

CALAVO GROWERS INC  
Form 10-K  
December 30, 2015  
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended October 31, 2015

OR

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

Commission file number: 000-33385

CALAVO GROWERS, INC.

(Exact name of registrant as specified in its charter)

California  
(State of incorporation)

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

1141-A Cummings Road, Santa Paula, CA 93060  
(Address of principal executive offices) (Zip code)

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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 (§232.0405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark 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.

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company)

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

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, 2015 (the last business day of the Registrant's most recently completed second fiscal quarter) was approximately \$722.8 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, 2015 was 17,384,295.

Documents Incorporated by Reference

Portions of the Registrant's Proxy Statement for the 2016 Annual Meeting of Shareholders, which we intend to hold on April 27, 2016 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, 2015.

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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 and Mexico. Through our various operating facilities, we (i) sort, pack, and/or ripen avocados, tomatoes and/or Hawaiian grown papayas, (ii) process and package fresh cut fruit and vegetables, salads, wraps, sandwiches, fresh snacking products and a variety of behind-the-glass deli items and (iii) produce and package guacamole and salsa. 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 December 2014, Calavo formed a wholly owned subsidiary Calavo Growers De Mexico, S. de R.L. de C.V. (Calavo Sub). In July 2015, Calavo Sub entered into a Shareholder Agreement with Grupo Belo del Pacifico, S.A. de C.V., (Belo) a Mexican Company owned by Agricola Belher, and Agricola Don Memo, S.A. de C.V. (Don Memo). Don Memo, a Mexican corporation formed in July 2013, is engaged in the business of owning and improving land in Jalisco, Mexico for the growing of tomatoes and other produce and the sale and distribution of tomatoes and other produce. Belo and Calavo Sub have an equal one-half ownership interest in Don Memo in exchange for \$2 million each. Pursuant to a management service agreement, Belo, through its officers and employees, has day-to-day power and authority to manage the operations.

We have loaned \$4.0 million to Don Memo since its formation. We have recorded such loans in prepaids and other current assets. These monies, intended as a bridge loan, are expected to be replaced with a loan from an institutional lender during our first fiscal quarter of 2016 and this bridge loan will be immediately repaid from the proceeds of the new loan. Additionally, \$2.0 million, representing Calavo Sub's 50% ownership in Don Memo, is included in

investment in unconsolidated entities on our balance sheet.

In July 2015, we entered into a Lease Agreement with Green Cove, LLC to lease an operating facility in Jacksonville Florida. The facility is approximately 200,000 square feet and is expected to be a value-added distribution center for all operating segments. We took possession of the property in August 2015 and are in the process of making improvements to this facility. The lease began in November 2015 and is scheduled to terminate in October 2031.

In August 2015, we entered into a Shareholder's Agreement with various partners which created Avocados de Jalisco, S.A.P.I. de C.V. (Avocados de Jalisco). Avocados de Jalisco is a Mexican corporation created to engage in procuring, packing and selling avocados in Jalisco Mexico. This entity is approximately 80% owned by Calavo and was consolidated as of October 31, 2015. Avocados de Jalisco is currently building a packinghouse located in Jalisco, Mexico and such packinghouse is expected to be operational in the second quarter of 2016.

#### 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 2015, our 5 and 25 largest fresh customers represented approximately 18% and 39% of our total consolidated revenues. During fiscal year 2014, our 5 and 25 largest fresh customers represented approximately 17% and 40% of our total consolidated revenues. During fiscal year 2015, 2014 and 2013 none of our fresh customers represented more than 10% of 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 28% of the 2015 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 grouped as a homogenous pool on a ~weekly basis based on the variety, size, and grade. They are then 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.

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, generate the initial amounts considered to be paid back to the growers once a 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. These amounts are then compared to field quotes provided for each avocado pool, with the resulting final payment determined based on the field quotes to the growers.

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. Our strategy is to increase our market share of currently sourced avocados to all accepted marketplaces. We believe that our new packinghouse located in Jalisco, Mexico will help increase our percentage of Mexican sourced avocados, as well as further diversify the areas from which we source fruit in Mexico.

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 for such fruit can be changed from what was initially agreed to if the actual packout does not reach levels forecasted 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 current sources, in conjunction with the expected opening of our packinghouse in Jalisco, Mexico, 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 2015, we packed and distributed approximately 18% 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 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 TasteTech Near Infrared (NIR) technology and equipment. The most significant reason we invested in the TasteTech systems is because the NIR technology measures internal qualities 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 TasteTech 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 legacy method of paying the California avocado pools 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.

We utilize ultra-high pressure technology equipment which is designed to protect and safeguard our avocado and guacamole products without the need of preservatives. 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, club, and food service customers throughout the markets we service in the U.S and abroad. By fiscal year 2010, we had two 215L ultra high pressure machines 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 first fiscal quarter of 2012. We estimate that our operating capacity for all three ultra-high pressure machines at year end to be approximately 90%. With this elevated capacity, we are considering various plans to expand our production capacity to meet our future expected growth. Net sales of our ultra-high pressure (fresh) products, typically sold to retail customers, represented approximately 48% and 45% of total guacamole products within the Calavo Foods segment sales for the years ended October 31, 2015 and 2014.

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 2015, our 5 and 25 largest processed product customers represented approximately 3% and 5% of our total consolidated revenues. During fiscal year 2014, our 5 and 25 largest processed product customers represented approximately 3% and 6% of our total consolidated revenues. During fiscal years 2015, 2014 and 2013 none of our processed product customers represented more than 10% of total consolidated revenues.

RFG

Acquired in June of 2011, Renaissance Food Group, LLC (RFG) is a leader in the fast-growing refrigerated fresh packaged goods category. RFG produces, markets, and distributes nationally a portfolio of healthy, high quality fresh packaged food products for consumers via the retail channel, including national and regional supermarkets, club stores, mass merchandisers, convenience stores, and specialty/natural retailers. As a leader in refrigerated fresh packaged foods, RFG utilizes a network of company-operated and independently-operated USDA and organic certified fresh food facilities strategically located across the U.S. These facilities allow RFG to offer national retailers high quality, refrigerated fresh foods that can be delivered within hours from time of production. Consumer demand is high for quality refrigerated fresh packaged foods and RFG's speed to market, product innovation and broad product range positions the Company well to serve retailers addressing this consumer trend. RFG products include fresh prepared fruit and vegetables, fresh prepared entrée salads, wraps, sandwiches and fresh snacking products as well as ready-to-heat entrees and other hot bar and behind-the-deli glass meal and salad kits. RFG products are marketed under the Garden Highway Fresh Cut, Garden Highway, and Garden Highway Chef Essentials as well as store-brand, private label programs. Backed by Calavo's resources, the business unit continues to expand its footprint in the retail grocery channel

During fiscal year 2015, our 5 and 25 largest RFG product customers represented approximately 23% and 33% of our total consolidated revenues. During fiscal year 2014, our 5 and 25 largest RFG product customers represented approximately 24% and 32% of our total consolidated revenues. During fiscal years 2014, 2013 and 2012 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, Mfresh, Maui Fresh International, 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 increased 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. In fiscal years 2014 and 2013, with the consolidation of FreshRealm, we had an increased emphasis on research and development. Much of the research and development for FreshRealm was on a re-usable shipping container, which includes designing and the testing of prototypes, testing packing efficiency, gathering consumer feedback, thermal research, and testing the longevity and reusability of the containers. Research and development costs are charged to expense when incurred. Total research and

development costs for fiscal years 2015 was insignificant. Total research and development costs for fiscal years 2014 was approximately \$0.8 million. Total research and development costs for fiscal years 2013 was approximately \$1.5 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, 2015, we had 2,064 employees, of which 691 were located in the United States and 1,373 were located in Mexico. We do not have a significant number of United States employees covered by a collective bargaining agreement. 1,219 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, 2015.

Location	Salaried	Hourly	Total
United States	334	357	691
Mexico	154	1,219	1,373
TOTAL	488	1,576	2,064

#### 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 and Peruvian grown avocados. If we are unable to consistently pay Chilean and Peruvian packers a competitive price for their avocados, these packers may choose to have their avocados marketed by alternate handlers.

There are risks related to investigations and lawsuits due to the restatement of our prior financial results.

In connection with our restatement, we have been subjected to a number of ongoing stockholder lawsuits, as described in Item 3 of this Annual Report on Form 10-K which is incorporated by reference herein. As a result of these events, we have been and remain subject to a number of risks, including the following, each of which could result in a material adverse effect to our business, financial condition and results of operations and/or a negative effect on the market for our stock: (i) private litigation relating to our restatement or new stockholder litigation; (ii) indemnification obligations for our directors, officers and employees related to the litigation; and (iii) diversion of the time and attention of members of our management and our Board of Directors from the management of our business.

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. 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 (including value-added taxes), imports, and exports

Currency exchange fluctuations may impact the results of our operations.

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 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:

Leased or Owned:	City	State	Description
Owned	Santa Paula	California	Primarily handles California and Mexican avocados. The facility was purchased in 1955 and has been improved in capacity and efficiency since then. This facility operates substantially similar to our Temecula facility. We believe that the annual capacity of this facility will be sufficient to handle its forecasted annual production needs.
Owned	Temecula	California	Primarily handles California and Mexican avocados. The facility was built in 1985 and has been improved in capacity and efficiency since then. This facility operates substantially similar to our Santa Paula facility. We believe that the annual capacity of this facility will be sufficient to handle its forecasted annual production needs.

## Operating and Distributing Facilities:

Leased or Owned:	City	State	Description
Owned	Santa Paula	California	Primarily ripens, sorts, packs and ships fresh avocados. 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, its 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 as ready-to-eat/heat deli and prepared guacamole products. In 2016, we increased this facility's ripe room capacity by 50%, and doubled its bagging capacity. We believe that the annual capacity of this facility will be sufficient to handle its forecasted annual production needs.
Leased	Garland	Texas	Primarily ripens, sorts, packs and ships fresh avocados. Additionally, it also serves to store and ship prepared guacamole products as well. We believe that the annual capacity of this facility will be sufficient to handle its forecasted annual production needs.
Leased	Jacksonville	Florida	Opened in the first fiscal quarter of 2016, this facility ripens, sorts, packs and ships fresh avocados and stores and ships prepared guacamole. When fully optimized, this facility will also process cut fruits and vegetables, salads, sandwiches, and wraps. We believe that the annual capacity of this facility will be sufficient to handle its forecasted annual production needs.
Leased	Nogales	Arizona	Primarily ripens, sorts, packs and ships, tomatoes, and other diversified commodities. We believe that the annual capacity of this facility will be sufficient to handle its forecasted annual production needs.
Leased	Hilo	Hawaii	Primarily sorts, packs, and ships papayas and processes papaya into puree. We believe that the annual capacity will be sufficient to handle its 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 its 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 its 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 its 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 its forecasted annual production needs.

Mexico Locations:

Packinghouse and Processing Facility:

Leased or

Owned:	City	State	Description
Owned	Uruapan	Michoacan	Our Calavo Foods processing facility produces our guacamole products. While we believe this capacity is reasonable give our current sales, we are considering various plans to meet our future expected growth.
Owned	Uruapan	Michoacan	Handles avocados delivered to us by Mexican growers. The facility 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 its forecasted annual production needs.
Owned	Jalisco	Jalisco	Expected to open in the second quarter of 2016, this new facility will handle avocados delivered to us by Mexican growers. We believe that the annual capacity of this facility will be sufficient to process its forecasted annual production needs.

Item 3. Legal Proceedings

In January 2015, various class action lawsuits were filed against the Company and certain of its officers and directors (collectively, the “Defendants”) in the United States District Court for the Central District of California. These were consolidated into a single case - El Dabe, et al. v. Calavo Growers, Inc., et al., No. 2:15-cv-00400 (C.D. Cal.) - during our second fiscal quarter. The case arises from the Company’s announcement on January 15, 2015 that it had identified a non-cash misstatement in its historical consolidated financial statements related to its treatment of contingent consideration in the Company’s acquisition of Renaissance Food Group, LLC in June 2011. The same day, the Company filed a Current Report on Form 8-K with the Securities and Exchange Commission announcing that the Company was recording a non-cash charge totaling \$88.9 million before tax (\$54 million net of tax) in connection with the error. The complaint alleges that the Defendants violated Section 10(b) of the Securities Exchange Act of 1934 (the “Exchange Act”) and 17 C.F.R. 240.10b-5 by fraudulently misstating the Company’s finances in the Company’s public filings. The complaint also alleges that certain of the Company’s officers and directors are liable for these actions pursuant to Section 20(a) of the Exchange Act.

In the third quarter of fiscal 2015, the plaintiffs filed an amended complaint, which the Defendants moved to dismiss for failure to state a claim. In the fourth quarter of fiscal 2015, this motion to dismiss was granted, and the plaintiffs were granted leave to amend the complaint. During the first quarter of fiscal 2016, the plaintiffs filed an amended complaint, which the Defendants again moved to dismiss for failure to state a claim. The next hearing before the Court is expected during the second quarter of fiscal 2016. We intend to vigorously defend ourselves against this lawsuit and we do not expect that such legal claims and litigation will ultimately have a material adverse effect on our

consolidated 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

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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	76	Chairman of the Board, and Chief Executive Officer
Kenneth J. Catchot	52	Chief Operating Officer and President
B. John Lindeman	45	Chief Financial Officer
Robert J. Wedin	66	Vice President, Sales and Fresh Marketing
Alan C. Ahmer	67	Vice President, Processed Product Sales and Production
Michael A. Browne	57	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.

Kenneth J. Catchot has served as our President and Chief Operating Officer since June 2015. Mr. Catchot succeeds Arthur J. Bruno, who retired as Calavo's Chief Operating Officer on June 15, 2015. Mr. Catchot co-founded RFG in 2003 and has served as an officer of RFG since 2003.

B. John Lindeman has served as our Chief Financial Officer since August 2015 and succeeds Arthur J. Bruno, who retired in June 2015. Prior to joining Calavo, Mr. Lindeman served as Managing Director at Sageworth Trust Company. Prior to joining Sageworth, Mr. Lindeman served as Managing Director at Janney Montgomery Scott from August 2009 to March 2015. Prior to joining Janney, Mr. Lindeman served as Managing Director at Stifel Nicolaus from December 2005 to August 2009 and as Principal at Legg Mason from October 1999 to December 2005. Prior to joining Legg Mason, Mr. Lindeman was Manager at PricewaterhouseCoopers LLP.

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.

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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 2015	High	Low
First Quarter	\$ 48.73	\$ 38.83
Second Quarter	\$ 52.85	\$ 39.46
Third Quarter	\$ 56.67	\$ 49.95
Fourth Quarter	\$ 60.50	\$ 44.09

Fiscal 2014	High	Low
First Quarter	\$ 32.49	\$ 28.30
Second Quarter	\$ 36.17	\$ 28.69
Third Quarter	\$ 35.23	\$ 29.91
Fourth Quarter	\$ 48.63	\$ 35.51

As of November 30, 2015, there were approximately 894 stockholders of record 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 8, 2015, we paid a \$0.80 per share dividend in the aggregate amount of \$13.9 million to shareholders of record on November 17, 2015.

On December 8, 2014, we paid a \$0.75 per share dividend in the aggregate amount of \$13.0 million to shareholders of record on November 17, 2014.



## 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, 2015, 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.

	Fiscal Year Ended October 31,				
	2015	2014	2013	2012	2011
	(In thousands, except per share data)				
Income Statement Data: (1)(2)(3)(4)(8)(9)					
Net sales	\$ 856,824	\$ 782,510	\$ 691,451	\$ 551,119	\$ 522,529
Gross margin	85,227	71,228	59,448	60,665	42,931
Selling, general and administrative	41,558	36,605	33,485	32,714	24,934
Net income attributable to Calavo Growers, Inc.	27,199	97	(1,795)	15,802	10,863
Basic net income per share	\$ 1.57	\$ 0.01	\$ (0.12)	\$ 1.07	\$ 0.74
Diluted net income per share	\$ 1.57	\$ 0.01	\$ (0.12)	\$ 1.05	\$ 0.74
Balance Sheet Data as of End of Period(4)(10):					
Working capital	\$ 18,964	\$ 22,047	\$ (3,252)	\$ 1,287	\$ 2,323
Total assets	284,945	283,464	239,810	207,787	185,284
Accrued expenses	21,311	25,303	36,541	30,554	25,565
Current portion of long-term obligations	2,206	5,099	5,258	5,416	5,448
Long-term debt, less current portion	586	2,791	7,792	13,039	18,244
Shareholders' equity	185,982	179,406	119,093	102,719	89,632
Cash Flows Provided by (Used in):					
Operations	\$ 37,283	\$ 24,547	\$ 13,712	\$ 22,011	\$ 7,866
Investing(2)(3)(5)(7)	(21,054)	(21,753)	(7,746)	(7,449)	(20,907)
Financing(6)	(15,802)	(4,069)	(5,050)	(10,233)	14,751
Other Data:					
Dividends declared per share	\$ 0.80	\$ 0.75	\$ 0.70	\$ 0.65	\$ 0.55
Net book value per share	\$ 10.70	\$ 10.37	\$ 7.58	\$ 6.90	\$ 6.07
Pounds of California avocados sold	75,538	74,438	141,400	127,145	84,913
Pounds of non-California avocados sold	312,710	258,940	218,244	174,995	156,973

Pounds of processed avocados products sold	27,182	26,451	21,636	17,341	18,811
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- (1) In July 2013, we entered into an Amended and Restated Limited Liability Company Agreement of FreshRealm. When we deconsolidated FreshRealm (see below), principal operations had not yet commenced. As a result, FreshRealm had no sales or cost of sales. FreshRealm had incurred \$1.0 million and \$1.9 million of expenses related to its development as of October 31, 2014 and 2013, which are included in selling, general and administrative expenses.
- (2) In May 2014, we deconsolidated FreshRealm (see above). We recorded a gain on the deconsolidation of FreshRealm of \$12.6 million, which has been recorded on the face of the income statement as other income. Our investment of \$17.8 million in FreshRealm has been recorded as investment in unconsolidated subsidiaries on our balance sheet. See Note 18 in prior year's Consolidated Financial Statements for more information related to the deconsolidation of FreshRealm.

- (3) 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.
- (4) On April 10, 2013, we repurchased 165,000 shares of our common stock from Limoneira for cash consideration of \$4.8 million at a purchase price of \$29.02 per share, the closing price on April 10, 2013. These shares were cancelled and returned to authorized, but unissued, status.
- (5) In July 2015, Calavo Sub entered into a Shareholder Agreement with Belo a Mexican Company owned by Agricola Belher, and Don Memo. Don Memo, a Mexican corporation created in July 2013, is engaged in the business of owning and improving land in Jalisco, Mexico for the growing of tomatoes and other produce and the sale and distribution of tomatoes and other produce. In fiscal 2013, we contributed \$1.0 million as an investment in Don Memo. In fiscal 2014, we have advanced an additional \$3.2 million as a bridge loan. In fiscal 2015, we have contributed an additional \$1.0 million as an investment in Don Memo, totaling \$2.0 as an investment in Don Memo. Additionally, in fiscal 2015 we loaned \$0.8 million for a total of \$4.0 million as a bridge loan. We have recorded such loans in prepaids and other current assets. This bridge loan is expected to be replaced with a loan from an institutional lender during our first fiscal quarter of 2016 at which time our bridge loan will be immediately repaid from the proceeds of the new loan.
- (6) Cost of Sales for fiscal 2014, 2013, and 2012 include non-cash compensation expense related to the acquisition of RFG totaling \$1.8 million, \$0.7 million, and an insignificant amount. These non-cash expenses will not continue into fiscal 2015 nor beyond. See Note 3 in prior year's Consolidated Financial Statements for more information.
- (7) Selling, General, and Administrative expenses for fiscal 2014, 2013 and 2012 include non-cash compensation expense related to the acquisition of RFG totaling \$0.7 million, \$0.3 million, and an insignificant amount. These non-cash expenses will not continue into the future. See Note 3 in prior year's Consolidated Financial Statements for more information.
- (8) Included in accrued liabilities as of October 31, 2013, 2012, and 2011 is a non-cash, contingent consideration liability totaling \$15.6 million, \$11.2 million, and \$8.3 million related to the acquisition of RFG. This liability resolved during fiscal 2014 and will not continue in the future. See Note 3 in prior year's Consolidated Financial Statements for more information.

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 and Mexico. Through our various operating facilities, we (i) sort, pack, and/or ripen avocados, tomatoes and/or Hawaiian grown papayas, (ii) process and package fresh cut fruit and vegetables, salads, wraps, sandwiches, fresh snacking products and a variety of behind-the-glass deli items and (iii) produce and package guacamole and salsa. We report our operations in three different business segments: (1) Fresh products, (2) Calavo Foods and (3) RFG. See Note 11 to our consolidated financial statements for further discussion.

Our Fresh products business grades, sizes, packs, cools, and ripens (if desired) avocados for delivery to our customers. During fiscal 2015, we operated two packinghouses and three operating and distributing facilities that handle avocados across the United States. These packinghouses handled approximately 28% of the California avocado crop during the 2015 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 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 18% 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 2014-2015 Mexican season, based on our estimates. Our strategy is to increase our market share of currently sourced avocados to help meet anticipated demand. 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 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 “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 52% and 55% of total processed segment sales for the years ended October 31, 2015 and 2014. Net sales of our ultra-high pressure products represented approximately 48% and 45% of total processed segment sales for the years ended October 31, 2015 and 2014.

Our RFG business produces, markets and distributes nationally a portfolio of healthy, high quality fresh packaged food products for consumers via the retail channel. RFG products include fresh prepared fruit and vegetables, fresh prepared entrée salads, wraps, sandwiches and fresh snacking products as well as ready-to-heat entrees and other hot bar

and behind-the-deli glass meal and salad kits. RFG products are marketed under the Garden Highway Fresh Cut, Garden Highway, and Garden Highway Chef Essentials as well as store-brand, private label programs.

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 and RFG products 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 8, 2015, we paid a \$0.80 per share dividend in the aggregate amount of \$13.9 million to shareholders of record on November 17, 2015.

#### Avocados de Jalisco

In August 2015, we entered into a Shareholder's Agreement with various partners which created Avocados de Jalisco, S.A.P.I. de C.V. ("Avocados de Jalisco"). Avocados de Jalisco is a Mexican corporation created to engage in procuring, packing and selling avocados in Jalisco Mexico. This entity is approximately 80% owned by Calavo and was consolidated as of October 31, 2015. Avocados de Jalisco is currently building a packinghouse located in Jalisco, Mexico and such packinghouse is expected to be operational in the second quarter of 2016.

#### Contingencies

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.

In January 2015, various class action lawsuits, which have been consolidated into a single lawsuit during our second fiscal quarter, were initiated against the company related to the restatement of previously-issued financial statements. In the third quarter of fiscal 2015, the plaintiffs filed an amended complaint, to which we filed a motion to dismiss (MTD). In the fourth quarter of fiscal 2015, the plaintiffs filed an opposition to this MTD, to which we subsequently filed a reply to said opposition. Ultimately, in our 4th fiscal quarter, our MTD was granted, but with leave to amend. During our first quarter of fiscal 2016, the plaintiffs filed another amended complaint, to which we filed another MTD. The next hearing before the judge is expected during the second quarter of fiscal 2016. We intend to vigorously defend ourselves against this lawsuit and we do not expect that such legal claims and litigation will ultimately have a material adverse effect on our consolidated financial position or results of operations.

#### 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 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. Additionally, we frequently engage 3rd party valuation experts

to assist us with estimates described below. 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 \$0.7 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 no impairment existed as of October 31, 2015.

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,					
	2015		2014		2013	
Net sales	100	%	100	%	100	%
Gross margins	9.9	%	9.1	%	8.6	%
Selling, general and administrative	4.9	%	4.7	%	4.8	%
Contingent consideration related to RFG acquisition	0.0	%	6.5	%	4.8	%
Operating income	5.1	%	(2.1)	%	(1.0)	%
Interest income	0.0	%	0.0	%	0.0	%
Interest expense	(0.1)	%	(0.1)	%	(0.2)	%
Other income, net	0.0	%	0.1	%	0.1	%
Net income (loss)	3.2	%	0.0	%	(0.4)	%

## Net Sales

We believe that the fundamentals for our products continue to be favorable. Firstly, Americans continue to eat more avocados. United States (U.S.) avocado demand continues to grow, with per capita use in 2014/15 reaching 6.5 pounds per person, up 6 percent from the previous year, and approximately 104% higher the estimate of a decade ago. 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 rapidly 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 our Fresh products and Calavo Foods 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

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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 2015, 2014 and 2013, on behalf of avocado growers, we remitted approximately \$1.7 million, \$1.7 million and \$2.0 million to the California Avocado Commission. During fiscal 2015, 2014 and 2013, we remitted approximately \$8.3 million, \$7.1 million and \$8.0 million to the Hass Avocado Board related to avocados.

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

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 submarine sandwiches. Perhaps of greater importance has been the introduction of improved and new 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.

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.

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, and food service departments. RFG products include fresh prepared fruit and vegetables, fresh prepared entrée salads, wraps, sandwiches and fresh snacking products as well as ready-to-heat entrees and other hot bar and behind-the-deli glass meal and salad kits. RFG products are marketed under the Garden Highway Fresh Cut, Garden Highway, and Garden Highway Chef Essentials as well as store-brand, private label programs.

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

	Year ended October 31, 2015				Year ended October 31, 2014			
	Fresh products	Calavo Foods	RFG	Total	Fresh products	Calavo Foods	RFG	Total
Third-party sales:								
Avocados	\$ 471,178	\$ —	\$ —	\$ 471,178	\$ 433,581	\$ —	\$ —	\$ 433,581
Tomatoes	18,681	—	—	18,681	19,705	—	—	19,705
Papayas	9,485	—	—	9,485	12,619	—	—	12,619
Pineapples	2,397	—	—	2,397	5,086	—	—	5,086

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Other fresh products	442	—	—	442	1,037	—	—	1,037
Food service	—	49,212	—	49,212	—	48,085	—	48,085
Retail and club	—	22,736	296,697	319,433	—	22,334	255,074	277,408
Total gross sales	502,183	71,948	296,697	870,828	472,028	70,419	255,074	797,521
Less sales incentives	(1,472)	(9,792)	(2,740)	(14,004)	(1,079)	(11,140)	(2,792)	(15,011)
Net sales	\$ 500,711	\$ 62,156	\$ 293,957	\$ 856,824	\$ 470,949	\$ 59,279	\$ 252,282	\$ 782,510

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	Year ended October 31, 2014				Year ended October 31, 2013			
	Fresh products	Calavo Foods	RFG	Total	Fresh products	Calavo Foods	RFG	Total
Third-party sales:								
Avocados	\$ 433,581	\$ —	\$ —	\$ 433,581	\$ 407,678	\$ —	\$ —	\$ 407,678
Tomatoes	19,705	—	—	19,705	22,623	—	—	22,623
Papayas	12,619	—	—	12,619	13,077	—	—	13,077
Pineapples	5,086	—	—	5,086	5,739	—	—	5,739
Other fresh products	1,037	—	—	1,037	601	—	—	601
Food service	—	48,085	—	48,085	—	43,616	—	43,616
Retail and club	—	22,334	255,074	277,408	—	18,789	195,376	214,165
Total gross sales	472,028	70,419	255,074	797,521	449,718	62,405	195,376	707,499
Less sales incentives	(1,079)	(11,140)	(2,792)	(15,011)	(1,349)	(10,791)	(3,908)	(16,048)
Net sales	\$ 470,949	\$ 59,279	\$ 252,282	\$ 782,510	\$ 448,369	\$ 51,614	\$ 191,468	\$ 691,451

Net sales to third parties by segment exclude inter-segment sales and cost of sales. For fiscal year 2015, 2014 and 2013, inter-segment sales and cost of sales of \$1.5 million, \$2.2 million and \$1.9 million between Fresh products and RFG were eliminated. For fiscal year 2015, 2014 and 2013, inter-segment sales and cost of sales of \$1.9 million, \$1.7 million and \$0.8 million between Calavo Foods and RFG were eliminated.

The following table summarizes our net sales by business segment:

	2015	Change	2014	Change	2013
	(Dollars in thousands)				
Net sales:					
Fresh products	\$ 500,711	6.3 %	\$ 470,949	5.0 %	\$ 448,369
Calavo Foods	62,156	4.9 %	59,279	14.9 %	51,614
RFG	293,957	16.5 %	252,282	31.8 %	191,468
Total net sales	\$ 856,824	9.5 %	\$ 782,510	13.2 %	\$ 691,451
As a percentage of net sales:					
Fresh products	58.4 %		60.2 %		64.8 %
Calavo Foods	7.3 %		7.6 %		7.5 %
RFG	34.3 %		32.2 %		27.7 %
	100 %		100 %		100 %

Summary

Net sales for the year ended October 31, 2015, compared to 2014, increased by \$74.3 million, or 9.5%. The increases in sales, when compared to the same corresponding prior year periods, are related to increases in sales from all segments.

For fiscal year 2015, our largest percentage increase in sales was RFG, followed by our Fresh products segment and our Calavo Foods segment, as shown above. Our increase in RFG sales was due primarily to increased sales from cut fruit and vegetables platters, as well as an increase in sales of deli products. Our increase in Fresh product sales during fiscal year 2015 was due primarily to increased sales of Mexican and Peruvian sourced avocados. Partially offsetting this increase in Fresh product sales for fiscal year 2015, however, were decreases in sales of California and Chilean sourced avocados, papayas, pineapples, and tomatoes. We experienced an increase in our Calavo Foods segment during fiscal year 2015, which was due primarily to an increase in the sales of our guacamole and salsa products. See discussion below for further details.

While the procurement of fresh avocados related to our Fresh products segment is very seasonal, our Calavo Foods business is generally not as seasonal.

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 2015 vs. Fiscal 2014:

Net sales delivered by the Fresh products business increased by approximately \$29.8 million, or 6.3%, for the year ended October 31, 2015, when compared to fiscal 2014. As discussed above, this increase in Fresh product sales during fiscal 2015 was primarily related to increased sales of Mexican and Peruvian sourced avocados, partially offset by decreases in sales of California and Chilean sourced avocados, papayas, pineapples, and tomatoes. See details below.

Sales of Mexican sourced avocados increased \$39.3 million, or 12.0%, for the year ended October 31, 2015, when compared to the same prior year period. The increase in Mexican sourced avocados was primarily due to an increase in the pounds sold, which increased by approximately 51.3 million pounds of avocados sold, or 20.1%, when compared to the same prior year period. Partially offsetting this increase in pounds sold, however, is a decrease in the sales price per carton. The sales price per carton for Mexican sourced avocados decreased by approximately 6.7%. We attribute much of this change to a higher supply of avocados in the market.

Sales of Peruvian sourced avocados increased to \$5.4 million for the year ended October 31, 2015, compared to \$0.8 million for the same period for fiscal 2014. The increase in Peruvian sourced avocados was primarily due to an increase in the pounds sold, which increased by approximately 5.2 million pounds.

Partially offsetting such increases was a decrease in sales of California sourced avocados, which decreased \$3.7 million, or 3.6% for the year ended October 31, 2015, when compared to the same prior year period. The decrease in California sourced avocados was primarily due to a decrease in the sales price per carton, which decreased approximately 5.0%. Partially offsetting this decrease, however, was an increase pounds sold. California sourced avocados sales reflect an increase in 1.1 million pounds of avocados sold, or 1.5%, when compared to the same prior year period.



Sales of Chilean sourced avocados decreased \$3.0 million, or 97.4%, for the year ended October 31, 2015, when compared to the same prior year period. The decrease in Chilean sourced avocados was primarily due to the Company's decision to focus more heavily on sourcing avocados from other growing regions outside the US, namely Mexico and Peru. As a result, Chilean sourced avocados sales reflect a decrease in 2.7 million pounds of avocados sold, when compared to the same prior year period. In addition, we have liquidated our unconsolidated subsidiary Calavo Chile, which further caused the above decrease.

Partially offsetting these increases were decreases in sales of pineapples, papayas and tomatoes. Sales of papayas decreased \$2.7 million, or 23.9%, sales of pineapples decreased \$2.7 million, or 52.9% and sales of tomatoes decreased \$1.0 million, or 5.2%, for the year ended October 31, 2015, when compared to the same period for fiscal 2014. The decrease in sales for pineapples, papayas, and tomatoes are primarily due to decreases in the number of cartons sold. We attribute all of these decreases in cartons sold due primarily to weather related issues effecting the quality and quantity of the fruit.

We anticipate that sales volume of California grown avocados will increase in fiscal 2016, due to a larger expected California avocado crop. We anticipate that sales of Mexican grown avocados will increase in fiscal 2016, when compared to the same prior year period, due to higher overall volume. In addition, we anticipate that sales volume of tomatoes will increase in fiscal 2016.

Fiscal 2014 vs. Fiscal 2013:

Net sales delivered by the Fresh products business increased by approximately \$22.6 million, or 5.0%, for the year ended October 31, 2014, when compared to fiscal 2013. As discussed above, this increase in Fresh product sales during fiscal 2014 was primarily related to increased sales of Mexican sourced avocados, partially offset by a decrease in sales from California sourced avocados. See details below.

Sales of Mexican sourced avocados increased \$91.9 million, or 39.2%, for the year ended October 31, 2014, when compared to the same prior year period. The increase in Mexican sourced avocados was due primarily to an increase in the sales price per carton, which increased by approximately 18.8%. We attribute this increase primarily to a lower overall volume of California avocados in the marketplace, due to a smaller crop, and an overall increase in the demand of quality avocados. In addition, there was an increase in the pounds sold, which increased by approximately 37.4 million pounds of avocados sold, or 17.2%, when compared to the same prior year period.

Sales of Chilean sourced avocados increased \$2.9 million for the year ended October 31, 2014, when compared to the same prior year period. The increase in Chilean sourced avocados was due to an increase in pounds sold. Chilean sourced avocados sales reflect an increased in 2.7 million pounds of avocados sold, when compared to the same prior year period. This increase in sales is due to the lower availability of California avocados, and an increased focus on obtaining an increased supply of avocados from more diversified sources.

Partially offsetting such increases was a decrease in sales of California sourced avocados, which decreased \$69.3 million, or 40.4% for the year ended October 31, 2014, when compared to the same prior year period. The decrease in California sourced avocados was primarily due to a decrease in pounds sold. California sourced avocados sales reflect a decrease in 67.0 million pounds of avocados sold, or 47.4%, when compared to the same prior year period. We attribute most of this decrease in volume to the cyclically smaller California avocado crop for fiscal 2014. Partially offsetting this decrease, however, was the increase in the sales price per carton, which increased by approximately 13.3%. We attribute this increase primarily to a lower overall volume of avocados in the marketplace and an overall increase in the demand for avocados.

Sales of tomatoes decreased to \$19.7 million for the year ended October 31, 2014, compared to \$22.6 million for the same period for fiscal 2013. The decrease in sales for tomatoes is due to a decrease in cartons sold to 1.9 million cartons from 2.6 million cartons. Partially offsetting this decrease is an increase in the sales price per carton, which increased approximately 19.6%. We attribute this increase in the per carton selling price primarily to the 2013 (tomato) suspension agreement, which increased the floor sales price of Mexican tomatoes sold in the U.S. marketplace.

Calavo Foods

Fiscal 2015 vs. Fiscal 2014:

Sales for Calavo Foods for the year ended October 31, 2015, when compared to the same period for fiscal 2014, increased \$2.9 million, or 4.9%. This increase is due to an increase in sales of prepared guacamole products which increased approximately \$2.3 million, or 3.9%, for the year ended October 31, 2015, when compared to the same prior year period. The increase in sales of prepared guacamole was primarily related to an increase in overall pounds sold, which increased 0.7 million pounds, or 2.8%. In addition, sales of salsa products increased approximately \$0.6 million, or 41.3%, for the year ended October 31, 2015, when compared to the same prior year period. The increase in sales of salsa was primarily related to an increase in overall pounds sold, which increased 0.4 million pounds, or 47.8%.

Fiscal 2014 vs. Fiscal 2013:

Sales for Calavo Foods for the year ended October 31, 2014, when compared to the same period for fiscal 2013, increased \$7.7 million, or 14.9%. This increase is due to an increase in sales of prepared guacamole products which increased approximately \$8.1 million, or 16.5%, for the year ended October 31, 2014, when compared to the same prior year period. The increase in sales of prepared guacamole was primarily related to an increase in overall pounds sold, which increased 4.8 million pounds, or 22.3%, partially offset by a decrease in the average net selling price per pound for

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both our frozen guacamole products and our refrigerated guacamole products of approximately 4.4%, primarily due to a change in the product mix.

## RFG

Fiscal 2015 vs. Fiscal 2014:

Sales for RFG for the year ended October 31, 2015, when compared to the same period for fiscal 2014, increased \$41.7 million, or 16.5%. This increase is due primarily to increased sales from cut fruit and deli products, as well as an increase in sales of cut vegetables. The overall increase in sales is primarily due to an increase in sales volume, partially offset by a decrease in the sales price per unit. Collectively, cut fruit, cut vegetable, and deli product sales increased 8.8 million units, or 31.2%. We believe the overall increase in sales volume is primarily due to an increase in demand for the variety of innovative products that we offer.

Fiscal 2014 vs. Fiscal 2013:

Sales for RFG for the year ended October 31, 2014, when compared to the same prior year period, increased \$60.8 million, or 31.8%. This increase is due primarily to increased sales from packaged fresh cut fruit, packaged fresh cut vegetables and fresh prepared and packaged deli style salads, sandwiches and wraps. The overall increase in sales is primarily due to an increase in sales volume. Collectively, cut fruit, cut vegetable, and deli product sales increased 18.8 million units, or 25.9%. We believe the overall increase in sales volume is primarily due to an increase in demand for the variety of innovative packaged fresh food products that we offer.

## Gross Margins

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

	2015	Change		2014	Change		2013
	(Dollars in thousands)						
Gross Margins:							
Fresh products	\$ 37,064	2.6	%	\$ 36,129	15.8	%	\$ 31,193
Calavo Foods	20,511	57.7	%	13,010	(2.8)	%	13,388
RFG	27,652	25.2	%	22,089	48.6	%	14,867

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Total gross margins	\$ 85,227	19.7	%	\$ 71,228	19.8	%	\$ 59,448
Gross margin percentages:							
Fresh products	7.4	%		7.7	%		7.0
Calavo Foods	33.0	%		21.9	%		25.9
RFG	9.4	%		8.8	%		7.8
Consolidated	9.9	%		9.1	%		8.6

Summary

Our cost of goods sold consists predominantly of fruit costs, packing materials, freight and handling, labor and overhead (including depreciation) associated with preparing food products and other direct expenses pertaining to products sold. Gross margins increased by approximately \$14.0 million, or 19.7%, for the year ended October 31, 2015, when compared to the same period for fiscal 2014. These increases were attributable to gross margin increases across all segments.

Note that RFG's Cost of Sales for fiscal 2014, and 2013, include non-cash compensation expense related to the sale/acquisition of RFG totaling \$1.8 million, and \$0.7 million. See Note 3 in our prior year Consolidated Financial Statements for more information.

Fresh products

Fiscal 2015 vs. Fiscal 2014:

During fiscal 2015, as compared to the same prior year period, the increase in our Fresh products segment gross margin percentage was primarily the result of increased margins for Mexican sourced avocados that increased from 8.1% in fiscal 2014 to 9.6% in fiscal 2015. In the current year, we were able to manage the spread between the sales price and the fruit cost of Mexican sourced avocados more effectively, as average fruit costs decreased 8.3%, we were able to have the decrease in sales prices to be only approximately 6.7%. In addition, the U.S. Dollar to Mexican Peso exchange rate strengthened in fiscal year 2015, more significantly compared to fiscal year 2014. Note that 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 products and Calavo Foods segments.

Partially offsetting this increase in gross margin percentage was a decrease in the gross margin percentage for California sourced avocados for fiscal 2015, as compared to the same prior year periods. This decrease was primarily related to increased fruit cost, in the form of higher grower returns vs. the related selling prices. We believe this is primarily due to California avocado sales prices decreasing for prolonged periods of time during fiscal 2015. This declining market negatively impacted gross margins.

The gross margin and/or gross profit percentage for consignment sales, including certain Peruvian avocados, Chilean avocados, tomatoes and pineapples, 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 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 year 2015 we generated gross margins of \$3.0 million from consigned sales. This is consistent for consigned sales compared to previous year. Sales of Peruvian sourced avocados increased to \$5.4 million for the year ended October 31, 2015, compared to \$0.8 million for the same period for fiscal 2014. The increase in Peruvian sourced avocados was primarily due to an increase in the pounds sold, which increased by approximately 5.2 million pounds. Sales of Chilean sourced avocados decreased \$3.0 million, or 97.4%, for the year ended October 31, 2015 when compared to the same prior year period. The decrease in Chilean sourced avocados was due to a decrease in pounds sold. Chilean sourced avocados sales reflect a decrease in 2.7 million pounds of avocados sold when compared to the same prior year period. This decrease in sales is due to the high availability of other avocado sources, and an increased focus on Mexican and California sourced avocados for the year ended October 31, 2015. In addition, we have liquidated our unconsolidated subsidiary Calavo Chile, which further caused the above decrease. Sales of tomatoes decreased to \$18.7 million for the year ended October 31, 2015, compared to \$19.7 million for the same period for fiscal 2014. The decrease in sales for tomatoes is due to a decrease in the sales price per carton, which decreased 7.2%. We believe this decline in the sales price per carton is due to the higher supply of tomatoes in the marketplace.

Fiscal 2014 vs. Fiscal 2013:

During fiscal 2014, as compared to the same prior year period, the increase in our Fresh products segment gross margin percentage was primarily the result of increased margins for Mexican sourced avocados that increased from 5.0% in fiscal 2013 to 8.1% in fiscal 2014. In the current year, we were able to manage the spread between the sales price and the fruit cost of Mexican sourced avocados more effectively. Average fruit costs increased 15.0%, while we were able to increase sales prices by approximately 18.8%. In addition, the U.S. Dollar to Mexican Peso exchange rate weakened in fiscal year 2013, while in fiscal 2014 the U.S. Dollar to Mexican Peso exchange rate strengthened. Note that 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 products and Calavo Foods segments.

Partially offsetting this increase in gross margin percentage was a decrease in the gross margin percentage for California sourced avocados for fiscal 2014, as compared to the same prior year periods. Gross margin percentages

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related to California avocados are largely dependent on production yields achieved at our packinghouses, current market prices of avocados, our packing and marketing fee, and volume of avocados packed. A significant portion of our costs are fixed. As such, a lower volume of fruit going through our packinghouses will decrease our gross margin percentage. Pounds of California avocados sold decreased 47.4% in fiscal 2014 as compared to fiscal 2013. This 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, tomatoes and pineapples, 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 2014, we generated gross margins of \$3.0 million from consigned sales. This is a \$0.1 million increase in gross margin for consigned sales compared to previous year. Sales of Chilean sourced avocados increased \$2.9 million for the year ended October 31, 2014, when compared to the same prior year period. The increase in Chilean sourced avocados was due to an increase in pounds sold. Chilean sourced avocados sales reflect an increased in 2.7 million pounds of avocados sold, when compared to the same prior year period. This increase in sales is due to the lower availability of California avocados, and an increased focus on obtaining an increased supply of avocados from more diversified sources. Sales of tomatoes decreased to \$19.7 million for the year ended October 31, 2014, compared to \$22.6 million for the same period for fiscal 2013. The decrease in sales for tomatoes is due to a decrease in cartons sold to 1.9 million cartons from 2.6 million cartons. Partially offsetting this decrease is an increase in the sales price per carton, which increased approximately 19.6%. We attribute this increase in the per carton selling price primarily to the 2013 (tomato) suspension agreement, which increased the floor sales price of Mexican tomatoes sold in the U.S. marketplace.

#### Calavo Foods

##### Fiscal 2015 vs. Fiscal 2014:

The Calavo Foods segment gross margin percentage during our year ended October 31, 2015, when compared to the same prior year period, increased primarily due to a decrease in fruit costs. Fruit costs decreased during our year ended October 31, 2015, by approximately 36.1%. In addition, the U.S. Dollar to Mexican Peso exchange rate strengthened for the year ended October 31, 2015, as compared to the same period year period. Note that any significant fluctuation in the cost of fruit used in the production process or 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 segments.

##### Fiscal 2014 vs. Fiscal 2013:



The Calavo Foods segment gross margin percentage during our year ended October 31, 2014, when compared to the same prior year periods, decreased primarily due to an increase in fruit costs. Fruit costs increased during our year ended October 31, 2014, by approximately 2.8%. In addition, gross margins decreased due to an increase in sales of frozen, high volume but low margin customers. Partially offsetting these decreases to the gross margin percentage was the strengthening of the U.S. Dollar compared to the Mexican Peso, which decreased many of our per pound costs.

RFG

Fiscal 2015 vs. Fiscal 2014:

RFG's improved gross-margin is reflective of certain economies of scale resulting from significant sales growth (see discussion above), improved labor utilization and improved raw-material quality and yield. Benefits from superior fruit quality/yield extend beyond just lower fruit costs, but also reduce other costs, including the labor needed to process such fruit. Sales for RFG for the year ended October 31, 2015, when compared to the same period for fiscal 2014, increased \$41.7 million, or 16.5%.

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Fiscal 2014 vs. Fiscal 2013:

Not considering the non-cash compensation expense, gross profit for RFG for the year ended October 31, 2014, when compared to the same prior year period, increased \$8.4 million, or 53.7%. RFG's improved gross-margin is reflective of certain economies of scale resulting from significant sales growth (see discussion above), improved labor utilization and improved raw-material quality and yield. Benefits from superior fruit quality/yield extend beyond just lower fruit costs, but also reduce other costs, including the labor needed to process such fruit.

#### Selling, General and Administrative

	2015	Change	2014	Change	2013
	(Dollars in thousands)				
Selling, general and administrative	\$ 41,558	13.5 %	\$ 36,605	9.3 %	\$ 33,485
Percentage of net sales	4.9 %		4.7 %		4.8 %

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 \$5.0 million, or 13.5%, for the year ended October 31, 2015, when compared to the same prior year period. This increase was primarily related to higher corporate costs, including, but not limited to, general and administrative costs related to salaries (approximately \$1.7 million), stock-based compensation expense (approximately \$1.4 million), a write-down of contingent consideration related to Salsa Lisa (approximately \$0.5 million), legal/consulting fees (approximately \$0.4 million), promotion and advertising (approximately \$0.3 million), data processing (approximately \$0.3 million), consulting fees (approximately \$0.3 million), workers compensation (approximately \$0.3 million), employee benefits (approximately \$0.2 million), and other admin fees (approximately \$0.2 million), partially offset by a decreases in the start-up operations of FreshRealm (approximately \$1.0 million) and accrued management bonuses (approximately \$0.6 million).

The increase in salaries (as mentioned above) is primarily due to additional employees to help expand customer processing and increasing servicing capacity. The increase in stock-based compensation is due to the amortization of restricted stock and the one time issuance of \$0.6 million related to the retirement of our former Chief Operating Officer/Chief Financial Officer. See Note 13 in our consolidated financial statements for additional information.

Selling, general and administrative expenses increased \$3.1 million, or 9.3%, for the year ended October 31, 2014, when compared to the same prior year period. This increase was primarily related to higher corporate costs,

including, but not limited to, general and administrative costs related to accrued management bonuses (approximately \$1.3 million), salaries (approximately \$1.2 million), non-cash compensation related to RFG acquisition (approximately \$0.5 million), stock-based compensation expense (approximately \$0.4 million), accounting fees (approximately \$0.4 million), bad debt expense (approximately \$0.2 million), employee benefits (approximately \$0.2 million), and other administration fees (approximately \$0.2 million), partially offset by a decrease in the expenses related to the start-up operations of FreshRealm (approximately \$0.9 million), and a write-down of contingent consideration related to Salsa Lisa (approximately \$0.3 million).

Contingent Consideration Related to RFG Acquisition

	2015	Change	2014	Change	2013
	(Dollars in thousands)				
Contingent consideration related to RFG acquisition	\$ —	NM	% \$ 51,082	55.4	% \$ 32,867
Percentage of net sales	—%		6.5	%	4.8 %

RFG's former owners received the maximum earn-out payment permitted pursuant to the acquisition agreement in fiscal 2014. This caused the significant increase in contingent consideration for fiscal 2014. There was no contingent

consideration expense for fiscal year 2015. There will be no future expenses related to this acquisition. See prior year's Consolidated Financial Statement for more information.

#### Interest Income

	2015	Change	2014	Change	2013
	(Dollars in thousands)				
Interest income	\$ 77	(66.2) %	\$ 228	(10.6) %	\$ 255
Percentage of net sales	—%		— %		— %

Interest income was primarily generated from our loans to growers. The decrease in interest income in fiscal 2015 as compared to 2014 is due to the borrowings by California avocado growers decreasing in the current year compared to the prior year.

The decrease in interest income in fiscal 2014 as compared to 2014 is due to the borrowings by California avocado growers decreasing in the current year compared to the prior year.

#### Interest Expense

	2015	Change	2014	Change	2013
	(Dollars in thousands)				
Interest expense	\$ 830	(15.6) %	\$ 983	(10.5) %	\$ 1,098
Percentage of net sales	0.1 %		0.1 %		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 2015, as compared to fiscal 2014, the decrease in interest expense was primarily related to a lower average outstanding balance on our non-collateralized, revolving credit facilities with FCW and BoA.

For fiscal 2014, as compared to fiscal 2013, the decrease in interest expense was primarily related to a lower average outstanding balance on our non-collateralized, revolving credit facilities with FCW and BoA.

#### Other Income, Net

	2015	Change	2014	Change	2013
	(Dollars in thousands)				
Other income, net	\$ 417	(11.8) %	\$ 473	5.6 %	\$ 448
Percentage of net sales	0.0 %		0.1 %		0.1 %

Other income, net includes dividend income, as well as certain other transactions that are outside of the normal course of operations. Other Income stayed relatively consistent in fiscal 2015 compared to fiscal 2014 and 2013. During fiscal 2015, 2014 and 2013, we received \$0.3 million as dividend income from Limoneira.

Not included in the other income discussion above, is the gain on the deconsolidation of FreshRealm that is disclosed on its own line on the income statement. See prior year's Consolidated Financial Statement for more information.

#### Provision (benefit) for Income Taxes

	2015	Change	Restated 2014	Change	Restated 2013
	(Dollars in thousands)				
Provision for income taxes	\$ 16,093	NM %	\$ (3,916)	(16.9) %	\$ (4,715)
Effective tax rate	37.2 %		(94.8) %		(63.7) %

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For fiscal year 2015, our provision for income taxes was \$16.1 million, as compared to a benefit of \$3.9 million recorded for the comparable prior year period. The prior year benefits for income taxes are primarily attributable to the revaluation adjustment related to contingent consideration.

The benefit for income taxes of \$3.9 million in fiscal year 2014 is attributable to the revaluation adjustment of \$88.1 million related to contingent consideration which was spread between fiscal year 2014 through fiscal year 2011. The prior year revaluation expense drove pre-tax book income into a loss position, thus causing a benefit for income taxes as this revaluation adjustment is capitalized and amortized as goodwill over the remaining useful life for income tax purposes resulting in a taxable income position for the prior year.

Quarterly Results of Operations

The following table presents our operating results for each of the eight fiscal quarters in the period ended October 31, 2015. 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 smaller volume of California avocados in our first fiscal quarter.

	Three months ended							
	Oct. 31, 2015	July 31, 2015	Apr. 30, 2015	Jan. 31, 2015	Oct. 31, 2014	July 31, 2014	Apr. 30, 2014	Jan. 31, 2014
	(in thousands, except per share amounts)							
Statement of Operations Data								
Net sales	\$ 207,994	\$ 232,450	\$ 221,589	\$ 194,791	\$ 200,749	\$ 218,702	\$ 194,894	\$ 168,165
Cost of sales	187,825	208,172	198,614	176,986	182,230	198,526	176,002	154,524
Gross margin	20,169	24,278	22,975	17,805	18,519	20,176	18,892	13,641
Selling, general and administrative	11,442	10,620	9,986	9,510	9,430	9,738	9,145	8,292
Contingent consideration – RFG acquisition	-	-	-	-	11,579	23,249	7,036	9,218
Operating income	8,727	13,658						