

CALAVO GROWERS INC
Form 10-Q
June 09, 2011

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

FORM 10-Q

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

For the quarterly period ended April 30, 2011

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, California 93060**

(Address of principal executive offices) (Zip code)

(805) 525-1245

(Registrant's telephone number, including area code)

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

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

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

Registrant's number of shares of common stock outstanding as of April 30, 2011 was 14,726,433

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CAUTIONARY STATEMENT

This Quarterly Report on Form 10-Q contains statements relating to our future results (including certain projections and business trends) that are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and are subject to the safe harbor created by those sections. Forward-looking statements frequently are identifiable by the use of words such as believe, anticipate, expect, intend, will, and other similar expressions. Our actual results may differ materially from those projected as a result of certain risks and uncertainties. These risks and uncertainties include, but are not limited to: increased competition, conducting substantial amounts of business internationally, pricing pressures on agricultural products, adverse weather and growing conditions confronting avocado growers, new governmental regulations, as well as other risks and uncertainties, including but not limited to those set forth in Part I., Item 1A, *Risk Factors*, in our Annual Report on Form 10-K for the fiscal year ended October 31, 2010, and those detailed from time to time in our other filings with the Securities and Exchange Commission. These forward-looking statements are made only as of the date hereof, and we undertake no obligation to update or revise the forward-looking statements, whether as a result of new information, future events, or otherwise.

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ITEM 1. FINANCIAL STATEMENTS****CALAVO GROWERS, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS (UNAUDITED)
(in thousands)**

	April 30, 2011	October 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,370	\$ 1,064
Accounts receivable, net of allowances of \$1,590 (2011) and \$1,372 (2010)	41,101	31,743
Inventories, net	21,820	14,831
Prepaid expenses and other current assets	5,429	8,424
Advances to suppliers	671	1,598
Income taxes receivable	1,904	1,816
Deferred income taxes	2,336	2,336
Total current assets	74,631	61,812
Property, plant, and equipment, net	42,341	41,059
Investment in Limoneira Company	38,046	34,986
Investment in unconsolidated entities	2,256	2,016
Goodwill	4,085	4,085
Other assets	4,702	6,240
	\$ 166,061	\$ 150,198
Liabilities and shareholders equity		
Current liabilities:		
Payable to growers	\$ 14,068	\$ 11,208
Trade accounts payable	2,291	2,839
Accrued expenses	12,781	15,353
Short-term borrowings	24,360	8,150
Dividend payable		8,092
Current portion of long-term obligations	1,371	1,369
Total current liabilities	54,871	47,011
Long-term liabilities:		
Long-term obligations, less current portion	6,053	6,089
Deferred income taxes	9,381	8,266
Total long-term liabilities	15,434	14,355
Commitments and contingencies		
Noncontrolling interest	524	575
Shareholders equity:		
Common stock, \$0.001 par value; 100,000 shares authorized; 14,727 (2011) and 14,712 (2010) issued and outstanding	14	14
Additional paid-in capital	42,642	42,319
Accumulated other comprehensive income	8,903	6,959

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Retained earnings	43,673	38,965
Total shareholder s equity	95,232	88,257
	\$ 166,061	\$ 150,198

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

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

	Three months ended		Six months ended	
	April 30,		April 30,	
	2011	2010	2011	2010
Net sales	\$ 118,720	\$ 109,219	\$ 210,039	\$ 176,539
Cost of sales	109,300	96,133	191,950	154,578
Gross margin	9,420	13,086	18,089	21,961
Selling, general and administrative	5,635	5,455	10,650	10,619
Operating income	3,785	7,631	7,439	11,342
Interest expense	(235)	(234)	(439)	(463)
Other income, net	458	467	684	732
Income before provision for income taxes	4,008	7,864	7,684	11,611
Provision for income taxes	1,634	3,090	3,020	4,563
Net income	2,374	4,774	4,664	7,048
Add: Net loss noncontrolling interest	30	19	51	19
Net income attributable to Calavo Growers, Inc.	\$ 2,404	\$ 4,793	\$ 4,715	\$ 7,067
Calavo Growers, Inc. s net income per share:				
Basic	\$ 0.16	\$ 0.33	\$ 0.32	\$ 0.49
Diluted	\$ 0.16	\$ 0.33	\$ 0.32	\$ 0.49
Calavo Growers, Inc. s shares used in per share computation:				
Basic	14,726	14,572	14,724	14,538
Diluted	14,734	14,598	14,731	14,562

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

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

	Three months ended		Six months ended	
	April 30,		April 30,	
	2011	2010	2011	2010
Net income	\$ 2,374	\$ 4,774	\$ 4,664	\$ 7,048
Other comprehensive income (loss), before tax:				
Unrealized holding gains (losses) arising during period	(847)	5,791	3,060	5,272
Income tax benefit (expense) related to items of other comprehensive income (loss)	330	(2,258)	(1,116)	(2,056)
Other comprehensive income (loss), net of tax	(517)	3,533	1,944	3,216
Comprehensive income	1,857	8,307	6,608	10,264
Add: Net loss noncontrolling interest	30	19	51	19
Comprehensive income Calavo Growers, Inc.	\$ 1,887	\$ 8,326	\$ 6,659	\$ 10,283

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

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

	Six months ended April 30,	
	2011	2010
Cash Flows from Operating Activities:		
Net income	\$ 4,664	\$ 7,048
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,839	1,627
Provision for losses on accounts receivable	3	
Income from unconsolidated entities	(404)	(369)
Interest on deferred consideration	35	48
Stock compensation expense	66	24
Deferred income taxes		505
Effect on cash of changes in operating assets and liabilities:		
Accounts receivable	(9,361)	(17,123)
Inventories, net	(6,989)	(3,458)
Prepaid expenses and other current assets	2,995	517
Advances to suppliers	927	2,121
Income taxes receivable	(44)	2,707
Other assets	(2)	(26)
Payable to growers	4,084	14,948
Income taxes payable		616
Trade accounts payable and accrued expenses	(3,155)	1,546
Net cash provided by (used in) operating activities	(5,342)	10,731
Cash Flows from Investing Activities:		
Acquisitions of and deposits on property, plant, and equipment	(2,806)	(2,433)
Collections from Agricola Belher		1,781
Distributions from unconsolidated entity	164	
Acquisition of Calavo Salsa Lisa LLC, net of cash acquired		(351)
Net cash used in investing activities	(2,642)	(1,003)
Cash Flows from Financing Activities:		
Payment of dividend to shareholders	(8,099)	(7,252)
Proceeds (payments) on revolving credit facilities, net	16,210	(2,230)
Payments on long-term obligations	(34)	(32)
Exercise of stock options	213	1,319
Net cash provided by (used in) financing activities	8,290	(8,195)
Net increase in cash and cash equivalents	306	1,533
Cash and cash equivalents, beginning of period	1,064	875
Cash and cash equivalents, end of period	\$ 1,370	\$ 2,408

Noncash Investing and Financing Activities:

Tax benefit related to stock option exercise	\$ 42	\$ 529
Construction in progress included in trade accounts payable	\$	\$ 74
Collection for Beltran Infrastructure Advance	\$ 1,225	\$
Unrealized investment holding gains	\$ 3,060	\$ 5,272

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

	2010
Current assets, excluding cash	\$ 214
Property, plant, and equipment	321
Goodwill	88
Intangible assets	1,950
Total assets acquired	2,573
Current liabilities	(55)
Noncontrolling Interest	(699)
Contingent consideration	(1,468)
Net non-cash assets acquired	\$ 351

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

Table of Contents**1. Description of the business*****Business***

Calavo Growers, Inc. (Calavo, the Company, we, us or our) procures and markets avocados and other perishable commodities and prepares and distributes processed avocado products. Our expertise in marketing and distributing avocados, processed avocados, and other perishable foods allows us to deliver a wide array of fresh and processed food products to food distributors, produce wholesalers, supermarkets, and restaurants on a worldwide basis. We procure avocados principally from California, Mexico, and Chile. Through our operating facilities in Arizona, California, Hawaii, New Jersey, Texas, and Mexico, we sort, pack, and/or ripen avocados, tomatoes and/or Hawaiian grown papayas for distribution both domestically and internationally. We also have an operating facility in Minnesota that produces salsa. We report our operations in two different business segments: Fresh products and Calavo Foods.

The accompanying unaudited condensed consolidated financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments, consisting of adjustments of a normal recurring nature necessary to present fairly the Company's financial position, results of operations and cash flows. The results of operations for interim periods are not necessarily indicative of the results that may be expected for a full year. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended October 31, 2010.

Recently Adopted Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued revised guidance for the accounting of transfers of financial assets. This guidance is intended to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. The adoption of this accounting guidance did not have a material impact on our financial position, results of operations or liquidity.

In June 2009, the FASB issued revised guidance for the accounting of variable interest entities, which replaces the quantitative-based risks and rewards approach with a qualitative approach that focuses on identifying which enterprise has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance. This accounting guidance also requires an ongoing reassessment of whether an entity is the primary beneficiary and requires additional disclosures about an enterprise's involvement in variable interest entities. The adoption of this accounting guidance did not have a material impact on our financial position, results of operations or liquidity.

Recently Issued Accounting Standards

In December 2010, the FASB issued an update to modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. The qualitative factors are consistent with the existing guidance, which requires that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. This accounting guidance will be effective for financial statements issued for fiscal years beginning after December 15, 2010, and interim periods within those fiscal years. Early adoption is not permitted.

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We do not believe that adoption of this guidance will have a material impact on our financial position and results of operations.

Reclassifications

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

2. Information regarding our operations in different segments

We report our operations in two different business segments: Fresh products and Calavo Foods. These two business segments are presented based on how information is used by our Chief Executive Officer to measure performance and allocate resources. The Fresh products segment includes all operations that involve the distribution of avocados and other fresh produce products. The Calavo Foods segment represents all operations related to the purchase, manufacturing, and distribution of prepared products, including guacamole, tortilla chips, and salsa products. Additionally, selling, general and administrative expenses, as well as other non-operating income/expense items, are evaluated by our Chief Executive Officer in the aggregate. We do not allocate assets, or specifically identify them to, our operating segments. The following table sets forth sales by product category, by segment (in thousands):

	Six months ended April 30, 2011			Six months ended April 30, 2010		
	Fresh products	Calavo Foods	Total	Fresh products	Calavo Foods	Total
Third-party sales:						
Avocados	\$ 160,293	\$	\$ 160,293	\$ 111,253	\$	\$ 111,253
Tomatoes	20,112		20,112	33,867		33,867
Papayas	6,388		6,388	5,018		5,018
Pineapples	594		594	2,655		2,655
Other Fresh products	1,506		1,506	1,343		1,343
Calavo Foods food service		17,790	17,790		18,297	18,297
Calavo Foods retail and club		8,154	8,154		8,657	8,657
Total gross sales	188,893	25,944	214,837	154,136	26,954	181,090
Less sales incentives	(587)	(4,211)	(4,798)	(552)	(3,999)	(4,551)
Net sales	\$ 188,306	\$ 21,733	\$ 210,039	\$ 153,584	\$ 22,955	\$ 176,539

	Three months ended April 30, 2011			Three months ended April 30, 2010		
	Fresh products	Calavo Foods	Total	Fresh products	Calavo Foods	Total
Third-party sales:						
Avocados	\$ 90,645	\$	\$ 90,645	\$ 67,671	\$	\$ 67,671
Tomatoes	13,195		13,195	25,803		25,803
Papayas	2,971		2,971	2,541		2,541
Pineapples	593		593	930		930
Other Fresh products	593		593	719		719
Calavo Foods food service		9,312	9,312		10,040	10,040
Calavo Foods retail and club		3,945	3,945		4,070	4,070
Total gross sales	107,997	13,257	121,254	97,664	14,110	111,774
Less sales incentives	(347)	(2,187)	(2,534)	(417)	(2,138)	(2,555)

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Net sales	\$ 107,650	\$ 11,070	\$ 118,720	\$ 97,247	\$ 11,972	\$ 109,219
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	Fresh products	Calavo Foods	Total
	(All amounts are presented in thousands)		
Six months ended April 30, 2011			
Net sales	\$ 188,306	\$ 21,733	\$ 210,039
Cost of sales	174,559	17,391	191,950
Gross margin	\$ 13,747	\$ 4,342	\$ 18,089
Six months ended April 30, 2010			
Net sales	\$ 153,584	\$ 22,955	\$ 176,539