
**CALAVO GROWERS, INC.** 2012 Annual Report

# It's *Our* Time...

7:00 a.m.


...It's *Your* Time.

7:15 a.m.

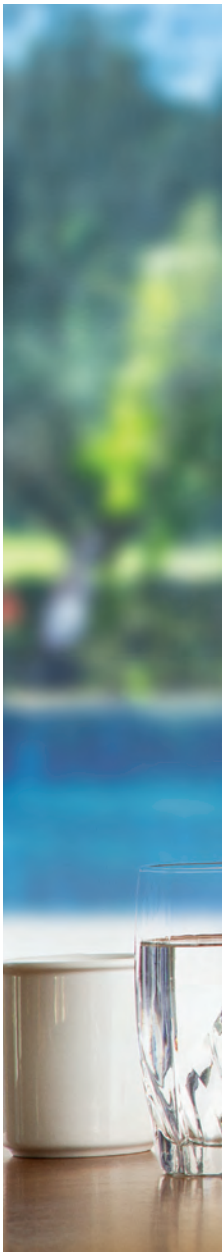
## In business and in life, timing is critical. Hence, expressions such as, "There's a time and a place for everything." Or, "It'll happen when the time is right."

At Calavo, the time is, indeed, right. *It's Our Time.* We pioneered avocado marketing. Fast forwarding nearly 90 years, Calavo today finds itself at the center of booming consumption of fresh avocados. Consumers gobble them down like never before. Products reach customers faster, fresher and ripened ready-to-eat.

Calavo leveraged this leadership into more great tastes—diversified produce, prepared guacamole and salsas, and more refrigerated fresh products than can be imagined…with more coming every day.

It's not only Calavo's moment—*It's Your Time*, as well. Fresh and healthful tastes for the whole family—convenience for consumers and products that appeal to every palate. Delicious and flavorful products available more places than ever—when, where and how you want them.

It's no surprise then. Sales are soaring. Profits are rising. Dividends are expanding. It was quite a fiscal 2012***—both our time and yours.***




**LEE E. COLE,** Chairman, President and CEO, kicks off each day with a healthy start of fresh pineapple and papaya from Calavo or, for variety, a Garden Highway fruit medley.

# To *Our* Shareholders,

Calavo Growers, Inc. completed a very successful fiscal 2012, with our results driven by strong operating performances in each of the company's three business units. Revenues and gross margin reached new all-time highs. Net income and per-share results shattered previous records before giving effect to an extraordinary item related to a disputed matter with Mexico's tax authority. Even after the impact of that charge, Calavo still posted the second-highest net income and earnings per share figures in its history—a formidable showing that punctuates the underlying vitality of our businesses.

For the fiscal year ended October 31, 2012, net income reached $17.1 million, equal to $1.15 per diluted share, an increase of 54 percent from $11.1 million, or $0.75 per share, one year earlier. Net income before the effect of the extraordinary Mexican tax charge equaled $18.9 million, or $1.27 per diluted share. Revenues expanded five percent to $551.1 million from the previous historic high of $522.5 million reached in fiscal 2011. Total gross margin benefited from improvements in each business unit, rising to $60.7 million, a 43 percent increase from $42.3 million 12 months earlier.

On the strength of this performance, Calavo's board of directors increased the annual cash dividend for our common stock by 18 percent to $0.65 per share. Over the past decade, our company's annual cash dividend has risen 225 percent from $0.20 in fiscal 2002, indicative of Calavo's unwavering commitment to shareholder returns. Elsewhere in this annual report, we discuss specifically how the company has built share value, delivering outstanding returns during its first decade as a public company. The figures are formidable and we are duly proud of them, particularly when considered in the context that these results have been achieved: the worst recession since the Great Depression and a fragile and still-tentative economic recovery.

The preceding reinforces what our management team has believed all along: we have created outstanding business platforms and will continue executing them with focus and discipline. As the unrivaled avocado-market leader, Calavo is, inarguably, the prime beneficiary of an industry experiencing explosive growth. We played a significant role in creating the market for avocados and continue to drive this industry nearly 90 years later. The available avocado supply is estimated to reach 1.65 billion pounds in 2013, up from 1.4 billion pounds last year and an increase from 1 billion pounds just five years ago. Demographic shifts, specifically a growing Hispanic population, and an emphasis on healthful eating are driving the rise in consumption. Factor in effective industry advertising and promotion—with events including the Super Bowl and Cinco de Mayo generating record avocado sales each year—and the trend line rises further.

As someone who has personally spent nearly 50 years in the avocado business, I confidently can say that as the industry burgeons around us, expanding faster than ever, Calavo is at its epicenter and best positioned to capitalize on

**REVENUE**
*(Dollars in Millions)*


**GROSS MARGIN**
*(Dollars in Millions)*

growth. In 2012, in anticipation of this continued avocado-market expansion, we doubled the capacity of our Mexican packing operations in Uruapan, Michoacán. Calavo now possesses company-wide capacity to pack approximately 600 million pounds of fresh avocados through its three facilities. We will not be content to simply maintain our current market leadership. Instead, we intend to seize a still-larger share of the fresh avocado market and pursue growth aggressively. With Calavo's infrastructure, distribution and marketing strength, we believe capturing an outsized slice of this year's expected additional 250-million-plus pounds of fresh avocados is well within our reach. Each year, our value-added fresh avocados—bagged and ProRipeVIP® fruit—account for a larger portion of the business segment's sales. Moreover, our added capacity in Mexico enables us to supply rapidly growing markets for avocados, such as Asia-Pacific, and most notably Japan, where our fresh sales could prospectively double this year.

The amazing avocado revolution's benefit to our Calavo Foods unit is equally notable. Consumption trends are on the rise in prepared avocado products, as well. Strong results last year in our Calavo Foods business segment bear this out, with gross margins snapping back to record levels in fiscal 2012 from the prior year, owing to a larger supply of available fruit in the marketplace at more favorable prices. Fiscal 2013 should look even better, as we expect continued strong margins to be accompanied by significant market penetration among retail and food service customers alike to jump-start revenue growth in the unit. At the core of Calavo Foods are, simply put, outstanding prepared products: healthy, delicious and innovative. We were at the forefront of bringing ultra-high-pressure (UHP) food preparation to the avocado industry. These fresh-tasting, long-shelf-life products continue to draw the interest of retail and food service clients and reinforce that the future of this business segment resides squarely in UHP.

We continue to innovate to those ends. Specifically, during fiscal 2013, we are rolling out commercially to the retail grocery channel our latest advancement: UHP avocado halves. Granted, I find more beauty in the avocado than the "average Joe" on the street. However, the new halves are simply stunning and must be seen to be appreciated. The packaging is cutting-edge, almost futuristic, and showcases vacuum-sealed seedless halves with a 75-day shelf life if unopened. The product is attracting considerable "buzz." It is a boon to consumer convenience and a further indication that great things come in Calavo packages.

Fiscal 2012 marked the first full year of Renaissance Food Group, LLC (RFG) being part of the Calavo family of brands. RFG—whose results we now report as its own business unit distinct from the legacy Calavo Foods segment—performed to our expectations. We integrated RFG seamlessly into our company and look continuously for ways to leverage our ownership. "Synergies" is a tired and overused word in business, especially when trying to justify acquisitions. But, frankly, it truly fits and is appropriate in the context of Calavo and RFG. Consider commodities such as fresh pineapple. RFG requires tons in its various refrigerated fresh packaged products each

**NET INCOME**

*(Dollars in Millions)*


**EARNINGS PER SHARE**

*(Dollars)*

year and Calavo is able to source and supply the best available fruit for its operating subsidiary. This sort of vertical integration is indicative of how the RFG acquisition is benefitting us and the synergies we're deriving. Beyond our complementary distribution strengths, RFG is an energizing presence—showcasing clock speed in everything from time-to-market to new-product introduction.

Turning to diversified fresh produce, we see these highly complementary extensions to our avocado business providing greater incremental contributions in the new year. We anticipate growth in fresh tomato volume and recovery in pricing from fiscal 2012, when an extreme industry oversupply from Mexico resulted in the bottom falling out of the market. Fresh papayas and aforementioned pineapple performed favorably for Calavo last year and we anticipate maintaining that upward arc. Consumption grows for both—demand is there in the marketplace—and we are able to source outstanding product in each category: pineapples from Costa Rica and papayas from the eastern slopes of the island of Hawaii. Both reinforce the Calavo brand's reputation for quality.

The question I am asked more than any other is, "Lee, when can we expect Calavo to make another significant acquisition?" The short answer is we are always on the look-out. To elaborate further, though, big transactions that fit our specific criteria are very difficult to come by. While we possess the financial resources and track record of success, we are judicious and disciplined—and that is not going to change. Consequently, we take a lot of "passed balls" before swinging at the "right pitch," such as an RFG. That said, with the rapid growth of the avocado industry and our "sweet spot" market position, we see opportunities on the horizon to fold-in smaller competitors which will find themselves increasingly marginalized and at a disadvantage in a fast-moving industry. We expect to principally expand our avocado operations organically through internal growth—and are poised to do so—but do not rule out the prospect of complementary, accretive acquisitions either. The next several years will undoubtedly result in consolidation across the avocado industry.

From an operating standpoint, expect Calavo to stay the course. Our strategic blueprint serves us well and we will not be deviating from it. I have never been more confident about the future of the industry or our company. From all indicators, I expect Calavo again to deliver record operating results in fiscal 2013. In every respect, *It's Our Time*, a most fitting theme message for this year's annual report. The second half of that theme, *It's Your Time*, applies equally to our customers, consumers who enjoy our outstanding array of products, and to you, our shareholders.

In closing, let me extend appreciation not only to the above-mentioned stakeholders, but also single out for praise our senior management team, 1,500-plus employees and sage board of directors. Calavo's sustained success is, in large measure, a testament to their dedication and indefatigable efforts. I am enormously grateful and look forward to new heights ahead.

Sincerely,

**Lee E. Cole**
Chairman, President
and Chief Executive Officer
March 4, 2013

**THERE'S NO TIME LIKE THE PRESENT**

Calavo hits the "sweet spot" as a rapidly growing player in a high-growth industry with a track record of expanding revenues, income and shareholder value. We are ideally positioned: the leader in fresh avocado packing, marketing and distribution with outstanding brand identity and a reputation for quality. Driven by taste, health benefits and an expanding Hispanic population, U.S. avocado consumption is showing explosive growth, rising in the past five years from one billion pounds to an estimated 1.65 billion in 2013.

Adding to our core leadership position in California avocados, Calavo serves this growing market with global, multi-market sourcing including fruit from Mexico and Chile to support sharply expanding consumption—in the U.S. and other geographies.

Additionally, Calavo doubled capacity at our Uruapan, Mexico packinghouse in 2012 to meet this fast rising demand and we now have the ability to pack 600 million pounds annually. With our strength in the fresh avocado market as a solid base, our company's talented management team is expanding the product base through a program of targeted acquisitions, such as Renaissance Food Group (RFG), and internal product development.

*With our active family and always-on-the-go lifestyle,*
*a healthy diet is essential.*

*We work hard and play hard. I'm training for a half-marathon and fresh avocados—sliced on whole-grain toast before my morning run—*

*are packed with nutrients:*

*more potassium than bananas*
*and full of monounsaturated "good fats."*


*Our household is one tough-to-please bunch.*
*Everyone's eating preferences are different.*

*These days, though, finding the trusted Calavo brand throughout my supermarket has never been easier*
*—with more choices than ever before.*
*Fresh vegetables and fruit.*
*Savory guacamole and dips.*
*Salads, sandwiches and meal fixings.*
*There's always something for everyone.*

**IT'S ALL ABOUT TIME TO MARKET**

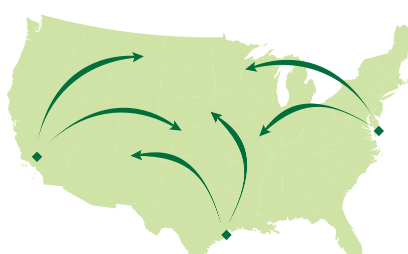
Far from being a simple "commodity" business, Calavo's operations are highly complex, requiring sophisticated capabilities for the efficient distribution and tailoring of fresh products to specific customer needs. Our company's comprehensive national distribution network represents a key competitive advantage. Calavo serves customers with three strategically located Value Added Depots located in California, Texas and New Jersey. These facilities feature the company's proprietary ProRipeVIP® technology, the industry's most capable ripening technology, which allows Calavo to tailor product specifically to retailer requirements. Pre-ripened fruit today represents the fast-growing segment of fresh avocado sales.

RFG further strengthened and enhanced Calavo's distribution capabilities. Its six regional production/distribution facilities have been fully integrated into our nationwide network. RFG's strength reflects its high service levels and closeness to customers with frequent deliveries tailored to customer requirements. Not to mention, there's the RFG commitment to quality—long a Calavo hallmark, too. Timely, responsive service enables tighter inventory control and enhanced profitability for customers. For better customer service, all Calavo and RFG products may be ordered on the same purchase order with the same lead times.

*It's crunch time.*

*Tomorrow's presentation needs polishing and budget projections are due at headquarters before the end of business. Skipping lunch is not an option —but I'm chained to my desk.*

*Good thing for "grab 'n go" salads and my favorite sandwich wraps.*



*They're straight from the grocer's refrigerated deli case. But so delicious and healthy that, if I didn't know better, I'd say they were homemade.*


**PUTTING OUR CUSTOMERS FIRST**

Calavo has developed a Who's Who roster of retail grocery clients and we're expanding our in-store footprint by increasing value to store operators with more high-quality product offerings, plus better and faster service levels.

We have leveraged leadership in fresh avocados by adding more fresh products such as pineapples, tomatoes and papayas under the Calavo banner, which spells quality to the consumer.

The acquisition of RFG further expands the company's presence into the fresh refrigerated and deli departments. RFG offers a wide range of healthful, convenient offerings and stresses aggressive product development and innovation. RFG products are tailored to the needs of today's active lifestyles and fit well with Calavo's popular tortilla chips, guacamole dips and salsas. The company provides retailers with a high level of marketing and merchandising support as well as national distribution coverage. The goal is to become ever closer to retailers with just-in-time deliveries, providing customers with their desired products when they want them.


**TIME IS OF THE ESSENCE**

With the addition of RFG, we are now solidly positioned in the high-growth refrigerated food industry with its enormous future potential. RFG's product innovation, expanding product lineup, responsiveness to customer needs, speed and time-to-market are expected to spur ongoing growth. The retail landscape is evolving in line with America's changing lifestyles as busy consumers with commitments to work and family strive for greater convenience. For many, time consuming food preparation is no longer an option. At the same time, demand continues to rise for healthful, guilt-free eating.

Avocados, packed with healthful, monounsaturated fats, vitamins and minerals, continue to gain in popularity with rising awareness of their appealing taste and the many health benefits they provide.

At the same time, RFG meets customer needs for convenience and delicious food with its expanding line-up of fresh-cut fruits and vegetables, salads, salad kits, sandwiches, wraps and more. These provide an excellent complement to Calavo's guacamole, guacamole hummus, delicious salsas and chips.


*The kids are clamoring for their favorite dinner—chicken fajitas.*
*But with shuttling between after-school soccer practice,*
*piano lessons and errands,*
*who has time?*

*Chef Essentials pre-cut fajita veggies*
*let me cut to the chase instead of chopping and dicing*
*—a real time saver.*

*Served with Calavo guacamole and salsa on the side, we have a healthy*
*and delicious dinner in no time flat.*

*"Because I said so!"*

*"No cookies for dessert!" Saying no to our "little angels" isn't easy for dear ol' dad. With Calavo's fresh golden pineapple, sun-kissed papaya or Garden Highway cut fruits, we don't have to, and can provide the kids healthy choices that reinforce good eating habits.*

*Add a dollop of reduced-fat whipped cream or a scoop of frozen yogurt and—yum!—check out the smiles.*

**BUILDING SHAREHOLDER VALUE**

Over the years, Calavo has compiled a truly enviable track record of stellar financial performance, and our shareholders have reaped the benefits with substantial increases in stock price and total return. Since becoming publicly traded in 2002, Calavo's market value has registered an increase of approximately four-fold. Market capitalization at the close of the most recent fiscal year was about $350 million. Stock price has risen from approximately $7 per share to a range in the mid-to- high twenties with an all-time high of $30.24 set in 2012. An initial investment of $10,000 made in 2002 would be worth $43,000 at October 31, 2012, including reinvested dividends.

Over the past ten years, Calavo's sales and earnings have grown at annual rates of 8.5 percent and 9.4 percent, respectively. From our beginnings nearly 90 years ago as a small grower cooperative, we have emerged as a high-growth force in its sector of the agribusiness industry—an undisputed category leader.

Calavo's total return to shareholders also reflects consistent dividend growth. Since its entry into the Nasdaq market, Calavo has increased its payout to shareholders by 225 percent. The cash dividend has more than tripled from 20 cents per share in 2002 to 65 cents in 2012.

Our success results from a seasoned management team which has guided internal growth and a carefully targeted acquisition program. With exploding demand for fresh avocados and the fresh refrigerated grocery business on the rise, Calavo offers investors the rare combination of a growth stock in a traditionally defensive market segment.

## Board of Directors
*(from left to right)*

**EGIDIO "GENE" CARBONE, JR.**
Retired CFO
Calavo Growers, Inc.

**JOHN M. HUNT**
Manager
Embarcadero Ranch
Goleta, CA

**HAROLD S. EDWARDS**
President and CEO
Limoneira Company
Santa Paula, CA

**LECIL E. COLE**
Chairman, President and CEO
Calavo Growers, Inc.
Santa Paula, CA

**JAMES D. HELIN**
President, CEO
JDH Associates
Los Angeles, CA

**SCOTT N. VAN DER KAR**
General Manager
Van Der Kar Family Farms
Carpinteria, CA

**MARC L. BROWN**
Attorney/Partner
Troy Gould PC

**J. LINK LEAVENS**
General Manager
Leavens Ranches
Ventura, CA

**STEVEN W. HOLLISTER**
Vice President
Sunrise Mortgage & Investment Co.
San Luis Obispo, CA

**DORCAS H. THILLE**
Owner and Operator
J.K. Thille Ranches
Santa Paula, CA

**DONALD "MIKE" SANDERS**
President,
S&S Grove Management
Escondido, CA

**GEORGE H. "BUD" BARNES**
Avocado Grower
Valley Center, CA

Calavo Growers, Inc. is a leading packer and marketer of fresh and prepared avocados throughout the United States and other countries globally, as well as an expanding distributor of other diversified produce items sold under the company's well-respected brand name and its Maui Fresh label, a wholly owned subsidiary. The company supplies wholesale, retail, restaurant and institutional food service customers on a world-wide basis through its three principal operating units—Fresh products, Calavo Foods and Renaissance Food Group, LLC (RFG).

Calavo packs, markets and distributes about 23 percent of the available all-source fresh avocado supply to the United States and Canada, nearly twice the market share of its closest competitor. The company sources these avocados from California, Mexico and Chile to satisfy year-round domestic demand, for export and for use in prepared products. Calavo is also a leading marketer of fresh fruit grown in the Hawaiian Islands, including papayas and other tropical-produce items. Other diversified fresh produce items include Calavo-brand tomatoes and pineapples, as well as Hispanic specialties such as a wide range of chilies.

The company's Calavo Foods business unit manufactures and distributes prepared items including fresh refrigerated guacamole and other avocado products, as well as guacamole hummus. Under the Calavo Salsa Lisa brand, the company produces and sells six varieties of wholesome refrigerated fresh salsa made with all-natural ingredients. The company also distributes Calavo Premium Tortilla Chips. Calavo's RFG business unit, acquired in June 2011, is a leader in the fast-growing refrigerated fresh packaged goods category through an array of retail product lines for produce, deli, meat and food-service departments sold under brands that include Garden Highway and Chef Essentials.

Founded in 1924 as a grower-owned cooperative, Calavo today is publicly traded on the Nasdaq Global Select Market under the ticker symbol CVGW. Employing more than 1,500 people, the company is headquartered in Santa Paula, California, where it also operates one of three fresh-avocado packinghouses and a Value Added Depot, housing sales, distribution and advanced ripening technologies. Calavo's additional two packinghouses are located in Temecula, California and Uruapan, Michoacán, Mexico, where the company also operates its prepared-avocado manufacturing facility. There are additional Value Added Depots equipped with the company's proprietary ProRipeVIP® technology in Dallas, Texas and Swedesboro, New Jersey. RFG operates six production and distribution centers strategically situated across the United States.

## In Memoriam

**ALVA V. SNIDER**
Avocado Grower
Fallbrook, CA

Calavo's management and board of directors mourn the passing of Alva Snider. Alva served with tireless distinction as a member of our board of directors from 1987 until his death in 2012. He was also a 25-year member of the California Avocado Commission. We dedicate these pages in his memory.

# Selected Consolidated Financial Data

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

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

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



*(1) In October 2012, we entered into a sale agreement with SRD, pursuant to which the Company has agreed to sell to SRD all of our interest, representing one-half ownership, in Maui Fresh for $2.6 million. This transaction resulted in a gain on sale of approximately $0.5 million. See Note 17 in our consolidated financial statements for further information about the sale of Maui Fresh.*

*(2) Operating results for fiscal 2012 and 2011 and balance sheet data as of end of those respective periods include the acquisition of RFG from the date of acquisition of June 1, 2011. For fiscal year 2012, RFG net sales, gross margins, and net income before taxes were $154.1 million, $12.4 million and $4.5 million. For fiscal year 2011, RFG net sales, gross margins, and net income before taxes were $56.7 million, $4.3 million and $1.2 million. We have paid the Sellers $14.2 million in cash, net of adjustments based on RFG's financial condition at closing. See Note 16 to our consolidated financial statements for further discussion of this acquisition.*

*(3) Operating results for fiscal 2012, 2011 and 2010 include the acquisitions of CSL from the date of acquisition of February 8, 2010. For fiscal year 2012, CSL's net sales and gross losses were $2.1 million and $0.5 million. Net loss was not significant. For fiscal year 2011, CSL's net sales and gross losses were $1.8 million and $0.3 million. Net loss was not significant. For fiscal year 2010, CSL's net sales and gross losses were $0.8 million and $0.4 million. Net loss was not significant.*

*(4) For fiscal year 2011, we made a $3.0 million infrastructure advance to Agricola Belher. For fiscal year 2012 and 2010, we did not make an infrastructure advance to Agricola Belher. For fiscal 2012, the 2012 payment was not made and both parties agreed to defer the payment until 2013. We collected $1.2 million and $1.8 million in fiscal years 2011 and 2010 related to infrastructure advances.*

## Senior Management
*(from left to right)*

**MIKE BROWNE**
Vice President
Fresh Operations

**ROB WEDIN**
Vice President
Fresh Sales and
Marketing

**AL AHMER**
Vice President
Processed Product Sales
and Operations

**ARTHUR J. BRUNO**
Chief Operating Officer
Chief Financial Officer
and Corporate Secretary

# 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 our annual report on Form 10-K.*

## OVERVIEW

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

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

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

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

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

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

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

### Recent Developments

*Dividend Payment*

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

*Contingencies*

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

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

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



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

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

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

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

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

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

## CRITICAL ACCOUNTING ESTIMATES

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

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

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

*Promotional allowances*

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

*Income taxes*

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

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

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

*Goodwill and acquired intangible assets*

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

*Contingent consideration:*

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

*Allowance for accounts receivable.*

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

## RESULTS OF OPERATIONS

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

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

### Net Sales

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

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

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

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

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

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

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

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

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

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

| | YEAR ENDED OCTOBER 31, 2012 | | | | YEAR ENDED OCTOBER 31, 2011 | | | |
|---|---|---|---|---|---|---|---|---|
| | FRESH PRODUCTS | CALAVO FOODS | RFG | TOTAL | FRESH PRODUCTS | CALAVO FOODS | RFG (1) | TOTAL |
| **THIRD-PARTY SALES:** | | | | | | | | |
| Avocados | $ 318,556 | $ — | $ — | $ 318,556 | $ 376,980 | $ — | $ — | $ 376,980 |
| Tomatoes | 11,404 | — | — | 11,404 | 23,903 | — | — | 23,903 |
| Papayas | 12,753 | — | — | 12,753 | 13,245 | — | — | 13,245 |
| Pineapples | 6,840 | — | — | 6,840 | 4,278 | — | — | 4,278 |
| Other fresh products | 1,788 | — | — | 1,788 | 3,276 | — | — | 3,276 |
| Food service | — | 36,289 | — | 36,289 | — | 37,431 | — | 37,431 |
| Retail and club | — | 19,758 | 157,333 | 177,091 | — | 17,204 | 58,020 | 75,224 |
| Total Gross Sales | 351,341 | 56,047 | 157,333 | 564,721 | 421,682 | 54,635 | 58,020 | 534,337 |
| Less sales incentives | (759) | (9,623) | (3,220) | (13,602) | (1,024) | (9,484) | (1,300) | (11,808) |
| Net sales | $ 350,582 | $ 46,424 | $ 154,113 | $ 551,119 | $ 420,658 | $ 45,151 | $ 56,720 | $ 522,529 |

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

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

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

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

The following table summarizes our net sales by business segment:

| (Dollars in thousands) | 2012 | CHANGE | 2011 | CHANGE | 2010 |
|---|---|---|---|---|---|
| **NET SALES:** | | | | | |
| Fresh products | **$ 350,582** | (16.7%) | $ 420,658 | 20.9% | $ 348,052 |
| Calavo Foods | **46,424** | 2.8% | 45,151 | 10.1% | 50,299 |
| RFG | **154,113** | 171.7% | 56,720 | N/A | — |
| Total net sales | **$ 551,119** | 5.5% | $ 522,529 | 31.2% | $ 398,351 |
| **AS A PERCENTAGE OF NET SALES:** | | | | | |
| Fresh products | **63.6%** | | 80.5% | | 87.4% |
| Calavo Foods | **8.4%** | | 8.6% | | 12.6% |
| RFG | **28.0%** | | 10.9% | | — |
| | **100.0%** | | 100.0% | | 100.0% |

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

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

*Fresh products*

**Fiscal 2012 vs. Fiscal 2011:**

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

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

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

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

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

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

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

**Fiscal 2011 vs. Fiscal 2010:**

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

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

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

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

*Calavo Foods*

**Fiscal 2012 vs. Fiscal 2011:**

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

**Fiscal 2011 vs. Fiscal 2010:**

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

*RFG*

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

## Gross Margins

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

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

| (Dollars in thousands) | 2012 | CHANGE | 2011 | CHANGE | 2010 |
|---|---|---|---|---|---|
| **GROSS MARGINS:** | | | | | |
| Fresh products | $ **34,295** | 9.6% | $ 31,287 | (18.6%) | $ 38,443 |
| Calavo Foods | **14,002** | 107.5% | 6,748 | (48.4%) | 13,087 |
| RFG | **12,369** | 189.5% | 4,273 | N/A | — |
| Total gross margins | $ **60,666** | 43.4% | $ 42,308 | (17.9%) | $ 51,530 |
| **GROSS PROFIT PERCENTAGES:** | | | | | |
| Fresh products | **9.8%** | | 7.4% | | 11.0% |
| Calavo Foods | **30.2%** | | 14.9% | | 26.0% |
| RFG | **8.0%** | | 7.5% | | — |
| Consolidated | **11.0%** | | 8.1% | | 12.9% |

*Fresh products*

**Fiscal 2012 vs. Fiscal 2011:**

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

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

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

**Fiscal 2011 vs. Fiscal 2010:**

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

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

*Calavo Foods*

**Fiscal 2012 vs. Fiscal 2011:**

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

**Fiscal 2011 vs. Fiscal 2010:**

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

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

*RFG*

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

| SELLING, GENERAL AND ADMINISTRATIVE<br>*(Dollars in thousands)* | 2012 | CHANGE | 2011 | CHANGE | 2010 |
|---|---|---|---|---|---|
| Selling, general and administrative | $ 33,128 | 38.2% | $ 23,976 | 3.5% | $ 23,168 |
| Percentage of net sales | 6.0% | | 4.6% | | 5.8% |

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

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

| INTEREST INCOME<br>*(Dollars in thousands)* | 2012 | CHANGE | 2011 | CHANGE | 2010 |
|---|---|---|---|---|---|
| Interest income | $ 229 | 19.9% | $ 191 | (30.3%) | $ 274 |
| Percentage of net sales | 0.0% | | 0.0% | | 0.1% |

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

| INTEREST EXPENSE<br>*(Dollars in thousands)* | 2012 | CHANGE | 2011 | CHANGE | 2010 |
|---|---|---|---|---|---|
| Interest expense | $ 1,152 | 13.4% | $ 1,016 | 21.8% | $ 834 |
| Percentage of net sales | (0.2%) | | (0.2%) | | (0.2%) |

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

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

| OTHER INCOME, NET *(Dollars in thousands)* | 2012 | CHANGE | 2011 | CHANGE | 2010 |
|---|---|---|---|---|---|
| Other income, net | $ 887 | 533.6% | $ 140 | (67.4%) | $ 430 |
| Percentage of net sales | 0.2% | | 0.0% | | 0.1% |

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

| PROVISION FOR INCOME TAXES *(Dollars in thousands)* | 2012 | CHANGE | 2011 | CHANGE | 2010 |
|---|---|---|---|---|---|
| Provision for income taxes | $ 11,055 | 52.5% | $ 7,249 | (36.1%) | $ 11,341 |
| Percentage of income before provision for income taxes | 39.5% | | 39.8% | | 39.1% |

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

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

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

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

### QUARTERLY RESULTS OF OPERATIONS

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

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

## LIQUIDITY AND CAPITAL RESOURCES

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

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

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

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

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

Our principal sources of liquidity are our existing cash reserves, cash generated from operations and amounts available for borrowing under our existing credit facilities. Cash and cash equivalents as of October 31, 2012 and 2011 totaled $7.1 million and $2.8 million. Our working capital at October 31, 2012 was $9.7 million, compared to $8.6 million at October 31, 2011.

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

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

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

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

The following table summarizes contractual obligations pursuant to which we are required to make cash payments. The information is presented as of our fiscal year ended October 31, 2012:

| CONTRACTUAL OBLIGATIONS | PAYMENTS DUE BY PERIOD | | | | |
|---|---|---|---|---|---|
| | TOTAL | LESS THAN 1 YEAR | 1-3 YEARS | 3-5 YEARS | MORE THAN 5 YEARS |
| Long-term debt obligations (Including interest) | $ 19,593 | $ 5,944 | $ 10,901 | $ 2,287 | $ 461 |
| Revolving credit facilities | 20,170 | 20,170 | — | — | — |
| Defined benefit plan | 245 | 38 | 76 | 76 | 55 |
| Operating lease commitments | 17,210 | 2,656 | 5,046 | 3,915 | 5,593 |
| Total | $ 57,218 | $ 28,808 | $ 16,023 | $ 6,278 | $ 6,109 |

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

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

## Potential Cash Requirements for RFG Acquisition

If RFG earnings before interest, taxes, depreciation and amortization (EBITDA) for any 12-month period commencing after the closing date (June 1, 2011) and ending prior to the fifth anniversary of such closing date are equal to or greater than $8 million, and RFG has concurrently reached a corresponding revenue achievement, we have agreed to pay $5 million in cash and to issue 827,000 shares of unregistered Calavo common stock, representing total consideration of approximately $24 million (based on the per share common stock price of $23 as agreed to per the acquisition agreement). This represents the maximum that can be awarded pursuant to the 1st earn-out payment. In the event that the maximum EBITDA and revenue achievements have not been reached within five years after the closing date, but RFG's 12-month EBITDA during such period equals or exceeds $6 million and RFG has concurrently reached a corresponding revenue achievement, a sliding-scale, as defined, will be used to calculate payment. The minimum amount to be paid in the sliding-scale related to the 1st earn-out payment is approximately $14 million, payable in both cash and shares of unregistered Calavo common stock. RFG has five years to achieve any consideration pursuant to the 1st earn-out payment.

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

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

| | 1ST EARN-OUT, MINIMUM | 1ST EARN-OUT, MAXIMUM | 2ND EARN-OUT, MINIMUM | 2ND EARN-OUT, MAXIMUM |
|---|---|---|---|---|
| Cash | $ 2,917 | $ 5,000 | $ 16,657 | $ 50,000 |
| Common stock (# of shares) | 482 | 827 | 435 | 435 |

### Recently Adopted Accounting Pronouncements

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

### Recently Issued Accounting Standards

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

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

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

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

### QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

| | EXPECTED MATURITY DATE OCTOBER 31, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 | 2017 | THEREAFTER | TOTAL | FAIR VALUE |
| *(All amounts in thousands)* | | | | | | | | |
| **ASSETS** | | | | | | | | |
| Cash and cash equivalents (1) | $ 7,103 | $ — | $ — | $ — | $ — | $ — | $ 7,103 | $ 7,103 |
| Accounts receivable (1) | 38,870 | — | — | — | — | — | 38,870 | 38,870 |
| Advances to suppliers (1) | 2,369 | — | — | — | — | — | 2,369 | 2,369 |
| **LIABILITIES** | | | | | | | | |
| Payable to growers (1) | $ 8,475 | $ — | $ — | $ — | $ — | $ — | $ 8,475 | $ 8,475 |
| Accounts payable (1) | 7,898 | — | — | — | — | — | 7,898 | 7,898 |
| Current borrowings pursuant to credit facilities (1) | 20,170 | — | — | — | — | — | 20,170 | 20,170 |
| Fixed-rate long-term obligations (2) | 5,416 | 5,415 | 4,940 | 2,134 | 108 | 442 | 18,455 | 18,811 |

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

*(2) Fixed-rate long-term obligations bear interest rates ranging from 1.7% to 5.7% with a weighted-average interest rate of 3.0%. We believe that loans with a similar risk profile would currently yield a return of 2.5%. We project the impact of an increase or decrease in interest rates of 100 basis points would result in a change of fair value of approximately $395,000.*

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

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

# Consolidated Balance Sheets

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

*See accompanying notes to consolidated financial statements.*

# Consolidated Statements of Income

| YEAR ENDED OCTOBER 31, *(In thousands, except per share amounts)* | 2012 | 2011 | 2010 |
|---|---|---|---|
| Net sales | $ 551,119 | $ 522,529 | $ 398,351 |
| Cost of sales | 490,453 | 480,221 | 346,821 |
| Gross margin | 60,666 | 42,308 | 51,530 |
| Selling, general and administrative | 33,128 | 23,976 | 23,168 |
| Operating income | 27,538 | 18,332 | 28,362 |
| Equity in earnings from unconsolidated entities | 500 | 557 | 749 |
| Interest income | 229 | 191 | 274 |
| Interest expense | (1,152) | (1,016) | (834) |
| Other income, net | 887 | 140 | 430 |
| Income before provision for income taxes | 28,002 | 18,204 | 28,981 |
| Provision for income taxes | 11,055 | 7,249 | 11,341 |
| Net income | 16,947 | 10,955 | 17,640 |
| Add: Net loss attributable to noncontrolling interest | 105 | 113 | 124 |
| Net income attributable to Calavo Growers, Inc. | $ 17,052 | $ 11,068 | $ 17,764 |
| **CALAVO GROWERS, INC.'S NET INCOME PER SHARE:** | | | |
| Basic | $ 1.15 | $ 0.75 | $ 1.22 |
| Diluted | $ 1.15 | $ 0.75 | $ 1.22 |
| **NUMBER OF SHARES USED IN PER SHARE COMPUTATION:** | | | |
| Basic | 14,786 | 14,743 | 14,610 |
| Diluted | 14,814 | 14,751 | 14,619 |

*See accompanying notes to consolidated financial statements.*

# Consolidated Statements of Comprehensive Income

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

*See accompanying notes to consolidated financial statements.*

# Consolidated Statements of Shareholders' Equity

| *(In thousands)* | COMMON STOCK SHARES | COMMON STOCK AMOUNT | ADDITIONAL PAID-IN CAPITAL | ACCUMULATED OTHER COMPREHENSIVE INCOME | RETAINED EARNINGS | TOTAL |
|---|---|---|---|---|---|---|
| Balance, October 31, 2009 | 14,505 | $ 14 | $ 39,714 | $ 466 | $ 29,293 | $ 69,487 |
| Exercise of stock options and income tax benefit of $664 | 207 | — | 2,553 | — | — | 2,553 |
| Stock compensation expense | — | — | 52 | — | — | 52 |
| Unrealized gain on Limoneira investment, net | — | — | — | 6,493 | — | 6,493 |
| Dividend declared to shareholders | — | — | — | — | (8,092) | (8,092) |
| Net income attributable to Calavo Growers, Inc. | — | — | — | — | 17,764 | 17,764 |
| Balance, October 31, 2010 | 14,712 | 14 | 42,319 | 6,959 | 38,965 | 88,257 |
| Exercise of stock options and income tax benefit of $26 | 15 | — | 239 | — | — | 239 |
| Stock compensation expense | — | — | 188 | — | — | 188 |
| Unrealized loss on Limoneira investment, net | — | — | — | (3,024) | — | (3,024) |
| Acquisition of RFG | 43 | — | 7,183 | — | — | 7,183 |
| Dividend declared to shareholders | — | — | — | — | (8,131) | (8,131) |
| Net income attributable to Calavo Growers, Inc. | — | — | — | — | 11,068 | 11,068 |
| Balance, October 31, 2011 | 14,770 | 14 | 49,929 | 3,935 | 41,902 | 95,780 |
| Exercise of stock options and income tax benefit of $139 | 54 | — | 930 | — | — | 930 |
| Stock compensation expense | — | — | 417 | — | — | 417 |
| Unrealized gain on Limoneira investment, net | — | — | — | 5,455 | — | 5,455 |
| Dividend declared to shareholders | — | — | — | — | (9,612) | (9,612) |
| Net income attributable to Calavo Growers, Inc. | — | — | — | — | 17,052 | 17,052 |
| Balance, October 31, 2012 | 14,824 | $ 14 | $ 51,276 | $ 9,390 | $ 49,342 | $ 110,022 |

*See accompanying notes to consolidated financial statements.*

# Consolidated Statements Of Cash Flows

| YEAR ENDED OCTOBER 31, *(In thousands)* | 2012 | 2011 | 2010 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | | |
| Net income | **$ 16,947** | $ 10,955 | $ 17,640 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | **5,909** | 4,327 | 3,368 |
| Provision for losses on accounts receivable | **68** | 64 | 38 |
| Income from unconsolidated entities | **(501)** | (557) | (749) |
| Interest on contingent consideration | **128** | 101 | 62 |
| Revalue adjustment on contingent consideration | **420** | (535) | — |
| Stock compensation expense | **417** | 188 | 52 |
| Loss on disposal of property, plant, and equipment | **136** | 139 | — |
| Gain on sale of Maui Fresh International | **(519)** | — | — |
| Goodwill impairment on Calavo Salsa Lisa | **87** | — | — |
| Deferred income taxes | **(818)** | 1,907 | 1,332 |
| Effect on cash of changes in operating assets and liabilities: | | | |
| Accounts receivable | **(2,837)** | 4,270 | (9,353) |
| Inventories, net | **(5,161)** | (2,137) | (3,006) |
| Prepaid expenses and other current assets | **(639)** | 1,936 | (2,544) |
| Advances to suppliers | **980** | (1,751) | 1,025 |
| Income taxes receivable | **462** | (1,933) | 765 |
| Other assets | **14** | (12) | (25) |
| Payable to growers | **3,394** | (4,902) | 8,645 |
| Trade accounts payable and accrued expenses | **3,236** | (4,194) | 2,729 |
| Net cash provided by operating activities | **21,723** | 7,866 | 19,979 |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | | |
| Acquisitions of property, plant, and equipment | **(7,749)** | (4,826) | (4,767) |
| Loan to Agricola Belher | **—** | (3,000) | — |
| Distribution from unconsolidated entity | **288** | 281 | 116 |
| Proceeds from sale of Maui Fresh International | **300** | — | — |
| Acquisition of Renaissance Food Group, net of cash acquired | **—** | (13,362) | — |
| Acquisition of Hawaiian Sweet and Pride, net of cash acquired | **—** | — | (4,500) |
| Acquisition of Calavo Salsa Lisa, net of cash acquired | **—** | — | (351) |
| Net cash used in investing activities | **(7,161)** | (20,907) | (9,502) |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | | |
| Payment of dividend to shareholders | **(8,123)** | (8,100) | (7,252) |
| Proceeds from revolving credit facility, net | **2,310** | 9,710 | 1,580 |
| Proceeds from issuance of long-term obligations | **—** | 22,135 | — |
| Payments on long-term obligations | **(5,237)** | (9,871) | (6,766) |
| Proceeds from stock option exercises | **791** | 213 | 1,889 |
| Tax benefit of stock option exercises | **26** | 664 | 261 |
| Net cash provided by (used in) financing activities | **(10,233)** | 14,751 | (10,288) |
| Net increase in cash and cash equivalents | **4,329** | 1,710 | 189 |
| Cash and cash equivalents, beginning of year | **2,774** | 1,064 | 875 |
| Cash and cash equivalents, end of year | **$ 7,103** | $ 2,774 | $ 1,064 |
| **SUPPLEMENTAL INFORMATION:** | | | |
| Cash paid during the year for: | | | |
| Interest | **$ 1,146** | $ 985 | $ 850 |
| Income taxes | **$ 9,274** | $ 6,313 | $ 8,845 |
| **NON-CASH INVESTING AND FINANCING ACTIVITIES:** | | | |
| Tax receivable increase related to stock option exercise | **$ 139** | $ 26 | $ 664 |
| Declared dividends payable | **$ 9,612** | $ 8,123 | $ 8,092 |
| Notes receivable issued for sale of Maui Fresh International | **$ 2,204** | $ — | $ — |
| Construction in progress included in trade accounts payable and accrued expenses | **$ 28** | $ 36 | $ 32 |
| Collection for Agricola Belher Infrastructure Advance | **$ —** | $ 1,225 | $ 1,781 |
| Unrealized holding gains (losses) | **$ 8,850** | $ (4,996) | $ 10,786 |

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

| | | AT JUNE 1, 2011 |
|---|---|---|
| Current assets, excluding cash | $ | 9,623 |
| Property, plant, and equipment | | 4,580 |
| Goodwill | | 14,264 |
| Other assets | | 117 |
| Intangible assets | | 8,690 |
| Total assets acquired | | 37,274 |
| Current liabilities | | (12,292) |
| Contingent consideration | | (7,774) |
| Long-term obligations | | (2,894) |
| Additional paid-in capital | | (952) |
| Net non-cash assets acquired | $ | 13,362 |

In February 2010, we entered into an asset purchase and contribution agreement in which we acquired a 65 percent ownership interest in Calavo Salsa Lisa, LLC which acquired substantially all of the assets of Lisa's Salsa Company.

The following table summarizes the fair values of the non-cash assets acquired and liabilities assumed at the date of acquisition (in thousands):

| | | AT FEBRUARY 8, 2010 |
|---|---|---|
| Current assets, excluding cash | $ | 214 |
| Property, plant, and equipment | | 321 |
| Goodwill | | 88 |
| Intangible assets | | 1,950 |
| Total assets acquired | | 2,573 |
| Current liabilities | | (55) |
| Noncontrolling interest | | (699) |
| Contingent consideration | | (1,468) |
| Net non-cash assets acquired | $ | 351 |

*See accompanying notes to consolidated financial statements.*

# Notes To Consolidated Financial Statements

## 1. DESCRIPTION OF THE BUSINESS

### Business

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

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

## 2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

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

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

### Cash and Cash Equivalents

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

### Prepaid Expenses and Other Current Assets

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

### Inventories

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

### Property, Plant, and Equipment

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

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

### Goodwill and Acquired Intangible Assets

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

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

| | FRESH PRODUCTS | CALAVO FOODS | RFG | TOTAL |
|---|---|---|---|---|
| Goodwill, beginning November 1, 2010 | $ 3,997 | $ 87 | $ — | $ 4,084 |
| Goodwill addition from RFG acquisition | — | — | 14,265 | 14,265 |
| Goodwill, ending October 31, 2011 | 3,997 | 87 | 14,265 | 18,349 |
| Calavo Salsa Lisa Goodwill impairment losses | — | (87) | — | (87) |
| Goodwill, October 31, 2012 | $ 3,997 | $ — | $ 14,265 | $ 18,262 |

## Long-lived Assets

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

## Investments

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

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

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

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

### Marketable Securities

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

### Advances to Suppliers

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

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

### Infrastructure Advances

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

### Accrued Expenses

Included in accrued expenses at October 31, 2012 and 2011 are uninvoiced receipts of approximately $3.2 million and $4.1 million.

### Revenue Recognition

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

### Shipping and Handling

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

### Promotional Allowances

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

### Allowance for Accounts Receivable

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

### Consignment Arrangements

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

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

### Advertising Expense

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

### Other Income, Net

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

### Use of Estimates

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

### Income Taxes

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

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

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



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

### Basic and Diluted Net Income per Share

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

### Stock-Based Compensation

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

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

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

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

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

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

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

### Foreign Currency Translation and Remeasurement

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

### Fair Value of Financial Instruments

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

### Derivative Financial Instruments

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

### Recently Adopted Accounting Pronouncements

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

### Recently Issued Accounting Standards

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

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

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

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

### Comprehensive Income (Loss)

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

### Noncontrolling Interest

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

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

| | YEAR ENDED OCTOBER 31, 2012 | YEAR ENDED OCTOBER 31, 2011 |
|---|---|---|
| Noncontrolling interest, beginning | **\$ 462** | \$ 575 |
| Net loss attributable to noncontrolling interest | **(105)** | (113) |
| Noncontrolling interest, ending | **\$ 357** | \$ 462 |

### Reclassifications

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

### 3. INVENTORIES

Inventories consist of the following (in thousands):

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

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

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

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

### 4. PROPERTY, PLANT, AND EQUIPMENT

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



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

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

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

### 5. OTHER ASSETS

Other assets consist of the following (in thousands):

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

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

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

| | WEIGHTED-AVERAGE USEFUL LIFE | OCTOBER 31, 2012 GROSS CARRYING VALUE | ACCUM. AMORTIZATION | NET BOOK VALUE | OCTOBER 31, 2011 GROSS CARRYING VALUE | ACCUM. AMORTIZATION | NET BOOK VALUE |
|---|---|---|---|---|---|---|---|
| Customer list/relationships | 8.0 years | $ 7,640 | $ (1,405) | $ 6,235 | $ 7,640 | $ (445) | $ 7,195 |
| Trade names | 8.4 years | 3,009 | (1,489) | 1,520 | 3,009 | (1,207) | 1,802 |
| Trade secrets/recipes | 11.9 years | 1,520 | (366) | 1,154 | 1,520 | (205) | 1,315 |
| Brand name intangibles | indefinite | 275 | — | 275 | 275 | — | 275 |
| Non-competition agreements | 5.0 years | 267 | (123) | 144 | 267 | (83) | 184 |
| Intangibles, net | | $ 12,711 | $ (3,383) | $ 9,328 | $ 12,711 | $ (1,940) | $ 10,771 |

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

## 6. REVOLVING CREDIT FACILITIES

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

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

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

## 7. EMPLOYEE BENEFIT PLANS

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

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

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

| | 2012 | 2011 |
|---|---|---|
| **CHANGE IN PROJECTED BENEFIT OBLIGATION:** | | |
| Projected benefit obligation at beginning of year | **$ 268** | $ 275 |
| Interest cost | **10** | 13 |
| Actuarial loss | **6** | 22 |
| Benefits paid | **(39)** | (42) |
| Projected benefit obligation at end of year (unfunded) | **$ 245** | $ 268 |

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

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

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

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

## 8. COMMITMENTS AND CONTINGENCIES

### Commitments and guarantees

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

| | |
|---|---|
| 2013 | $ 2,656 |
| 2014 | 2,589 |
| 2015 | 2,458 |
| 2016 | 1,994 |
| 2017 | 1,920 |
| Thereafter | 5,593 |
| | $ 17,210 |

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

Through the acquisition of RFG in June 2011, we have two additional facilities in California, one being the corporate office of RFG in Rancho Cordova, and the other being a fresh processing facility in Sacramento. RFG also has one other fresh processing facility in Houston, Texas. Both facilities process cut fruits and vegetables, salads, sandwiches, and wraps. The RFG corporate office in Rancho Cordova has an operating lease through September 2015. Total rent for fiscal 2012 was approximately $0.3 million. Total rent for fiscal 2011 was approximately $0.1 million. The processing facility in Sacramento has an operating lease through May 2021. Total rent for fiscal 2012 was approximately $0.5 million. Total rent for fiscal 2011 was approximately $0.2 million. The processing facility in Houston has an operating lease through May 2021. Total rent for fiscal 2012 was approximately $0.3 million. Total rent for fiscal 2011 was approximately $0.1 million.

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

### Litigation

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

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

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

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

## 9. RELATED-PARTY TRANSACTIONS

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

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

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

### 10. INCOME TAXES

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

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

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

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

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

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

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Federal statutory tax rate | 35.0% | 35.0% | 35.0% |
| State taxes, net of federal effects | 1.7 | 4.8 | 4.8 |
| Foreign income taxes greater (less) than U.S. | (2.7) | (0.9) | (0.9) |
| Hacienda assessment | 6.3 | — | — |
| Other | (0.8) | 0.9 | 0.2 |
| | 39.5% | 39.8% | 39.1% |

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

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

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

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

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

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

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

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

## 11. SEGMENT INFORMATION

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

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

| *(All amounts are presented in thousands)* | FRESH PRODUCTS | CALAVO FOODS | RFG | TOTAL |
|---|---|---|---|---|
| **YEAR ENDED OCTOBER 31, 2012** | | | | |
| Net sales | $ 350,582 | $ 46,424 | $ 154,113 | **$ 551,119** |
| Cost of sales | 316,287 | 32,422 | 141,744 | **490,453** |
| Gross margin | $ 34,295 | $ 14,002 | $ 12,369 | **$ 60,666** |
| **YEAR ENDED OCTOBER 31, 2011(1)** | | | | |
| Net sales | $ 420,658 | $ 45,151 | $ 56,720 | **$ 522,529** |
| Cost of sales | 389,371 | 38,403 | 52,447 | **480,221** |
| Gross margin | $ 31,287 | $ 6,748 | $ 4,273 | **$ 42,308** |
| **YEAR ENDED OCTOBER 31, 2010** | | | | |
| Net sales | $ 348,052 | $ 50,299 | $ — | **$ 398,351** |
| Cost of sales | 309,609 | 37,212 | — | **346,821** |
| Gross margin | $ 38,443 | $ 13,087 | $ — | **$ 51,530** |

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

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

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

| | YEAR ENDED OCTOBER 31, 2012 | | | | YEAR ENDED OCTOBER 31, 2011 | | | |
|---|---|---|---|---|---|---|---|---|
| | FRESH PRODUCTS | CALAVO FOODS | RFG | TOTAL | FRESH PRODUCTS | CALAVO FOODS | RFG (1) | TOTAL |
| **THIRD-PARTY SALES:** | | | | | | | | |
| Avocados | $ 318,556 | $ — | $ — | $ 318,556 | $ 376,980 | $ — | $ — | $ 376,980 |
| Tomatoes | 11,404 | — | — | 11,404 | 23,903 | — | — | 23,903 |
| Papayas | 12,753 | — | — | 12,753 | 13,245 | — | — | 13,245 |
| Pineapples | 6,840 | — | — | 6,840 | 4,278 | — | — | 4,278 |
| Other fresh products | 1,788 | — | — | 1,788 | 3,276 | — | — | 3,276 |
| Food service | — | 36,289 | — | 36,289 | — | 37,431 | — | 37,431 |
| Retail and club | — | 19,758 | 157,333 | 177,091 | — | 17,204 | 58,020 | 75,224 |
| Total Gross Sales | 351,341 | 56,047 | 157,333 | 564,721 | 421,682 | 54,635 | 58,020 | 534,337 |
| Less sales incentives | (759) | (9,623) | (3,220) | (13,602) | (1,024) | (9,484) | (1,300) | (11,808) |
| Net sales | $ 350,582 | $ 46,424 | $ 154,113 | $ 551,119 | $ 420,658 | $ 45,151 | $ 56,720 | $ 522,529 |

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

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

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

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

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

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

| | UNITED STATES | MEXICO | CONSOLIDATED |
|---|---|---|---|
| **2012** | **$ 29,893** | **$ 20,669** | **$ 50,562** |
| 2011 | $ 30,494 | $ 16,597 | $ 47,091 |

## 12. LONG-TERM OBLIGATIONS

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

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

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

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

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

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

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

| YEAR ENDING OCTOBER 31: | TOTAL |
|---|---|
| 2013 | $ 5,416 |
| 2014 | 5,415 |
| 2015 | 4,940 |
| 2016 | 2,134 |
| 2017 | 108 |
| Thereafter | 442 |
| | $ 18,455 |

## 13. STOCK-BASED COMPENSATION

### The Employee Stock Purchase Plan

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

### The 2005 Stock Incentive Plan

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

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

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

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

| | NUMBER OF SHARES | WEIGHTED-AVERAGE EXERCISE PRICE | WEIGHTED-AVERAGE FAIR-VALUE | AGGREGATE INTRINSIC VALUE |
|---|---|---|---|---|
| Outstanding at October 31, 2009 | 284 | $ 10.23 | | |
| Granted | 10 | $ 19.20 | $ 6.36/share | |
| Exercised | (207) | $ 9.13 | | |
| Outstanding at October 31, 2010 | 87 | $ 13.89 | | |
| Exercised | (15) | $ 14.58 | | |
| Outstanding at October 31, 2011 | 72 | $ 13.75 | | |
| Exercised | (37) | $ 13.54 | | |
| Outstanding at October 31, 2012 | 35 | $ 15.16 | | $ 824 |
| Exercisable at October 31, 2012 | 13 | $ 18.37 | | $ 313 |

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

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

### The 2011 Management Incentive Plan

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

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

In October 2011, our Board of Directors approved the issuance of options to acquire a total of 10,000 shares of our common stock by one member of our Board of Directors. Such grant vests in equal increments over a five-year period and has an exercise price of $21.80 per share. Vested options have a term of five years from the vesting date. The market price of our common stock at the grant date was $21.80. The estimated fair market value of such option grant was approximately $0.1 million. The total compensation cost not yet recognized as of October 31, 2011 was approximately $0.1 million, which will be recognized over the remaining service period of 60 months.

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

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

| | NUMBER OF SHARES | WEIGHTED-AVERAGE EXERCISE PRICE | WEIGHTED-AVERAGE FAIR-VALUE | AGGREGATE INTRINSIC VALUE |
|---|---|---|---|---|
| Granted | 70 | $ 21.82 | $ 4.15/share | |
| Forfeited | (5) | $ 21.82 | | |
| Outstanding at October 31, 2011 | 65 | $ 21.82 | | |
| Exercised | (15) | $ 21.82 | | |
| Outstanding at October 31, 2012 | 50 | $ 21.82 | | $ 94 |
| Exercisable at October 31, 2012 | 42 | $ 21.82 | | $ 79 |

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

## 14. DIVIDENDS

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

## 15. FAIR VALUE MEASUREMENTS

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

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

| ASSETS AT FAIR VALUE: *(All amounts are presented in thousands)* | LEVEL 1 | LEVEL 2 | LEVEL 3 | TOTAL |
|---|---|---|---|---|
| Investment in Limoneira Company (1) | $ 38,841 | — | — | $ 38,841 |
| Total assets at fair value | $ 38,841 | $ — | $ — | $ 38,841 |

*(1) The investment in Limoneira Company consists of marketable securities in the Limoneira Company stock. We currently own approximately 15% of Limoneira's outstanding common stock. These securities are measured at fair value by quoted market prices. Limoneira's stock price at October 31, 2012 and October 31, 2011 equaled $22.47 per share and $17.35 per share. Unrealized gains and losses are recognized through other comprehensive income. Unrealized investment holding gains arising during the year ended October 31, 2012 was $8.9 million. Unrealized investment holding losses arising during the year ended October 31, 2011 was $5.0 million. Unrealized investment holding gains arising during the year ended October 31, 2010 was $10.8 million.*

| LIABILITIES AT FAIR VALUE: *(All amounts are presented in thousands)* | LEVEL 1 | LEVEL 2 | LEVEL 3 | TOTAL |
|---|---|---|---|---|
| Salsa Lisa contingent consideration (2) | — | — | $ 857 | $ 857 |
| RFG contingent consideration (2) | — | — | 2,322 | 2,322 |
| Total liabilities at fair value | $ — | $ — | $ 3,179 | $ 3,179 |

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

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

| *(All amounts are presented in thousands)* | BALANCE AT 10/31/11 | ACQUISITION | INTEREST | REVALUE ADJUSTMENT | BALANCE AT 10/31/12 |
|---|---|---|---|---|---|
| Salsa Lisa contingent consideration | $ 978 | $ — | $ 56 | $ (177) | $ 857 |
| RFG contingent consideration | 1,652 | — | 73 | 597 | 2,322 |
| Total | $ 2,630 | $ — | $ 129 | $ 420 | $ $3,179 |

| *(All amounts are presented in thousands)* | BALANCE AT 10/31/10 | ACQUISITION | INTEREST | REVALUE ADJUSTMENT | BALANCE AT 10/31/11 |
|---|---|---|---|---|---|
| Salsa Lisa contingent consideration | $ 1,521 | $ — | $ 70 | $ (613) | $ 978 |
| RFG contingent consideration | — | 1,543 | 31 | 78 | 1,652 |
| Total | $ 1,521 | $ 1,543 | $ 101 | $ (535) | $ $2,630 |

## 16. RFG BUSINESS ACQUISITION

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

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

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

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

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

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

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

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

| | | AT JUNE 1, 2011 |
|---|---|---|
| Current assets | $ | 10,491 |
| Property, plant, and equipment | | 4,580 |
| Goodwill | | 14,264 |
| Other assets | | 117 |
| Intangible assets | | 8,690 |
| Total assets acquired | | 38,142 |
| Current liabilities | | (12,292) |
| Contingent consideration | | (7,774) |
| Long-term obligations | | (2,894) |
| Additional paid-in capital | | (952) |
| Net assets acquired | $ | 14,230 |

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

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

### 17. SALE OF INVESTMENT IN MAUI FRESH

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

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

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

The Equity Promissory Note, totaling approximately $1.0 million, will be paid in 36 equal monthly principal payments plus accrued interest, as defined, on the unpaid principal balance. The entire amount of principal and all accrued unpaid interest shall be due and payable on November 1, 2015. The interest rate for the first payment in November was approximately 1.6%.

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

### 18. SUBSEQUENT EVENTS

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

# Report of Independent Registered Public Accounting Firm

**THE BOARD OF DIRECTORS AND SHAREHOLDERS OF CALAVO GROWERS, INC.**

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

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

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

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

Ernst + Young LLP

Los Angeles, California
January 14, 2013

# Management's Report on Internal Control Over Financial Reporting

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

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

**Lecil E. Cole**
Chairman of the Board and
Chief Executive Officer

**Arthur J. Bruno**
Chief Operating Officer,
Chief Financial Officer and
Corporate Secretary

# Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

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

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

**FISCAL 2012**

| | HIGH | LOW |
|---|---|---|
| First Quarter | $ 27.06 | $ 21.33 |
| Second Quarter | $ 28.73 | $ 24.88 |
| Third Quarter | $ 29.34 | $ 22.98 |
| Fourth Quarter | $ 27.17 | $ 21.17 |

**FISCAL 2011**

| | HIGH | LOW |
|---|---|---|
| First Quarter | $ 23.80 | $ 20.99 |
| Second Quarter | $ 23.55 | $ 19.70 |
| Third Quarter | $ 21.74 | $ 18.70 |
| Fourth Quarter | $ 22.88 | $ 17.90 |

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

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

### DIVIDEND POLICY

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

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

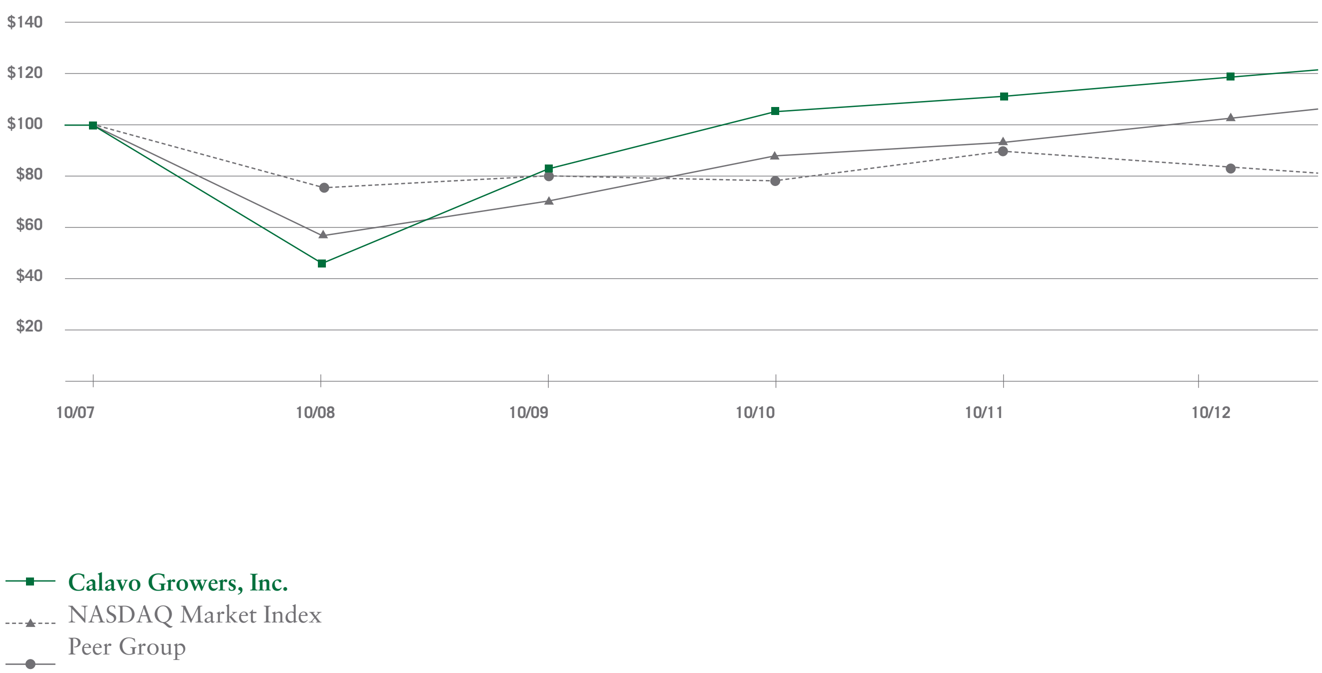
On December 12, 2011, we paid a $0.55 per share dividend in the aggregate amount of $8.1 million to shareholders of record on December 2, 2011.

# Shareowner Return Performance Graph

The following graph compares the performance of our common stock with the performance of the Nasdaq Market Index and a Peer Group of major diversified companies in our same industry for approximately the 60-month period beginning on October 31, 2007 and ending October 31, 2012. In making this comparison, we have assumed an investment of $100 in Calavo Growers, Inc. common stock, the Nasdaq Market Index , and the Peer Group Index as of October 31, 2007. We have also assumed the reinvestment of all dividends.

**COMPARISON OF 5-YEAR CUMULATIVE TOTAL RETURN***

Among Calavo Growers, Inc., The NASDAQ Composite Index, and a Peer Group




**$100 invested on 10/31/06 in stock or index, including reinvestment of dividends. Fiscal year ending October 31, 2012*

# Corporate Information

### OFFICERS

**Lecil E. Cole**
Chairman, President
and Chief Executive Officer

**Arthur J. Bruno**
Chief Operating Officer
Chief Financial Officer
Corporate Secretary

**Rob Wedin**
Vice President
Fresh Sales and Marketing

**Mike Browne**
Vice President
Fresh Operations

**Al Ahmer**
Vice President
Processed Product Sales
and Operations

**James E. Snyder**
Corporate Controller

### OFFICER—CALAVO DE MEXICO

**Dionisio Ortiz**
Vice President, Operations

### PRINCIPAL BOARD COMMITTEES
### EXECUTIVE COMMITTEE

**Lecil E. Cole**
Chairman

**J. Link Leavens**
First Vice Chairman

**Scott N. Van Der Kar**
Second Vice Chairman

**Harold S. Edwards**

**Dorcas H. Thille**

**Donald "Mike" Sanders**

### AUDIT COMMITTEE

**Egidio "Gene" Carbone, Jr.**
Chairman

**George H. Barnes**

**Steven W. Hollister**

**John M. Hunt**

### NOMINATING & GOVERNANCE COMMITTEE

**John M. Hunt**
Chairman

**George H. Barnes**

**Marc Brown**

### COMPENSATION COMMITTEE

**Steven W. Hollister**
Chairman

**James D. Helin**

### OPERATING DIRECTORS & MANAGERS

**Carlos T. Vasquez**
Director, Field Operations

**John Agapin**
Director, Systems Analysis
and Planning

**Bruce Spurrell**
Director, Purchasing
and Risk Management

**Michael F. Derr**
Director, Fresh Packing

**Michael Angelo**
Director, National Fresh Sales

**Patricia D. Vorhies**
Director, Human Resources

**Gary M. Gunther**
Director, Fresh Operations
Special Projects

**Michael Lippold**
Director, Strategic Development

**Joseph Malagone**
Packinghouse Manager, Santa Paula

**Francisco Orozco**
Packinghouse Manager, Temecula

### HEADQUARTERS

**Calavo Growers, Inc.**
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Santa Paula, California 93060
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Fax 805.921.3219
www.calavo.com

### GENERAL COUNSEL

**Troy Gould PC**
Los Angeles, California

### INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

**Ernst & Young LLP**
Los Angeles, California

### INVESTOR & CORPORATE RELATIONS COUNSEL

**FoleyFreisleben LLC**
Los Angeles, California

### FORM 10-K

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

### TRANSFER AGENT & REGISTRAR

**Computershare
Trust Company, N.A.**
Canton, Massachusetts

### COMMON STOCK LISTING

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



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