ 361,474
Gross margin	60,666	42,308	51,530	44,533	33,181
Net income	16,947	10,955	17,640	13,611	7,725
Basic net income per share	\$ 1.15	\$ 0.75	\$ 1.22	\$ 0.94	\$ 0.54
Diluted net income per share	\$ 1.15	\$ 0.75	\$ 1.22	\$ 0.94	\$ 0.53
Balance Sheet Data as of End of Period(2):					
Working capital	\$ 9,656	\$ 8,643	\$ 14,801	\$ 12,052	\$ 15,413
Total assets	207,891	185,323	150,198	122,749	134,422
Current portion of long-term obligations	5,416	5,448	1,369	1,366	1,362
Long-term debt, less current portion	13,039	18,244	6,089	13,908	25,351
Shareholders' equity	110,022	95,780	88,257	69,487	65,517
Cash Flows Provided by (Used in):					
Operations	\$ 21,723	\$ 7,866	\$ 19,979	\$ 22,504	\$ 5,296
Investing(1)(2)(4)	(7,161)	(20,907)	(9,502)	(6,497)	(7,454)
Financing	(10,233)	14,751	(10,288)	(16,641)	2,700
Other Data:					
Dividends declared per share	\$ 0.65	\$ 0.55	\$ 0.55	\$ 0.50	\$ 0.35
Net book value per share	\$ 7.45	\$ 6.52	\$ 6.04	\$ 4.79	\$ 4.52
Pounds of California avocados sold	127,145	84,913	170,650	53,000	92,165
Pounds of non-California avocados sold	174,995	156,973	123,700	162,950	123,740
Pounds of processed avocados products sold	17,341	18,811	21,651	21,259	22,274

- (1) In October 2012, we entered into a sale agreement with SRD, pursuant to which the Company has agreed to sell to SRD all of our interest, representing one-half ownership, in Maui Fresh for \$2.6 million. This transaction resulted in a gain on sale of approximately \$0.5 million. See Note 17 in our consolidated financial statements for further information about the sale of Maui Fresh.
- (2) Operating results for fiscal 2012 and 2011 and balance sheet data as of end of those respective periods include the acquisition of RFG from the date of acquisition of June 1, 2011. For fiscal year 2012, RFG net sales, gross margins, and net income before taxes were \$154.1 million, \$12.4 million and \$4.5 million. For fiscal year 2011, RFG net sales, gross margins, and net income before taxes were \$56.7 million, \$4.3 million and \$1.2 million. We have paid the Sellers \$14.2 million in cash, net of adjustments based on RFG's financial condition at closing. See Note 16 to our consolidated financial statements for further discussion of this acquisition.
- (3) Operating results for fiscal 2012, 2011 and 2010 include the acquisitions of CSL from the date of acquisition of February 8, 2010. For fiscal year 2012, CSL's net sales and gross losses were \$2.1 million and \$0.5 million. Net loss was not significant. For fiscal year 2011, CSL's net sales and gross losses were \$1.8 million and \$0.3 million. Net loss was not significant. For fiscal year 2010, CSL's net sales and gross losses were \$0.8 million and \$0.4 million. Net loss was not significant.
- (4) For fiscal year 2011, we made a \$3.0 million infrastructure advance to Agricola Belher. For fiscal year 2012 and 2010, we did not make an infrastructure advance to Agricola Belher. For fiscal 2012, the 2012 payment was not made and both parties agreed to defer the payment until 2013. We collected \$1.2 million and \$1.8 million in fiscal years 2011 and 2010 related to infrastructure advances.

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

You should read the following discussion and analysis of our financial condition and results of operations together with Selected Consolidated Financial Data and our consolidated financial statements and notes thereto that appear elsewhere in this Annual Report. This discussion and analysis contains forward-looking statements that involve risks, uncertainties, and assumptions. Actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including, but not limited to, those presented under Risks related to our business included in Item 1A and elsewhere in this Annual Report.

Overview

We are a leader in the distribution of avocados, prepared avocado products, and other perishable food products throughout the United States. Our expertise in marketing and distributing avocados, prepared avocados, and other perishable foods allows us to deliver a wide array of fresh and prepared food products to food distributors, produce wholesalers, supermarkets, and restaurants on a worldwide basis. We procure avocados principally from California, Mexico, and Chile. Through our various operating facilities, we sort, pack, and/or ripen avocados, tomatoes and/or Hawaiian grown papayas. Additionally, we also produce salsa and prepare ready-to-eat produce and deli products.

During the second quarter of 2012, we increased the number of our reportable segments and our Chief Executive Officer now reviews our business as having three reportable segments. Renaissance Food Group, LLC (RFG), which was previously included in our Calavo Foods segment, has now been separated as a segment of its own. The change in segments was made as RFG ceased having similar economic characteristics to products included in our Calavo Foods segment. Accordingly, we now have three reportable operating segments, (1) Fresh products, (2) Calavo Foods, and (3) RFG. Segment results of the prior period have been reclassified to reflect these changes.

Our Fresh products business grades, sizes, packs, cools, and ripens (if desired) avocados for delivery to our customers. We presently operate two packinghouses and three operating and distributing facilities that handle avocados across the United States. These packinghouses handled approximately 26% of the California avocado crop during the 2012 fiscal year, based on data obtained from the California Avocado Commission. Our operating results and the returns we pay our growers are highly dependent on the volume of avocados delivered to our packinghouses, as a significant portion of our costs is fixed. Our strategy calls for continued efforts to retain and recruit growers that meet our business model. Additionally, our Fresh products business also procures avocados grown in Chile and Mexico, as well as other various commodities, including tomatoes, papayas, and pineapples. We operate a packinghouse in Mexico that, together with certain co-packers that we frequently purchase fruit from, handled approximately 22% of the Mexican avocado crop bound for the United States market and approximately 5% of the avocados exported from Mexico to countries other than the United States during the 2011-2012 Mexican season, based on our estimates. Additionally, during the 2011-2012 Chilean avocado season, we handled approximately 6% of the Chilean avocado crop, based on our estimates. Our strategy is to increase our market share of currently sourced avocados to all accepted marketplaces. We believe our diversified avocado sources provides a level of supply stability that may, over time, help solidify the demand for avocados among consumers in the United States and elsewhere in the world. We believe our efforts in distributing our other various commodities, such as those shown above, complement our offerings of avocados. From time to time, we continue to explore distribution of other crops that provide reasonable returns to the business.

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

Net sales of frozen products represented approximately 50% and 51% of total processed segment sales for the years ended October 31, 2012 and 2011. Net sales of our ultra high pressure products represented approximately 50% and 49% of total processed segment sales for the years ended October 31, 2012 and 2011.

Our RFG business produces, markets and distributes nationally a portfolio of healthy, high quality lifestyle products for consumers via the retail channel. RFG products range from fresh-cut fruit, ready-to-eat vegetables, recipe-ready vegetables and deli meat products. RFG sells under the popular labels of Garden Highway Fresh Cut, Garden Highway, and Garden Highway Chef Essentials to a wide range of customers.

The operating results of all of our businesses have been, and will continue to be, affected by quarterly and annual fluctuations and market downturns due to a number of factors, such as pests and disease, weather patterns, changes in demand by consumers, the timing of the receipt, reduction, or cancellation of significant customer orders, the gain or loss of significant customers, market acceptance of our products, our ability to develop, introduce, and market new products on a timely basis, availability and cost of avocados and supplies from growers and vendors, new product introductions by our competitors, change in the mix of avocados and Calavo Foods we sell, and general economic conditions. We believe, however, that we are currently positioned to address these risks and deliver favorable operating results for the foreseeable future.

Recent Developments

Dividend Payment

On December 12, 2012, we paid a \$0.65 per share dividend in the aggregate amount of \$9.6 million to shareholders of record on November 28, 2012.

Contingencies

Hacienda Suits During the fourth quarter of fiscal 2012, we won our appeal related to the examination of the tax year ended December 31, 2005. We believe this examination is now completed, resulting in no impact on our financial statements.

As previously disclosed, during the third quarter of fiscal year 2012, we received an update from our outside legal counsel regarding the Hacienda's examination of the tax year ended December 31, 2004. The appellate court, via a second resolution, upheld the lower court's decision on two outstanding tax assessments from the Hacienda for which we had previously received unfavorable rulings. Management, as well as our outside legal counsel, still believes the company's position was correct.

Based on discussions with our outside legal counsel in Mexico, we did not believe we would be able to appeal this decision any further (i.e. to the Mexican Supreme Court) and, as a result, were forced to pay an assessment. The total net assessment related to these allegations was approximately \$1.8 million, which we recorded as income tax expense for the year ended October 31, 2012. The payment related to this tax assessment was paid during our third fiscal quarter.

Sale of Investment in Maui Fresh International, LLC (Maui)

On October 31, 2012, Calavo entered into a Sale of LLC Interest Agreement (Sale Agreement) with San Rafael, pursuant to which the Company agreed to sell to San Rafael all of our interest, representing one-half ownership, in Maui for \$2.6 million. This transaction resulted in a gain on sale of approximately \$0.5 million.

Since 2006, Calavo and San Rafael both had a 50% interest in the joint venture of Maui for the purpose of the marketing, sale and distribution of fresh produce from the Los Angeles Wholesale Produce Market.

Pursuant to the Sale Agreement, San Rafael made an initial down payment of \$0.3 million on October 31, 2012. Concurrently, San Rafael also entered into two promissory notes, the Equity Promissory Note and the Goodwill Promissory Note. The equity promissory note of \$1.0 million and the goodwill promissory note of \$1.3 million have been secured by a pledge by San Rafael's entire ownership interest on Maui and were guaranteed by Francisco Clouthier (owner of San Rafael).

The Equity Promissory Note, totaling approximately \$1.0 million, will be paid in 36 equal monthly principal payments plus accrued interest, as defined, on the unpaid principal balance. The entire amount of principal and all accrued unpaid interest shall be due and payable on November 1, 2015.

The Goodwill Promissory Note, totaling \$1.3 million, is due and payable in full on November 1, 2017.

Critical Accounting Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an ongoing basis, we re-evaluate all of our estimates, including those related to the areas of customer and grower receivables, inventories, useful lives of property, plant and equipment, promotional allowances, income taxes, retirement benefits, and commitments and contingencies. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the

Edgar Filing: CALAVO GROWERS INC - Form 10-K

results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may materially differ from these estimates under different assumptions or conditions as additional information becomes available in future periods.

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

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

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

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

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

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

Goodwill and acquired intangible assets. Goodwill, defined as unidentified asset(s) acquired in conjunction with a business acquisition, is tested for impairment on an annual basis and between annual tests whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill is tested at the reporting unit level, which is defined as an operating segment or one level below the operating segment. Goodwill impairment testing is a two-step process. The first step of the goodwill impairment test, used to identify potential impairment, compares the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired, and the second step of the impairment test would be unnecessary. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test must be performed to measure the amount of impairment loss, if any. The second step of the goodwill impairment test, used to measure the amount of impairment loss, compares the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss must be recognized in an amount equal to that excess. Goodwill impairment testing requires significant judgment and management estimates, including, but not limited to, the determination of (i) the number of reporting units, (ii) the goodwill and other assets and liabilities to be allocated to the reporting units and (iii) the fair values of the reporting units. The estimates and assumptions described above, along with other factors such as discount rates, will significantly affect the outcome of the impairment tests and the amounts of any resulting impairment losses. We performed our annual assessment of goodwill and determined that an impairment \$0.1 million existed related to the acquisition of CSL. This impairment was a result of less than anticipated sales since acquisition, and a forecast projection analysis with the consultation from a third party consulting firm. The impairment was recorded in cost of goods sold. No other impairments were noted as of October 31, 2012.

Contingent consideration. Each period, we revalue our contingent consideration obligations to their fair value and record increases or decreases in the fair value into selling, general and administrative expense. Increases or decreases in the fair value of the contingent consideration obligations can result from changes in the assumed timing and amount of revenue and expense estimates, changes in the probability of payment scenarios, as well as changes in capital market conditions, which impact the discount rate used in the Fair Valuation. Significant judgment is employed in determining the appropriateness of these assumptions as of the acquisition date and for each subsequent period. Accordingly, future business and economic conditions, as well as changes in any of the assumptions described above, can materially impact the amount of contingent consideration expense we record in any given period. Total net increase to the contingent considerations in fiscal year 2012 totaled \$0.4 million. Total net decrease to the contingent considerations in fiscal year 2011 totaled \$0.5 million.

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

Results of Operations

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

	Year ended October 31,		
	2012	2011	2010
Net sales	100.0%	100.0%	100.0%
Gross margins	11.0%	8.2%	12.9%
Selling, general and administrative	6.0%	4.7%	5.8%
Operating income	5.0%	3.5%	7.1%
Interest income	0.0%	0.0%	0.1%
Interest expense	(0.2)%	(0.2)%	(0.2)%
Other income, net	0.2%	0.0%	0.1%
Net income	3.1%	2.1%	4.4%

Net Sales

We believe that the fundamentals for our products continue to be favorable. Firstly, Americans are eating more avocados. United States (U.S.) avocado demand continues to grow, with per capita use at nearly 4.0 pounds per person, on average, over the past three years (2008/09 2010/11), 66 percent higher than the 2000/01 2002/03 average and more than double the average during the 1990s. We believe that the healthy eating trend that has been developing in the United States contributes to such growth, as avocados, which are cholesterol and sodium free, are dense in fiber, vitamin B6, antioxidants, potassium, folate, and contain unsaturated fat, which help lower cholesterol. Also, a growing number of research studies seem to suggest that phytonutrients, which avocados are rich in, help fight chronic illnesses, such as heart disease and cancer.

Additionally, we believe that the demographic changes in the U.S. will greatly impact the consumption of avocados and avocado-based products. The Hispanic community currently accounts for approximately 17% of the U.S. population, and the total number of Hispanics is estimated to triple by the year 2050. Avocados are considered a staple item purchased by Hispanic consumers, as the per-capita avocado consumption in Mexico is considered significantly higher than that of the U.S.

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

In October 2002, the USDA announced the creation of a Hass Avocado Board to promote the sale of Hass variety avocados in the U.S. marketplace. This board provides a basis for a unified funding of promotional activities based on an assessment on all avocados sold in the U.S. marketplace. The California Avocado Commission, which receives its funding from California avocado growers, has historically shouldered the promotional and advertising costs supporting avocado sales. We believe that the incremental funding of promotional and advertising programs in the U.S. will, in the long term, positively impact average selling prices and will favorably impact our avocado businesses. During fiscal 2012, 2011 and 2010, on behalf of avocado growers, we remitted approximately \$0.9 million, \$1.8 million and \$2.0 million to the California Avocado Commission. During fiscal 2012, 2011 and 2010, we remitted approximately \$5.7 million, \$4.8 million and \$5.6 million to the Hass Avocado Board related to avocados.

Additionally, through the acquisition of RFG, we substantially expanded and accelerated the company's presence in the fast-growing refrigerated fresh packaged foods category through an array of retail product lines for produce, deli, meat and food service departments.

We also believe that our diversified fresh products, primarily tomatoes, papayas and pineapples, are positioned for future growth and expansion.

The tomato is the fourth most popular fresh-market vegetable behind potatoes, lettuce, and onions in the United States. Although stabilizing in the first decade of the 2000s, annual average fresh-market tomato consumption remains well above that of the previous decade. Over the past few decades, per capita use of tomatoes has been on the rise due to the enduring popularity of salads, salad bars, and bacon-lettuce-tomato and submarine sandwiches. Perhaps of greater importance has been the introduction of improved tomato varieties, heightened consumer interest in a wider range of tomatoes, a surge of new immigrants who eat vegetable-intensive diets, and expanding national emphasis on health and nutrition.

Edgar Filing: CALAVO GROWERS INC - Form 10-K

Papayas have become more popular as the consumption in the United States has more than doubled in the past decade. Papayas have high nutritional benefits. They are rich in Anti-oxidants, the B vitamins, folate and pantothenic acid; and the minerals, potassium and magnesium; and fiber. Together, these nutrients promote the health of the cardiovascular system and also provide protection against colon cancer.

Sales of products and related costs of products sold are recognized when persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable and collectability is reasonably assured. Service revenue, including freight, ripening, storage, bagging and palletization charges, is recorded when services are performed and sales of the related products are delivered. We provide for sales returns and promotional allowances at the time of shipment, based on our experience.

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

	Year ended October 31, 2012				Year ended October 31, 2011			
	Fresh products	Calavo Foods	RFG	Total	Fresh products	Calavo Foods	RFG ⁽¹⁾	Total
Third-party sales:								
Avocados	\$ 318,556	\$	\$	\$ 318,556	\$ 376,980	\$	\$	\$ 376,980
Tomatoes	11,404			11,404	23,903			23,903
Papayas	12,753			12,753	13,245			13,245
Pineapples	6,840			6,840	4,278			4,278
Other fresh products	1,788			1,788	3,276			3,276
Food service		36,289		36,289		37,431		37,431
Retail and club		19,758	157,333	177,091		17,204	58,020	75,224
Total gross sales	351,341	56,047	157,333	564,721	421,682	54,635	58,020	534,337
Less sales incentives	(759)	(9,623)	(3,220)	(13,602)	(1,024)	(9,484)	(1,300)	(11,808)
Net sales	\$ 350,582	\$ 46,424	\$ 154,113	\$ 551,119	\$ 420,658	\$ 45,151	\$ 56,720	\$ 522,529

(1) As the acquisition for RFG was completed on June 1, 2011, only five months are included in prior year ended October 31, 2011

	Year ended October 31, 2011				Year ended October 31, 2010			
	Fresh products	Calavo Foods	RFG ⁽¹⁾	Total	Fresh products	Calavo Foods	RFG	Total
Third-party sales:								
Avocados	\$ 376,980	\$	\$	\$ 376,980	\$ 288,814	\$	\$	\$ 288,814
Tomatoes	23,903			23,903	41,595			41,595
Papayas	13,245			13,245	11,278			11,278
Pineapples	4,278			4,278	3,838			3,838
Other fresh products	3,276			3,276	3,617			3,617
Food service		37,431		37,431		40,654		40,654
Retail and club		17,204	58,020	75,224		17,473		17,473
Total gross sales	421,682	54,635	58,020	534,337	349,142	58,127		407,269
Less sales incentives	(1,024)	(9,484)	(1,300)	(11,808)	(1,090)	(7,828)		(8,918)
Net sales	\$ 420,658	\$ 45,151	\$ 56,720	\$ 522,529	\$ 348,052	\$ 50,299	\$	\$ 398,351

(1) As the acquisition for RFG was completed on June 1, 2011, only five months are included in prior year ended October 31, 2011. Net sales to third parties by segment exclude inter-segment sales and cost of sales. For fiscal years 2012, 2011, and 2010, inter-segment sales and cost of sales for Fresh products totaling \$22.2 million, \$15.8 million and \$11.7 million were eliminated. For fiscal years 2012, 2011, and

Edgar Filing: CALAVO GROWERS INC - Form 10-K

2010, inter-segment sales and cost of sales for Calavo Foods totaling \$11.6 million, \$11.2 million, and \$9.5 million were eliminated.

Edgar Filing: CALAVO GROWERS INC - Form 10-K

The following table summarizes our net sales by business segment:

	2012	Change	2011	Change	2010
	(Dollars in thousands)				
Net sales:					
Fresh products	\$ 350,582	(16.7%)	\$ 420,658	20.9%	\$ 348,052
Calavo Foods	46,424	2.8%	45,151	10.1%	50,299
RFG	154,113	171.7%	56,720	N/A	
Total net sales	\$ 551,119	5.5%	\$ 522,529	31.2%	\$ 398,351
As a percentage of net sales:					
Fresh products	63.6%		80.5%		87.4%
Calavo Foods	8.4%		8.6%		12.6%
RFG	28.0%		10.9%		
	100.0%		100.0%		100.0%

Net sales for the year ended October 31, 2012, compared to 2011, increased by \$28.6 million, or 5.5%. The increase in sales, when compared to the same corresponding prior year period, is primarily related to an increase in product sales of the RFG and primarily due to only five months of RFG sales being included in the 2011 results based on the timing of the RFG acquisition. Not considering RFG, we experienced a decrease in Fresh product sales during fiscal year 2012, which was due primarily to decreased sales of Mexican, California and Chilean sourced avocados, as well as tomatoes, partially offset by an increase in sales of pineapples. While the procurement of fresh avocados related to our Fresh products segment is very seasonal, our Calavo Foods business is generally not subject to a seasonal effect. See detailed explanations below.

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

Fresh products

Fiscal 2012 vs. Fiscal 2011:

Net sales delivered by the Fresh products business decreased by approximately \$70.1 million, or 16.7%, for the year ended October 31, 2012, when compared to fiscal 2011. As discussed above, this decrease in Fresh product sales during fiscal year 2012 was primarily related to decreased sales of Mexican, California and Chilean sourced avocados, as well as tomatoes. These decreases were partially offset, however, by increased sales from pineapples. See details below.

Sales of Mexican sourced avocados decreased \$36.5 million, or 16.8%, primarily for the year ended October 31, 2012, when compared to the same prior year period. The decrease in Mexican sourced avocados was due to a decrease in the sales price per carton, which decreased by approximately 25.8%, when compared to the same prior year period. We attribute this decrease primarily to a higher overall volume of avocados in the marketplace. Partially offsetting this decrease, was an increase in pounds sold of 18.2 million pounds or 12.1%, when compared to the same prior year period. Mexican grown avocados are primarily sold in the U.S., Japanese, and European marketplace.

Sales of California sourced avocados decreased \$21.1 million, or 14.1%, for the year ended October 31, 2012, when compared to the same prior year period. The decrease in California sourced avocados was primarily due to a decrease in sales price per carton, which decreased approximately 42.6%. Partially offsetting this decrease was an increase in pounds sold, which increased approximately 42.2 million pounds or 49.7%. We attribute most of this increase in volume and decrease in per sale price per carton to the larger California avocado crop in 2012, when compared to 2011. California avocados are primarily sold in the U.S. marketplace.

Sales of tomatoes decreased \$12.5 million, or 52.3%, for the year ended October 31, 2012, when compared to the same period for fiscal 2011. The decrease in sales for tomatoes is primarily due to a decrease in the sales price per carton of 52.7%, when compared to the same prior year period. We attribute most of the decrease in the per carton selling price to the higher volume of tomatoes from all sources in the U.S. marketplace.

Edgar Filing: CALAVO GROWERS INC - Form 10-K

Sales of Chilean sourced avocados decreased \$1.5 million, or 19.9% for the year ended October 31, 2012, when compared to the same prior year period. The decrease in Chilean sourced avocados was primarily due to a decrease in pounds sold. Chilean sourced avocados sales reflect a decrease in 1.3 million pounds of avocados sold, or 18.5%, when compared to the same prior year period.

Partially offsetting such decreases was an increase in sales of pineapples, which increased \$2.6 million, or 59.9%, for the year ended October 31, 2012, when compared to the same prior year period. The increase in sales of pineapples was primarily due to an increase in units sold of 83.7%, when compared to the same prior year period. We believe this increase is due to a more consistent reliable source of fresh pineapples and a new offering of crownless pineapples, which has increased our sales volume.

We anticipate that sales of Mexican grown avocados will increase in fiscal 2013, when compared to the same prior year period, due to a large Mexican avocado crop, partially offset by a decrease overall sales prices. We anticipate that sales volume of California grown avocados will increase in fiscal 2013, due to a larger expected California avocado crop. We anticipate sales of Chilean avocados to decrease based on the aforementioned large Mexican avocado crop.

Fiscal 2011 vs. Fiscal 2010:

Net sales delivered by the business increased by approximately \$72.6 million, or 20.9%, from fiscal 2010 to 2011. This increase in Fresh product sales during fiscal 2011 was primarily related to an increase in sales of Mexican sourced avocados. This increase was partially offset, however, by decreased sales from tomatoes and California sourced avocados. See details below.

Sales of Mexican sourced avocados increased \$98.1 million, or 81.9%, for the year ended October 31, 2011, when compared to the same prior year period. The increase in Mexican sourced avocados was due to a combination of an increase in pounds sold and an increase in the sales price per carton. Mexican sourced avocados sales reflect an increase in 33.8 million pounds of avocados sold, or 29.1%, when compared to the same prior year period. We attribute most of this increase in volume to the significant decrease in the California avocado crop (see below). In addition, the sales price per carton increased by approximately 40.9%. We attribute this increase primarily to a lower overall volume of avocados in the marketplace, as well as a steady to higher demand for avocados when compared to the same prior year period.

Partially offsetting the overall increase was a decrease in sales of tomatoes of \$17.7 million, or 42.5%, for the year ended October 31, 2011, when compared to the same prior year period. The decrease in sales for tomatoes was primarily due to a decrease in volume by 36.1% when compared to the same prior year period. This significant decrease was mainly due to a freeze in Mexico that resulted in less units in the marketplace. In addition, tomatoes had a decrease in the average selling price per carton of approximately 10.1%, when compared to the same prior year period.

Sales of California sourced avocados decreased \$10.3 million, or 6.4%, for the year ended October 31, 2011, when compared to the same prior year period. The decrease in California sourced avocados was due to a decrease of 75.8 million pounds of avocados sold or 47.2%, when compared to the same prior year period. We attribute most of this decrease in volume to the smaller California avocado crop in the current year. Partially offsetting this decrease, California sourced avocado sales reflect an increase in the sales price per carton of approximately 77.1%, when compared to the same prior year period. We attribute this increase primarily to a lower overall volume of avocados in the marketplace, as well as a higher demand for avocados, when compared to the same prior year period.

Calavo Foods

Fiscal 2012 vs. Fiscal 2011:

Sales for Calavo Foods for the year ended October 31, 2012, when compared to the same period for fiscal 2011, increased \$1.3 million, or 2.8%. This increase was due primarily to an increase in sales of prepared guacamole products of \$0.8 million or 1.8%, an increase in sales of salsa, which increased approximately \$0.3 million, or 14.5%, and an increase of sales of tortilla chips, which increased approximately \$0.2 million, or 26.3%. The increase in prepared guacamole products was primarily related to a 10.2% increase in the average net selling price per pound for our frozen and refrigerated guacamole products (formerly high-pressure), partially offset by a decrease in overall pounds sold by 7.8%.

Fiscal 2011 vs. Fiscal 2010:

Calavo Foods sales for the year ended October 31, 2011, when compared to the same period for fiscal 2010, decreased \$5.1 million, or 10.1%. This decrease in sales primarily relates to a decrease in pounds sold of our prepared guacamole products, which decreased approximately 13.1%. The decrease in pounds sold primarily related to a decrease in the pounds sold of our frozen guacamole products, which decreased approximately 18.5%, and a decrease in the sale of our refrigerated guacamole products (formerly high-pressure, see below), which decreased approximately 6.7% when compared to the same prior year period. In an effort to enhance product safety and quality in the segment, we implemented changes in our food safety standards that added steps in our manufacturing process during the first quarter of fiscal 2011. As a result, there was a temporary disruption, which adversely impacted supply and sales in the segment. In addition, sales were impacted, as substantially all guacamole products are now high-pressured for food safety purposes and that the packaging requested from certain customers does not allow for high pressured products. This resulted in the discontinuance of sales to some high-volume, low-margin customers. The net average selling price increased 4.9% during the year ended October 31, 2011, when compared to the same prior year period. This increase is

primarily related to a change in sales mix and a price increase that went into effect in July 2011 on substantially all products.

RFG

Sales for RFG for the year ended October 31, 2012, when compared to the same prior year period, increased \$97.4 million, or 171.7%. As the acquisition was completed on June 1, 2011, only five months of sales are included in fiscal year 2011.

Gross Margins

Our cost of sales consists predominantly of fruit costs, packing materials, freight and handling, labor and overhead (including depreciation) associated with preparing food products, and other direct expenses pertaining to products sold. Gross margins increased by approximately \$18.3 million, or 43.4%, for the year ended October 31, 2012, when compared to the same period for fiscal 2011. We achieved higher gross margins at all three of our segments.

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

	2012	Change	2011	Change	2010
	(Dollars in thousands)				
Gross Margins:					
Fresh products	\$ 34,295	9.6%	\$ 31,287	(18.6%)	\$ 38,443
Calavo Foods	14,002	107.5%	6,748	(48.4%)	13,087
RFG	12,369	189.5%	4,273	N/A	
Total gross margins	\$ 60,666	43.4%	\$ 42,308	(17.9%)	\$ 51,530
Gross profit percentages:					
Fresh products	9.8%		7.4%		11.0%
Calavo Foods	30.2%		14.9%		26.0%
RFG	8.0%		7.5%		
Consolidated	11.0%		8.1%		12.9%
<i>Fresh products</i>					

Fiscal 2012 vs. Fiscal 2011:

During fiscal year 2012, as compared to the same prior year periods, we experienced an overall increase in the Fresh products gross margin percentage. The increase was primarily related to an increase in the gross margin percentage for California and Mexican sourced avocados. The gross margin from California sourced avocados primarily increased due to a significant increase in the volume of California avocados sold for the year ended October 31, 2012, as compared to the same prior year period, which increased 49.7%. This increase was primarily related to the larger California avocado crop for 2012, when compared to prior year. This had the effect of decreasing our fixed per pound costs, which, as a result, positively impacted gross margins. The gross margin from Mexican sourced avocados increased due to lower fruit costs per pound, which decreased by 33.9%, when compared to the same prior year period. We believe this decrease was primarily related to the increase in the availability of avocados in the U.S. marketplace, when compared to the same prior year period. In addition, the U.S. Dollar to Mexican Peso exchange rate strengthened in fiscal year 2012, when compared to the same prior period. All of these combined had the effect of decreasing our per pound costs related to Mexican sourced avocados, which, as a result, positively impacted gross margins.

Any significant fluctuations in the exchange rate between the U.S. Dollar and the Mexican Peso may have a material impact on future gross margins for our Fresh segments.

The gross margin and/or gross profit percentage for consignment sales, including certain Chilean avocados and tomatoes, are dependent on the volume of fruit we handle, the average selling prices, and the competitiveness of the returns that we provide to third-party growers/packers. The gross margin we earn is generally based on a commission agreed to with each party, which usually is a percent of the overall selling price. Although we generally do not take legal title to such avocados and perishable products, we do assume responsibilities (principally assuming credit risk, inventory loss and delivery risk, and limited pricing risk) that are consistent with acting as a principal in the transaction. Accordingly, our results of operations include sales and cost of sales from the sale of avocados and perishable products procured under consignment arrangements. For fiscal years 2012, we generated gross margins of \$2.4 million from consigned sales. This is a \$1.1 million decrease in gross margin for consigned sales compared to previous year. This decrease is due to a decrease in tomato sales of 52.3% for fiscal 2012, when compared to the same prior year period. The decrease in sales for tomatoes is primarily due to a decrease in the sales price per carton of 52.7%, when compared to the same prior year period. We attribute most of the decrease in the per carton selling price to the higher volume of tomatoes

from all sources in the U.S. marketplace.

Fiscal 2011 vs. Fiscal 2010:

During fiscal year 2011, as compared to the same prior year period, the decrease in our Fresh products segment gross margin percentage was primarily related to higher costs associated with California sourced avocados. This was caused by fewer pounds being sold by approximately 47.2%, increasing our per pound costs, which, as a result, negatively impacted gross margins. This decrease was primarily related to the smaller California avocado crop. Contributing to the decrease in the gross margin percentage was higher Mexican sourced avocado fruit costs year-over-year by approximately 55.2%. We were able to increase the selling prices of Mexican sourced avocados, but not at the same rate at which fruit costs increased. We attribute this increase primarily to a lower overall volume of avocados in the marketplace, in conjunction with a steady-to-higher demand for avocados, when compared to the same prior year period. The combined effect of these negatively impacted gross margins. In addition, despite the recent strengthening of the U.S. Dollar to Mexican Peso exchange rate, on a year to date basis, the U.S. Dollar to Mexican Peso exchange rate weakened during fiscal 2011, when compared to the same prior period. All of these combined had the effect of increasing our per pound costs, which, as a result, negatively impacted gross margins.

The gross margin and/or gross profit percentage for consignment sales, including certain Chilean avocados and tomatoes, are dependent on the volume of fruit we handle, the average selling prices, and the competitiveness of the returns that we provide to third-party growers/packers. The gross margin we earn is generally based on a commission agreed to with each party, which usually is a percent of the overall selling price. Although we generally do not take legal title to such avocados and perishable products, we do assume responsibilities (principally assuming credit risk, inventory loss and delivery risk, and limited pricing risk) that are consistent with acting as a principal in the transaction. Accordingly, our results of operations include sales and cost of sales from the sale of avocados and perishable products procured under consignment arrangements. For fiscal years 2011, we generated gross margins of \$3.5 million from the sale of fresh produce products that were packed by third parties. This is a \$2.5 million decrease in gross margin for consigned sales compared to previous year. This decrease is due to a decrease in tomato sales of 42.5% for fiscal 2011, when compared to the same prior year period. The decrease in sales for tomatoes was primarily due to a decrease in volume by 36.1% when compared to the same prior year period. This significant decrease was mainly due to a freeze in Mexico that resulted in less units. In addition, tomatoes had a decrease in the average selling price per carton of approximately 10.1%, when compared to the same prior year period.

Calavo Foods

Fiscal 2012 vs. Fiscal 2011:

Gross profit percentages for Calavo Foods for the year ended October 31, 2012, as compared to the same prior year period, increased primarily as a result of lower fruit and operating costs, partially offset by a decrease in total pounds sold. Fruit costs for the year ended October 31, 2012, decreased 33.9%, when compared to the same prior year period. These decreases in fruit costs are primarily due to the increase in the availability of avocados in the U.S. marketplace, when compared to same prior year period. In addition, the strengthening of the U.S. Dollar compared to the Mexican Peso, year-over-year, decreased our per pound costs. All of these combined had the effect of decreasing our per pound costs, which, as a result, positively impacted gross margins. We anticipate that the gross margin percentage for our Calavo Foods segment will continue to experience significant fluctuations during this fiscal year primarily due to the uncertainty of the cost of fruit that will be used in the production process. In addition, any significant fluctuation in the exchange rate between the U.S. Dollar and the Mexican Peso may have a material impact on future gross margins for our Calavo Foods segment.

Fiscal 2011 vs. Fiscal 2010:

Gross profit percentages for Calavo Foods for the year ended October 31, 2011, as compared to the same prior year period, decreased primarily as a result of significantly higher fruit costs. Fruit costs increased 55.2% for the year ended October 31, 2011, when compared to the same prior year period. We attribute this increase primarily to a lower overall volume of avocados in the marketplace, in conjunction with a steady-to-higher demand for avocados, when compared to the same prior year period. As discussed above, material fluctuations in fruit costs can have a significant impact on gross margins in the Calavo Foods segment. The increase in our production costs was primarily related to the aforementioned change (see net sales discussion) in the food safety standards that added steps in our manufacturing process during the first quarter of fiscal 2011. In addition, in the fourth quarter of 2011, our 350L ultra high pressure machine experienced a mechanical failure. This restricted the amount of product that could be produced, which lowered our overall volume and increasing our production costs. We replaced this machine in the first quarter of 2012, and believe our operating capacity to be sufficient to meet our production needs.

Edgar Filing: CALAVO GROWERS INC - Form 10-K

In addition, the U.S. Dollar to Mexican Peso exchange rate weakened during fiscal 2011, as compared to the corresponding prior year period. This had the effect of increasing our per pound costs, which, as a result, negatively impacted gross margins.

RFG

Gross profit for RFG for the year ended October 31, 2012, when compared to the same prior year period, increased \$8.1 million, or 189.5%. As the acquisition was completed on June 1, 2011, only five months of sales are included in fiscal year 2011.

Selling, General and Administrative

	2012	Change	2011	Change	2010
	(Dollars in thousands)				
Selling, general and administrative ⁽¹⁾	\$ 33,128	38.2%	\$ 23,976	3.5%	\$ 23,168
Percentage of net sales	6.0%		4.6%		5.8%

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 \$9.2 million, or 38.2%, for the year ended October 31, 2012, when compared to the same prior year period. This increase was primarily related to the acquisition of RFG which contributed \$7.8 million in selling, general and administrative expenses for the year ended October 31, 2012, compared with only \$3.1 million being contributed from RFG in prior year. As the acquisition of RFG was completed on June 1, 2011, only five months of selling, general and administrative are included in fiscal year 2011. The remaining is an increase of \$4.5 million, which is due to higher corporate costs, including, but not limited to, management bonuses (totaling approximately \$3.4 million), an increase in the contingent consideration liability related to the acquisition of RFG (totaling approximately \$0.6 million), a decrease in prior year's contingent consideration liability related to the acquisition of CSL (totaling approximately \$0.2 million), promotions and advertising (totaling approximately \$0.3 million), stock option expense (totaling approximately \$0.2 million), depreciation (totaling approximately \$0.2 million), and data processing (totaling approximately \$0.2 million). These increases were partially offset by decreases in legal fees (totaling approximately \$0.2 million), broker commissions (totaling approximately \$0.2 million), travel and entertainment expenses (totaling approximately \$0.1 million), and director's fees (totaling approximately \$0.1 million).

Selling, general and administrative expenses increased \$0.8 million, or 3.5%, for the year ended October 31, 2011, when compared to the same prior year period. This increase was primarily related to the acquisition of RFG which contributed \$3.1 million in selling, general and administrative expenses for the year ended October 31, 2011. The remaining is a decrease of \$2.3 million, which is due to lower corporate costs, including, but not limited to, management bonuses (totaling approximately \$3.2 million), and a decrease in the contingent consideration liability related to the acquisition of CSL (totaling approximately \$0.6 million), partially offset by increases in salaries and employee benefits (totaling approximately \$1.2 million), and broker commission (totaling approximately \$0.3 million).

Interest Income

	2012	Change	2011	Change	2010
	(Dollars in thousands)				
Interest income	\$ 229	19.9%	\$ 191	(30.3%)	\$ 274
Percentage of net sales	0.0%		0.0%		0.1%

Interest income was primarily generated from loans to growers. The increase in interest income in fiscal 2012 as compared to 2011 is due to the payments on the principal balances for infrastructure advances to Agricola Belher being deferred until 2013.

Interest Expense

	2012	Change	2011	Change	2010
	(Dollars in thousands)				
Interest expense	\$ 1,152	13.4%	\$ 1,016	21.8%	\$ 834
Percentage of net sales	(0.2%)		(0.2%)		(0.2%)

Interest expense is primarily generated from our line of credit borrowings, as well as our term loan agreements with Farm Credit West, PCA (FCW) and Bank of America, N.A. (BoA). For fiscal 2012, as compared to fiscal 2011, the increase in interest expense was primarily related to a higher average outstanding balance on our non-collateralized, revolving credit facilities with FCW and BoA.

Edgar Filing: CALAVO GROWERS INC - Form 10-K

In 2011, we entered into a loan agreement with FCW in connection with the acquisition of RFG. For fiscal 2011, as compared to fiscal 2010, the increase in interest expense was primarily related to a higher average outstanding balance under our term loan agreements and our non-collateralized, revolving credit facilities with FCW and BoA.

Other Income, Net

	2012	Change	2011	Change	2010
	(Dollars in thousands)				
Other income, net	\$ 887	533.6%	\$ 140	(67.4)%	\$ 430
Percentage of net sales	0.2%		0.0%		0.1%

Other income, net includes dividend income, as well as certain other transactions that are outside of the normal course of operations. During fiscal year 2012, we agreed to sell to San Rafael all of our interest, representing one-half ownership, in Maui. This transaction resulted in a gain on sale of approximately \$0.5 million, and was recorded as other income. During fiscal 2012, 2011, and 2010, we received \$0.2 million as dividend income from Limoneira. Partially offsetting dividend income within other income for fiscal year 2011 was the disposal of Property, Plant and Equipment not fully amortized for a loss of approximately \$0.1 million.

Provision for Income Taxes

	2012	Change	2011	Change	2010
	(Dollars in thousands)				
Provision for income taxes	\$ 11,055	52.5%	\$ 7,249	(36.1)%	\$ 11,341
Percentage of income before provision for income taxes	39.5%		39.8%		39.1%

As previously disclosed, during the third quarter of fiscal year 2012, we received an update from our outside legal counsel regarding the Hacienda's examination of the tax year ended December 31, 2004. The appellate court, via a second resolution, upheld the lower court's decision on two outstanding tax assessments from the Hacienda for which we had previously received unfavorable rulings. Management, as well as our outside legal counsel, still believes the company's position was correct.

Based on discussions with our outside legal counsel in Mexico, however, we did not believe we would be able to appeal this decision any further (i.e. to the Mexican Supreme Court) and, as a result, were forced to pay an assessment. The income tax assessment related to these allegations amounted to \$1.8 million. The payment related to this tax assessment was paid during our third fiscal quarter. This had the effect of increasing our effective income tax rate for fiscal 2012.

Substantially offsetting the impact of this assessment on our tax provision are tax benefits recognized due to a shift of income between taxing jurisdictions, tax credits received through California's Enterprise Zone Hiring Credit Program (EZC) and an increase in the Section 199 deduction. We expect to continue to receive tax benefits related to the shift of income between taxing jurisdictions, as well as the EZC credits, during fiscal 2013.

The effective income tax rate for fiscal years 2012 and 2011 is higher than the federal statutory rate principally due to state and foreign taxes.

Quarterly Results of Operations

The following table presents our operating results for each of the eight fiscal quarters in the period ended October 31, 2012. The information for each of these quarters is derived from our unaudited interim financial statements and should be read in conjunction with our audited consolidated financial statements included in this Annual Report. In our opinion, all necessary adjustments, which consist only of normal and recurring accruals, have been included to fairly present our unaudited quarterly results. Historically, we receive and sell a substantially lesser number of California avocados in our first fiscal quarter.

	Three months ended							
	Oct. 31, 2012	July 31, 2012	Apr. 30, 2012	Jan. 31, 2012	Oct. 31, 2011	July 31, 2011	Apr. 30, 2011	Jan. 31, 2011
(in thousands, except per share amounts)								
Statement of Operations Data								
Net sales	\$ 141,552	\$ 153,181	\$ 138,992	\$ 117,394	\$ 147,349	\$ 165,141	\$ 118,720	\$ 91,319
Cost of sales	123,696	136,968	124,297	105,492	134,145	153,902	109,386	82,788
Gross margin	17,856	16,213	14,695	11,902	13,204	11,239	9,334	8,531
Selling, general and administrative	10,258	7,758	7,618	7,494	6,808	6,743	5,549	4,876
Operating income	7,598	8,455	7,077	4,408	6,396	4,496	3,785	3,655
Other income (expense), net	494	(127)	158	(61)	(268)	(105)	223	22
Income before provision for income taxes	8,092	8,328	7,235	4,347	6,128	4,391	4,008	3,677
Provision for income taxes	1,976	2,684	4,700	1,695	2,540	1,689	1,634	1,386
Net income	6,116	5,644	2,535	2,652	3,588	2,702	2,374	2,291
Add: Net loss-noncontrolling interest	44	21	13	27	51	11	30	21
Net income-Calavo Growers, Inc	\$ 6,160	\$ 5,665	\$ 2,548	\$ 2,679	\$ 3,639	\$ 2,713	\$ 2,404	\$ 2,312
Basic	\$ 0.42	\$ 0.38	\$ 0.17	\$ 0.18	\$ 0.25	\$ 0.18	\$ 0.16	\$ 0.16
Diluted	\$ 0.42	\$ 0.38	\$ 0.17	\$ 0.18	\$ 0.25	\$ 0.18	\$ 0.16	\$ 0.16
Number of shares used in per share computation:								
Basic	14,795	14,787	14,787	14,772	14,769	14,755	14,726	14,723
Diluted	14,822	14,806	14,802	14,789	14,781	14,767	14,734	14,736

Liquidity and Capital Resources

Operating activities for fiscal 2012, 2011 and 2010 provided cash flows of \$21.7 million, \$7.9 million, and \$20.0 million. Fiscal year 2012 operating cash flows reflect our net income of \$16.9 million, net noncash charges (depreciation and amortization, income from unconsolidated entities, provision for losses on accounts receivable, interest on deferred compensation, deferred income taxes, and stock compensation expense) of \$5.3 million and a net decrease from changes in the non-cash components of our working capital accounts of approximately \$0.5 million.

Fiscal year 2012 decreases in operating cash flows, caused by working capital changes, includes an increase in inventory of \$5.2 million, an increase in accounts receivable of \$2.8 million, and an increase in prepaid expenses and other current assets of \$0.6 million, partially offset by a decrease in payable to growers of \$3.4 million, a decrease in trade accounts payable and accrued expenses of \$3.2 million, a decrease in advances to suppliers of \$1.0 million and a decrease in income tax receivable of \$0.5 million.

The increase in our inventory balance is primarily related to an increase in Mexico avocado inventory on hand at October 31, 2012, as compared to the same prior year period. The increase in our accounts receivable balance as of October 31, 2012, when compared to October 31, 2011, primarily reflects more California and Mexican sourced avocado sales recorded in the month of October 2012, as compared to October 2011. The increase in prepaid expenses and other current assets is primarily due to the current portion of the note receivable issued related to the sale of Maui to San Rafael. The increase in payable to our growers primarily reflects an increase in California fruit delivered in the month of October 2012, as compared to the month of October 2011. The increase in our trade accounts payable and accrued expenses primarily reflect a contingent consideration accrual related to our acquisition of RFG (see Note 16 to our Consolidated Financial Statements). The decrease in advances to

Edgar Filing: CALAVO GROWERS INC - Form 10-K

suppliers is primarily due to a decrease in pre-season advances to our tomato grower Agricola Belher.

Cash used in investing activities was \$7.2 million, \$20.9 million, and \$9.5 million for fiscal years 2012, 2011, and 2010. Fiscal year 2012 cash flows used in investing activities include capital expenditures of \$7.8 million. Such payments were partially offset by distributions received of \$0.3 million throughout the year from our joint venture Maui and proceeds received of \$0.3 million related to the sale of Maui to San Rafael.

Cash used in financing activities was \$10.2 million for fiscal year 2012. Cash provided by financing activities was \$14.8 million for fiscal year 2011. Cash used in financing activities was \$10.3 million for fiscal year 2010. Cash used during fiscal year 2012 primarily related to the payment of a dividend of \$8.1 million and payments on long-term debt obligations of \$5.2 million. Partially offsetting these proceeds, however, includes proceeds from our non-collateralized, revolving credit facilities totaling \$2.3 million, and \$0.8 million provided by the exercise of stock options.

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, 2012 and 2011 totaled \$7.1 million and \$2.8 million. Our working capital at October 31, 2012 was \$9.7 million, compared to \$8.6 million at October 31, 2011.

We believe that cash flows from operations and available credit facilities will be sufficient to satisfy our future capital expenditures, grower recruitment efforts, working capital and other financing requirements. We will continue to evaluate grower recruitment opportunities and exclusivity arrangements with food service companies to fuel growth in each of our business segments.

Effective May 31, 2011, the Company and FCW, entered into a Term Revolving Credit Agreement (Revolving Agreement). Under the terms of the Revolving Agreement, we are advanced funds for working capital purposes, the purchase and installation of capital items, as well as other corporate needs of the Company. Total credit available under the borrowing agreement is \$40 million, up from \$30 million, and expires on February 1, 2016. This increase was at our request and not due to any immediate cash flows needs. The credit facility and term loan contain various financial covenants, the most significant relating to tangible net worth (as defined), Fixed Charge Coverage Ratio (as defined) and Current Ratio (as defined).

Effective September 30, 2011, the Company and Bank of America, N.A. (BoA), entered into an agreement, Amendment No. 4 to Loan Agreement (the Agreement), which amended our existing credit facility with BoA. Under the terms of the Agreement, we are advanced funds primarily for working capital purposes. Total credit available under the borrowing agreement is now \$25 million, up from \$15 million and now expires on February 1, 2016. This increase was at our request and not due to any immediate cash flows needs.

Under the terms of these agreements, we are advanced funds for both working capital and long-term productive asset purchases. Total credit available under these combined borrowing agreements was \$65 million, with a weighted-average interest rate of 1.8% and 1.6% at October 31, 2012 and 2011. Under these credit facilities, we had \$20.2 million and \$17.9 million outstanding as October 31, 2012 and 2011. These credit facilities contain various financial covenants, the most significant relating to Tangible Net Worth (as defined), Current Ratio (as defined), and Fixed Charge Coverage Ratio (as defined). We were in compliance with all such covenants at October 31, 2012.

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, 2012:

Contractual Obligations	Total	Payments due by period			
		Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt obligations (including interest)	\$ 19,593	\$ 5,944	\$ 10,901	\$ 2,287	\$ 461
Revolving credit facilities	20,170	20,170			
Defined benefit plan	245	38	76	76	55
Operating lease commitments	17,210	2,656	5,046	3,915	5,593
Total	\$ 57,218	\$ 28,808	\$ 16,023	\$ 6,278	\$ 6,109

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

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

Potential Cash Requirements for RFG Acquisition

If RFG earnings before interest, taxes, depreciation and amortization (EBITDA) for any 12-month period commencing after the closing date (June 1, 2011) and ending prior to the fifth anniversary of such closing date are equal to or greater than \$8 million, and RFG has concurrently reached a corresponding revenue achievement, we have agreed to pay \$5 million in cash and to issue 827,000 shares of unregistered Calavo common stock, representing total consideration of approximately \$24 million (based on the per share

common stock price of \$23 as agreed to per the acquisition agreement). This represents the maximum that can be awarded pursuant to the 1st earn-out payment. In the event that the maximum EBITDA and revenue achievements have not been reached within five years after the closing date, but RFG's 12-month EBITDA during such period equals or exceeds \$6 million and RFG has concurrently reached a corresponding revenue achievement, a sliding-scale, as defined, will be used to calculate payment. The minimum amount to be paid in the sliding-scale related to the 1st earn-out payment is approximately \$14 million, payable in both cash and shares of unregistered Calavo common stock. RFG has five years to achieve any consideration pursuant to the 1st earn-out payment.

Assuming that the maximum earn-out payment has been achieved in the 1st earn-out payment, if RFG's EBITDA, for a 15-month period commencing after the closing date and ending prior to the fifth anniversary of the closing date, is equal to or greater than \$15 million for each of the 12-month periods therein, and RFG has concurrently reached a corresponding revenue achievement, we have agreed to pay \$50 million in cash and to issue 434,783 shares of unregistered Calavo common stock, representing total consideration of approximately \$60 million (based on the per share common stock price of \$23 as agreed to per the acquisition agreement). This represents the maximum that can be awarded pursuant to the 2nd earn-out payment. In the event that the maximum EBITDA and revenue achievements have not been reached within five years after the closing date, but RFG's 12-month EBITDA during such period equals or exceeds \$10 million, and RFG has concurrently reached a corresponding revenue achievement, a sliding scale will be used to calculate payment. The minimum amount to be paid in the sliding-scale related to the 2nd earn-out payment is approximately \$27 million, payable in both cash and shares of unregistered Calavo common stock. RFG has five years to achieve any consideration pursuant to the 2nd earn-out payment. No payment will be made under the contingent earn-out provisions of the RFG acquisition agreement if the EBITDA and revenue targets are not met.

See the following table for the corresponding minimum and maximum payments, both cash and common stock, which could be paid via the 1st and 2nd earn-outs (in 000s):

	1st Earn-out, Minimum	1st Earn-out, Maximum	2nd Earn-Out, Minimum	2nd Earn-Out, Maximum
Cash	\$ 2,917	\$ 5,000	\$ 16,657	\$ 50,000
Common stock (# of shares)	482	827	435	435

Recently Adopted Accounting Pronouncements

In December 2010, the FASB issued an update to modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. The qualitative factors are consistent with the existing guidance, which requires that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The adoption of this accounting guidance did not have a material impact on our financial statements.

Recently Issued Accounting Standards

In June 2011, the FASB issued guidance regarding the presentation of comprehensive income. The new standard requires the presentation of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The new standard also requires presentation of adjustments for items that are reclassified from other comprehensive income to net income in the statement where the components of net income and the components of other comprehensive income are presented. The updated guidance is effective on a retrospective basis for financial statements issued for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. The adoption of this standard will have no impact on our financial statements.

In December 2011, the FASB issued guidance to defer the effective date for those aspects relating to the presentation of reclassification adjustments out of accumulated other comprehensive income. The adoption of this standard will have no impact on our financial statements.

In May 2011, the FASB issued additional guidance on fair value measurements that clarifies the application of existing guidance and disclosure requirements, changes certain fair value measurement principles and requires additional disclosures about fair value

measurements. The updated guidance is effective on a prospective basis for financial statements issued for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. The adoption of this guidance will not have a material impact on our financial statements.

In July 2012, the FASB issued additional guidance to simplify the assessment of testing the impairment of indefinite-lived intangible assets other than goodwill and will become effective for fiscal years beginning after September 15, 2012. The amended guidance allows us to do an initial qualitative assessment to determine whether it is more likely than not that the fair value of its indefinite-lived intangible assets are less than their carrying amounts prior to performing the quantitative indefinite-lived intangible asset impairment test. The adoption of this amendment will not have a material effect on our financial statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Our financial instruments include cash and cash equivalents, accounts receivable, payable to growers, accounts payable, current and long-term borrowings pursuant to our credit facilities with financial institutions, and long-term, fixed-rate obligations. All of our financial instruments are entered into during the normal course of operations and have not been acquired for trading purposes. The table below summarizes interest rate sensitive financial instruments and presents principal cash flows in U.S. dollars, which is our reporting currency, and weighted-average interest rates by expected maturity dates, as of October 31, 2012.

(All amounts in thousands)	Expected maturity date October 31,						Total	Fair Value
	2013	2014	2015	2016	2017	Thereafter		
Assets								
Cash and cash equivalents (1)	\$ 7,103	\$	\$	\$	\$	\$	\$ 7,103	\$ 7,103
Accounts receivable (1)	38,870						38,870	38,870
Advances to suppliers (1)	2,369						2,369	2,369
Liabilities								
Payable to growers (1)	\$ 8,475	\$	\$	\$	\$	\$	\$ 8,475	\$ 8,475
Accounts payable (1)	7,898						7,898	7,898
Current borrowings pursuant to credit facilities (1)	20,170						20,170	20,170
Fixed-rate long-term obligations (2)	5,416	5,415	4,940	2,134	108	442	18,455	18,811

- (1) We believe the carrying amounts of cash and cash equivalents, accounts receivable, advances to suppliers, payable to growers, accounts payable, and current borrowings pursuant to credit facilities approximate their fair value due to the short maturity of these financial instruments.
- (2) Fixed-rate long-term obligations bear interest rates ranging from 1.7% to 5.7% with a weighted-average interest rate of 3.0%. We believe that loans with a similar risk profile would currently yield a return of 2.5%. We project the impact of an increase or decrease in interest rates of 100 basis points would result in a change of fair value of approximately \$395,000.

Except as disclosed in Note 2, we were not a party to any derivative instruments during the fiscal year. It is currently our intent not to use derivative instruments for speculative or trading purposes. Additionally, we do not use any hedging or forward contracts to offset market volatility.

Our Mexican-based operations transact business in Mexican pesos. Funds are transferred by our corporate office to Mexico on a weekly basis to satisfy domestic cash needs. Historically, the consistency of the spot rate for the Mexican peso has led to a small-to-moderate impact on our operating results. We do not anticipate using derivative instruments to hedge fluctuations in the Mexican peso to U.S. dollar exchange rates during fiscal 2013. Total foreign currency gains for fiscal 2012, net of losses was \$0.1 million. Total foreign currency losses for fiscal 2011, net of gains, was less than \$0.1 million. Total foreign currency losses for fiscal 2010, net of gains was \$0.1 million.

For the fiscal year ended October 31, 2012

Item 8. Financial Statements and Supplementary Data**CALAVO GROWERS, INC.****CONSOLIDATED BALANCE SHEETS**

(in thousands)

	October 31,	
	2012	2011
Assets		
Current assets:		
Cash and cash equivalents	\$ 7,103	\$ 2,774
Accounts receivable, net of allowances of \$3,221 (2012) and \$2,285 (2011)	38,870	36,101
Inventories, net	22,948	17,787
Prepaid expenses and other current assets	7,190	6,220
Advances to suppliers	2,369	3,349
Income taxes receivable	2,762	3,111
Deferred income taxes	2,222	2,136
Total current assets	83,464	71,478
Property, plant, and equipment, net	50,562	47,091
Investment in Limoneira Company	38,841	29,991
Investment in unconsolidated entities	520	2,292
Goodwill	18,262	18,349
Other assets	16,242	16,122
	\$ 207,891	\$ 185,323
Liabilities and shareholders equity		
Current liabilities:		
Payable to growers	\$ 8,475	\$ 5,081
Trade accounts payable	7,898	7,038
Accrued expenses	22,237	19,285
Short-term borrowings	20,170	17,860
Dividend payable	9,612	8,123
Current portion of long-term obligations	5,416	5,448
Total current liabilities	73,808	62,835
Long-term liabilities:		
Long-term obligations, less current portion	13,039	18,244
Deferred income taxes	10,665	8,002
Total long-term liabilities	23,704	26,246
Commitments and contingencies		
Noncontrolling interest	357	462
Shareholders equity:		
Common stock (\$0.001 par value, 100,000 shares authorized; 14,824 and 14,770 shares outstanding at October 31, 2012 and 2011)	14	14
Additional paid-in capital	51,276	49,929
Accumulated other comprehensive income	9,390	3,935
Retained earnings	49,342	41,902
Total shareholders equity	110,022	95,780
	\$ 207,891	\$ 185,323

See accompanying notes to consolidated financial statements.

CALAVO GROWERS, INC.

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share amounts)

	Year Ended October 31,		
	2012	2011	2010
Net sales	\$ 551,119	\$ 522,529	\$ 398,351
Cost of sales	490,453	480,221	346,821
Gross margin	60,666	42,308	51,530
Selling, general and administrative	33,128	23,976	23,168
Operating income	27,538	18,332	28,362
Equity in earnings from unconsolidated entities	500	557	749
Interest income	229	191	274
Interest expense	(1,152)	(1,016)	(834)
Other income, net	887	140	430
Income before provision for income taxes	28,002	18,204	28,981
Provision for income taxes	11,055	7,249	11,341
Net income	16,947	10,955	17,640
Add: Net loss attributable to noncontrolling interest	105	113	124
Net income attributable to Calavo Growers, Inc.	\$ 17,052	\$ 11,068	\$ 17,764
Calavo Growers, Inc.'s net income per share:			
Basic	\$ 1.15	\$ 0.75	\$ 1.22
Diluted	\$ 1.15	\$ 0.75	\$ 1.22
Number of shares used in per share computation:			
Basic	14,786	14,743	14,610
Diluted	14,814	14,751	14,619

See accompanying notes to consolidated financial statements.

CALAVO GROWERS, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

	Year ended October 31,		
	2012	2011	2010
Net income	\$ 16,947	\$ 10,955	\$ 17,640
Other comprehensive income (loss), before tax:			
Unrealized investment gains (losses) arising during period	8,850	(4,996)	10,786
Income tax benefit (expense) related to items of other comprehensive income (loss)	(3,395)	1,972	(4,293)
Other comprehensive income (loss), net of tax	5,455	(3,024)	6,493
Comprehensive income	22,402	7,931	24,133
Add: Net loss attributable to noncontrolling interest	105	113	124
Comprehensive income Calavo Growers, Inc.	\$ 22,507	\$ 8,044	\$ 24,257

See accompanying notes to consolidated financial statements.

CALAVO GROWERS, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(in thousands)

	Common Stock		Additional Paid-in Capital	Accumulated Other	Retained Earnings	Total
	Shares	Amount		Comprehensive Income		
Balance, October 31, 2009	14,505	14	39,714	466	29,293	69,487
Exercise of stock options and income tax benefit of \$664	207		2,553			2,553
Stock compensation expense			52			52
Unrealized gain on Limoneira investment, net				6,493		6,493
Dividend declared to shareholders					(8,092)	(8,092)
Net income attributable to Calavo Growers, Inc.					17,764	17,764
Balance, October 31, 2010	14,712	14	42,319	6,959	38,965	88,257
Exercise of stock options and income tax benefit of \$26	15		239			239
Stock compensation expense			188			188
Unrealized loss on Limoneira investment, net				(3,024)		(3,024)
Acquisition of RFG	43		7,183			7,183
Dividend declared to shareholders					(8,131)	(8,131)
Net income attributable to Calavo Growers, Inc.					11,068	11,068
Balance, October 31, 2011	14,770	14	49,929	3,935	41,902	95,780
Exercise of stock options and income tax benefit of \$139	54		930			930
Stock compensation expense			417			417
Unrealized gain on Limoneira investment, net				5,455		5,455
Dividend declared to shareholders					(9,612)	(9,612)
Net income attributable to Calavo Growers, Inc.					17,052	17,052
Balance, October 31, 2012	14,824	\$ 14	\$ 51,276	\$ 9,390	\$ 49,342	\$ 110,022

See accompanying notes to consolidated financial statements.

CALAVO GROWERS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Year Ended October 31,		
	2012	2011	2010
Cash Flows from Operating Activities:			
Net income	\$ 16,947	\$ 10,955	\$ 17,640
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	5,909	4,327	3,368
Provision for losses on accounts receivable	68	64	38
Income from unconsolidated entities	(501)	(557)	(749)
Interest on contingent consideration	128	101	62
Revalue adjustment on contingent consideration	420	(535)	
Stock compensation expense	417	188	52
Loss on disposal of property, plant, and equipment	136	139	
Gain on sale of Maui Fresh International	(519)		
Goodwill impairment on Calavo Salsa Lisa	87		
Deferred income taxes	(818)	1,907	1,332
Effect on cash of changes in operating assets and liabilities:			
Accounts receivable	(2,837)	4,270	(9,353)
Inventories, net	(5,161)	(2,137)	(3,006)
Prepaid expenses and other current assets	(639)	1,936	(2,544)
Advances to suppliers	980	(1,751)	1,025
Income taxes receivable	462	(1,933)	765
Other assets	14	(12)	(25)
Payable to growers	3,394	(4,902)	8,645
Trade accounts payable and accrued expenses	3,236	(4,194)	2,729
Net cash provided by operating activities	21,723	7,866	19,979
Cash Flows from Investing Activities:			
Acquisitions of property, plant, and equipment	(7,749)	(4,826)	(4,767)
Loan to Agricola Belher		(3,000)	
Distribution from unconsolidated entity	288	281	116
Proceeds from sale of Maui Fresh International	300		
Acquisition of Renaissance Food Group, net of cash acquired		(13,362)	
Acquisition of Hawaiian Sweet and Pride, net of cash acquired			(4,500)
Acquisition of Calavo Salsa Lisa, net of cash acquired			(351)
Net cash used in investing activities	(7,161)	(20,907)	(9,502)
Cash Flows from Financing Activities:			
Payment of dividend to shareholders	(8,123)	(8,100)	(7,252)
Proceeds from revolving credit facility, net	2,310	9,710	1,580
Proceeds from issuance of long-term obligations		22,135	
Payments on long-term obligations	(5,237)	(9,871)	(6,766)
Proceeds from stock option exercises	791	213	1,889
Tax benefit of stock option exercises	26	664	261
Net cash provided by (used in) financing activities	(10,233)	14,751	(10,288)
Net increase in cash and cash equivalents	4,329	1,710	189
Cash and cash equivalents, beginning of year	2,774	1,064	875
Cash and cash equivalents, end of year	\$ 7,103	\$ 2,774	\$ 1,064

Edgar Filing: CALAVO GROWERS INC - Form 10-K

Supplemental Information:

Cash paid during the year for:			
Interest	\$ 1,146	\$ 985	\$ 850
Income taxes	\$ 9,274	\$ 6,313	\$ 8,845

Noncash Investing and Financing Activities:

Tax receivable increase related to stock option exercise	\$ 139	\$ 26	\$ 664
Declared dividends payable	\$ 9,612	\$ 8,123	\$ 8,092
Notes receivable issued for sale of Maui Fresh International	\$ 2,204		
Construction in progress included in trade accounts payable and accrued expenses	\$ 28	\$ 36	\$ 32
Collection for Agricola Belher Infrastructure Advance	\$	\$ 1,225	\$ 1,781
Unrealized holding gains (losses)	\$ 8,850	\$ (4,996)	\$ 10,786

In June 2011, we acquired all of the outstanding interest of Renaissance Food Group, LLC (See Note 16). The following table summarizes, fair values of the non-cash assets acquired, liabilities assumed and equity issued at the date of acquisition (in thousands):

At June 1, 2011

Current assets, excluding cash	\$ 9,623
Property, plant, and equipment	4,580
Goodwill	14,264
Other assets	117
Intangible assets	8,690
Total assets acquired	37,274
Current liabilities	(12,292)
Contingent consideration	(7,774)
Long-term obligations	(2,894)
Additional paid-in capital	(952)
Net non-cash assets acquired	\$ 13,362

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

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

At February 8, 2010

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

See accompanying notes to consolidated financial statements.

CALAVO GROWERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of the business

Business

Calavo Growers, Inc. (Calavo, the Company, we, us or our), is a global leader in the avocado industry and an expanding provider of value-added fresh food. Our expertise in marketing and distributing avocados, prepared avocados, and other perishable foods allows us to deliver a wide array of fresh and prepared food products to food distributors, produce wholesalers, supermarkets, and restaurants on a worldwide basis. We procure avocados principally from California, Mexico, and Chile. Through our various operating facilities, we sort, pack, and/or ripen avocados, tomatoes and/or Hawaiian grown papayas. Additionally, we also produce salsa and prepare ready-to-eat produce and deli products.

During the second quarter of 2012, we increased the number of our reportable segments. Renaissance Food Group, LLC (RFG), which was previously included in our Calavo Foods segment, has now been separated as a segment of its own. Accordingly, we now have three reportable operating segments, (1) Fresh products, (2) Calavo Foods, and (3) RFG. Segment results of the prior period have been reclassified to reflect these changes. Beginning with the second quarter of 2012, our Chief Executive Officer reviews our business as having three reportable segments. The change in segments was made as RFG ceased having similar economic characteristics to products included in our Calavo Foods segment.

2. Basis of Presentation and Significant Accounting Policies

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

Our consolidated financial statements include the accounts of Calavo Growers, Inc. and our wholly owned subsidiaries, Calavo de Mexico S.A. de C.V., Calavo Foods de Mexico S.A. de C.V., Calavo Inversiones (Chile) Limitada, Hawaiian Sweet, Inc. (HS) and Hawaiian Pride, LLC (HP). In addition, we consolidate our entity Calavo Salsa Lisa, LLC (CSL), in which we have a 65 percent ownership interest. In addition, we consolidate our newly acquired entity Renaissance Food Group, LLC (RFG). See Note 16 for discussion regarding our acquisition of RFG. All intercompany accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

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

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist primarily of non-trade receivables, infrastructure advances and prepaid expenses. Non-trade receivables were \$5.2 million and \$4.5 million at October 31, 2012 and 2011. Infrastructure advances are discussed below. Prepaid expenses of \$1.2 million and \$0.9 million at October 31, 2012 and 2011, are primarily for insurance, rent and other items.

Inventories

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

Property, Plant, and Equipment

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

We capitalize software development costs for internal use beginning in the application development stage and ending when the asset is placed into service. Costs capitalized include coding and testing activities and various implementation costs. These costs are limited to (1) external direct costs of materials and services consumed in developing or obtaining internal-use computer software; (2) payroll and payroll-related costs for employees who are directly associated with and who devote time to the internal-use computer software project to the extent of the time spent directly on the project; and (3) interest cost incurred while developing internal-use computer software. See Note 4 for further information.

Goodwill and Acquired Intangible Assets

Goodwill is tested for impairment on an annual basis and between annual tests whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill is tested at the reporting unit level, which is defined as an operating segment or one level below the operating segment. Goodwill impairment testing is a two-step process. The first step of the goodwill impairment test, used to identify potential impairment, compares the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired, and the second step of the impairment test would be unnecessary. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test must be performed to measure the amount of impairment loss, if any. The second step of the goodwill impairment test, used to measure the amount of impairment loss, compares the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss must be recognized in an amount equal to that excess. Goodwill impairment testing requires significant judgment and management estimates, including, but not limited to, the determination of (i) the number of reporting units, (ii) the goodwill and other assets and liabilities to be allocated to the reporting units and (iii) the fair values of the reporting units. The estimates and assumptions described above, along with other factors such as discount rates, will significantly affect the outcome of the impairment tests and the amounts of any resulting impairment losses. We performed our annual assessment of goodwill and determined that an impairment of \$0.1 million existed related to the acquisition of CSL. This impairment was a result of less than anticipated sales since acquisition, and a forecast projection analysis with the consultation from a third party consulting firm. The impairment was recorded in cost of goods sold. No other impairments were noted as of October 31, 2012.

The following table reconciles by segment goodwill and the impairment losses recognized for the year ended October 31, 2011 and 2012 (in thousands):

	Fresh products	Calavo Foods	RFG	Total
Goodwill, beginning November 1, 2010	\$ 3,997	\$ 87	\$	\$ 4,084
Goodwill addition from RFG acquisition			14,265	14,265
Goodwill, ending October 31, 2011	3,997	87	14,265	18,349
Calavo Salsa Lisa Goodwill impairment losses		(87)		(87)
Goodwill, October 31, 2012	\$ 3,997	\$	\$ 14,265	\$ 18,262

Long-lived Assets

Long-lived assets, including fixed assets and intangible assets (other than goodwill), are continually monitored and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of any such asset may not be recoverable. The determination of recoverability is based on an estimate of undiscounted cash flows expected to result from the use of an asset and its eventual disposition. The estimate of undiscounted cash flows is based upon, among other things, certain assumptions about future operating performance, growth rates and other factors. Estimates of undiscounted cash flows may differ from actual cash flows due to, among other things, technological changes, economic conditions, changes to the business model or changes in operating performance. If the sum of the undiscounted cash flows (excluding interest) is less than the carrying value, an impairment loss will be recognized, measured as the amount by which the carrying value exceeds the fair value of the asset. We have evaluated our long-lived assets and noted no impairments as of October 31, 2012.

Investments

We account for non-marketable investments using the equity method of accounting if the investment gives us the ability to exercise significant influence over, but not control, an investee. Significant influence generally exists when we have an ownership interest representing between 20% and 50% of the voting stock of the investee. Under the equity method of accounting, investments are stated at initial cost and are adjusted for subsequent additional investments and our proportionate share of earnings or losses and distributions.

Edgar Filing: CALAVO GROWERS INC - Form 10-K

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

On October 31, 2012, we entered into a Sale of LLC Interest Agreement with SRD, pursuant to which the Company agreed to sell to SRD all of our interest, representing one-half ownership, in Maui Fresh for \$2.6 million. This transaction resulted in a gain on sale of approximately \$0.5 million. See Note 17 for further information about the sale of Maui Fresh.

In June 2009, we (through our wholly owned subsidiary: Calavo Inversiones (Chile) Limitada) entered into a joint venture agreement with Exportadora M5, S.A. (M5) for the purpose of selling and distributing Chilean sourced avocados. Such joint venture operates under the name of Calavo de Chile and commenced operations in July 2009. M5 and Calavo each have an equal one-half ownership interest in Calavo de Chile, but M5 has overall management responsibility for the operations of Calavo De Chile. We use the equity method to account for this investment.

Marketable Securities

Our marketable securities consist of our investment in Limoneira Company (Limoneira) stock. We currently own approximately 15% of Limoneira's outstanding common stock. These securities are carried at fair value as determined from quoted market prices. The estimated fair value, cost, and gross unrealized gain related to such investment was \$38.8 million, \$23.5 million and \$15.3 million as of October 31, 2012. The estimated fair value, cost, and gross unrealized gain related to such investment was \$30.0 million, \$23.5 million and \$6.5 million as of October 31, 2011.

Advances to Suppliers

We advance funds to third-party growers primarily in Chile and Mexico for various farming needs. Typically, we obtain collateral (i.e. fruit, fixed assets, etc.) that approximates the value at risk, prior to making such advances. We continuously evaluate the ability of these growers to repay advances in order to evaluate the possible need to record an allowance. No such allowance was required at October 31, 2012, nor October 31, 2011.

Pursuant to our distribution agreement, which was amended in fiscal 2011, with Agricola Belher (Belher) of Mexico, a producer of fresh vegetables, primarily tomatoes, for export to the U.S. market, Belher agreed, at their sole cost and expense, to harvest, pack, export, ship, and deliver tomatoes exclusively to our company, primarily our Arizona facility. In exchange, we agreed to sell and distribute such tomatoes, make advances to Belher for operating purposes, provide additional advances as shipments are made during the season (subject to limitations, as defined), and return the proceeds from such tomato sales to Belher, net of our commission and aforementioned advances. Pursuant to such amended agreement with Belher, we advanced Belher a total of \$3.0 million, up from \$2.0 million in the original agreement, during fiscal 2011. Additionally, the amended agreement calls for us to continue to advance \$3.0 million per annum for operating purposes through 2019. These advances will be collected through settlements by the end of each year. As of October 31, 2012 and 2011, we have total advances of \$2.1 million and \$3.0 million to Belher pursuant to this agreement, which is recorded in advances to suppliers.

Infrastructure Advances

Pursuant to our infrastructure agreement, we make advances to be used solely for the acquisition, construction, and installation of improvements to and on certain land owned/controlled by Belher, as well as packing line equipment. Advances incur interest at 4.7% at October 31, 2012 and 2011. Pursuant to the revised/amended agreement discussed above, we advanced Belher \$3.0 million during fiscal 2011, which was used to build 47 hectares (approximately 116 acres) of shade-cloth/green house construction. As of October 31, 2012 and 2011, we have advanced a total of \$4.2 million (\$0.8 million included in prepaid expenses and other current assets and \$3.4 million included in other long-term assets). Belher is to annually repay these advances in no less than 20% increments through July 2016. Interest is to be paid monthly or annually, as defined. Belher may prepay, without penalty, all or any portion of the advances at any time. Based on an unusually poor tomato season, Belher did not make a payment in fiscal 2012 pursuant to such agreement. Both parties agreed to defer such payment until 2013. In order to secure their obligations pursuant to both agreements discussed above, Belher granted us a first-priority security interest in certain assets, including cash, inventory and fixed assets, as defined.

Accrued Expenses

Included in accrued expenses at October 31, 2012 and 2011 are unvoiced receipts of approximately \$3.1 million and \$4.1 million.

Revenue Recognition

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

Shipping and Handling

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

Promotional Allowances

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

Allowance for Accounts Receivable

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

Consignment Arrangements

We frequently enter into consignment arrangements with avocado, pineapple and tomato growers and packers located outside of the United States and growers of certain perishable products in the United States. Although we generally do not take legal title to these avocados and perishable products, we do assume responsibilities (principally assuming credit risk, inventory loss and delivery risk, and limited pricing risk) that are consistent with acting as a principal in the transaction. Accordingly, the accompanying financial statements include sales and cost of sales from the sale of avocados and perishable products procured under consignment arrangements. Amounts recorded for each of the fiscal years ended October 31, 2012, 2011 and 2010 in the financial statements pursuant to consignment arrangements are as follows (in thousands):

	2012	2011	2010
Sales	\$ 28,297	\$ 38,327	\$ 54,736
Cost of Sales	25,893	34,859	48,713
Gross Margin	\$ 2,404	\$ 3,468	\$ 6,023

Advertising Expense

Advertising costs are expensed when incurred. Such costs in fiscal 2012 were approximately \$0.2 million. For fiscal 2011 and 2010, such costs were approximately \$0.1 million.

Other Income, Net

Included in other income, net is dividend income totaling \$0.4 million, \$0.3 million and \$0.3 million for fiscal years 2012, 2011, and 2010. See Note 9 for related party disclosure related to other income.

Use of Estimates

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

Income Taxes

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

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

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

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

Basic and Diluted Net Income per Share

Basic earnings per share is calculated using the weighted-average number of common shares outstanding during the period without consideration of the dilutive effect of stock options. The basic weighted-average number of common shares outstanding was 14,786,000, 14,743,000, and 14,610,000 for fiscal years 2012, 2011, and 2010. Diluted earnings per common share is calculated using the weighted-average number of common shares outstanding during the period after consideration of the dilutive effect of stock options, which were 28,000, 8,000, and 9,000 for fiscal years 2012, 2011 and 2010. There were no anti-dilutive options for fiscal years 2012, 2011 and 2010.

Stock-Based Compensation

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

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

We measure the fair value of our stock option awards on the date of grant. No options were granted in fiscal year 2012. The following assumptions were used in the estimated grant date fair value calculations for stock options issued in 2011 and 2010:

	2011	2010
Risk-free interest rate	0.96% - 1.40%	1.70%
Expected volatility	32.63% - 60.00%	47.37%
Dividend yield	2.5%	2.5%
Expected life (years)	1.5 - 4.0	4.0

For the years ended October 31, 2012, 2011 and 2010, we recognized compensation expense of \$417,000, \$188,000, and \$52,000 related to stock-based compensation. See Note 13 for further information.

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

The Black-Scholes-Merton and lattice-based option valuation models were developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. Because options held by our directors and employees have characteristics significantly different from those of traded options, in our opinion, the existing models do not necessarily provide a reliable single measure of the fair value of these options.

Foreign Currency Translation and Remeasurement

Our foreign operations are subject to exchange rate fluctuations and foreign currency transaction costs. The functional currency of our foreign subsidiaries is the United States dollar. As a result, monetary assets and liabilities are translated into U.S. dollars at exchange rates as of the balance sheet date and non-monetary assets, liabilities and equity are translated at historical rates. Sales and expenses are translated using a weighted-average exchange rate for the period. Gains and losses resulting from those remeasurements are included in income. Gains and losses resulting from foreign currency transactions are also recognized currently in income. Total foreign currency gains for fiscal 2012, net of losses, was \$0.1 million. Total foreign currency losses for fiscal 2011, net of gains, was less than \$0.1 million. Total foreign currency losses for fiscal 2010, net of gains was \$0.1 million.

Fair Value of Financial Instruments

We believe that the carrying amounts of cash and cash equivalents, accounts receivable, and accounts payable approximates fair value based on either their short-term nature or on terms currently available to the Company in financial markets. We believe that our fixed-rate long-term obligations have a fair value of approximately \$18.8 million as of October 31, 2012, with a corresponding carrying value of approximately \$18.5 million.

Derivative Financial Instruments

Except as disclosed with the acquisition of Calavo Salsa Lisa, we were not a party to any derivative instruments during the fiscal year 2012. It is currently our intent not to use derivative instruments for speculative or trading purposes. Additionally, we do not use any hedging or forward contracts to offset market volatility.

Recently Adopted Accounting Pronouncements

In December 2010, the FASB issued an update to modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. The qualitative factors are consistent with the existing guidance, which requires that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The adoption of this accounting guidance did not have a material impact on our financial statements.

Recently Issued Accounting Standards

In June 2011, the FASB issued guidance regarding the presentation of comprehensive income. The new standard requires the presentation of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The new standard also requires presentation of adjustments for items that are reclassified from other comprehensive income to net income in the statement where the components of net income and the components of other comprehensive income are presented. The updated guidance is effective on a retrospective basis for financial statements issued for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. The adoption of this standard will have no impact on our financial statements.

In December 2011, the FASB issued guidance to defer the effective date for those aspects relating to the presentation of reclassification adjustments out of accumulated other comprehensive income. The adoption of this standard will have no impact on our financial statements.

In May 2011, the FASB issued additional guidance on fair value measurements that clarifies the application of existing guidance and disclosure requirements, changes certain fair value measurement principles and requires additional disclosures about fair value measurements. The updated guidance is effective on a prospective basis for financial statements issued for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. The adoption of this guidance will not have a material impact on our financial statements.

In July 2012, the FASB issued additional guidance to simplify the assessment of testing the impairment of indefinite-lived intangible assets other than goodwill and will become effective for fiscal years beginning after September 15, 2012. The amended guidance allows us to do an initial qualitative assessment to determine whether it is more likely than not that the fair value of its indefinite-lived intangible assets are less than their carrying amounts prior to performing the quantitative indefinite-lived intangible asset impairment test. The adoption of this amendment will not have a material effect on our financial statements.

Comprehensive Income (Loss)

Comprehensive income (loss) is defined as all changes in a company's net assets, except changes resulting from transactions with shareholders. For the fiscal year ended October 31, 2012, other comprehensive income includes the unrealized gain on our Limoneira investment totaling \$5.5 million, net of income taxes. Limoneira's stock price at October 31, 2012 equaled \$22.47 per share. For the fiscal year ended October 31, 2011, other comprehensive income includes the unrealized loss on our Limoneira investment totaling \$3.0 million, net of income taxes. Limoneira's stock price at October 31, 2011 equaled \$17.35 per share. For the fiscal year ended October 31, 2010, other comprehensive income includes the unrealized gain on our Limoneira investment totaling \$6.5 million, net of income taxes. Limoneira's stock price at October 31, 2010 equaled \$20.24 per share, after a 10 for 1 stock split in the second quarter of fiscal year 2010.

Noncontrolling Interest

On February 8, 2010, Calavo, Calavo Salsa Lisa, LLC (CSL), Lisa's Salsa Company (LSC) and Elizabeth Nicholson and Eric Nicholson, entered into an Asset Purchase and Contribution Agreement, dated February 8, 2010, which sets forth the terms and conditions pursuant to which Calavo acquired a 65 percent ownership interest in CSL. Elizabeth Nicholson and Eric Nicholson, through LSC, hold the remaining 35 percent ownership of CSL. This purchase agreement created noncontrolling interest for the 35 percent ownership that LSC has for CSL.

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

	Year ended October 31, 2012	Year ended October 31, 2011
Noncontrolling interest, beginning	\$ 462	\$ 575
Net loss attributable to noncontrolling interest	(105)	(113)
Noncontrolling interest, ending	\$ 357	\$ 462

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):

	October 31,	
	2012	2011
Fresh fruit	\$ 10,776	\$ 6,588
Packing supplies and ingredients	7,294	5,610
Finished prepared foods	4,878	5,589
	\$ 22,948	\$ 17,787

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

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

We did not record any lower of cost or market adjustments during fiscal years 2012 and 2011.

4. Property, Plant, and Equipment

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

	October 31,	
	2012	2011
Land	\$ 7,023	\$ 7,023
Buildings and improvements	19,756	18,279
Leasehold improvements	1,395	1,315
Equipment	46,980	50,511
Information systems hardware and software	8,346	4,479
Construction in progress	512	4,426
	84,012	86,033
Less accumulated depreciation and amortization	(33,450)	(38,942)
	\$ 50,562	\$ 47,091

Depreciation expense was \$4.2 million, \$3.2 million and \$2.8 million for fiscal years 2012, 2011, and 2010, of which \$0.6 million was related to depreciation on capital leases for fiscal year 2012. Depreciation related to capital leases were \$0.2 million for fiscal years 2011, and 2010.

We capitalize software development costs for internal use beginning in the application development stage and ending when the asset is placed into service. We amortize such costs using the straight-line basis over estimated useful lives. Beginning in fiscal year 2010, we began the process of converting to a new accounting software system, which is recorded into construction in progress. The total capitalized computer software costs related to this new accounting software system was \$3.3 million, \$2.3 million and \$1.7 million as of October 31, 2012, 2011 and 2010. At October 31, 2012 we have significantly completed our conversion to our new accounting software.

5. Other Assets

Other assets consist of the following (in thousands):

	October 31, 2012	October 31, 2011
Intangibles, net	\$ 9,328	\$ 10,771
Grower advances	1,234	1,531
Loan to Agricola Belher	3,380	3,380
Notes receivable from San Rafael	1,873	
Other	427	440
	\$ 16,242	\$ 16,122

On October 31, 2012, we entered into a Sale Agreement with San Rafael, pursuant to which the Company has agreed to sell to San Rafael all of our interest, representing one-half ownership, in Maui Fresh International for \$2.6 million. See Note 17 for further information regarding the sale of Maui Fresh.

The intangible assets consist of the following (in thousands):

	Weighted- Average Useful Life	October 31, 2012			October 31, 2011		
		Gross Carrying Value	Accum. Amortization	Net Book Value	Gross Carrying Value	Accum. Amortization	Net Book Value
Customer list/relationships	8.0 years	\$ 7,640	\$ (1,405)	\$ 6,235	\$ 7,640	\$ (445)	\$ 7,195
Trade names	8.4 years	3,009	(1,489)	1,520	3,009	(1,207)	1,802
Trade secrets/recipes	11.9 years	1,520	(366)	1,154	1,520	(205)	1,315
Brand name intangibles	indefinite	275		275	275		275
Non-competition agreements	5.0 years	267	(123)	144	267	(83)	184
Intangibles, net		\$ 12,711	\$ (3,383)	\$ 9,328	\$ 12,711	\$ (1,940)	\$ 10,771

We recorded amortization expense of approximately \$1.4 million, \$0.8 million, and \$0.3 million for fiscal years 2012, 2011, and 2010. We anticipate recording amortization expense of approximately \$1.4 million for each of the fiscal years 2013 through 2015. We anticipate recording amortization expense of approximately \$1.3 million for fiscal year 2016. We anticipate recording amortization expense of approximately \$1.2 million for fiscal year 2017. The remainder of approximately \$2.3 million will be amortized over fiscal years 2018 through 2023. See Note 16 for discussion regarding our acquisition of Renaissance Food Group, LLC.

6. Revolving Credit Facilities

Effective May 31, 2011, the Company and Farm Credit West, PCA (FCW), entered into a Term Revolving Credit Agreement (Revolving Agreement). Under the terms of the Revolving Agreement, we are advanced funds for working capital purposes, the purchase and installation of capital items, as well as other corporate needs of the Company. Total credit available under the borrowing agreement is \$40 million, up from \$30 million, and expires on February 1, 2016. This increase was at our request and not due to any immediate cash flows needs.

Effective September 30, 2011, the Company and Bank of America, N.A. (BoA), entered into an agreement, Amendment No. 4 to Loan Agreement (the Agreement), which amended our existing credit facility with BoA. Under the terms of the Agreement, we are advanced funds primarily for working capital purposes. Total credit available under the borrowing agreement is now \$25 million, up from \$15 million and now expires on February 1, 2016. This increase was at our request and not due to any immediate cash flows needs.

Under the terms of these agreements, we are advanced funds for both working capital and long-term productive asset purchases. Total credit available under these combined borrowing agreements was \$65 million, with a weighted-average interest rate of 1.8% and 1.6% at October 31,

Edgar Filing: CALAVO GROWERS INC - Form 10-K

2012 and 2011. Under these credit facilities, we had \$20.2 million and \$17.9 million outstanding as October 31, 2012 and 2011. These credit facilities contain various financial covenants, the most significant relating to Tangible Net Worth (as defined), Current Ratio (as defined), and Fixed Charge Coverage Ratio (as defined). We were in compliance with all such covenants at October 31, 2012.

7. Employee Benefit Plans

We sponsor two defined contribution retirement plans for salaried and hourly employees. As a result of the acquisition of RFG, we have three additional defined contribution retirement plans bringing the total to five. Expenses for these plans approximated \$810,000, \$733,000, and \$639,000 for fiscal years 2012, 2011 and 2010, which are included in selling, general and administrative expenses in the accompanying financial statements.

We also sponsor a non-qualified defined benefit plan for two retired executives. Pension expenses, including actuarial losses, approximated \$16,000, \$35,000 and \$34,000 for the year ended October 31, 2012, 2011, and 2010. These amounts are included in selling, general and administrative expenses in the accompanying financial statements.

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

	2012	2011
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ 268	\$ 275
Interest cost	10	13
Actuarial loss	6	22
Benefits paid	(39)	(42)
Projected benefit obligation at end of year (unfunded)	\$ 245	\$ 268

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

	2012	2011
Projected benefit obligation	\$ 245	\$ 268
Unrecognized net (gain) loss		
Recorded pension liabilities	\$ 245	\$ 268

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

	2012	2011
Discount rate on projected benefit obligation	3.70%	4.00%

8. Commitments and Contingencies*Commitments and guarantees*

We lease facilities and certain equipment under non-cancelable operating leases expiring at various dates through 2021. We are committed to make minimum cash payments under these agreements as of October 31, 2012, as follows (in thousands):

2013	\$ 2,656
2014	2,589
2015	2,458
2016	1,994
2017	1,920
Thereafter	5,593

Total rent expense amounted to approximately \$3.0 million, \$2.1 million and \$1.7 million for the years ended October 31, 2012, 2011, and 2010. Rent to Limoneira, for our corporate office, amounted to approximately \$0.3 million for fiscal years 2012 and 2011. For the fiscal year 2010, rent to Limoneira amounted to approximately \$0.2 million. We are committed to rent our corporate facility through fiscal 2015 at an annual rental of \$0.3 million per annum (subject to annual CPI increases, as defined).

Through the acquisition of RFG in June 2011, we have two additional facilities in California, one being the corporate office of RFG in Rancho Cordova, and the other being a fresh processing facility in Sacramento. RFG also has one other fresh processing facility in Houston, Texas. Both facilities process cut fruits and vegetables, salads, sandwiches, and wraps. The RFG corporate office in Rancho Cordova has an operating lease through September 2015. Total rent for fiscal 2012 was approximately \$0.3 million. Total rent for fiscal 2011 was approximately \$0.1 million. The processing facility in Sacramento has an operating lease through May 2021.

Total rent for fiscal 2012 was approximately \$0.5 million. Total rent for fiscal 2011 was approximately \$0.2 million. The processing facility in Houston has an operating lease through May 2021. Total rent for fiscal 2012 was approximately \$0.3 million. Total rent for fiscal 2011 was approximately \$0.1 million.

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

Litigation

Hacienda Suits During the fourth quarter of fiscal 2012, we won our appeal related to the examination of the tax year ended December 31, 2005. Based on discussions with our legal counsel, we believe this examination is complete, resulting in no impact on our financial statements.

As previously disclosed, during the third quarter of fiscal year 2012, we received an update from our outside legal counsel regarding the Hacienda's examination of the tax year ended December 31, 2004. The appellate court, via a second resolution, upheld the lower court's decision on two outstanding tax assessments from the Hacienda for which we had previously received unfavorable rulings. Management, as well as our outside legal counsel, still believes the company's position was correct.

Based on discussions with our outside legal counsel in Mexico, we did not believe it was likely that we would be able to appeal this decision any further (i.e. to the Mexican Supreme Court). As such, we were forced to pay an assessment. The total net assessment related to these allegations was approximately \$1.8 million, which has been recorded as income tax expense for the year ended October 31, 2012. The payment related to this tax assessment was paid during our third fiscal quarter.

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

9. Related-Party Transactions

Certain members of our Board of Directors market avocados through Calavo pursuant to marketing agreements substantially similar to the marketing agreements that we enter into with other growers. During the years ended October 31, 2012, 2011, and 2010, the aggregate amount of avocados procured from entities owned or controlled by members of our Board of Directors was \$21.1 million, \$18.6 million and \$23.9 million. Accounts payable to these Board members was \$0.9 million and \$0.1 million as of October 31, 2012, and 2011.

During fiscal 2012, 2011 and 2010, we received \$0.2 million as dividend income from Limoneira.

The three previous owners and current executives of RFG have a majority ownership of certain entities that provide various services to RFG. RFG's California operating facility leases a building from LIG partners, LLC (LIG) pursuant to an operating lease. LIG is majority owned by an entity owned by such three executives of RFG. For the year ended October 31, 2012 and 2011, since the acquisition of RFG, total rent paid to LIG was \$0.5 million and \$0.2 million. RFG's Texas operating facility leases a building from THNC, LLC (THNC) pursuant to an operating lease. THNC is majority owned by an entity owned by such three executives of RFG. For the year ended October 31, 2012, total rent paid to THNC was \$0.1 million. Additionally, RFG sells cut produce and purchases raw materials, obtains transportation services, and shares costs for certain utilities with Third Coast Fresh Distribution (Third Coast). Third Coast is majority owned by an entity owned by such three executives of RFG. For the year ended October 31, 2012 and 2011, total sales made to Third Coast were \$2.7 million and \$1.1 million. For the year ended October 31, 2012 and 2011, total purchases made from Third Coast were \$1.6 million and \$0.4 million. Amounts due from Third Coast were \$0.8 million and \$0.3 million as of October 31, 2012 and 2011. Amounts due to Third Coast were \$0.1 million and \$0.2 million as of October 31, 2012 and 2011.

10. Income Taxes

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

	2012	2011	2010
Current:			
Federal	\$ 8,212	\$ 4,405	\$ 7,988
State	1,233	1,107	1,868
Foreign	2,428	(170)	153
Total current	11,873	5,342	10,009
Deferred:			
Federal	(214)	1,277	1,157
State	(559)	208	277
Foreign	(45)	422	(104)
Total deferred	(818)	1,907	1,332
Total income tax provision	\$ 11,055	\$ 7,249	\$ 11,341

At October 31, 2012 and 2011, gross deferred tax assets totaled approximately \$3.6 million and \$2.7 million, while gross deferred tax liabilities totaled approximately \$12.1 million and \$8.8 million. Deferred income taxes reflect the net of temporary differences between the carrying amount of assets and liabilities for financial reporting and income tax purposes.

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

	2012	2011
Allowances for accounts receivable	\$ 714	\$ 564
Inventories	483	435
State taxes	350	276
Accrued liabilities	675	861
Current deferred income taxes	\$ 2,222	\$ 2,136
Property, plant, and equipment	(5,604)	(5,258)
Intangible assets	105	(312)
Unrealized gain, Limoneira investment	(6,008)	(2,614)
Stock-based compensation	286	183
State taxes	546	
Other	10	(1)
Long-term deferred income taxes	\$ (10,665)	\$ (8,002)

A reconciliation of the significant differences between the federal statutory income tax rate and the effective income tax rate on pretax income for the years ended October 31, is as follows:

	2012	2011	2010
Federal statutory tax rate	35.0%	35.0%	35.0%
State taxes, net of federal effects	1.7	4.8	4.8

Edgar Filing: CALAVO GROWERS INC - Form 10-K

Foreign income taxes greater (less) than U.S.	(2.7)	(0.9)	(0.9)
Hacienda assessment	6.3		
Other	(0.8)	0.9	0.2
	39.5%	39.8%	39.1%

We intend to reinvest our accumulated foreign earnings, which approximated \$8.9 million at October 31, 2012, indefinitely. As a result, we have not provided any deferred income taxes on such unremitted earnings. For fiscal years 2012, 2011 and 2010, income before income taxes related to domestic operations was approximately \$24.2 million, \$17.1 million, and \$28.3 million. For fiscal years 2012, 2011 and 2010, income before income taxes related to foreign operations was approximately \$3.8 million, \$1.1 million and \$0.7 million.

As of October 31, 2012, we did not have a liability for unrecognized tax benefits related to various federal and state income tax matters. As of October 31, 2011, we provided a liability less than \$0.1 million for unrecognized tax benefits related to various federal and state income tax matters. The tax effected amount would reduce our effective income tax rate if recognized.

Edgar Filing: CALAVO GROWERS INC - Form 10-K

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

Balance at November 1, 2010	\$ 103
Reductions of tax positions from prior years	(62)
Balance at October 31, 2011	41
Reductions of tax positions from prior years	(41)
Balance at October 31, 2012	\$

As previously disclosed, during the third quarter of fiscal year 2012, we received an update from our outside legal counsel regarding the Hacienda's examination of the tax year ended December 31, 2004. The appellate court, via a second resolution, upheld the lower court's decision on two outstanding tax assessments from the Hacienda for which we had previously received unfavorable rulings. Management, as well as our outside legal counsel, still believes the company's position was correct.

Based on discussions with our outside legal counsel in Mexico, however, we did not believe we would be able to appeal this decision any further (i.e. to the Mexican Supreme Court) and, as a result, were forced to pay an assessment. The income tax assessment related to these allegations amounted to \$1.8 million. The payment related to this tax assessment was paid during our third fiscal quarter. This has the effect of increasing our effective income tax rate for fiscal 2012.

Substantially offsetting the impact of this assessment on our tax provision are tax benefits recognized due to a shift of income between taxing jurisdictions, tax credits received through California's Enterprise Zone Hiring Credit Program (EZC) and an increase in the Section 199 deduction. We expect to continue to receive tax benefits related to the shift of income between taxing jurisdictions, as well as the EZC credits, during fiscal 2013.

The effective income tax rate for fiscal years 2011, and 2010 is higher than the federal statutory rate principally due to state and foreign taxes.

11. Segment Information

As discussed in footnote 1, we now report our operations in three different business segments: (1) Fresh products, (2) Calavo Foods, and (3) RFG. These three business segments are presented based on how information is used by our Chief Executive Officer to measure performance and allocate resources. The Fresh products segment includes all operations that involve the distribution of avocados and other fresh produce products. The Calavo Foods segment represents all operations related to the purchase, manufacturing, and distribution of prepared products, including guacamole, tortilla chips and salsa. The RFG segment represents all operations related to the manufacturing and distribution of fresh-cut fruit, ready-to-eat vegetables, recipe-ready vegetables and deli meat products. Selling, general and administrative expenses, as well as other non-operating income/expense items, are evaluated by our Chief Executive Officer in the aggregate. We do not allocate assets, or specifically identify them to, our operating segments.

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

	Fresh products	Calavo Foods	RFG	Total
	(All amounts are presented in thousands)			
Year ended October 31, 2012				
Net sales	\$ 350,582	\$ 46,424	\$ 154,113	\$ 551,119
Cost of sales	316,287	32,422	141,744	490,453
Gross margin	\$ 34,295	\$ 14,002	\$ 12,369	\$ 60,666
Year ended October 31, 2011⁽¹⁾				
Net sales	\$ 420,658	\$ 45,151	\$ 56,720	\$ 522,529
Cost of sales	389,371	38,403	52,447	480,221

Edgar Filing: CALAVO GROWERS INC - Form 10-K

Gross margin	\$ 31,287	\$ 6,748	\$ 4,273	\$ 42,308
Year ended October 31, 2010				
Net sales	\$ 348,052	\$ 50,299	\$	\$ 398,351
Cost of sales	309,609	37,212		346,821
Gross margin	\$ 38,443	\$ 13,087	\$	\$ 51,530

(1) As the acquisition for RFG was completed on June 1, 2011, only five months are included in prior year ended October 31, 2011.

Edgar Filing: CALAVO GROWERS INC - Form 10-K

For fiscal years 2012, 2011 and 2010, inter-segment sales and cost of sales of \$33.8 million, \$27.0 million, and \$21.1 million were eliminated in consolidation.

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

	Year ended October 31, 2012				Year ended October 31, 2011			
	Fresh products	Calavo Foods	RFG	Total	Fresh products	Calavo Foods	RFG ⁽¹⁾	Total
Third-party sales:								
Avocados	\$ 318,556	\$	\$	\$ 318,556	\$ 376,980	\$	\$	\$ 376,980
Tomatoes	11,404			11,404	23,903			23,903
Papayas	12,753			12,753	13,245			13,245
Pineapples	6,840			6,840	4,278			4,278
Other fresh products	1,788			1,788	3,276			3,276
Food service		36,289		36,289		37,431		37,431
Retail and club		19,758	157,333	177,091		17,204	58,020	75,224
Total gross sales	351,341	56,047	157,333	564,721	421,682	54,635	58,020	534,337
Less sales incentives	(759)	(9,623)	(3,220)	(13,602)	(1,024)	(9,484)	(1,300)	(11,808)
Net sales	\$ 350,582	\$ 46,424	\$ 154,113	\$ 551,119	\$ 420,658	\$ 45,151	\$ 56,720	\$ 522,529

(1) As the acquisition for RFG was completed on June 1, 2011, only five months are included in prior year ended October 31, 2011.

	Year ended October 31, 2011				Year ended October 31, 2010			
	Fresh products	Calavo Foods	RFG ⁽¹⁾	Total	Fresh products	Calavo Foods	RFG	Total
Third-party sales:								
Avocados	\$ 376,980	\$	\$	\$ 376,980	\$ 288,814	\$	\$	\$ 288,814
Tomatoes	23,903			23,903	41,595			41,595
Papayas	13,245			13,245	11,278			11,278
Pineapples	4,278			4,278	3,838			3,838
Other fresh products	3,276			3,276	3,617			3,617
Food service		37,431		37,431		40,654		40,654
Retail and club		17,204	58,020	75,224		17,473		17,473
Total gross sales	421,682	54,635	58,020	534,337	349,142	58,127		407,269
Less sales incentives	(1,024)	(9,484)	(1,300)	(11,808)	(1,090)	(7,828)		(8,918)
Net sales	\$ 420,658	\$ 45,151	\$ 56,720	\$ 522,529	\$ 348,052	\$ 50,299	\$	\$ 398,351

(1) As the acquisition for RFG was completed on June 1, 2011, only five months are included in prior year ended October 31, 2011.

Net sales to third parties by segment exclude inter-segment sales and cost of sales. For fiscal years 2012, 2011, and 2010, inter-segment sales and cost of sales for Fresh products totaling \$22.2 million, \$15.8 million and \$11.7 million were eliminated. For fiscal years 2012, 2011, and 2010, inter-segment sales and cost of sales for Calavo Foods totaling \$11.6 million, \$11.2 million, and \$9.5 million were eliminated.

Sales to customers outside the United States were approximately \$28.8 million, \$24.3 million and \$24.3 million for fiscal years 2012, 2011, and 2010.

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

Edgar Filing: CALAVO GROWERS INC - Form 10-K

	United States	Mexico	Consolidated
2012	\$ 29,893	\$ 20,669	\$ 50,562
2011	\$ 30,494	\$ 16,597	\$ 47,091

12. Long-Term Obligations

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

	2012	2011
Farm Credit West, PCA, (FCW) term loan, bearing interest at 1.7%	\$ 5,509	\$ 7,012
Bank of America, N.A. (BoA) term loan, bearing interest at 1.7%	5,606	7,135
FCW, term loan, bearing interest at 5.7%	3,900	5,200
Capital leases	3,440	4,345
	18,455	23,692
Less current portion	(5,416)	(5,448)
	\$ 13,039	\$ 18,244

See Note 16 for discussion regarding our acquisition of RFG. In conjunction with such acquisition, the Company and FCW entered into a Term Loan Agreement (Term Agreement), effective May 31, 2011. Under the terms of the Term Agreement, we were advanced \$15 million for the purchase of RFG. Pursuant to this agreement, we are required to make 60 monthly principal and interest payments, from July 1, 2011 to June 1, 2016. There is no prepayment penalty associated with this Term Agreement.

This Term Agreement also replaces in its entirety the original Term Loan Agreement dated June 1, 2005 by and between the Company and FCW. There was no significant change in terms between the original Term Loan Agreement and this new agreement.

Effective September 30, 2011, the Company and Bank of America, N.A. (BoA), entered into an agreement, Amendment No. 4 to Loan Agreement (the Agreement), which amended our existing credit facility with BoA. This agreement included a variable rate term loan in the amount of approximately \$7.1 million. These proceeds were used to retire approximately 50% of the outstanding balance (as of September 30, 2011) of the term loan owed to FCW related to the purchase of RFG (see above). This effectively split the funding of the amounts due at closing for that acquisition between both banks. The credit facility and term loan contain various financial covenants, the most significant relating to Tangible Net Worth (as defined), Fixed Charge Coverage Ratio (as defined) and Current Ratio (as defined).

In conjunction with the purchase of RFG, we assumed various capital leases related to machinery and equipment. These leases bear interest at a weighted average interest rate of approximately 4.0%. The total obligation acquired related to these capital leases were \$4.0 million, with \$1.1 million being classified as in the current portion.

At October 31, 2012, annual debt payments are scheduled as follows (in thousands):

	Total
Year ending October 31:	
2013	\$ 5,416
2014	5,415
2015	4,940
2016	2,134
2017	108
Thereafter	442
	\$ 18,455

13. Stock-Based Compensation
The Employee Stock Purchase Plan

Edgar Filing: CALAVO GROWERS INC - Form 10-K

The employee stock purchase plan was approved by our Board of Directors and shareholders. Participation in the employee stock purchase plan is limited to employees. The plan provides the Board of Directors, or a plan administrator, the right to make available up to 2,000,000 shares of common stock at a price not less than fair market value. In March 2002, the Board of Directors awarded selected employees the opportunity to purchase up to 474,000 shares of common stock at \$7.00 per share, the closing price of our common stock on the date prior to the grant. The plan also permits us to advance all or some of the purchase price of the purchased stock to the employee upon the execution of a full-recourse note at prevailing interest rates. These awards expired in April 2002, with 84 participating employees electing to purchase approximately 279,000 shares. There was no activity related to such plan since this award.

The 2005 Stock Incentive Plan

The 2005 Stock Incentive Plan, was a stock-based compensation plan, under which employees and directors may be granted options to purchase shares of our common stock. In June 2012, this plan has been terminated without affecting the outstanding stock options related to this plan.

Stock options were granted with exercise prices of not less than the fair market value at grant date, generally vested over one to five years and generally expired two to five years after the grant date. We settle stock option exercises with newly issued shares of common stock.

We measured compensation cost for all stock-based awards pursuant to this plan at fair value on the date of grant and recognize compensation expense in our consolidated statements of operations over the service period that the awards are expected to vest. We measured the fair value of our stock based compensation awards on the date of grant.

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

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Fair-Value	Aggregate Intrinsic Value
Outstanding at October 31, 2009	284	\$ 10.23		
Granted	10	\$ 19.20	\$ 6.36/share	
Exercised	(207)	\$ 9.13		
Outstanding at October 31, 2010	87	\$ 13.89		
Exercised	(15)	\$ 14.58		
Outstanding at October 31, 2011	72	\$ 13.75		
Exercised	(37)	\$ 13.54		
Outstanding at October 31, 2012	35	\$ 15.16		\$ 824
Exercisable at October 31, 2012	13	\$ 18.37		\$ 313

The weighted average remaining life of such outstanding options is 5.2 years and the total intrinsic value of options exercised during fiscal 2012 was \$0.4 million. The weighted average remaining life of such exercisable options is 4.1 years. The fair value of shares vested during the year ended October 31, 2012, 2011, and 2010 was approximately \$0.3 million, \$0.7 million, and \$0.7 million.

The total compensation cost for stock option grants not yet recognized as of October 31, 2012 was approximately \$0.1 million, which will be recognized over the remaining service periods of 45 months.

The 2011 Management Incentive Plan

In April 2011, our shareholders approved the Calavo Growers, Inc. 2011 Management Incentive Plan (the 2011 Plan). All directors, officers, employees and consultants (including prospective directors, officers, employees and consultants) of Calavo and its subsidiaries are eligible to receive awards under the 2011 Plan. Up to 1,500,000 shares of common stock may be issued by Calavo under the 2011 Plan. As a result of such new plan, no new awards will be made under our 2005 Stock Incentive Plan.

In April 2011, our Board of Directors approved the issuance of options to acquire a total of 60,000 shares of our common stock to our board of directors. Each non-employee director was granted 5,000 shares of options at \$21.82 per share. Such grant vested over a one-year period. Vested options have a term of one year from the vesting date. The market price of our common stock at the grant date was \$21.82. The estimated fair market value of such option grant was approximately \$0.2 million, which has been recorded as compensation expense of \$0.1 million in both fiscal 2011 and fiscal 2012.

In October 2011, our Board of Directors approved the issuance of options to acquire a total of 10,000 shares of our common stock by one member of our Board of Directors. Such grant vests in equal increments over a five-year period and has an exercise price of \$21.80 per share. Vested options have a term of five years from the vesting date. The market price of our common stock at the grant date was \$21.80. The estimated fair market value of such option grant was approximately \$0.1 million. The total compensation cost not yet recognized as of

Edgar Filing: CALAVO GROWERS INC - Form 10-K

October 31, 2012 was approximately \$0.1 million, which will be recognized over the remaining service period of 60 months.

Edgar Filing: CALAVO GROWERS INC - Form 10-K

On January 26, 2012, all 12 of our non-employee directors were granted 1,000 restricted shares each (total of 12,000 shares). These shares have full voting rights and participate in dividends as if unrestricted. The closing price of our stock on such date was \$27.68. This grant of restricted stock incurred \$0.2 million in stock compensation expenses in fiscal 2012. As of January 2013, 11,000 shares vested, because such board members were still serving on the board at this time. The remaining 1,000 shares vested in May 2012 with the passing of one of our directors.

A summary of stock option activity, related to our 2011 Management Incentive Plan, is as follows (in thousands, except for per share amounts):

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Fair-Value	Aggregate Intrinsic Value
Granted	70	\$ 21.82	\$ 4.15/share	
Forfeited	(5)	\$ 21.82		
Outstanding at October 31, 2011	65	\$ 21.82		
Exercised	(15)	\$ 21.82		
Outstanding at October 31, 2012	50	\$ 21.82		\$ 94
Exercisable at October 31, 2012	42	\$ 21.82		\$ 79

The weighted average remaining life of such outstanding options is 1.7 years and the total intrinsic value of options exercised during fiscal 2012 was insignificant. The weighted average remaining life of such exercisable options is 0.6 years. The fair value of shares vested during the year ended October 31, 2012, was approximately \$1.0 million.

14. Dividends

On December 12, 2012, we paid a \$0.65 per share dividend in the aggregate amount of \$9.6 million to shareholders of record on November 28, 2012. On December 12, 2011, we paid a \$0.55 per share dividend in the aggregate amount of \$8.1 million to shareholders of record on December 2, 2011.

15. Fair Value Measurements

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

The following table sets forth our financial assets and liabilities as of October 31, 2012 that are measured on a recurring basis during the period, segregated by level within the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
	(All amounts are presented in thousands)			
Assets at fair value:				
Investment in Limoneira Company ⁽¹⁾	\$ 38,841			\$ 38,841
Total assets at fair value	\$ 38,841	\$	\$	\$ 38,841

- (1) The investment in Limoneira Company consists of marketable securities in the Limoneira Company stock. We currently own approximately 15% of Limoneira's outstanding common stock. These securities are measured at fair value by quoted market prices. Limoneira's stock price at October 31, 2012 and October 31, 2011 equaled \$22.47 per share and \$17.35 per share. Unrealized gains and losses are recognized through other comprehensive income. Unrealized investment holding gains arising during the year ended October 31, 2012 was \$8.9 million. Unrealized investment holding losses arising during

Edgar Filing: CALAVO GROWERS INC - Form 10-K

the year ended October 31, 2011 was \$5.0 million. Unrealized investment holding gains arising during the year ended October 31, 2010 was \$10.8 million.

	Level 1	Level 2	Level 3	Total
(All amounts are presented in thousands)				
Liabilities at fair value:				
Salsa Lisa contingent consideration ⁽²⁾			\$ 857	\$ 857
RFG contingent consideration ⁽²⁾			2,322	2,322
 Total liabilities at fair value	 \$	 \$	 \$ 3,179	 \$ 3,179

- (2) Each period, we revalue our contingent consideration obligations to their fair value and record increases or decreases in the fair value into selling, general and administrative expense. Increases or decreases in the fair value of the contingent consideration obligations can result from changes in the assumed timing and amount of revenue and expense estimates, changes in the probability of payment scenarios, as well as changes in capital market conditions, which impact the discount rate used in the Fair Valuation. Significant judgment is employed in determining the appropriateness of these assumptions as of the acquisition date and for each subsequent period. Accordingly, future business and economic conditions, as well as changes in any of the assumptions described above, can materially impact the amount of contingent consideration expense we record in any given period. Total net increase to the contingent considerations in fiscal year 2012 totaled \$0.4 million. Total net decrease to the contingent considerations in fiscal year 2011 totaled \$0.5 million. See Note 16 for further discussion.

The following is a reconciliation of the beginning and ending amounts of the contingent consideration for Salsa Lisa and RFG:

	Balance at 10/31/11	Acquisition	Interest	Revalue Adjustment	Balance at 10/31/12
(All amounts are presented in thousands)					
Salsa Lisa contingent consideration	\$ 978	\$	\$ 56	\$ (177)	\$ 857
RFG contingent consideration	1,652		73	597	2,322
Total	\$ 2,630	\$	\$ 129	\$ 420	\$ 3,179

	Balance at 10/31/10	Acquisition	Interest	Revalue Adjustment	Balance at 10/31/11
(All amounts are presented in thousands)					
Salsa Lisa contingent consideration	\$ 1,521	\$	\$ 70	\$ (613)	\$ 978
RFG contingent consideration		1,543	31	78	1,652
Total	\$ 1,521	\$ 1,543	\$ 101	\$ (535)	\$ 2,630

16. RFG Business Acquisition

Calavo, CG Mergersub LLC (Newco), Renaissance Food Group, LLC (RFG) and Liberty Fresh Foods, LLC, Kenneth Catchot, Cut Fruit, LLC, James Catchot, James Gibson, Jose O. Castillo, Donald L. Johnson and RFG Nominee Trust (collectively, the Sellers) entered into an Agreement and Plan of Merger dated May 25, 2011 (the Acquisition Agreement), which sets forth the terms and conditions pursuant to which Calavo would acquire a 100 percent ownership interest in RFG. Pursuant to the Acquisition Agreement, Newco, a newly formed Delaware limited liability company and wholly-owned subsidiary of Calavo, merged with and into RFG, with RFG as the surviving entity. RFG is a fresh-food company that produces, markets, and distributes nationally a portfolio of healthy, high quality products for consumers via the retail channel. The acquisition closed on June 1, 2011.

Pursuant to the Acquisition Agreement and based on the fair value of Calavo's common stock on June 1, 2011, we agreed to pay on the closing date approximately \$16 million, payable in a combination of cash and shares of unregistered Calavo common stock, as described below in greater detail. In addition, if RFG attains specified financial goals for certain 12-month periods prior to the fifth anniversary of the closing, we have agreed to pay RFG approximately up to an additional \$84 million in earn-out consideration, based on the fair value of Calavo's common stock on June 1, 2011, payable in cash and shares of unregistered Calavo common stock, as described below in greater detail. As a result, if the maximum earn-out consideration is earned, the total consideration payable to RFG pursuant to the Acquisition Agreement could be approximately \$100 million. The fair value of consideration is currently being determined by the Company and will be less than the maximum consideration noted above.

The Acquisition Agreement contains covenants, representations and warranties of Calavo and RFG that are customary for transactions of this type. Prior to entering into the Acquisition Agreement, and other than with respect to the Acquisition Agreement, neither we, nor any of our officers, directors, or affiliates had any material relationship with RFG or the Sellers.

We have paid the Sellers \$14.2 million in cash, net of adjustments based on RFG's financial condition at closing, and issued the Sellers 43,000 shares of unregistered Calavo common stock.

If RFG's earnings before interest, taxes, depreciation and amortization (EBITDA) for any 12-month period commencing after the closing date and ending prior to the fifth anniversary of the closing date, are equal to or greater than \$8 million, and RFG has concurrently reached a corresponding revenue achievement, we have agreed to pay the Sellers \$5 million in cash and to issue to the Sellers 827,000 shares of unregistered Calavo common stock, representing total consideration of approximately \$24 million. This represents the maximum that can be awarded pursuant to the 1st earn-out payment. In the event that the maximum EBITDA and revenue achievements have not been reached within five years after the closing date, but RFG's 12-month EBITDA during such period equals or exceeds \$6 million and RFG has concurrently reached a corresponding revenue achievement, a sliding-scale, as defined, will be used to calculate payment. The minimum amount to be paid in the sliding-scale related to the 1st earn-out payment is approximately \$14 million, payable in both cash and shares of unregistered Calavo common stock. RFG has five years to achieve any consideration pursuant to the 1st earn-out payment.

Assuming that the maximum earn-out payment has been achieved in the 1st earn-out payment, if RFG's EBITDA, for a 15-month period commencing after the closing date and ending prior to the fifth anniversary of the closing date, is equal to or greater than \$15 million for each of the 12-month periods therein, and RFG has concurrently reached a corresponding revenue achievement, we have agreed to pay the Sellers \$50 million in cash and to issue to the Sellers 434,783 shares of unregistered Calavo common stock, representing total consideration of approximately \$60 million. This represents the maximum that can be awarded pursuant to the 2nd earn-out payment. In the event that the maximum EBITDA and revenue achievements have not been reached within five years after the closing date, but RFG's 12-month EBITDA during such period equals or exceeds \$10 million, and RFG has concurrently reached a corresponding revenue achievement, a sliding-scale will be used to calculate payment. The minimum amount to be paid in the sliding-scale related to the 2nd earn-out payment is approximately \$27 million, payable in both cash and shares of unregistered Calavo common stock. RFG has five years to achieve any consideration pursuant to the 2nd earn-out payment.

The minimum sliding scale earn-out payments of \$14 million and \$27 million will only be made if RFG's 12-month EBITDA during the specified period equals or exceeds \$6 million and \$10 million, respectively, and RFG has concurrently reached a corresponding revenue achievement. That is, if the EBITDA and revenue targets are not met, no contingent consideration will be paid.

The following table summarizes the estimated fair values of the assets acquired, liabilities assumed, and equity issued at the date of acquisition (in thousands). We performed valuations and considered and relied in part upon a third part expert for the long-term assets acquired and incurred approximately \$0.3 million in acquisition costs, which have been expensed in selling, general and administrative expenses in the period incurred.

At June 1, 2011

Current assets	\$ 10,491
Property, plant, and equipment	4,580
Goodwill	14,264
Other assets	117
Intangible assets	8,690
Total assets acquired	38,142
Current liabilities	(12,292)
Contingent consideration	(7,774)
Long-term obligations	(2,894)
Additional paid-in capital	(952)
Net assets acquired	\$ 14,230

Of the \$8,690,000 of intangible assets, an allocation of \$7,400,000 was assigned to customer relationships with a life of 8 years, \$920,000 to trademarks and trade names with a life of 8 years, \$200,000 to non-competition agreements with a life of 5 years, and \$170,000 to trade secrets with a life of 3 years. As discussed above, we potentially may be required to pay a maximum of approximately \$100 million if RFG achieves specified future revenue and EBITDA targets. The fair value of this contingent consideration was determined based on a probability weighted method, which incorporates management's forecasted revenue, and the likelihood of the revenue targets being achieved.

In October 2012, based on forecast projection analysis, we increased the contingent consideration liability related to the acquisition of RFG by approximately \$0.6 million. In October 2011, based on forecast projection analysis, we increased the contingent consideration liability related to the acquisition of RFG by approximately \$0.1 million.

17. Sale of Investment in Maui Fresh

On October 31, 2012, Calavo, entered into a Sale of LLC Interest Agreement (Sale Agreement) with San Rafael, pursuant to which the Company has agreed to sell to San Rafael all of our interest, representing one-half ownership, in Maui for \$2.6 million. This transaction resulted in a gain on sale of approximately \$0.5 million.

Since 2006, Calavo and San Rafael both had a 50% interest in the joint venture of Maui for the purpose of the marketing, sale and distribution of fresh produce from the Los Angeles Wholesale Produce Market.

Pursuant to the Sale Agreement, San Rafael made an initial down payment of \$0.3 million on October 31, 2012. Concurrently, San Rafael also entered into two promissory notes, the Equity Promissory Note and the Goodwill Promissory Note. The equity promissory note of \$1.0 million and the goodwill promissory note of \$1.3 million have been secured by a pledge by San Rafael's entire ownership interest on Maui and were guaranteed by Francisco Clouthier (owner of San Rafael).

The Equity Promissory Note, totaling approximately \$1.0 million, will be paid in 36 equal monthly principal payments plus accrued interest, as defined, on the unpaid principal balance.

The entire amount of principal and all accrued unpaid interest shall be due and payable on November 1, 2015. The interest rate for the first payment in November was approximately 1.6%.

The Goodwill Promissory Note, totaling \$1.3 million, is due and payable in full on November 1, 2017.

18. Subsequent Events

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

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Calavo Growers, Inc. (the Company) as of October 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended October 31, 2012. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Calavo Growers, Inc. at October 31, 2012 and 2011, and the consolidated results of its operations and its cash flows for each of the three years in the period ended October 31, 2012, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Calavo Growers Inc.'s internal control over financial reporting as of October 31, 2012, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated January 14, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Los Angeles, California

January 14, 2013

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

Not applicable.

Item 9A. Controls and Procedures

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act), as of the end of the period covered by this report. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of October 31, 2012.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended October 31, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of the end of the period covered by this report based on the framework set forth in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on our evaluation under the framework set forth in *Internal Control - Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of October 31, 2012. Our internal control over financial reporting as of October 31, 2012 has been audited by Ernst and Young LLP, an independent registered public accounting firm, as stated in their report which is included herein.

Report of Independent Registered Public Accounting Firm

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

We have audited Calavo Growers, Inc.'s internal control over financial reporting as of October 31, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Calavo Growers, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Calavo Growers, Inc. maintained, in all material respects, effective internal control over financial reporting as of October 31, 2012, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Calavo Growers, Inc. as of October 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended October 31, 2012 of Calavo Growers Inc. and our report dated January 14, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Los Angeles, California

January 14, 2013

Item 9B. Other Information

None.

PART III

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

Item 10. Directors, Executive Officers, and Corporate Governance

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

The following information is included in our Notice of Annual Meeting of Shareholders and Proxy Statement to be filed within 120 days after our fiscal year end of October 31, 2012 (the Proxy Statement) and is incorporated herein by reference:

- Ø Information regarding our directors who are standing for reelection and any persons nominated to become our directors is set forth under Election of Directors.
- Ø Information regarding our Audit Committee and designated audit committee financial expert is set forth under Corporate Governance Principles and Board Matters Board Structure and Committee Composition Audit Committee.
- Ø Information on our code of ethics for directors, officers and employees and our Corporate Governance Guidelines is set forth under Corporate Governance Principles and Board Matters.
- Ø Information regarding Section 16(a) beneficial ownership reporting compliance is set forth under Section 16(a) Beneficial Ownership Reporting Compliance.

Item 11. Executive Compensation

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

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

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

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

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

Item 14. Principal Accountant's Fees and Services

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

Part IV**Item 15. Exhibits and Financial Statement Schedules****(a)(1) Financial Statements**

The following consolidated financial statements as of October 31, 2012 and 2011 and for each of the three years in the period ended October 31, 2012 are included herewith:

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

(2) Supplemental Schedules

Schedule II Valuation and Qualifying Accounts

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

(3) Exhibits**Exhibit**

Number	Description
2.1	Agreement and Plan of Merger and Reorganization dated as of February 20, 2001 between Calavo Growers, Inc. and Calavo Growers of California. ¹
2.2	Agreement and Plan of Merger dated as of November 7, 2003 Among Calavo Growers, Inc., Calavo Acquisition, Inc., Maui Fresh International, Inc. and Arthur J. Bruno, Robert J. Bruno and Javier J. Badillo ²
2.3	Stock Purchase Agreement dated as of June 1, 2005, between Limoneira Company and Calavo Growers, Inc. ³
2.4	Acquisition Agreement between Calavo Growers, Inc., a California corporation and Lecil E. Cole, Eric Weinert, Suzanne Cole-Savard, Guy Cole, and Lecil E. Cole and Mary Jeanette Cole, acting jointly and severally as trustees of the Lecil E. and Mary Jeanette Cole Revocable Trust dated October 19, 1993, also known as the Lecil E. and Mary Jeanette Cole Revocable 1993 Trust dated May 19, 2008 ⁴
2.5	Acquisition Agreement between Calavo Growers, Inc., Calavo Salsa Lisa, LLC, Lisa's Salsa Company and Elizabeth Nicholson and Eric Nicholson dated February 8, 2010 ⁵
2.6	Amended and Restated Limited Liability Company Agreement for Calavo Salsa Lisa, LLC dated February 8, 2010 among Calavo Growers, Inc., Calavo Salsa Lisa LLC, Lisa's Salsa Company, Elizabeth Nicholson and Eric Nicholson. (Portions of this agreement have been deleted and filed separately with the Securities and Exchange Commission Pursuant to a request for confidential treatment.) ¹⁵
2.7	Agreement and Plan of Merger dated May 25, 2011 among Calavo Growers, Inc., CG Mergersub LLC, Renaissance Food Group, LLC and Liberty Fresh Foods, LLC, Kenneth Catchot, Cut Fruit, LLC, James Catchot, James Gibson, Jose O. Castillo, Donald L. Johnson and RFG Nominee Trust ¹ (Certain portions of the exhibit have been omitted based upon a request for confidential treatment filed by the Registrant with the Securities and Exchange Commission. The omitted portions of the exhibit have been separately filed by the Registrant with the Securities and Exchange Commission.) ¹⁹
2.8	Sale of LLC Interest Agreement dated October 31, 2012 between Calavo Growers, Inc. and San Rafael Distributing, Inc. ²⁴
3.1	Articles of Incorporation of Calavo Growers, Inc. ¹
3.2	Amended and Restated Bylaws of Calavo Growers, Inc. ⁶
3.3	Amendments to Articles of Incorporation or Bylaws of Calavo Growers, Inc. ¹⁸

Edgar Filing: CALAVO GROWERS INC - Form 10-K

- 10.1 Form of Marketing Agreement for Calavo Growers, Inc.⁷
- 10.2 Marketing Agreement dated as of April 1, 1996 between Tropical Hawaiian Products, Inc., a Hawaiian corporation, and Calavo Growers of California.¹

Edgar Filing: CALAVO GROWERS INC - Form 10-K

Exhibit	
Number	Description
10.3	Lease Agreement dated as of November 21, 1997, between Tede S.A.de C.V., a Mexican corporation, and Calavo de Mexico, S.A.de C.V., a Mexican corporation, including attached Guaranty of Calavo Growers of California dated December 16, 1996. ¹
10.4	Lease agreement dated as of February 15, 2005, between Limoneira Company and Calavo Growers, Inc. ³
10.5	Standstill agreement dated June 1, 2005, between Limoneira Company and Calavo Growers, Inc. ³
10.6	Standstill agreement dated June 1, 2005 between Calavo Growers, Inc.And Limoneira Company ³
10.7	Term Loan Agreement dated April 9, 2008 (effective date May 1, 2008) between Farm Credit West, PCA, and Calavo Growers, Inc. ⁷
10.8	2005 Stock Incentive Plan Of Calavo Growers, Inc. ⁹
10.9	Calavo Supplemental Executive Retirement Agreement dated March 11, 1989 between Egidio Carbone, Jr.and Calavo Growers of California. ¹
10.10	Amendment to the Calavo Growers of California Supplemental Executive Retirement Agreement dated November 9, 1993 Between Egidio Carbone, Jr.and Calavo Growers of California. ¹
10.11	2001 Stock Purchase Plan for Officers and Employees. ⁹
10.12	Business Loan Agreement between Bank of America, N.A.and Calavo Growers, Inc., dated October 15, 2007 ¹⁰
10.13	First Amendment Agreement between Bank of America, N.A.and Calavo Growers, Inc., dated August 28, 2008 ¹¹
10.14	Form of Stock Option Agreement ¹²
10.15	Amendment No.2 to Loan Agreement dated as of July 31, 2009 between Calavo Growers, Inc.and Bank of America, N.A. ¹³
10.16	Amendment to Term Loan Agreement between Farm Credit West, PCA, and Calavo Growers, Inc ¹⁴
10.17	Amendment No.3 to Loan Agreement dated February 9, 2010 between Bank of America, N.A.and Calavo Growers, Inc. ¹⁵
10.18	2011 Management Incentive Plan of Calavo Growers, Inc. ¹⁶
10.19	Retention Bonus Agreement between Lecil E.Cole and Calavo Growers, Inc. ¹⁷
10.20	Term Revolving Credit Agreement between Farm Credit West, PCA and Calavo Growers, Inc.as of May 31, 2011. ²⁰
10.21	Term Loan Agreement between Farm Credit West, PCA and Calavo Growers, Inc.as of May 31, 2011. ²⁰
10.22	Amendment to Term Revolving Credit Agreement between FCW and Calavo Growers, Inc.dated May 31, 2011. ²¹
10.23	Amendment No.4 to Loan Agreement dated as of September 30, 2011 between Calavo Growers, Inc.and Bank of America, N.A. ²²
10.24	Amendment No.2 to Term Revolving Credit Agreement dated October 31, 2011 between Farm Credit West, PCA and Calavo Growers, Inc. ²³
10.25	Amendment No.2 to Term Loan Agreement dated October 31, 2011 between Farm Credit West, PCA and Calavo Growers, Inc. ²³
10.26	Amendment No.2 to Promissory Note dated October 31, 2011 between Farm Credit West, PCA and Calavo Growers, Inc. ²³
10.27	Equity Secured Promissory Note dated October 31, 2012 between Calavo Growers, Inc. and San Rafael Distributing, Inc. ²⁴
10.28	Goodwill Secured Promissory Note dated October 31, 2012 between Calavo Growers, Inc. and San Rafael Distributing, Inc. ²⁴
10.29	Pledge and Security Agreement dated October 31, 2012 between Calavo Growers, Inc. and San Rafael Distributing, Inc. ²⁴
10.30	Personal Guaranty dated October 31, 2012 between Calavo Growers, Inc. and Francisco Clouthier. ²⁴
21.1	Subsidiaries of Calavo Growers, Inc. ¹

Edgar Filing: CALAVO GROWERS INC - Form 10-K

- 23.1 Consent of Ernst & Young LLP.*
- 31.1 Certification of Chief Executive Officer Pursuant to Rule 13a-15(e) or Rule 15d-15(e)*
- 31.2 Certification of Chief Financial Officer Pursuant to Rule 13a-15(e) or Rule 15d-15(e)*
- 32 Certification of Chief Executive Officer and Chief Financial Officer of Periodic Report Pursuant to 18 U.S.C. Section 1350*
- 101 The following financial information from the Annual Report on Form 10-K of Calavo Growers, Inc. for the year ended October 31, 2012, formatted in XBRL (eXtensible Business Reporting Language): (1) Consolidated Balance Sheets as of October 31, 2012 and 2011; (2) Consolidated Statements of Income for the years ended October 31, 2012, 2011 and 2010; (3) Consolidated Statements of Comprehensive Income for the years ended October 31, 2012, 2011, and 2010; (4) Consolidated Statements of Shareholders' Equity for the years ended October 31, 2012, 2011, and 2010; (5) Consolidated Statements of Cash Flows for the years ended October 31, 2012, 2011 and 2010; and (6) Notes to Financial Statements.**

- ** Pursuant to Rule 406T of Regulation S-T, the information in Exhibit 101 (a) is furnished and is not deemed to be filed or part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, (b) is deemed not to be filed for purposes Section 18 of the Securities Exchange Act of 1934, as amended, and (c) is not otherwise subject to liability under those sections.
- * Filed with this Annual Report on Form 10-K.
- 1 Previously filed on April 24, 2001 as an exhibit to the Registrant's Registration Statement on Form S-4, File No. 333-59418, and incorporated herein by reference.
 - 2 Previously filed on January 23, 2004 as an exhibit to the Registrant's Report on Form 10-K and incorporated herein by reference.
 - 3 Previously filed on June 9, 2005 as an exhibit to the Registrant's Report on Form 10-Q and incorporated herein by reference.
 - 4 Previously filed on May 29, 2008 as an exhibit to the Registrant's Report on Form 8-K and incorporated herein by reference.
 - 5 Previously filed on February 8, 2010 as an exhibit to the Registrant's Report on Form 8-K and incorporated herein by reference.
 - 6 Previously filed on December 19, 2002 as an exhibit to the Registrant's Report on Form 8-K, and incorporated herein by reference.
 - 7 Previously filed on January 28, 2003 as an exhibit to the Registrant's Report on Form 10-K and incorporated herein by reference.
 - 8 Previously filed on May 8, 2008 as an exhibit to the Registrant's Report on Form 8-K and incorporated herein by reference.
 - 9 Previously filed on March 21, 2005 as an exhibit to the Registrant's Definitive Proxy Statement on Form DEF14A and incorporated herein by reference.
 - 10 Previously filed on October 19, 2007 as an exhibit to the Registrant's Report on Form 8-K and incorporated herein by reference.
 - 11 Previously filed on January 27, 2009 as an exhibit to the Registrant's Report on Form 10-K/A and incorporated herein by reference.
 - 12 Previously filed on September 11, 2006 as an exhibit to the Registrant's Report on Form 10-Q and incorporated herein by reference.
 - 13 Previously filed on August 6, 2009 as an exhibit to the Registrant's Report on Form 8-K and incorporated herein by reference.
 - 14 Previously filed on January 11, 2010 as an exhibit to the Registrant's Report on Form 10-K and incorporated herein by reference.
 - 15 Previously filed on March 11, 2010 as an exhibit to the Registrant's Report on Form 10-Q and incorporated herein by reference.
 - 16 Previously filed on January 14, 2011 as an exhibit to the Registrant's Report on Form 10-K and incorporated herein by reference.
 - 17 Previously filed on March 2, 2011 as an exhibit to the Registrant's Report on Form 8-K and incorporated herein by reference.
 - 18 Previously filed on March 30, 2011 as an exhibit to the Registrant's Report on Form 8-K and incorporated herein by reference.
 - 19 Previously filed on January 10, 2012 as an exhibit to the Registrant's Report on Form 8-K/A and incorporated herein by reference.
 - 20 Previously filed on June 15, 2011 as an exhibit to the Registrant's Report on Form 8-K and incorporated herein by reference.
 - 21 Previously filed on September 9, 2011 as an exhibit to the Registrant's Report on Form 10-Q and incorporated herein by reference.
 - 22 Previously filed on October 6, 2011 as an exhibit to the Registrant's Report on Form 8-K and incorporated herein by reference.
 - 23 Previously filed on November 14, 2011 as an exhibit to the Registrant's Report on Form 8-K and incorporated herein by reference.
 - 24 Previously filed on November 6, 2012 as an exhibit to the Registrant's Report on Form 8-K and incorporated herein by reference.

(b) **Exhibits**

See subsection (a) (3) above.

(c) **Financial Statement Schedules**

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on January 14, 2013.

CALAVO GROWERS, INC

By: /s/ Lecil E. Cole
 Lecil E. Cole
Chairman of the Board of Directors,

Chief Executive Officer and President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on January 14, 2013 by the following persons on behalf of the registrant and in the capacities indicated:

Signature	Title
/s/ Lecil E. Cole Lecil E. Cole	Chairman of the Board of Directors, Chief Executive Officer and President (Principal Executive Officer)
/s/ Arthur J. Bruno Arthur J. Bruno	Chief Operating Officer, Chief Financial Officer and Corporate Secretary (Principal Financial Officer)
/s/ James E. Snyder James E. Snyder	Corporate Controller (Principal Accounting Officer)
/s/ Donald M. Sanders Donald M. Sanders	Director
/s/ Marc L. Brown Marc L. Brown	Director
/s/ John M. Hunt John M. Hunt	Director
/s/ George H. Barnes George H. Barnes	Director
/s/ J. Link Leavens J. Link Leavens	Director
/s/ James Helin James Helin	Director
/s/ Dorcas H. McFarlane Dorcas H. McFarlane	Director

Edgar Filing: CALAVO GROWERS INC - Form 10-K

/s/ Egidio Carbone, Jr Egidio Carbone, Jr	Director
/s/ Steven W. Hollister Steven W. Hollister	Director
/s/ Harold Edwards Harold Edwards	Director
/s/ Scott Van Der Kar Scott Van Der Kar	Director

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

	Fiscal year ended October 31:	Balance at beginning of year	Additions(1)	Deductions(2)	Balance at end of year
Allowance for customer deductions	2010	1,253	6,474	6,912	815
	2011	815	8,674	7,693	1,796
	2012	1,796	9,886	8,989	2,693
Allowance for doubtful accounts	2010	1,100	127	670	557
	2011	557	91	159	489
	2012	489	130	91	528

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

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

Edgar Filing: CALAVO GROWERS INC - Form 10-K

Exhibit	
Number	Description
2.1	Agreement and Plan of Merger and Reorganization dated as of February 20, 2001 between Calavo Growers, Inc. and Calavo Growers of California. ¹
2.2	Agreement and Plan of Merger dated as of November 7, 2003 Among Calavo Growers, Inc., Calavo Acquisition, Inc., Maui Fresh International, Inc. and Arthur J. Bruno, Robert J. Bruno and Javier J. Badillo ²
2.3	Stock Purchase Agreement dated as of June 1, 2005, between Limoneira Company and Calavo Growers, Inc. ³
2.4	Acquisition Agreement between Calavo Growers, Inc., a California corporation and Lecil E. Cole, Eric Weinert, Suzanne Cole-Savard, Guy Cole, and Lecil E. Cole and Mary Jeanette Cole, acting jointly and severally as trustees of the Lecil E. and Mary Jeanette Cole Revocable Trust dated October 19, 1993, also known as the Lecil E. and Mary Jeanette Cole Revocable 1993 Trust dated May 19, 2008 ⁴
2.5	Acquisition Agreement between Calavo Growers, Inc., Calavo Salsa Lisa, LLC, Lisa s Salsa Company and Elizabeth Nicholson and Eric Nicholson dated February 8, 2010 ⁵
2.6	Amended and Restated Limited Liability Company Agreement for Calavo Salsa Lisa, LLC dated February 8, 2010 among Calavo Growers, Inc., Calavo Salsa Lisa LLC, Lisa s Salsa Company, Elizabeth Nicholson and Eric Nicholson. (Portions of this agreement have been deleted and filed separately with the Securities and Exchange Commission Pursuant to a request for confidential treatment.) ¹⁵
2.7	Agreement and Plan of Merger dated May 25, 2011 among Calavo Growers, Inc., CG Mergersub LLC, Renaissance Food Group, LLC and Liberty Fresh Foods, LLC, Kenneth Catchot, Cut Fruit, LLC, James Catchot, James Gibson, Jose O. Castillo, Donald L. Johnson and RFG Nominee Trust ¹ (Certain portions of the exhibit have been omitted based upon a request for confidential treatment filed by the Registrant with the Securities and Exchange Commission. The omitted portions of the exhibit have been separately filed by the Registrant with the Securities and Exchange Commission.) ¹⁹
2.8	Sale of LLC Interest Agreement dated October 31, 2012 between Calavo Growers, Inc. and San Rafael Distributing, Inc. ²⁴
3.1	Articles of Incorporation of Calavo Growers, Inc. ¹
3.2	Amended and Restated Bylaws of Calavo Growers, Inc. ⁶
3.3	Amendments to Articles of Incorporation or Bylaws of Calavo Growers, Inc. ¹⁸
10.1	Form of Marketing Agreement for Calavo Growers, Inc. ⁷
10.2	Marketing Agreement dated as of April 1, 1996 between Tropical Hawaiian Products, Inc., a Hawaiian corporation, and Calavo Growers of California. ¹
10.3	Lease Agreement dated as of November 21, 1997, between Tede S.A. de C.V., a Mexican corporation, and Calavo de Mexico, S.A. de C.V., a Mexican corporation, including attached Guaranty of Calavo Growers of California dated December 16, 1996. ¹
10.4	Lease agreement dated as of February 15, 2005, between Limoneira Company and Calavo Growers, Inc. ³
10.5	Standstill agreement dated June 1, 2005, between Limoneira Company and Calavo Growers, Inc. ³
10.6	Standstill agreement dated June 1, 2005 between Calavo Growers, Inc. And Limoneira Company ³
10.7	Term Loan Agreement dated April 9, 2008 (effective date May 1, 2008) between Farm Credit West, PCA, and Calavo Growers, Inc. ⁷
10.8	2005 Stock Incentive Plan Of Calavo Growers, Inc. ⁹
10.9	Calavo Supplemental Executive Retirement Agreement dated March 11, 1989 between Egidio Carbone, Jr. and Calavo Growers of California. ¹
10.10	Amendment to the Calavo Growers of California Supplemental Executive Retirement Agreement dated November 9, 1993 Between Egidio Carbone, Jr. and Calavo Growers of California. ¹
10.11	2001 Stock Purchase Plan for Officers and Employees. ⁹

Edgar Filing: CALAVO GROWERS INC - Form 10-K

Exhibit

Number	Description
10.12	Business Loan Agreement between Bank of America, N.A. and Calavo Growers, Inc., dated October 15, 2007 ¹⁰
10.13	First Amendment Agreement between Bank of America, N.A. and Calavo Growers, Inc., dated August 28, 2008 ¹¹
10.14	Form of Stock Option Agreement ¹²
10.15	Amendment No. 2 to Loan Agreement dated as of July 31, 2009 between Calavo Growers, Inc. and Bank of America, N.A. ¹³
10.16	Amendment to Term Loan Agreement between Farm Credit West, PCA, and Calavo Growers, Inc. ¹⁴
10.17	Amendment No. 3 to Loan Agreement dated February 9, 2010 between Bank of America, N.A. and Calavo Growers, Inc. ¹⁵
10.18	2011 Management Incentive Plan of Calavo Growers, Inc. ¹⁶
10.19	Retention Bonus Agreement between Lecil E. Cole and Calavo Growers, Inc. ¹⁷
10.20	Term Revolving Credit Agreement between Farm Credit West, PCA and Calavo Growers, Inc. as of May 31, 2011. ²⁰
10.21	Term Loan Agreement between Farm Credit West, PCA and Calavo Growers, Inc. as of May 31, 2011. ²⁰
10.22	Amendment to Term Revolving Credit Agreement between FCW and Calavo Growers, Inc. dated May 31, 2011. ²¹
10.23	Amendment No. 4 to Loan Agreement dated as of September 30, 2011 between Calavo Growers, Inc. and Bank of America, N.A. ²²
10.24	Amendment No. 2 to Term Revolving Credit Agreement dated October 31, 2011 between Farm Credit West, PCA and Calavo Growers, Inc. ²³
10.25	Amendment No. 2 to Term Loan Agreement dated October 31, 2011 between Farm Credit West, PCA and Calavo Growers, Inc. ²³
10.26	Amendment No. 2 to Promissory Note dated October 31, 2011 between Farm Credit West, PCA and Calavo Growers, Inc. ²³
10.27	Equity Secured Promissory Note dated October 31, 2012 between Calavo Growers, Inc. and San Rafael Distributing, Inc. ²⁴
10.28	Goodwill Secured Promissory Note dated October 31, 2012 between Calavo Growers, Inc. and San Rafael Distributing, Inc. ²⁴
10.29	Pledge and Security Agreement dated October 31, 2012 between Calavo Growers, Inc. and San Rafael Distributing, Inc. ²⁴
10.30	Personal Guaranty dated October 31, 2012 between Calavo Growers, Inc. and Francisco Clouthier. ²⁴
21.1	Subsidiaries of Calavo Growers, Inc. ¹
23.1	Consent of Ernst & Young LLP.*
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-15(e) or Rule 15d-15(e)*
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-15(e) or Rule 15d-15(e)*
32	Certification of Chief Executive Officer and Chief Financial Officer of Periodic Report Pursuant to 18 U.S.C. Section 1350*
101	The following financial information from the Annual Report on Form 10-K of Calavo Growers, Inc. for the year ended October 31, 2012, formatted in XBRL (eXtensible Business Reporting Language): (1) Consolidated Balance Sheets as of October 31, 2012 and 2011; (2) Consolidated Statements of Income for the years ended October 31, 2012, 2011 and 2010; (3) Consolidated Statements of Comprehensive Income for the years ended October 31, 2012, 2011, and 2010; (4) Consolidated Statements of Shareholders' Equity for the years ended October 31, 2012, 2011, and 2010; (5) Consolidated Statements of Cash Flows for the years ended October 31, 2012, 2011 and 2010; and (6) Notes to Financial Statements. **

** Pursuant to Rule 406T of Regulation S-T, the information in Exhibit 101 (a) is furnished and is not deemed to be filed or part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act or 1933, as amended, (b) is deemed not to be filed for purposes Section 18 of the Securities Exchange Act of 1934, as amended, and (c) is not otherwise subject to liability under those sections.

* Filed with this Annual Report on Form 10-K.

1 Previously filed on April 24, 2001 as an exhibit to the Registrant's Registration Statement on Form S-4, File No. 333-59418, and incorporated herein by reference.

Edgar Filing: CALAVO GROWERS INC - Form 10-K

- 2 Previously filed on January 23, 2004 as an exhibit to the Registrant's Report on Form 10-K and incorporated herein by reference.
- 3 Previously filed on June 9, 2005 as an exhibit to the Registrant's Report on Form 10-Q and incorporated herein by reference.
- 4 Previously filed on May 29, 2008 as an exhibit to the Registrant's Report on Form 8-K and incorporated herein by reference.
- 5 Previously filed on February 8, 2010 as an exhibit to the Registrant's Report on Form 8-K and incorporated herein by reference.

- 6 Previously filed on December 19, 2002 as an exhibit to the Registrant's Report on Form 8-K, and incorporated herein by reference.
- 7 Previously filed on January 28, 2003 as an exhibit to the Registrant's Report on Form 10-K and incorporated herein by reference.
- 8 Previously filed on May 8, 2008 as an exhibit to the Registrant's Report on Form 8-K and incorporated herein by reference.
- 9 Previously filed on March 21, 2005 as an exhibit to the Registrant's Definitive Proxy Statement on Form DEF14A and incorporated herein by reference.
- 10 Previously filed on October 19, 2007 as an exhibit to the Registrant's Report on Form 8-K and incorporated herein by reference.
October 19, 2007 as an exhibit to the Registrant's Report on Form 8-K and incorporated herein by reference.
- 11 Previously filed on January 27, 2009 as an exhibit to the Registrant's Report on Form 10-K/A and incorporated herein by reference.
- 12 Previously filed on September 11, 2006 as an exhibit to the Registrant's Report on Form 10-Q and incorporated herein by reference.
- 13 Previously filed on August 6, 2009 as an exhibit to the Registrant's Report on Form 8-K and incorporated herein by reference.
- 14 Previously filed on January 11, 2010 as an exhibit to the Registrant's Report on Form 10-K and incorporated herein by reference.
- 15 Previously filed on March 11, 2010 as an exhibit to the Registrant's Report on Form 10-Q and incorporated herein by reference.
- 16 Previously filed on January 14, 2011 as an exhibit to the Registrant's Report on Form 10-K and incorporated herein by reference.
- 17 Previously filed on March 2, 2011 as an exhibit to the Registrant's Report on Form 8-K and incorporated herein by reference.
- 18 Previously filed on March 30, 2011 as an exhibit to the Registrant's Report on Form 8-K and incorporated herein by reference.
- 19 Previously filed on January 10, 2012 as an exhibit to the Registrant's Report on Form 8-K/A and incorporated herein by reference.
- 20 Previously filed on June 15, 2011 as an exhibit to the Registrant's Report on Form 8-K and incorporated herein by reference.
- 21 Previously filed on September 9, 2011 as an exhibit to the Registrant's Report on Form 10-Q and incorporated herein by reference.
- 22 Previously filed on October 6, 2011 as an exhibit to the Registrant's Report on Form 8-K and incorporated herein by reference.
- 23 Previously filed on November 14, 2011 as an exhibit to the Registrant's Report on Form 8-K and incorporated herein by reference.
- 24 Previously filed on November 6, 2012 as an exhibit to the Registrant's Report on Form 8-K and incorporated herein by reference.