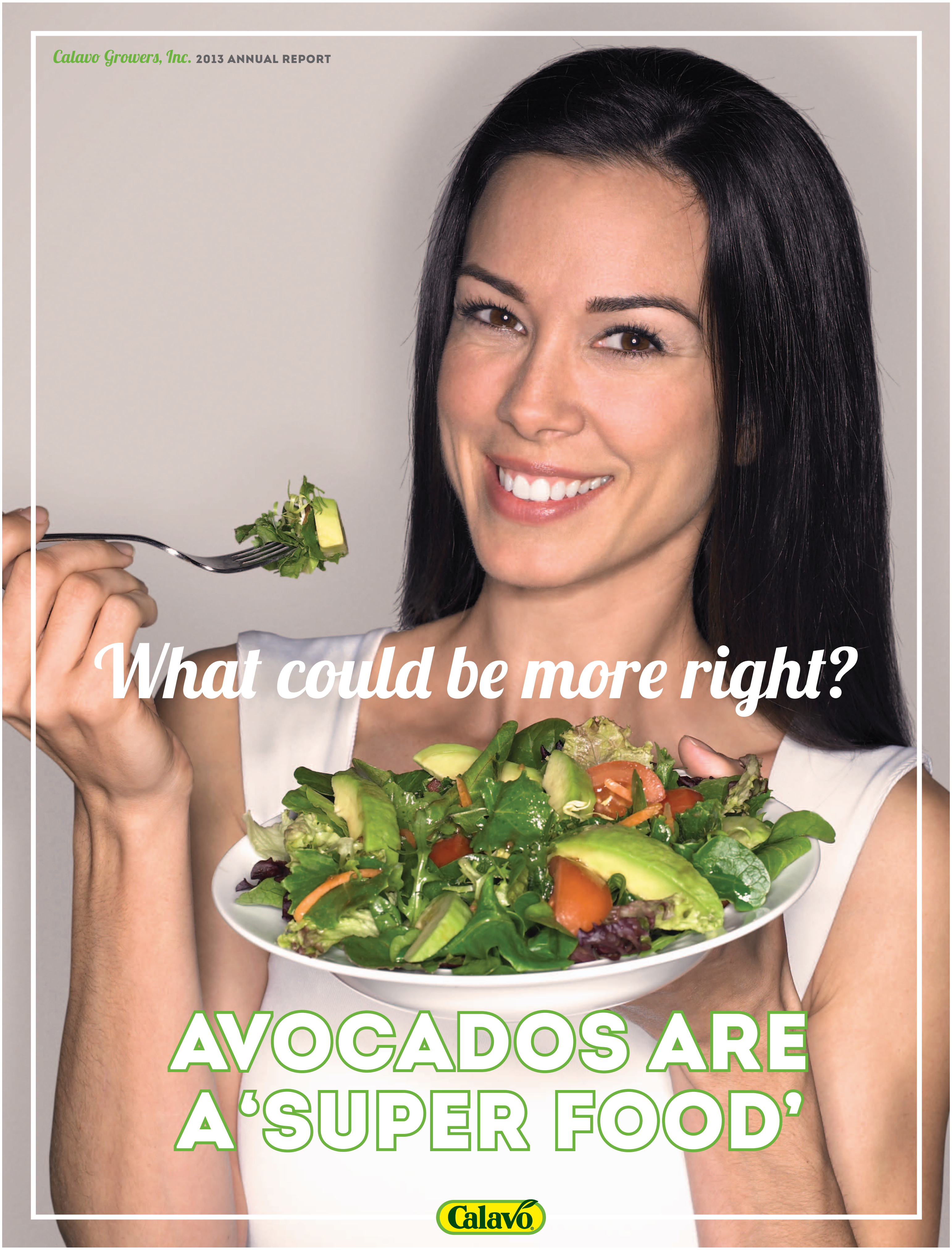

Calavo Growers, Inc. 2013 ANNUAL REPORT
What could be more right?
AVOCADOS ARE
A 'SUPER FOOD'
Calavo




## *A few thoughts on being in the right place at the right time…*

It happens by circumstance, as well as design.

Things just click. All the pieces fall into place. Everything goes just so. The world unfolds as it should. You catch some lucky bounces.

A mailman named Hass grafts a couple avocado seedlings back in the early 1920s. The next thing you know, 90 years later, consumers are knocking back nearly 1.7 billion pounds of 'em in a single year.

The world awakens to avocados' healthful benefits—we're a Super Food now. Demand for fresh foods intensifies.

That's circumstance. And Calavo has had its share of those breaks.

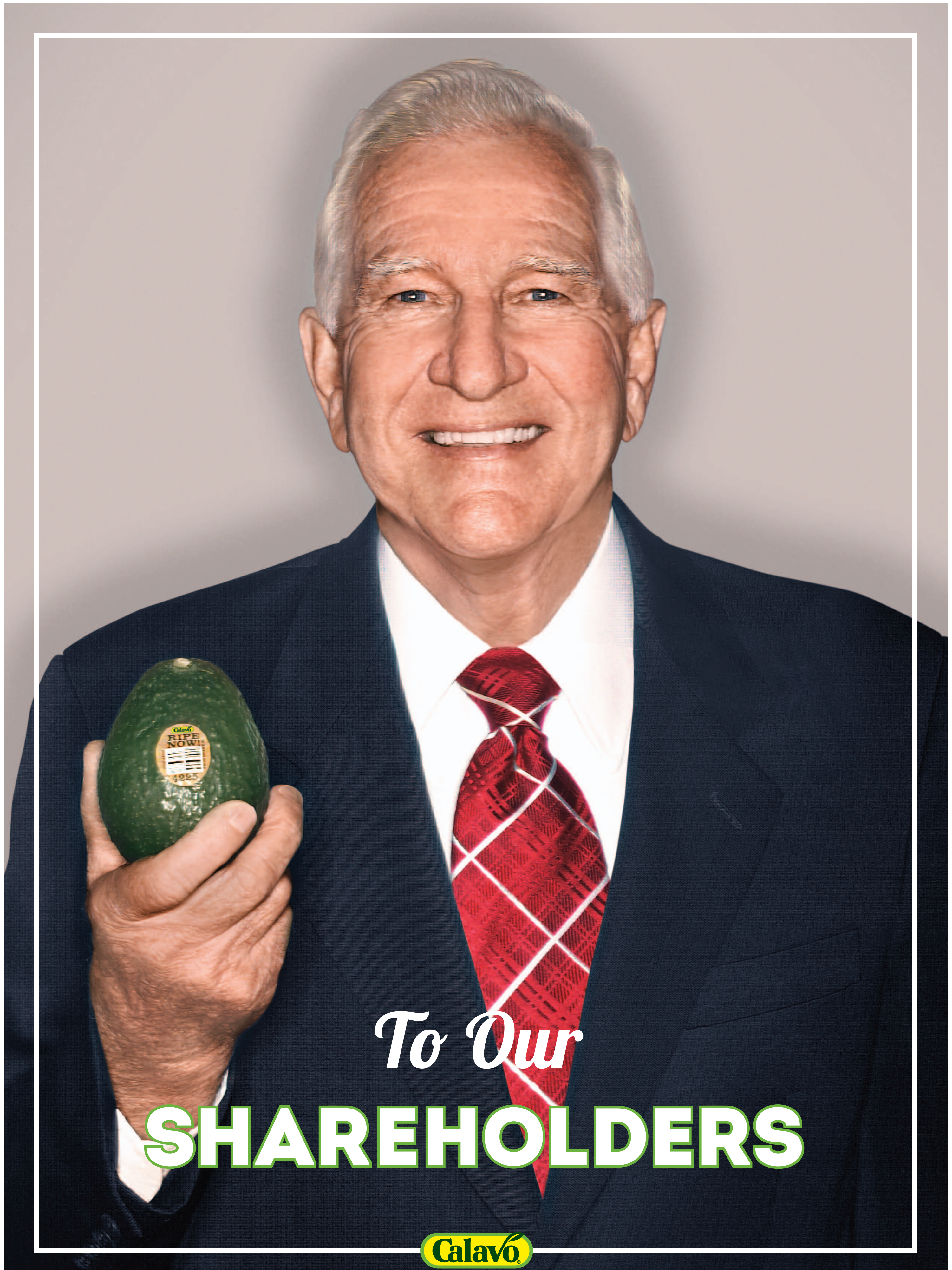
There's another expression: good fortune favors those who plan for it.

Precision in execution. Refining fresh produce distribution to a science. Building sterling brands. Forging lasting bonds…with growers, customers and consumers. Achieving—and more importantly, maintaining—industry leadership for going on a century.

Creating a strategic blueprint and executing on it year-in, year-out against continuously ambitious, aggressive targets.

That's design. And we may make it look easy but it's not.

Calavo is in the right place at the right time…precisely because we have put ourselves there.






## *Fiscal 2013 proved to be another outstanding year for Calavo Growers, Inc.*

I feel privileged to share our achievements and plot the company's direction with you in this space. In this age of instant electronic communication and social media—with all its tweeting, following and liking—letter writing is increasingly a lost art. Perhaps that's why I look forward to penning this section of the annual report each year. It affords reflective time to contemplate Calavo's enormous accomplishments—a chance to talk about where, as a company, we have been—and, more importantly, to discuss our trajectory going forward. The most recent year was, indeed, accomplishment-filled:

- Revenues surged 25 percent to a new historic high propelled by double-digit sales growth in each of the company's three business segments;
- Net income and diluted earnings per share rose from fiscal 2012 even after the impact of extraordinary items which otherwise pushed these same figures to new record levels; and,
- Fresh avocado consumption surged to nearly 1.7 billion pounds, eclipsing all forecasts and underscoring the velocity of industry growth.

Let me begin by recapping our operating results and other key metrics. Fiscal 2013 net income rose to $17.3 million, equal to $1.17 per diluted share, from $17.1 million, or $1.15 per diluted share, one year earlier. Results for the most recent year reflect an after-tax impact approximating $2.1 million, equal to $0.14 per diluted share, associated with our investment in FreshRealm, LLC ($0.9 million or $0.06 per diluted share) and contingent consideration for Calavo's earlier purchase of Renaissance Food Group (RFG), LLC ($1.2 million or $0.08 per diluted share). The after-tax impact of these unique charges had the effect of reducing fiscal 2013 net income from about $19.4 million or $1.31 per diluted share.

Full-year revenues climbed to $691.5 million from $551.1 million in fiscal 2012. The chart on the inside front cover plots the impressive five-year revenue growth trend line, with sales climbing more than twofold over that period. Gross margin was substantially unchanged last year, totaling $60.1 million versus $60.7 million in fiscal 2012. Operating income registered $25.1 million in fiscal 2013 which compares with $27.5 million for the prior year.

Calavo's financial condition is bedrock—a picture of strength and flexibility. Total assets reached $239.9 million at fiscal-year end versus $207.9 million on October 31, 2012. Long-term debt, principally related to our RFG acquisition, was nearly halved last year to $7.8 million at fiscal-year end from $13.0 million on October 31, 2012, and is down by nearly two-thirds from $18.2 million at the conclusion of fiscal 2011. Shareholders' equity has virtually doubled in the last five years, totaling $128.5 million at October 31, 2013 versus $69.5 million at the close of fiscal 2008.

Our commitment to rewarding shareholders is unwavering—and these returns are impressive, to say the least. Subsequent to fiscal-year end, we paid a 70 cent per share annual cash dividend on our common stock, an increase of eight percent from 12 months earlier and a staggering 250 percent leap from fiscal 2002, our first full year as a public company. The current per-share yield translates to more than $11 million distributed to our owners and places revenue and profit growth into its proper context: we are delivering strong shareholder returns while also intelligently reinvesting net income to propel Calavo further upward.

"Upward" is also perhaps the most appropriate word to describe the direction of the avocado industry. "Straight upward" is probably even more apt. Consumption has risen nearly 50 percent in the past two years and growth shows no signs of abating. If anything, quite the opposite: it's accelerating almost exponentially. The industry is doing a fantastic job of stoking demand with its awareness-building marketing and promotional campaigns. The demographic and ethnic shift in the United States and expanding Hispanic population with an affinity for avocados is pacing things, too. And, with our country's heightened awareness of eating healthy, we are being told regularly by the experts of the nutritional benefits of a diet rich in avocados.

This past year's consumption milestone—nearly 1.7 billion pounds—is a harbinger of more growth to come. It should also silence any remaining naysayers about the market potential for fresh avocados. Just a few years ago, when volumes were approaching one billion pounds, skeptics questioned whether there'd be enough mouths for that fruit supply. They feared prices would crater and the bottom would fall out of the market. Guess what? It never happened and now, as we head in the not-too-distant future toward two billion pounds, the avocado industry is stronger than ever.

Even with all these great things transpiring around us, we are not the global-avocado-market leader by accident. We work continuously to fine tune the complexities of fresh produce distribution. Our scale-driven packing operations are engineered specifically with future volume growth top of mind. Calavo continues to capture market share, adding more California growers last year to build upon our commanding leadership position. And we scour the landscape to stay ahead of the industry.

There is no end to the good things I can say about RFG. Its operating performance and contribution to Calavo's top and bottom lines since being acquired by our company in June 2011 have outstripped our every expectation. Sales in the business segment have virtually doubled—to $191.5 million in fiscal 2013 from an annualized revenue run rate of about $135 million at the time of the transaction. Gross margin continues to grow as we leverage RFG across our infrastructure. The fast-growing subsidiary is adding new grocery customers, as well as additional sales points with existing clients to fuel sales. An emerging leader in the refrigerated fresh packaged goods category, RFG brings speed to every aspect of its operation—whether time to market, order fulfillment or new product innovation. Quickness is part of its operating culture and a key factor in its growth, which we expect will continue at a strong clip.

RFG offers a compelling proof point of another kind: Calavo's formidable capacity for completing, integrating and growing significant transactions. We are doggedly pursuing additional acquisitions—preferably sizable deals, too—that meet our specific criteria: accretive to earnings and complementary to our business model. While prospective acquisitions come onto the company's radar all the time, our management team is judicious in its pursuit. When the right opportunity does afford itself, we are confident that we possess the resources—financial, human capital and operational—to complete a deal that will make a meaningful incremental contribution to our business.



The Calavo Foods business unit continues to be a solid contributor to the company's overall results. Segment revenues rose 11 percent last year on the strength of higher sales principally to the foodservice category, but also to retail grocery channel customers. Our prepared avocados are simply great tasting and Calavo's ultra-high-pressure production processes extend shelf life and add convenience. Stay tuned. There's more growth still to come.

Even as we invest in the growth of our existing businesses, Calavo continues to nurture innovation. Marrying our deep reservoir of fresh-food distribution know-how with cutting edge cloud-based technology, we have seeded a majority-owned company subsidiary, FreshRealm. The start-up is an evolutionary next-step in the supply and availability of fresh, healthful food wherever consumers need to be reached. FreshRealm offers the platform for linking customers and consumers with food manufacturers, suppliers and distributors. As I write this letter, a pilot program is being tested with sights set on full commercialization later this year.

This is my 15th letter to shareholders as Calavo's chief executive. It is impossible to overstate the transformation of our organization during that time. We have transitioned from grower-owned cooperative to public company, making "avocado-to-avocado" comparisons impossible. But consider this metric: we posted $152 million in revenues in 1998 versus $691 million last year. How's that for a growth story? I'm enormously confident about where we will go from here—the future looks bright. Even as we grow, though, we will stay true to the principles and values which have gotten us here. Nor will we deviate from our strategic blueprint—we've proven it works and we'll stay the course.

To that point, I reference a front-page article in The Wall Street Journal a few weeks ago that touched upon food-industry trends and succeeding in an increasingly competitive marketplace. It was a virtual checklist of the strategies that underpin Calavo's growth. Specifically, the story discussed the importance of having the right facilities with the right production capacity in the right locations. It talked about consumers' shifting preference for fresher foods. Finally, it spoke about the buying power of mega-chain customers and the importance of their suppliers having sufficient scale to attain leverage. On all three counts, our company succeeds mightily and then some. Calavo is, unquestionably, in the right place at the right time. We showcase these company hallmarks on the subsequent pages.

I close with immense thanks to our shareholders, employees, senior management and board of directors for unwavering loyalty and dedication. My hope is that each of you takes as much pride and pleasure in Calavo's accomplishments as I do.

Sincerely,

Lee E. Cole
Chairman, President and Chief Executive Officer
March 4, 2014

> *"Amazing avocados. Ounce for ounce, they contain more blood pressure lowering potassium than bananas. Avocados are rich in good-for-you monounsaturated fats, and cholesterol-lowering beta-sisterol and cancer protective glutathione, along with vitamin E, foliate, vitamin B6 and fiber."*
>
> ENVIRONMENTAL NUTRITION NEWSLETTER

Avocados are packed with monounsaturated fat, in the form of oleic acid, which reduces bad cholesterol and lowers stroke and heart disease risk...

...The avocado's many healthful fats and nutrients —oleic acid, lutein, folate, vitamin E, and monounsaturated fats among them—can help protect against heart disease, cancer, degenerative eye and brain diseases...

...Metabolic syndrome encompasses a group of symptoms that increase the risk of diabetes, stroke and coronary artery disease. A recent study published in the Nutrition Journal concluded that avocado consumption is associated with improved overall diet quality, nutrient intake, and reduced risk of metabolic syndrome..

...In the same study, after following an avocado-enriched diet, patients experienced a 22 percent decrease in bad cholesterol and triglyceride levels and an 11 percent increase in good cholesterol...

...The study also found that avocado consumers were more likely to have lower body weight, BMI (body mass index) and waist circumference...

...Avocados are protein-packed, on average containing approximately four grams, which is much more than most other fruits...

...It's good quality protein as well, with 18 of the most important amino acids, all available for the body to use, as reported in the San Francisco Chronicle...

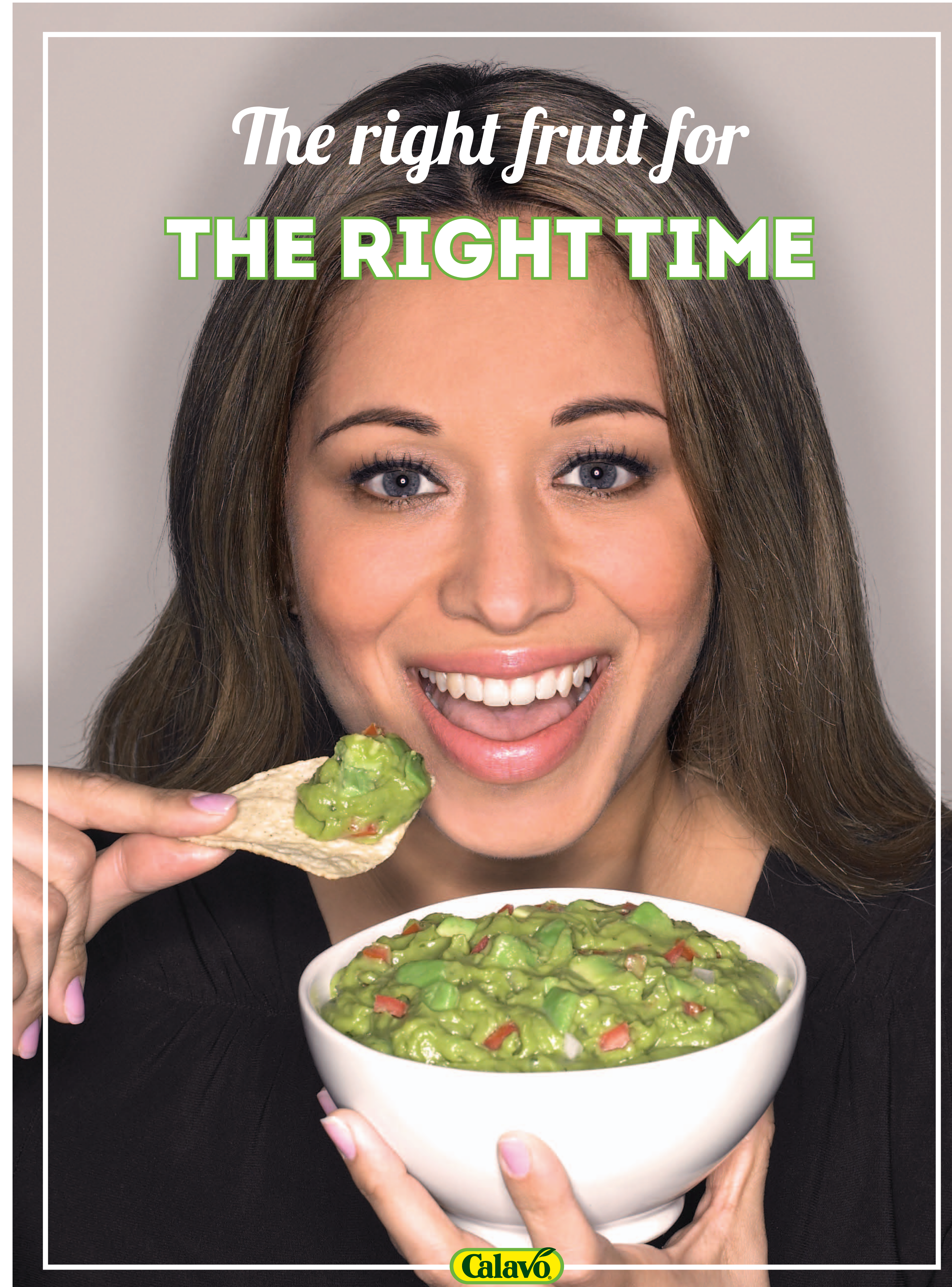
...A medium avocado contains eleven grams of fiber, which is nearly half the recommended daily minimum...

...The avocado's sugar content is low compared to other fruits...

...Avocados are rich, creamy and delicious, providing great flavor to sandwiches and salads where they are ideal as a meat substitute...

...The avocado's antioxidants, amino acids and essential oils can help repair damaged hair, moisturize dry skin, treat sunburns and possibly even minimize wrinkles, according to the Huffington Post.





# *Up, up, up!*

# AVOCADO CONSUMPTION ROCKETS



> *"Not long ago, avocados were beloved in Super Bowl guacamole but seldom encountered the rest of the year. Now, the fruits are having a mass-market breakthrough as supermarket sales surge and restaurant chains spread them and slice them on sandwiches and salads."*
>
> THE WALL STREET JOURNAL

United States avocado consumption rose 11 percent in 2013 to nearly 1.7 billion pounds from 1.5 billion pounds one year earlier. The most-recent figure is a whopping 48 percent jump from 1.1 billion pounds of fruit consumed in 2011...

...Powered by expenditures approximating $50 million per year for avocado-industry marketing and promotion, analysts estimate that consumption is expected to continue growing by double-digits for the foreseeable future...

...Avocados were a featured food on NBC's The Biggest Loser, and routinely described as both a "healthy ingredient" and "nature's mayonnaise..."

...The explosive growth in consumption is being driven by healthful eating trends and increased awareness of avocados' nutritional benefits, demographic shifts including an expanding Hispanic population, and innovative recipe ideas that showcase more ways to enjoy them...

...Despite sharp volume gains there remains huge room for market growth: even with substantial buying power of American consumers, United States per capita consumption is only about a quarter of the 20 pounds of avocados per person eaten annually in Mexico...

...Year-round availability of avocados from Mexico to all 50 states, which began in 2007 with the opening of the borders under the North American Free Trade Agreement, hastened the shift in perception of the fruit from "exotic" to "everyday." Calavo is the largest packer of Mexican fruit for import to the United States and other markets...

...Nowhere is the growth more evident than in the retail and foodservice sectors, which view avocados as outstanding value builders of their businesses. In supermarkets, for example, the fruit has transitioned from novelty to produce staple stocked in aisle end caps—grocers' prime selling space...

...Calavo sells one of every four avocados in the United States. At the forefront of spurring consumption and convenience, the company has advanced ultra-high-pressure prepared avocados to extend shelf life and the pre-conditioning of fruit to speed ripening.

> *"About 75 percent of the $2.8 trillion in annual health care costs in the United States is from chronic diseases that can often be reversed or prevented altogether by a healthy lifestyle. If we put money and effort into helping people make better food and exercise choices, we could improve our health and reduce the cost of health care."*
>
> DR. DEAN ORNISH IN THE NEW YORK TIMES

Calavo is dedicated to enhancing shareholder value, but also to creating social value by selling products that promote good health...

...As of 2010, diet surpassed smoking as the number one risk factor for disease and death in the United States...

...According to the Centers for Disease Control and Prevention (CDC), obesity is common, serious and costly. More than one-third of U.S. adults are obese...

...Obesity's estimated annual medical cost in the U.S. was $147 billion in 2008; the medical costs for people who are obese were $1,429 higher than those of normal weight...

...The CDC also reports a stunning rise in type-2 diabetes, which is closely linked to obesity. The number of Americans with this serious disease could triple within 40 years...

...Diabetes is deemed to be preventable at least 90 percent of the time with diet and lifestyle changes...

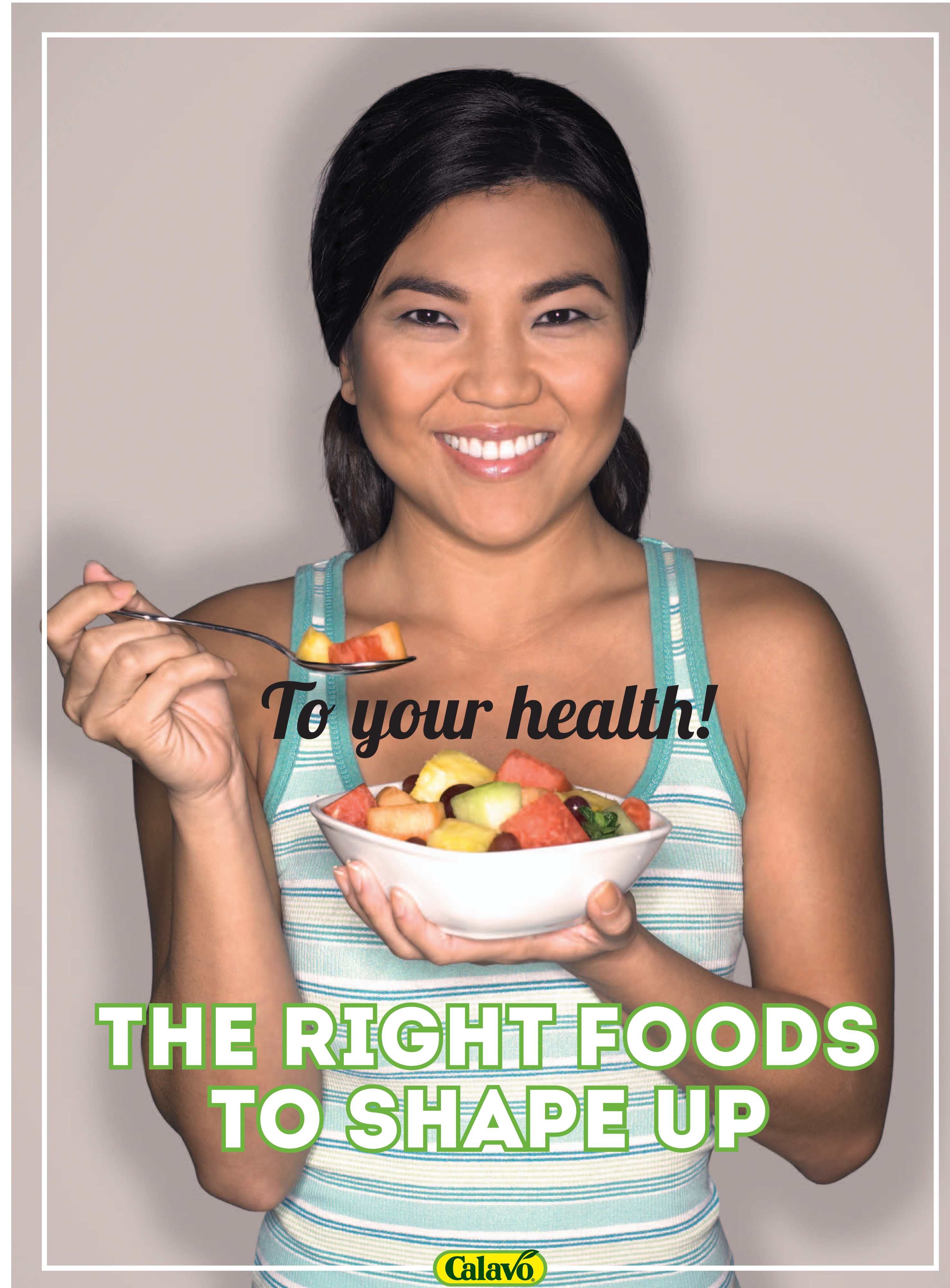
...Achieving and maintaining a healthy weight requires a lifestyle that includes healthy eating, regular exercise and balancing calories consumed with those the body uses...

...Dietary Guidelines for Americans, 2010 emphasizes fruits and vegetables as key components of a healthy eating plan...

...Calavo stands for the highest quality products, and providing fresh fruits and vegetables is a basic aspect of corporate strategy...

...In addition to avocados, Calavo's growing portfolio of fresh products includes tomatoes, pineapples, papayas and specialized tropical fruits.





# The right products for BUSY LIFESTYLES



> *"Modern busy lifestyles are often at odds with the healthy aspirations of consumers who want to achieve wellness through good nutrition and exercise. Convenience and limited time to exercise and prepare meals or dislike of food preparation and cooking, shape many people's lifestyles today."*
>
> **MONTHLY HEALTH MESSAGE, RUTGERS UNIVERSITY**

According to Pew Research, roughly 60 percent of two-parent households with children under age 18 have two working parents...

...Working mothers (56 percent) and fathers (50 percent) report being stressed about juggling work and family life, according to the Pew Survey...

...In today's fast-paced world, people feel busier than ever, and working moms are devoting much less time to meal planning, grocery shopping and cooking. "Nobody cooks anymore," has become a familiar saying...

...At the same time, awareness continues to grow of the importance of exercise and a healthful, nutritious diet including ample servings of fruits and vegetables as a core component...

...The burgeoning need for fresh, convenient healthy eating options was, in part, the rationale for Calavo's acquisition of the Renaissance Food Group (RFG)...

...RFG, a fresh food leader, offers a wide range of healthful, convenient offerings such as enticing fresh-cut fruits and vegetables, nutritious salads, wraps, sandwiches, recipes and meal kits...

...As well, RFG's appealing product lineup perfectly complements Calavo's line of prepared products that includes fresh, long-lasting guacamole, delicious salsas and taste-sensational hummus...

...RFG, with its just-in-time delivery capability, complemented Calavo's formidable, national distribution capability...

...This acquisition, made two years ago, continues to be well-rewarded with excellent revenue and gross margin improvement, expanded distribution to new and existing customers and successful new product initiatives.

> *"The reasoning behind just-in-time delivery is simple yet often overlooked...When ordering according to just-in-time, inventory has far less chance to deteriorate and is less prone to damage–especially inventory that has to be restacked and moved constantly. Just-in-time inventory is freshest, too... Managing these gray areas is what separates the good operations from the bad."*
>
> **THE PACKER**

Three strategically located Value Added Depots (VADs)—in California, Texas and New Jersey—provide Calavo with seamless distribution coverage across the United States and Canada. It enables us to meet our customers' exacting requirements for the freshest, highest quality products—wherever they may be and whenever they need them...

...This formidable capability is further enhanced through six Renaissance Food Group (RFG) production and distribution facilities which are models of efficiency in time-to-market for refrigerated, fresh packaged goods. Quick-turn order fulfillment enables delivery of flavorful, healthy products as soon as the next day...

...Speed is central to every part of RFG's business. The business unit's rate of innovation in new product development has, in part, propelled its strong sales and gross-margin growth since becoming part of Calavo two years ago...

...Our VADs are each outfitted with ProRipeVIP™ technology which allows precision pre-conditioning of fresh avocados, so that fruit reaches grocers ripened to their precise specifications. This acoustic-sensor-based capability is a value-added component of our fresh avocado business and driver of the upward avocado consumption trend...

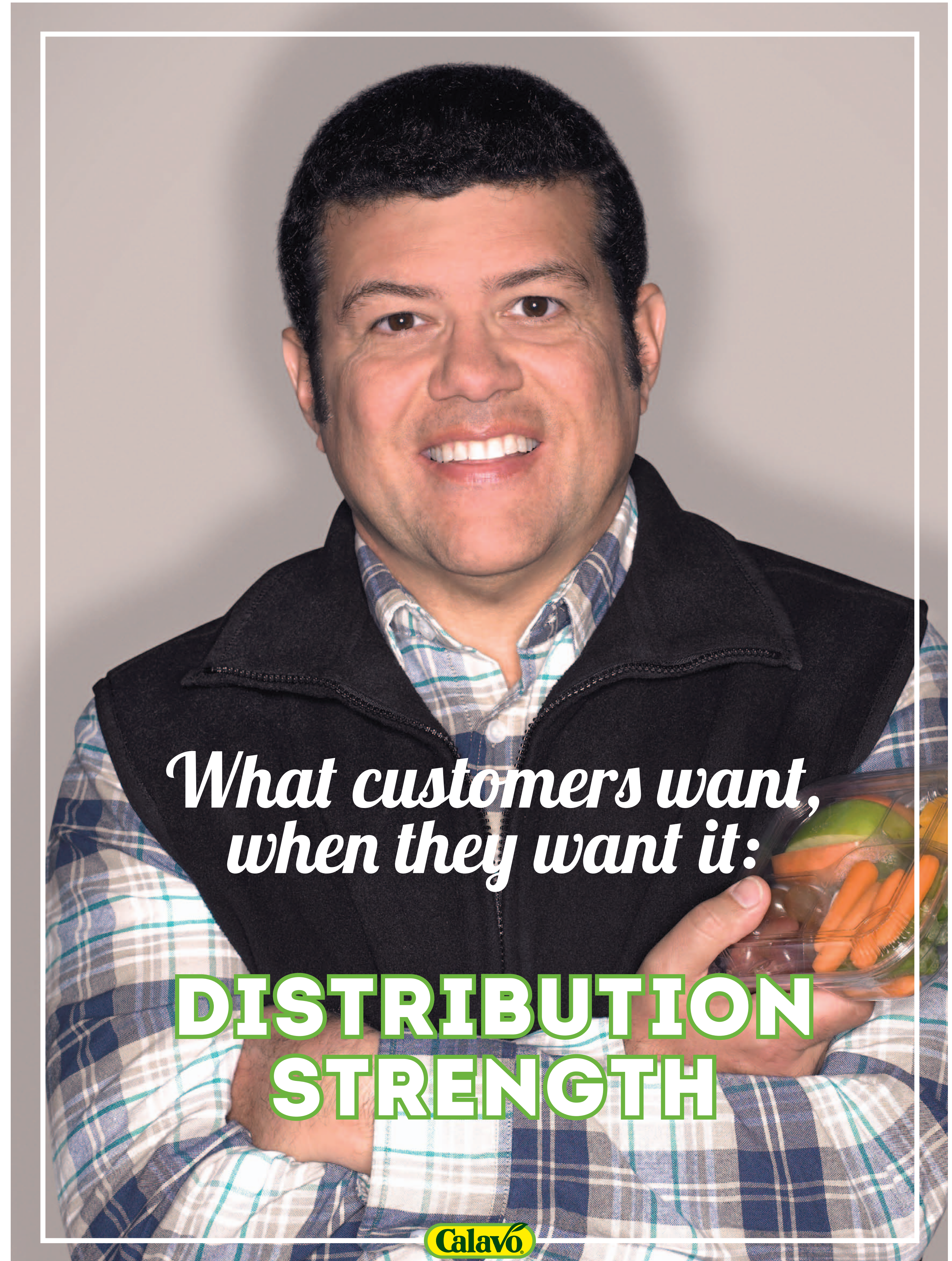
...Calavo's scale-driven, fresh avocado packinghouses—two in California and a third in Uruapan, Michoacán, Mexico—together deliver production capacity to push 600 million pounds of volume annually through our system...

...Calavo's exciting new majority-owned subsidiary, FreshRealm, is the next step in the company's long-term participation in the supply of fresh, healthful food...

...In essence, FreshRealm is a cloud-based technology platform for the efficient, expanded distribution of fresh food throughout the United States...

...FreshRealm connects consumers and merchants with a national network of food suppliers, food makers and food packers into what may be described as a national food cooperative.





# Delivering shareholder returns, TIME AND TIME AGAIN


> *"We have identified a strong candidate which may be an impressive value: Calavo Growers, Inc. The company is an interesting play thanks to its forward PE, its P/S ratio, and its dividend yield... Before you think that Calavo Growers is just a pure value play, it is important to note that it has been seeing solid activity on the earnings estimate front, as well."*
>
> ZACKS EQUITY RESEARCH

Calavo's annual cash dividend on its common stock has risen 250 percent since the company became publicly traded on the Nasdaq Market, with the board of directors increasing the payout eight percent to 70 cents per share in the most recent year...

...Our company remains steadfast in balancing the dual of objectives of reinvesting sufficient profit to drive the growth of our businesses and returning the highest possible shareholder returns. Subsequent to fiscal-year-end, we distributed more than $11 million in the form of our annual cash dividend...

...With our upward sales and profit trend lines, Calavo shares represent an attractive growth-stock opportunity in what is historically considered a defensive market segment...

...To that point, $10,000 invested in Calavo common stock on October 31, 2003, along with reinvested dividends, would have appreciated one decade later to more than $36,200 at the close of the most recent fiscal year...

…Calavo's market capitalization at the close of the most recent fiscal year totaled approximately $467 million, an increase of 391 percent from $95 million at October 31, 2002…

...Our five-year compounded revenue-growth rate has approximated 13.9 percent, while our earnings-growth rate over that same period equals 17.6 percent...

...The company holds a 12.3 percent equity interest in the Limoneira Company (Nasdaq: LMNR), a diversified agribusiness and real estate enterprise which is also one of California's largest growers of avocados, which are packed and distributed by Calavo...

...We believe this Limoneira ownership stake offers considerable unrealized upside, including 500-plus acres in Santa Paula, California, known as East Area One, which are fully entitled and permitted for a master-planned residential, retail and mixed-use development, as well as parks, bike paths and trails.

# Board of DIRECTORS

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

**J. LINK LEAVENS**
First Vice Chairman,
General Manager
Leavens Ranches
Ventura, California

**SCOTT N. VAN DER KAR**
Second Vice Chairman,
General Manager
Van Der Kar Family Farms
Carpinteria, California

**DORCAS H. MCFARLANE**
Owner and Operator
J.K. Thille Ranches
Santa Paula, California

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

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

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

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

**HAROLD S. EDWARDS**
President and CEO
Limoneria Company
Santa Paula, California

**MARC L. BROWN**
Attorney/Partner
Troy Gould PC
Los Angeles, California

**STEVEN W. HOLLISTER**
Managing Member,
Rocking Spade, LLC
Arroyo Grande, California

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

**MICHAEL A. "MIKE" DIGREGORIO**
Board & Strategic Advisory Services
Westlake Village, California



# ABOUT CALAVO

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 21 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 1,800 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.

# 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, 2013, 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, | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| *(In thousands, except per share data)* | | | | | |
| **INCOME STATEMENT DATA:**(1)(2)(3)(4) | | | | | |
| Net sales | $ 691,451 | $ 551,119 | $ 522,529 | $ 398,351 | $ 344,765 |
| Gross margin | 60,124 | 60,666 | 42,308 | 51,530 | 44,533 |
| Net income attributable to Calavo Growers, Inc. | 17,349 | 17,052 | 11,068 | 17,764 | 13,611 |
| Basic net income per share | $ 1.17 | $ 1.15 | $ 0.75 | $ 1.22 | $ 0.94 |
| Diluted net income per share | $ 1.17 | $ 1.15 | $ 0.75 | $ 1.22 | $ 0.94 |
| **BALANCE SHEET DATA AS OF END OF PERIOD**(3) | | | | | |
| Working capital | $ 12,350 | $ 9,656 | $ 8,643 | $ 14,801 | $ 12,052 |
| Total assets | 239,939 | 207,891 | 185,323 | 150,198 | 122,749 |
| Current portion of long-term obligations | 5,258 | 5,416 | 5,448 | 1,369 | 1,366 |
| Long-term debt, less current portion | 7,792 | 13,039 | 18,244 | 6,089 | 13,908 |
| Shareholders' equity | 128,452 | 110,022 | 95,780 | 88,257 | 69,487 |
| **CASH FLOWS PROVIDED BY (USED IN):** | | | | | |
| Operations | $ 13,721 | $ 21,723 | $ 7,866 | $ 19,979 | $ 22,504 |
| Investing(2) (3) (5) (7) | (7,746) | (7,161) | (20,907) | (9,502) | (6,497) |
| Financing(6) | (5,050) | (10,233) | 14,751 | (10,288) | (16,641) |
| **OTHER DATA:** | | | | | |
| Dividends declared per share | $ 0.70 | $ 0.65 | $ 0.55 | $ 0.55 | $ 0.50 |
| Net book value per share | $ 8.18 | $ 7.45 | $ 6.52 | $ 6.04 | $ 4.79 |
| Pounds of California avocados sold | 141,400 | 127,145 | 84,913 | 170,650 | 53,000 |
| Pounds of non-California avocados sold | 218,244 | 174,995 | 156,973 | 123,700 | 162,950 |
| Pounds of processed avocados products sold | 21,636 | 17,341 | 18,811 | 21,651 | 21,259 |

*(1) In July 2013, we entered into with certain noncontrolling members an Amended and Restated Limited Liability Company Agreement of FreshRealm. As of October 31, 2013, planned, principal operations have not commenced. As a result, FreshRealm has no sales or cost of sales. FreshRealm has incurred $1.9 million of expenses related to its development as of October 31, 2013, which are included in selling, general and administrative expenses. See Note 17 in our consolidated financial statements for further information.*

*(2) 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.*

*(3) Operating results for fiscal 2013, 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 2013, RFG net sales, gross margins, and net income before taxes were $191.5 million, $15.5 million and $6.8 million. 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 information.*

*(4) Operating results for fiscal 2013, 2012, 2011 and 2010 include the acquisitions of CSL from the date of acquisition of February 8, 2010. For fiscal year 2013, CSL's net sales and gross losses were $1.6 million and $1.0 million. Net loss was $0.7 million. 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.*

*(5) For fiscal year 2011, we made a $3.0 million infrastructure advance to Agricola Belher. For fiscal year 2013, 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 $1.7 million, $1.2 million and $1.8 million in fiscal years 2013, 2011 and 2010 related to infrastructure advances.*

*(6) On April 10, 2013, we repurchased 165,000 shares of our common stock from Limoneira for cash consideration of $4.8 million at a purchase price of $29.02 per share, the closing price on April 10, 2013. These shares were cancelled and returned to authorized, but unissued, status.*

*(7) In October 2013, we contributed $1.0 million to the purchase of 60 hectares of property in Jalisco, Mexico, for the development of facilities to grow tomatoes. In the first quarter of 2014, we expect to enter into a joint venture agreement with Agricola Belher (Belher) for the purpose of selling and distributing tomatoes. Such joint venture is expected to operate under the name of Agricola Don Memo. Belher and Calavo are expected to have an equal one-half ownership interests in Agricola Don Memo, but Belher will ultimately have overall management responsibility for the operations of Agricola Don Memo. The contribution of $1.0 million has been recorded as an investment in unconsolidated entities on our consolidated financial statements.*



# 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. We report our operations in three different business segments: (1) Fresh products, (2) Calavo Foods and (3) RFG. See Note 11 to our consolidated financial statements for further discussion.

Our Fresh products business grades, sizes, packs, cools, and ripens (if desired) avocados for delivery to our customers. We presently operate two packinghouses and three operating and distributing facilities that handle avocados across the United States. These packinghouses handled approximately 30% of the California avocado crop during the 2013 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 20% 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 2012-2013 Mexican season, 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 "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 54% and 50% of total processed segment sales for the years ended October 31, 2013 and 2012. Net sales of our ultra high pressure products represented approximately 46% and 50% of total processed segment sales for the years ended October 31, 2013 and 2012.

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 and RFG products we sell, and general economic conditions. We believe, however, that we are currently positioned to address these risks and deliver favorable operating results for the foreseeable future.

### Recent Developments

*Dividend Payment*

On December 12, 2013, we paid a $0.70 per share dividend in the aggregate amount of $11.0 million to shareholders of record on November 29, 2013.

*Contingencies*

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

*Amended and Restated Limited Liability Company Agreement of FreshRealm, LLC*

Effective July 31, 2013, Calavo and certain noncontrolling members have entered into an Amended and Restated Limited Liability Company Agreement (the "Agreement") of FreshRealm, LLC (FreshRealm).

The purpose of FreshRealm is to engage in activities relating to the marketing of food products directly to consumers or other entities. FreshRealm's technology platform is currently being developed and is expected to allow participants such as traditional retailers, large and small enterprises, communities and food banks to enter into a platform resembling a national fresh food cooperative. FreshRealm will serve as a way to connect participants to a network of regional fresh food producers.

Pursuant to this Agreement, FreshRealm issued approximately 1.3 million units, with Calavo owning 71.5% of FreshRealm for a capital contribution of $0.9 million. The noncontrolling members, representing the remaining 28.5% ownership, contributed either cash (totaling approximately $0.1 million) or a full-recourse promissory note payable to Calavo (totaling approximately $0.3 million) in exchange for their units. The percentage interest of each member may be subject to pro rata adjustments through October 31, 2013 based on participation of the anticipated initial member group. Each full-recourse promissory note described above will be due and payable in full on May 1, 2016, with interest at 4% per annum, to be due on May 1, 2016. If, prior to May 1, 2016, FreshRealm terminates an employee's employment for cause, as defined, or the employee terminates his employment other than (A) for good reason, as defined, or (B) as a result of the employee's death or disability, notwithstanding whether prior to such date the employee repaid his note in full, then all of the employee's units will be transferred to Calavo.

Members have limited voting rights. In any matters presented to the members for approval, each member will have one vote for each unit held by such member. For situations for which the approval of the members is required, the members shall act by majority vote.

Members may make loans to FreshRealm with the consent of the board of directors of FreshRealm (the "FR Board"). The Board of Calavo Growers approved loans of up to $3,000,000 from Calavo to FreshRealm under the Line of Credit and Security Agreement between Calavo and FreshRealm.

Subject to certain limitations, the FR Board has the sole discretion regarding the amounts and timing of distributions to members. After making tax distributions required for a given fiscal year, all distributions will be made to the members pro rata, pari passu in accordance with their respective percentage interests, except FreshRealm will first apply distributions (other than tax distributions) to each member who is an employee against such member's promissory note until the promissory note is paid in full.

FreshRealm's losses and income that are determined for accounting purposes will also be allocated for each fiscal year, including for the full 2013 fiscal year, to the members in accordance with the allocation principles for net loss and net income. As a result, a $0.6 million loss has been allocated to the noncontrolling members as of October 31, 2013. See additional discussion below.

FreshRealm started operating as a development stage company in the second quarter of 2013. As of October 31, 2013, planned, principal operations have not commenced. As a result, FreshRealm has no sales or cost of sales. When principal operations commence, FreshRealm is expected to become our fourth segment. FreshRealm has incurred $1.9 million of expenses related to its development as of October 31, 2013, which are included in selling, general and administrative expenses. Of the $1.9 million in selling, general and administrative expenses, $1.3 million has been attributed to Calavo and a $0.6 million loss has been attributed to the noncontrolling members. We record the noncontrolling interest outside of permanent equity to highlight the potential future cash receivable related to this entity.

*Amendment No.1 to RFG Acquisition Agreement*

Effective July 31, 2013, Calavo, 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 Amendment No. 1 of the Agreement and Plan of Merger (the "Amendment").

Calavo, RFG and the Sellers are parties to an Agreement and Plan of Merger dated as of May 25, 2011 (the "Merger Agreement") pursuant to which, among other things, Calavo acquired RFG from the Sellers and Calavo agreed to make Earn-Out Payments to the Sellers upon the satisfaction of certain performance requirements specified in the Merger Agreement.

The Merger Agreement states that, upon the attainment of the Stage 2 Maximum Earn-Out Trigger prior to the end of the Earn-Out Period, Calavo shall be obligated to pay the Stage 2 Maximum Earn-Out Consideration to the Sellers. The Merger Agreement states that the Stage 2 Maximum Earn-Out Consideration shall be $5,000,000 in cash and 827,000 shares of Calavo common stock. The Merger Agreement states that the Stage 2 Maximum Earn-Out Trigger shall be met if, for any 12-month period during the Earn-Out Period, (1) the EBITDA for RFG is equal to or greater than $8,000,000 and (2) the Revenue for RFG is equal to or greater than $130,000,000.

Calavo, RFG and the Sellers have amended the Merger Agreement by the Amendment to provide, among other things, that: (1) Calavo shall deliver $5,000,000 of Common Stock to the Sellers, as part of the Stage 2 Maximum Earn-Out Consideration instead of delivering $5,000,000 of cash to the Sellers; (2) the Sellers shall receive specified price protection from Calavo with respect to the sale of such Common Stock; and (3) Calavo shall file with the Securities and Exchange Commission (the "SEC") a Registration Statement on Form S-3 (the "Registration Statement") which shall cover the public resale of such Common Stock by the Sellers during the period specified in the Amendment.

During our fourth fiscal quarter, RFG attained the Stage 2 Maximum Earn-Out Trigger. As such, and, pursuant to this amendment, we filed the Registration Statement and issued 172,117 shares of common stock, valued at $29.05, to the Sellers in October 2013. From October 2013 to November 2013, the Sellers sold all 172,117 shares for $5.0 million.

*Amendment No.2 to RFG Acquisition Agreement*

Effective October 1, 2013, Calavo, 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 Amendment No. 2 of the Agreement and Plan of Merger (the "Second Amendment").

Calavo, RFG and the Sellers are parties to an Agreement and Plan of Merger dated as of May 25, 2011, as amended by Amendment No. 1 thereto, dated July 31, 2013 (as so amended the "Merger Agreement"), pursuant to which, among other things, Calavo acquired RFG from the Sellers and Calavo agreed to make Earn-Out Payments to the Sellers upon the satisfaction of certain performance requirements specified in the Merger Agreement.

The Merger Agreement provides that, upon the attainment of the Stage 3 Maximum Earn-Out Trigger or the Stage 3 Scale Earn-Out Trigger, as applicable, Calavo shall be obligated to make a Stage 3 Earn-Out Payment to the Sellers consisting of either the Stage 3 Maximum Earn-Out Consideration or the Stage 3 Scale Earn-Out Consideration, each of which shall consist of a specified amount of cash and a specified number of Merger Shares.

Pursuant to the Second Amendment, Calavo, RFG and the Sellers amended the Merger Agreement to provide, among other things, that: (1) with respect to the portion of the Stage 3 Maximum Earn-Out Consideration or the Stage 3 Scale Earn-Out Consideration, as applicable, that is currently required by the Merger Agreement to be paid in cash to the Sellers, Calavo shall have the right to elect to pay all or a portion of such cash amount by delivery of additional Merger Shares to the RFG Nominee Trust (the "Trust"), for the benefit of the Sellers; (2) the Sellers shall receive specified price protection from Calavo with respect to the Trust's sale of shares of Common Stock on the Nasdaq Stock Market, up to the total number of shares of Common Stock issued to the Trust pursuant to this Second Amendment; and (3) Calavo shall file with the SEC a Registration Statement on Form S-3 covering the Trust's resale on the Nasdaq Stock Market of any additional Merger Shares issued pursuant to the Second Amendment for sales that occur during the period specified in this Second Amendment. Any additional Merger Shares issued by Calavo in lieu of cash payments to the Sellers will be valued for this purpose at the closing price of Calavo Common Stock as reported on the Nasdaq Stock Market at the time of issuance.

*Investment in Unconsolidated Entity*

In October 2013, we contributed $1.0 million to the purchase of 60 hectares of property in Jalisco, Mexico, for the development of facilities to grow tomatoes. In the first quarter of 2014, we expect to enter into a joint venture agreement with Agricola Belher (Belher). Such joint venture is expected to operate under the name of Agricola Don Memo. Belher and Calavo are expected to have equal one-half ownership interests in Agricola Don Memo, but Belher will ultimately have overall management responsibility for the operations of Agricola Don Memo. The contribution of $1.0 million has been recorded as an investment in unconsolidated entities on our consolidated financial statements.

## 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 $0.6 million.

*Income taxes*

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

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

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

*Goodwill and acquired intangible assets*

Goodwill, defined as unidentified asset(s) acquired in conjunction with a business acquisition, is tested for impairment on an annual basis and between annual tests whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill is tested at the reporting unit level, which is defined as an operating segment or one level below the operating segment. Goodwill impairment testing is a two-step process. The first step of the goodwill impairment test, used to identify potential impairment, compares the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired, and the second step of the impairment test would be unnecessary. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test must be performed to measure the amount of impairment loss, if any. The second step of the goodwill impairment test, used to measure the amount of impairment loss, compares the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss must be recognized in an amount equal to that excess. Goodwill impairment testing requires significant judgment and management estimates, including, but not limited to, the determination of (i) the number of reporting units, (ii) the goodwill and other assets and liabilities to be allocated to the reporting units and (iii) the fair values of the reporting units. The estimates and assumptions described above, along with other factors such as discount rates, will significantly affect the outcome of the impairment tests and the amounts of any resulting impairment losses. We performed our annual assessment of goodwill and determined that no impairment existed as of October 31, 2013.

*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. We have amended our acquisition agreement with RFG in regards to the cash payment portion of the Stage II & III earnouts. We no longer will pay cash, but rather in the form of shares of our common stock. We recorded revalue adjustments of $1.8 million in fiscal 2013 and the entire liability of $4.2 million has been reclassified to additional paid in capital. Total net decrease to the contingent considerations in fiscal year 2012 totaled $0.4 million. See Note 16 to our consolidated financial statements for further information.

*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, | 2013 | 2012 | 2011 |
|---|---|---|---|
| Net sales | 100.0% | 100.0% | 100.0% |
| Gross margins | 8.7% | 11.0% | 8.2% |
| Selling, general and administrative | 5.1% | 6.0% | 4.7% |
| Operating income | 3.6% | 5.0% | 3.5% |
| Interest income | 0.0% | 0.0% | 0.0% |
| Interest expense | (0.2)% | (0.2)% | (0.2)% |
| Other income, net | 0.1% | 0.2% | 0.0% |
| Net income | 2.4% | 3.1% | 2.1% |

### Net Sales

We believe that the fundamentals for our products continue to be favorable. Firstly, Americans continue to eat more avocados. United States (U.S.) avocado demand continues to grow, with per capita use in 2011/12 reaching 5.0 pounds per person, up 25 percent from the previous year, and approximately double the estimate of a decade ago. We believe that the healthy eating trend that has been developing in the United States contributes to such growth, as avocados, which are cholesterol and sodium free, are dense in fiber, vitamin B6, antioxidants, potassium, folate, and contain unsaturated fat, which help lower cholesterol. Also, a growing number of research studies seem to suggest that phytonutrients, which avocados are rich in, help fight chronic illnesses, such as heart disease and cancer.

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

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

In October 2002, the USDA announced the creation of a Hass Avocado Board to promote the sale of Hass variety avocados in the U.S. marketplace. This board provides a basis for a unified funding of promotional activities based on an assessment on all avocados sold in the U.S. marketplace. The California Avocado Commission, which receives its funding from California avocado growers, has historically shouldered the promotional and advertising costs supporting 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 2013, 2012 and 2011, on behalf of avocado growers, we remitted approximately $2.0 million, $0.9 million and $1.8 million to the California Avocado Commission. During fiscal 2013, 2012 and 2011, we remitted approximately $8.0 million, $5.7 million and $4.8 million to the Hass Avocado Board related to avocados.

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 and new tomato varieties, heightened consumer interest in a wider range of tomatoes, a surge of new immigrants who eat vegetable-intensive diets, and expanding national emphasis on health and nutrition.

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

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

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, 2013 | | | | YEAR ENDED OCTOBER 31, 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| | FRESH PRODUCTS | CALAVO FOODS | RFG | TOTAL | FRESH PRODUCTS | CALAVO FOODS | RFG | TOTAL |
| **THIRD-PARTY SALES:** | | | | | | | | |
| Avocados | $ 407,678 | $ — | $ — | $ 407,678 | $ 318,556 | $ — | $ — | $ 318,556 |
| Tomatoes | 22,623 | — | — | 22,623 | 11,404 | — | — | 11,404 |
| Papayas | 13,077 | — | — | 13,077 | 12,753 | — | — | 12,753 |
| Pineapples | 5,739 | — | — | 5,739 | 6,840 | — | — | 6,840 |
| Other fresh products | 601 | — | — | 601 | 1,788 | — | — | 1,788 |
| Food service | — | 43,616 | — | 43,616 | — | 36,289 | — | 36,289 |
| Retail and club | — | 18,789 | 195,376 | 214,165 | — | 19,758 | 157,333 | 177,091 |
| Total gross sales | 449,718 | 62,405 | 195,376 | 707,499 | 351,341 | 56,047 | 157,333 | 564,721 |
| Less sales incentives | (1,349) | (10,791) | (3,908) | (16,048) | (759) | (9,623) | (3,220) | (13,602) |
| Net sales | $ 448,369 | $ 51,614 | $ 191,468 | $ 691,451 | $ 350,582 | $ 46,424 | $ 154,113 | $ 551,119 |

| | 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.*



Net sales to third parties by segment exclude inter-segment sales and cost of sales. For fiscal years 2013, 2012, and 2011, inter-segment sales and cost of sales for Fresh products totaling $29.9 million, $22.2 million and $15.8 million were eliminated. For fiscal years 2013, 2012, and 2011, inter-segment sales and cost of sales for Calavo Foods totaling $14.3 million, $11.6 million, and $11.2 million were eliminated.

The following table summarizes our net sales by business segment:

| | 2013 | CHANGE | 2012 | CHANGE | 2011 |
|---|---|---|---|---|---|
| *(Dollars in thousands)* | | | | | |
| **NET SALES:** | | | | | |
| Fresh products | $ 448,369 | 27.9% | $ 350,582 | (16.7%) | $ 420,658 |
| Calavo Foods | 51,614 | 11.2% | 46,424 | 2.8% | 45,151 |
| RFG | 191,468 | 24.2% | 154,113 | 171.7% | 56,720 |
| Total net sales | $ 691,451 | 25.5% | $ 551,119 | 5.5% | $ 522,529 |
| **AS A PERCENTAGE OF NET SALES:** | | | | | |
| Fresh products | 64.8% | | 63.6% | | 80.5% |
| Calavo Foods | 7.5% | | 8.4% | | 8.6% |
| RFG | 27.7% | | 28.0% | | 10.9% |
| | 100.0% | | 100.0% | | 100.0% |

Net sales for the year ended October 31, 2013, compared to 2012, increased by $140.3 million, or 25.5%. The increases in sales, when compared to the same corresponding prior year periods, are related to increases in sales from all segments. We experienced increases in Fresh product sales during fiscal year 2013, which was due primarily to increased sales of Mexican and California sourced avocados, as well as tomatoes. Partially offsetting these increases in Fresh product sales, however, was a decrease in sales of Chilean sourced avocados. We also experienced increases in RFG sales during fiscal year 2013, which was due primarily to increased sales from cut fruit and vegetables platters, as well as increases in sales of deli products. Lastly, Calavo Foods had an increase in sales primarily related to an increase in units sold of our prepared guacamole products. While the procurement of fresh avocados related to our Fresh products segment is very seasonal, our Calavo Foods and RFG segments are 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 2013 vs. Fiscal 2012:**

Net sales delivered by the Fresh products business increased by approximately $97.8 million, or 27.9%, for the year ended October 31, 2013, when compared to fiscal 2012. As discussed above, this increase in Fresh product sales during fiscal year 2013 was primarily related to increased sales of Mexican and California sourced avocados, as well as tomatoes. Partially offsetting these increases in Fresh product sales, however, was a decrease in sales of Chilean sourced avocados. See details below.

Sales of Mexican sourced avocados increased $52.9 million, or 29.1%, for the year ended October 31, 2013, when compared to the same prior year period. The increase in Mexican sourced avocados was primarily due to an increase in pounds sold. Mexican sourced avocados sales reflect an increase in 50.3 million pounds of avocados sold, or 30.0%, when compared to the same prior year period. We attribute much of this increase in volume to the larger Mexican avocado crop in the current year, as well as current initiatives to expand our customer base and market share. Partially offsetting this increase, however, was the decrease in the sales price per carton, which decreased by approximately 0.7%. We attribute this decrease primarily to a higher overall volume of avocados in the marketplace, as well as the aforementioned change in strategy to increase avocado market share.

Sales of California sourced avocados increased $42.7 million, or 33.0%, for the year ended October 31, 2013, when compared to the same prior year period. The increase in California sourced avocados was primarily due to an increase in the sales price per carton and an increase in pounds sold. California sourced avocados experienced an increase in the sales price per carton of approximately 19.6%. We attribute this increase primarily to a higher overall demand of avocados in the marketplace. Additionally there was an increase in pounds sold, which increased 14.3 million pounds, or 11.2%, when compared to the same prior year period. We attribute much of this increase in volume to the larger California avocado crop in the current year.

Sales of tomatoes increased $11.2 million, or 98.4%, for the year ended October 31, 2013, when compared to the same period for fiscal 2012. The increase in sales for tomatoes is primarily due to a combination of an increase in the number of cartons sold and an increase in the sales price per carton. Warmer than expected weather was experienced in both Florida and Mexico growing areas which delayed the start of the respective harvests and reduced the number of units available in prior year. We attribute some of this increase in the per carton selling price to the lower volume of quality tomatoes in the U.S. marketplace.

Partially offsetting the increases described in the paragraphs above was a decrease in sales of Chilean sourced avocados, which decreased $5.7 million, or 95.9%, for the year ended October 31, 2013, when compared to the same period for fiscal 2012. The decrease in Chilean sourced avocados was due to a decrease in pounds sold. Chilean sourced avocados sales reflect a decrease in 5.4 million pounds of avocados sold, when compared to the same prior year period. This decrease in sales is due to the high availability of other avocado sources, and an increased focus on Mexican and California sourced avocados for the year ended October 31, 2013.

We anticipate that sales volume of California grown avocados will decrease in fiscal 2014, due to a smaller expected California avocado crop. We anticipate that sales of Mexican grown avocados will increase in fiscal 2014, when compared to the same prior year period, due to higher expected sales prices. We expect higher sales prices due to less expected avocado volume in the market, and expected higher demand. In addition, we anticipate that sales volume of tomatoes, pineapples, and papayas will increase in fiscal 2014.

**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.

### *Calavo Foods*

**Fiscal 2013 vs. Fiscal 2012:**

Sales for Calavo Foods for the year ended October 31, 2013, when compared to the same period for fiscal 2012, increased $5.2 million, or 11.2%. This increase is due to an increase in sales of prepared guacamole products which increased approximately $6.0 million, or 13.9%, for the year ended October 31, 2013, when compared to the same prior year period. The increase in sales of prepared guacamole was primarily related to an increase in overall pounds sold, which increased 4.3 million pounds, or 24.8%, partially offset by a decrease in the average net selling price per pound for both our frozen guacamole products and our refrigerated



guacamole products of approximately 8.0%. The decrease in the average net selling price is primarily related to an increase in sales to high volume but lower margin customers. Partially offsetting this increase is a decrease of sales of Calavo Salsa Lisa products of $0.5 million or 21.8% and tortilla chips of $0.4 million or 32.7%.

**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%.

### *RFG*

**Fiscal 2013 vs. Fiscal 2012:**

Sales for RFG for the year ended October 31, 2013, when compared to the same prior year period, increased $37.4 million, or 24.2%. This increase is due primarily to increased sales from packaged fresh cut fruit, packaged fresh cut vegetables and fresh prepared and packaged deli style salads, sandwiches and wraps. The overall increase in sales is primarily due to an increase in sales volume. Collectively, cut fruit, cut vegetable, and deli product sales increased 13.8 million units, or 24.0%. We believe the overall increase in sales volume is primarily due to an increase in demand for the variety of innovative packaged fresh food products that we offer.

**Fiscal 2012 vs. Fiscal 2011:**

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 decreased by approximately $0.5 million, or 0.9%, for the year ended October 31, 2013, when compared to the same period for fiscal 2012. See details below.

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

| *(Dollars in thousands)* | 2013 | CHANGE | 2012 | CHANGE | 2011 |
|---|---|---|---|---|---|
| **GROSS MARGINS:** | | | | | |
| Fresh products | $ 31,193 | (9.0%) | $ 34,295 | 9.6% | $ 31,287 |
| Calavo Foods | 13,388 | (4.4%) | 14,002 | 107.5% | 6,748 |
| RFG | 15,543 | 25.7% | 12,369 | 189.5% | 4,273 |
| Total gross margins | $ 60,124 | (0.9%) | $ 60,666 | 43.4% | $ 42,308 |
| **GROSS PROFIT PERCENTAGES:** | | | | | |
| Fresh products | 7.0% | | 9.8% | | 7.4% |
| Calavo Foods | 25.9% | | 30.2% | | 14.9% |
| RFG | 8.1% | | 8.0% | | 7.5% |
| Consolidated | 8.7% | | 11.0% | | 8.1% |

### *Fresh products*

**Fiscal 2013 vs. Fiscal 2012:**

During fiscal 2013, as compared to the same prior year period, the decrease in our Fresh products segment gross margin percentage was primarily the result of higher Mexican sourced avocado fruit costs year-over-year. In addition, the U.S. Dollar to Mexican Peso exchange rate weakened in fiscal year 2013, when compared to the same prior period. We also focused on our current initiatives to expand our customer base and market share. Contributing to the decrease in the gross margin percentage was a decrease in the gross margin percentage for California sourced avocados for fiscal 2013, as compared to the same prior year periods. This decrease was primarily attributed to our current increased focus on initiatives to expand our customer base and market share. The combined effect of these negatively 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 products and Calavo Foods 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 2013, we generated gross margins of $2.9 million from consigned sales. This is a $0.5 million increase in gross margin for consigned sales compared to previous year. This increase is due to an increase in tomato sales of 98.4% for fiscal 2013, when compared to the same prior year period. The increase in sales for tomatoes is primarily due to a combination of an increase in the number of cartons sold and an increase in the sales price per carton. Warmer than expected weather was experienced in both Florida and Mexico growing areas which delayed the start of the respective harvests and reduced the number of units available in prior year. We attribute some of this increase in the per carton selling price to the lower volume of quality tomatoes in the U.S. marketplace. Partially offsetting the increase in tomato sales is the decrease in Chilean avocado sales, which decreased $5.7 million, or 95.9%, for the year ended October 31, 2013, when compared to the same period for fiscal 2012. The decrease in Chilean sourced avocados was due to a decrease in pounds sold. Chilean sourced avocados sales reflect a decrease in 5.4 million pounds of avocados sold, when compared to the same prior year period. This decrease in sales is due to the high availability of other avocado sources, and an increased focus on Mexican and California sourced avocados for the year ended October 31, 2013.

**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.

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.

*Calavo Foods*

**Fiscal 2013 vs. Fiscal 2012:**

Gross profit percentages for Calavo Foods for the year ended October 31, 2013, as compared to the same prior year period, decreased primarily as a result of higher fruit and operating costs for our prepared guacamole products. Fruit costs for the year ended October 31, 2013, increased 19.7%, when compared to the same prior year period. We believe these increases in fruit costs are primarily due to an overall higher demand for avocados in the marketplace. In addition, the weakening of the U.S. Dollar compared to the Mexican Peso, year-over-year, increased our per pound costs. All of these combined had the effect of increasing



our per pound costs, which, as a result, negatively impacted gross margins. In addition, included in the cost of sales was an impairment of $0.6 million for certain intangible assets related to the Calavo Salsa Lisa reporting unit. This impairment was a result of less than anticipated sales since acquisition and was calculated via a forecast projection analysis, with consultation from a third party consulting firm. We anticipate that the gross margin percentage for our Calavo Foods segment will continue to experience significant fluctuations 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 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.

*RFG*

**Fiscal 2013 vs. Fiscal 2012:**

Gross profit for RFG for the year ended October 31, 2013, when compared to the same prior year period, increased $3.2 million, or 25.7%. This increase is due primarily to increased sales from packaged fresh cut fruit, packaged fresh cut vegetables and fresh prepared and packaged deli style salads, sandwiches and wraps. The overall increase in sales is primarily due to an increase in sales volume. Collectively, cut fruit, cut vegetable, and deli product sales increased 13.8 million units, or 24.0%. We believe the overall increase in sales volume is primarily due to an increase in demand for the variety of innovative packaged fresh food products that we offer.

**Fiscal 2012 vs. Fiscal 2011:**

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 | 2013 | CHANGE | 2012 | CHANGE | 2011 |
|---|---|---|---|---|---|
| *(Dollars in thousands)* | | | | | |
| Selling, general and administrative | $ 35,018 | 5.7% | $ 33,128 | 38.2% | $ 23,976 |
| Percentage of net sales | 5.1% | | 6.0% | | 4.6% |

Selling, general and administrative expenses include costs of marketing and advertising, sales expenses and other general and administrative costs. Selling, general and administrative expenses increased $1.9 million, or 5.7%, for the year ended October 31, 2013, when compared to the same prior year period. This increase was primarily due to the start-up operations of FreshRealm (totaling approximately $1.9 million, see Note 17), as well as higher corporate costs, including, but not limited to, an increase in the revalue adjustments on contingent consideration related to the acquisition of RFG compared to prior year (totaling approximately $1.2 million, see Note 16), salaries (totaling approximately $0.7 million), accounting fees (totaling approximately $0.2 million), and legal fees (totaling approximately $0.2 million), partially offset by decreases in management bonuses (totaling approximately $2.2 million), consulting fees (totaling approximately $0.1 million), data processing (totaling approximately $0.1 million) and a decrease in the revalue adjustments on contingent consideration related to the acquisition of Calavo Salsa Lisa compared to prior year (totaling approximately $0.1 million).

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).

| INTEREST INCOME | 2013 | CHANGE | 2012 | CHANGE | 2011 |
|---|---|---|---|---|---|
| *(Dollars in thousands)* | | | | | |
| Interest income | $ 255 | 11.4% | $ 229 | 19.9% | $ 191 |
| Percentage of net sales | 0.0% | | 0.0% | | 0.0% |

Interest income was primarily generated from our loans to growers. The increase in interest income in fiscal 2013 as compared to 2012 is due to the borrowings by California avocado growers increasing in the current year compared to the prior year.

The increase in interest income in fiscal 2012 as compared to 2011 is due to higher principal balances for infrastructure advances to Agricola Belher. Infrastructure repayments from Agricola Belher were deferred to 2013.

| INTEREST EXPENSE | 2013 | CHANGE | 2012 | CHANGE | 2011 |
|---|---|---|---|---|---|
| *(Dollars in thousands)* | | | | | |
| Interest expense | $ 1,098 | (4.7)% | $ 1,152 | 13.4% | $ 1,016 |
| 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 2013, as compared to fiscal 2012, the decrease in interest expense was primarily related to a lower average outstanding balance on our non-collateralized, revolving credit facilities with FCW and BoA.

For fiscal 2012, as compared to fiscal 2011, 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 | 2013 | CHANGE | 2012 | CHANGE | 2011 |
|---|---|---|---|---|---|
| *(Dollars in thousands)* | | | | | |
| Other income, net | $ 448 | (49.5)% | $ 887 | 533.6% | $ 140 |
| Percentage of net sales | 0.1% | | 0.2% | | 0.0% |

Other income, net includes dividend income, as well as certain other transactions that are outside of the normal course of operations. The decrease in fiscal year 2013, compared to 2012 is due the sale to San Rafael of all our interest, representing one-half ownership, in Maui Fresh International in prior year. This transaction resulted in a prior year gain on sale of approximately $0.5 million. During fiscal 2013, we received $0.3 million as dividend income from Limoneira. During fiscal 2012 and 2011, we received $0.2 million as dividend income from Limoneira.

| PROVISION FOR INCOME TAXES | 2013 | CHANGE | 2012 | CHANGE | 2011 |
|---|---|---|---|---|---|
| *(Dollars in thousands)* | | | | | |
| Provision for income taxes | $ 7,866 | (28.8)% | $ 11,055 | 52.5% | $ 7,249 |
| Effective tax rate | 32.0% | | 39.5% | | 39.8% |

The decrease in our provision for income taxes in fiscal 2013, as compared to 2012, is due to the income tax assessment payment of $1.8 million made in 2012, related to the Hacienda's examination of the tax year ended December 31, 2004 (see below). In addition, we were able to take advantage of additional tax credits through California's Enterprise Zone Hiring Credit Program (EZC) and an increase in the Section 199 deduction in fiscal 2013.

In 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. The income tax assessment amounted to $1.8 million. 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 EZC and an increase in the Section 199 (Domestic Production Activities) deduction.

The effective income tax rate for fiscal year 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, 2013. The information for each of these quarters is derived from our unaudited interim financial statements and should be read in conjunction with our audited consolidated financial statements included in this Annual Report. In our opinion, all necessary adjustments, which consist only of normal and recurring accruals, have been included to fairly present our unaudited quarterly results. Historically, we receive and sell a substantially smaller volume of California avocados in our first fiscal quarter.

| | THREE MONTHS ENDED | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | OCT. 31, 2013 | JULY 31, 2013 | APR. 30, 2013 | JAN. 31, 2013 | OCT. 31, 2012 | JULY 31, 2012 | APR. 30, 2012 | JAN. 31, 2012 |
| *(In thousands, except per share amounts)* | | | | | | | | |
| **STATEMENT OF OPERATIONS DATA** | | | | | | | | |
| Net sales | $ 190,673 | $ 194,943 | $ 166,336 | $ 139,499 | $ 141,552 | $ 153,181 | $ 138,992 | $ 117,394 |
| Cost of sales | 173,287 | 176,865 | 154,800 | 126,375 | 123,696 | 136,968 | 124,297 | 105,492 |
| Gross margin | 17,386 | 18,078 | 11,536 | 13,124 | 17,856 | 16,213 | 14,695 | 11,902 |
| Selling, general and administrative | 9,301 | 8,706 | 8,190 | 8,821 | 10,258 | 7,758 | 7,618 | 7,494 |
| Operating income | 8,085 | 9,372 | 3,346 | 4,303 | 7,598 | 8,455 | 7,077 | 4,408 |
| Other income (expense), net | (215) | (84) | (82) | (114) | 494 | (127) | 158 | (61) |
| Income before provision for income taxes | 7,870 | 9,288 | 3,264 | 4,189 | 8,092 | 8,328 | 7,235 | 4,347 |
| Provision for income taxes | 2,124 | 3,163 | 1,071 | 1,508 | 1,976 | 2,684 | 4,700 | 1,695 |
| Net income | 5,746 | 6,125 | 2,193 | 2,681 | 6,116 | 5,644 | 2,535 | 2,652 |
| Add: Net loss – noncontrolling interest | 284 | 274 | 20 | 26 | 44 | 21 | 13 | 27 |
| Net income – Calavo Growers, Inc | $ 6,030 | $ 6,399 | $ 2,213 | $ 2,707 | $ 6,160 | $ 5,665 | $ 2,548 | $ 2,679 |
| Basic | $ 0.40 | $ 0.43 | $ 0.15 | $ 0.18 | $ 0.42 | $ 0.38 | $ 0.17 | $ 0.18 |
| Diluted | $ 0.40 | $ 0.43 | $ 0.15 | $ 0.18 | $ 0.42 | $ 0.38 | $ 0.17 | $ 0.18 |
| Number of shares used in per share computation: | | | | | | | | |
| Basic | 15,030 | 14,848 | 14,819 | 14,834 | 14,795 | 14,787 | 14,787 | 14,772 |
| Diluted | 15,038 | 14,870 | 14,839 | 14,854 | 14,822 | 14,806 | 14,802 | 14,789 |

## LIQUIDITY AND CAPITAL RESOURCES

Operating activities for fiscal 2013, 2012 and 2011 provided cash flows of $13.7 million, $21.7 million, and $7.9 million. Fiscal year 2013 operating cash flows reflect our net income of $16.7 million, net noncash charges (depreciation and amortization, income from unconsolidated entities, provision for losses on accounts receivable, interest on deferred compensation, deferred income taxes, revalue adjustment on contingent consideration, impairment on intangible assets and stock compensation expense) of $2.3 million and a net decrease from changes in the non-cash components of our working capital accounts of approximately $5.3 million.

Fiscal year 2013 decreases in operating cash flows, caused by working capital changes, includes an increase in accounts receivable of $16.2 million, an increase in inventory of $5.7 million, an increase in prepaid expenses and other current assets of $3.6 million, and an increase in advances to suppliers of $0.8 million, partially offset by a decrease in income tax receivable of $8.2 million, an increase in payable to growers of $7.7 million, an increase in trade accounts payable and accrued expenses of $5.0 million, and a decrease in other assets of $0.1 million.

The increase in our accounts receivable balance as of October 31, 2013, when compared to October 31, 2012, primarily reflects an increase in sales across all segments in the month of October 2013, as compared to October 2012. The increase in our inventory balance is primarily related to an increase in Mexico avocado inventory on hand at October 31, 2013, as compared to the same prior year period. The increase in prepaid expenses and other current assets is primarily due to an increase in the receivable of Mexican IVA taxes related to the increase of purchases of Mexican avocados as compared to prior year. The increase in advances to suppliers is primarily due to an increase in pre-season advances to our tomato grower Agricola Belher. The increase in payable to our growers primarily reflects an increase in California fruit delivered in the month of October 2013, as compared to the month of October 2012. The increase in our trade accounts payable and accrued expenses is mainly due to an increase in purchases of Mexican avocados from co-packers in the month of October 2013, as compared to October 2012. In addition, this increase is also attributed to an increase in freight accruals due to an overall increase in the volume of Mexican avocados in the month of October 2013, as compared to October 2012.

Cash used in investing activities was $7.7 million, $7.2 million, and $20.9 million for fiscal years 2013, 2012, and 2011. Fiscal year 2013 cash flows used in investing activities include capital expenditures of $6.7 million and an investment of $1.0 million to the new joint venture which is expected to operate under the name of Agricola Don Memo.

Cash used in financing activities was $5.1 million and $10.2 million for fiscal year 2013 and 2012. Cash provided by financing activities was $14.8 million for fiscal year 2011. Cash used during fiscal year 2013 primarily related to the payment of a dividend of $9.6 million, payments on long-term debt obligations of $5.4 million, and the purchase and retirement of Calavo stock of $4.8 million. Partially offsetting these proceeds, however, includes proceeds from our non-collateralized, revolving credit facilities totaling $13.8 million, $0.7 million provided by the exercise of stock options, $0.1 million as a tax benefit of stock option exercises, and $0.1 million proceeds received from the issuance of FreshRealm stock.

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, 2013 and 2012 totaled $8.0 million and $7.1 million. Our working capital at October 31, 2013 was $12.4 million, compared to $9.7 million at October 31, 2012.

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 1.7% and 1.8% at October 31, 2013 and 2012. Under these credit facilities, we had $34.0 million and $20.2 million outstanding as October 31, 2013 and



2012. 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, 2013.

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, 2013:

| 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) | $ 13,668 | $ 5,611 | $ 7,465 | $ 223 | $ 369 |
| Revolving credit facilities | 33,990 | 33,990 | — | — | — |
| Defined benefit plan | 218 | 37 | 74 | 74 | 33 |
| Operating lease commitments | 17,229 | 3,071 | 5,597 | 4,886 | 3,675 |
| Total | $ 65,105 | $ 42,709 | $ 13,136 | $ 5,183 | $ 4,077 |

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.

We have amended our acquisition agreement with RFG in regards to the cash payment portion of the Stage II & III earnouts. We no longer will pay cash to settle the earnouts, but will settle the earnouts (when met) in shares of our common stock. Pursuant to this amendment, for the Stage II earnout, we filed a Registration Statement and issued 172,117 shares of common stock, valued at $29.05, to the Sellers in October 2013. See Note 16 to our consolidated financial statements for further information.

### Recently Adopted Accounting Pronouncements

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 adoption of this standard had 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 standard had no 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 standard had no impact on our financial statements.

### Recently Issued Accounting Standards

In February 2013, the FASB issued a standard that revised the disclosure requirements for items reclassified out of accumulated other comprehensive income and requires entities to present information about significant items reclassified out of accumulated other comprehensive income by component either (1) on the face of the statement where net income is presented or (2) as a separate disclosure in the notes to the financial statements. This guidance is effective for annual reporting periods beginning after December 15, 2012. The adoption of this amendment will not have a material effect on our financial statements.

In March 2013, the FASB issued a standard which requires the release of a Company's cumulative translation adjustment into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. This guidance is effective for annual reporting periods beginning after December 15, 2013. The adoption of this amendment will not have a material effect on our financial statements.

In July 2013, the FASB issued a standard clarify the presentation of unrecognized tax benefits when a net operating loss carryforward, a similar tax loss or a tax credit carryforward exists as of the reporting date. This guidance is effective for annual reporting periods beginning after December 15, 2013. The adoption of this amendment will not have a material effect on our financial statements.

In July 2013, the FASB issued a standard permitting the Fed Funds Effective Swap Rate to be used as a U.S. benchmark interest rate for hedge accounting purposes, in addition to the United States Treasury rate and London Interbank Offered Rate ("LIBOR"). In addition, the restriction on using different benchmark rates for similar hedges is removed. The Company is required to adopt these provisions prospectively for qualifying new or re-designated hedging relationships entered into on or after July 17, 2013. 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, 2013.

| | EXPECTED MATURITY DATE OCTOBER 31, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | 2018 | THEREAFTER | TOTAL | FAIR VALUE |
| *(All amounts in thousands)* | | | | | | | | |
| **ASSETS** | | | | | | | | |
| Cash and cash equivalents[1] | $ 8,019 | $ — | $ — | $ — | $ — | $ — | $ 8,019 | $ 8,019 |
| Accounts receivable[1] | 55,060 | — | — | — | — | — | 55,060 | 55,060 |
| Advances to suppliers[1] | 3,213 | — | — | — | — | — | 3,213 | 3,213 |
| **LIABILITIES** | | | | | | | | |
| Payable to growers[1] | $ 14,490 | $ — | $ — | $ — | $ — | $ — | $ 14,490 | $ 14,490 |
| Accounts payable[1] | 11,699 | — | — | — | — | — | 11,699 | 11,699 |
| Current borrowings pursuant to credit facilities[1] | 33,990 | — | — | — | — | — | 33,990 | 33,990 |
| Fixed-rate long-term obligations[2] | 5,258 | 5,105 | 2,132 | 109 | 92 | 354 | 13,050 | 13,251 |

*(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 2.9%. 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 $238,000.*

Except as disclosed with the acquisition of Calavo Salsa Lisa and RFG (and related amendments), 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 2014. Total foreign currency losses for fiscal 2013, net of gains, was $0.4 million. 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.



# Consolidated Balance Sheets

| OCTOBER 31, | 2013 | 2012 |
|---|---|---|
| *(In thousands)* | | |
| **ASSETS** | | |
| ***Current assets:*** | | |
| Cash and cash equivalents | $ 8,019 | $ 7,103 |
| Accounts receivable, net of allowances of $1,697 (2013) and $3,221 (2012) | 55,060 | 38,870 |
| Inventories, net | 28,673 | 22,948 |
| Prepaid expenses and other current assets | 10,757 | 7,190 |
| Advances to suppliers | 3,213 | 2,369 |
| Income taxes receivable | 2,013 | 2,762 |
| Deferred income taxes | 1,995 | 2,222 |
| Total current assets | 109,730 | 83,464 |
| Property, plant, and equipment, net | 52,649 | 50,562 |
| Investment in Limoneira Company | 45,531 | 38,841 |
| Investment in unconsolidated entities | 1,420 | 520 |
| Goodwill | 18,262 | 18,262 |
| Other assets | 12,347 | 16,242 |
| | $ 239,939 | $ 207,891 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| ***Current liabilities:*** | | |
| Payable to growers | $ 14,490 | $ 8,475 |
| Trade accounts payable | 11,699 | 7,898 |
| Accrued expenses | 20,939 | 22,237 |
| Short-term borrowings | 33,990 | 20,170 |
| Dividend payable | 11,004 | 9,612 |
| Current portion of long-term obligations | 5,258 | 5,416 |
| Total current liabilities | 97,380 | 73,808 |
| ***Long-term liabilities:*** | | |
| Long-term obligations, less current portion | 7,792 | 13,039 |
| Deferred income taxes | 6,194 | 10,665 |
| Total long-term liabilities | 13,986 | 23,704 |
| Commitments and contingencies | | |
| Noncontrolling interest, Calavo Salsa Lisa | 121 | 357 |
| ***Shareholders' equity:*** | | |
| Common stock ($0.001 par value, 100,000 shares authorized; 15,720 and 14,824 shares outstanding at October 31, 2013 and 2012) | 15 | 14 |
| Additional paid-in capital | 59,376 | 51,276 |
| Accumulated other comprehensive income | 13,414 | 9,390 |
| Noncontrolling interest, FreshRealm | (6) | — |
| Retained earnings | 55,653 | 49,342 |
| Total shareholders' equity | 128,452 | 110,022 |
| | $ 239,939 | $ 207,891 |

*See accompanying notes to consolidated financial statements.*

# Consolidated Statements of Income

| YEAR ENDED OCTOBER 31, | 2013 | 2012 | 2011 |
|---|---|---|---|
| *(In thousands, except per share amounts)* | | | |
| Net sales | $ 691,451 | $ 551,119 | $ 522,529 |
| Cost of sales | 631,327 | 490,453 | 480,221 |
| Gross margin | 60,124 | 60,666 | 42,308 |
| Selling, general and administrative | 35,018 | 33,128 | 23,976 |
| Operating income | 25,106 | 27,538 | 18,332 |
| Equity (losses) in earnings from unconsolidated entities | (100) | 500 | 557 |
| Interest income | 255 | 229 | 191 |
| Interest expense | (1,098) | (1,152) | (1,016) |
| Other income, net | 448 | 887 | 140 |
| Income before provision for income taxes | 24,611 | 28,002 | 18,204 |
| Provision for income taxes | 7,866 | 11,055 | 7,249 |
| Net income | 16,745 | 16,947 | 10,955 |
| Add: Net loss attributable to noncontrolling interest | 604 | 105 | 113 |
| Net income attributable to Calavo Growers, Inc. | $ 17,349 | $ 17,052 | $ 11,068 |
| **CALAVO GROWERS, INC.'S NET INCOME PER SHARE:** | | | |
| Basic | $ 1.17 | $ 1.15 | $ 0.75 |
| Diluted | $ 1.17 | $ 1.15 | $ 0.75 |
| **NUMBER OF SHARES USED IN PER SHARE COMPUTATION:** | | | |
| Basic | 14,856 | 14,795 | 14,743 |
| Diluted | 14,863 | 14,808 | 14,751 |

*See accompanying notes to consolidated financial statements.*



# Consolidated Statements of Comprehensive Income

| YEAR ENDED OCTOBER 31, | 2013 | 2012 | 2011 |
|---|---|---|---|
| *(In thousands)* | | | |
| Net income | $ 16,745 | $ 16,947 | $ 10,955 |
| Other comprehensive income (loss), before tax: | | | |
| Unrealized investment gains (losses) arising during period | 6,690 | 8,850 | (4,996) |
| Income tax benefit (expense) related to items of other comprehensive income (loss) | (2,666) | (3,395) | 1,972 |
| Other comprehensive income (loss), net of tax | 4,024 | 5,455 | (3,024) |
| Comprehensive income | 20,769 | 22,402 | 7,931 |
| Add: Net loss attributable to noncontrolling interest | 604 | 105 | 113 |
| Comprehensive income – Calavo Growers, Inc. | $ 21,373 | $ 22,507 | $ 8,044 |

*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 Income | Non-controlling Interest, FreshRealm | Total |
|---|---|---|---|---|---|---|---|
| ***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 |
| Restricted stock issued | 11 | — | — | — | — | — | — |
| 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*** | 14,835 | 14 | 51,276 | 9,390 | 49,342 | — | 110,022 |
| Exercise of stock options and income tax benefit of $59 | 39 | — | 801 | — | — | — | 801 |
| Stock compensation expense | — | — | 376 | — | — | — | 376 |
| Issuance of stock related to RFG Contingent consideration | 999 | 1 | — | — | — | — | 1 |
| Conversion of cash consideration to stock consideration for RFG acquisition | — | — | 11,711 | — | — | — | 11,711 |
| Retirement of stock purchased from Limoneira | (165) | — | (4,788) | — | — | — | (4,788) |
| Restricted stock issued | 12 | — | — | — | — | — | — |
| Unrealized gain on Limoneira investment, net | — | — | — | 4,024 | — | — | 4,024 |
| Dividend declared to shareholders | — | — | — | — | (11,038) | — | (11,038) |
| FreshRealm noncontrolling interest contribution | — | — | — | — | — | 362 | 362 |
| Net loss attributable to FreshRealm | — | — | — | — | — | (368) | (368) |
| Net income attributable to Calavo Growers, Inc. | — | — | — | — | 17,349 | — | 17,349 |
| ***Balance, October 31, 2013*** | 15,720 | $ 15 | $ 59,376 | $ 13,414 | $ 55,653 | $ (6) | $ 128,452 |

*See accompanying notes to consolidated financial statements.*



# Consolidated Statements of Cash Flows

| Year ended October 31, (in thousands) | 2013 | 2012 | 2011 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Net income | $ 16,745 | $ 16,947 | $ 10,955 |
| *Adjustments to reconcile net income to net cash provided by operating activities:* | | | |
| Depreciation and amortization | 6,367 | 5,909 | 4,327 |
| Provision for losses on accounts receivable | 1 | 68 | 64 |
| Income (loss) from unconsolidated entities | 100 | (501) | (557) |
| Interest on contingent consideration | 146 | 128 | 101 |
| Revalue adjustment on contingent consideration | 1,571 | 420 | (535) |
| Stock compensation expense | 376 | 417 | 188 |
| Loss on disposal of property, plant, and equipment | 30 | 136 | 139 |
| Gain on sale of Maui Fresh International | — | (519) | — |
| Intangible assets impairment on Calavo Salsa Lisa | 615 | 87 | — |
| Deferred income taxes | (6,908) | (818) | 1,907 |
| *Effect on cash of changes in operating assets and liabilities:* | | | |
| Accounts receivable | (16,191) | (2,837) | 4,270 |
| Inventories, net | (5,725) | (5,161) | (2,137) |
| Prepaid expenses and other current assets | (3,567) | (639) | 1,936 |
| Advances to suppliers | (844) | 980 | (1,751) |
| Income taxes receivable | 8,158 | 462 | (1,933) |
| Other assets | 135 | 14 | (12) |
| Payable to growers | 7,705 | 3,394 | (4,902) |
| Trade accounts payable and accrued expenses | 5,007 | 3,236 | (4,194) |
| Net cash provided by operating activities | 13,721 | 21,723 | 7,866 |
| **Cash flows from investing activities:** | | | |
| Acquisitions of property, plant, and equipment | (6,746) | (7,749) | (4,826) |
| Loan to Agricola Belher | — | — | (3,000) |
| Distribution from unconsolidated entity | — | 288 | 281 |
| Proceeds from sale of Maui Fresh International | — | 300 | — |
| Acquisition of Renaissance Food Group, net of cash acquired | — | — | (13,362) |
| Investment in Agricola Don Memo | (1,000) | — | — |
| Net cash used in investing activities | (7,746) | (7,161) | (20,907) |

# Consolidated Statements of Cash Flows *(continued)*

| | | | |
|---|---|---|---|
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | | |
| Payment of dividend to shareholders | (9,646) | (8,123) | (8,100) |
| Proceeds from revolving credit facility, net | 13,820 | 2,310 | 9,710 |
| Proceeds from issuance of long-term obligations | — | — | 22,135 |
| Payments on long-term obligations | (5,405) | (5,237) | (9,871) |
| Retirement of stock purchased from Limoneira | (4,788) | — | — |
| Proceeds from stock option exercises | 751 | 791 | 213 |
| Proceeds from issuance of FreshRealm stock | 79 | — | — |
| Tax benefit of stock option exercises | 139 | 26 | 664 |
| Net cash provided by (used in) financing activities | (5,050) | (10,233) | 14,751 |
| Net increase in cash and cash equivalents | 916 | 4,329 | 1,710 |
| Cash and cash equivalents, beginning of year | 7,103 | 2,774 | 1,064 |
| Cash and cash equivalents, end of year | $ 8,019 | $ 7,103 | $ 2,774 |
| **SUPPLEMENTAL INFORMATION:** | | | |
| *Cash paid during the year for:* | | | |
| Interest | $ 1,087 | $ 1,146 | $ 985 |
| Income taxes | $ 5,532 | $ 9,274 | $ 6,313 |
| **NONCASH INVESTING AND FINANCING ACTIVITIES:** | | | |
| Tax receivable increase related to stock option exercise | $ 59 | $ 139 | $ 26 |
| Conversion of cash consideration to stock consideration for RFG acquisition | $ 11,711 | $ — | $ — |
| Declared dividends payable | $ 11,004 | $ 9,612 | $ 8,123 |
| Notes receivable issued for sale of Maui Fresh International | $ — | $ 2,204 | $ — |
| Construction in progress included in trade accounts payable and accrued expenses | $ — | $ 28 | $ 36 |
| Collection for Agricola Belher Infrastructure Advance | $ 1,690 | $ — | $ 1,225 |
| Unrealized holding gains (losses) | $ 6,690 | $ 8,850 | $ (4,996) |

In June 2011, we acquired all of the outstanding interest of Renaissance Food Group, LLC. 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 |



# 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, pineapples and/or Hawaiian grown papayas. Additionally, we also produce salsa and prepare ready-to-eat produce and deli products. We distribute our products both domestically and internationally and report our operations in three different business segments: Fresh products, Calavo Foods and Renaissance Food Group, LLC (RFG). See Note 17 for a description of our development stage entity, FreshRealm, LLC (FreshRealm), and its planned operations.

## 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, Maui Fresh International, Inc. (Maui), Hawaiian Sweet, Inc. (HS), Hawaiian Pride, LLC (HP), and RFG. We consolidate our entity Calavo Salsa Lisa, LLC (CSL), in which we have a 65 percent ownership interest. In addition, we consolidate our entity FreshRealm, in which we have a 71.5 percent ownership interest. 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 $8.3 million and $5.2 million at October 31, 2013 and 2012. Infrastructure advances are discussed below. Prepaid expenses of $1.6 million and $1.2 million at October 31, 2013 and 2012, 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. For fiscal year 2012, 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. For fiscal year 2013, we performed our annual assessment of goodwill and noted no impairments as of October 31, 2013.

The following table reconciles by segment goodwill and the impairment losses recognized for the year ended October 31, 2012 and 2013 (in thousands):

| | FRESH PRODUCTS | CALAVO FOODS | RFG | TOTAL |
|---|---|---|---|---|
| Goodwill, beginning November 1, 2011 | $ 3,997 | $ 87 | $ 14,265 | $ 18,349 |
| Calavo Salsa Lisa Goodwill impairment losses | — | (87) | — | (87) |
| Goodwill, ending October 31, 2012 | 3,997 | — | 14,265 | 18,262 |
| Calavo Salsa Lisa Goodwill impairment losses | — | — | — | — |
| Goodwill, October 31, 2013 | $ 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. For fiscal year 2013, we performed our annual assessment of long-lived assets and determined that an impairment of $0.6 million existed related to the trade name and trade secrets/recipes of CSL. This impairment was a result of less than anticipated sales since acquisition and was calculated via a forecast projection analysis, with consultation from a third party consulting firm.

### 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 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.

In October 2013, we contributed $1.0 million for the purchase of 60 hectares of property in Jalisco, Mexico. The property will be used, for the development of facilities to grow tomatoes. We expect in the first quarter of 2014 to enter into a joint venture agreement with our tomato grower Agricola Belher (Belher). Such joint venture is expected to operate under the name of Agricola Don Memo. Belher and Calavo will each have an equal one-half ownership interest in Agricola Don Memo, but Belher will have overall management responsibility for the operations of Agricola Don Memo. The contribution of $1.0 million has been recorded as an investment in unconsolidated entities on our consolidated financial statements.



### Marketable Securities

Our marketable securities consist of our investment in Limoneira Company (Limoneira) stock. We currently own approximately 12% 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 $45.5 million, $23.5 million and $22.0 million as of October 31, 2013. 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.

### 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, 2013, nor October 31, 2012.

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, 2013 and 2012, we have total advances of $3.0 million and $2.1 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, 2013 and 2012. 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, 2013 and 2012, we have advanced a total of $2.5 million ($0.8 million included in prepaid expenses and other current assets and $1.7 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 and such payment was made as expected. 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, 2013 and 2012 are liabilities related to the receipt of goods and/or services for which an invoice has not yet been received. These totaled approximately $3.7 million and $3.1 million, respectively.

### 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, 2013, 2012 and 2011 in the financial statements pursuant to consignment arrangements are as follows (in thousands):

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Sales | $ 30,620 | $ 28,297 | $ 38,327 |
| Cost of Sales | 27,679 | 25,893 | 34,859 |
| Gross Margin | $ 2,941 | $ 2,404 | $ 3,468 |

### Advertising Expense

Advertising costs are expensed when incurred. Such costs were approximately $0.1 million, $0.2 million, and $0.1 million for fiscal years 2013, 2012, and 2011.

### Research and Development

Research and development costs are expensed as incurred and are generally included as a component of selling, general and administrative expense. FreshRealm, a development stage company, comprises the majority of our research and development costs. Total research and development costs for fiscal years 2013 were approximately $1.5 million. Total research and development costs for fiscal years 2012, and 2011 were less than $0.1 million.

### Other Income, Net

Included in other income, net is dividend income totaling $0.4 million, $0.4 million and $0.3 million for fiscal years 2013, 2012, and 2011. 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 14,856,000, 14,795,000, and 14,743,000 for fiscal years 2013, 2012, and 2011. 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 7,000, 13,000, and 8,000 for fiscal years 2013, 2012 and 2011. There were no anti-dilutive options for fiscal years 2013, 2012 and 2011.



### 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 2013 and 2011:

| | 2013 | 2011 |
|---|---|---|
| Risk-free interest rate | 0.70% | 0.96% - 1.40% |
| Expected volatility | 44.30% | 32.63% - 60.00% |
| Dividend yield | 2.60% | 2.5% |
| Expected life (years) | 5.0 | 1.5 - 4.0 |

For the years ended October 31, 2013, 2012 and 2011, we recognized compensation expense of $376,000, $417,000, and $188,000 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 losses for fiscal 2013, net of gains, were $0.4 million. Total foreign currency gains for fiscal 2012, net of losses, were $0.1 million. Total foreign currency losses for fiscal 2011, net of gains, were less than $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 $13.3 million as of October 31, 2013, with a corresponding carrying value of approximately $13.1 million.

### Derivative Financial Instruments

Except as disclosed with the acquisition of Calavo Salsa Lisa and RFG (and related amendments), 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.

### Recently Adopted Accounting Pronouncements

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 adoption of this standard had 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 standard had no 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 standard had no impact on our financial statements.

### Recently Issued Accounting Standards

In February 2013, the FASB issued a standard that revised the disclosure requirements for items reclassified out of accumulated other comprehensive income and requires entities to present information about significant items reclassified out of accumulated other comprehensive income by component either (1) on the face of the statement where net income is presented or (2) as a separate disclosure in the notes to the financial statements. This guidance is effective for annual reporting periods beginning after December 15, 2012. The adoption of this amendment will not have a material effect on our financial statements.

In March 2013, the FASB issued a standard which requires the release of a Company's cumulative translation adjustment into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. This guidance is effective for annual reporting periods beginning after December 15, 2013. The adoption of this amendment will not have a material effect on our financial statements.

In July 2013, the FASB issued a standard clarify the presentation of unrecognized tax benefits when a net operating loss carryforward, a similar tax loss or a tax credit carryforward exists as of the reporting date. This guidance is effective for annual reporting periods beginning after December 15, 2013. The adoption of this amendment will not have a material effect on our financial statements.

In July 2013, the FASB issued a standard permitting the Fed Funds Effective Swap Rate to be used as a U.S. benchmark interest rate for hedge accounting purposes, in addition to the United States Treasury rate and London Interbank Offered Rate ("LIBOR"). In addition, the restriction on using different benchmark rates for similar hedges is removed. The Company is required to adopt these provisions prospectively for qualifying new or re-designated hedging relationships entered into on or after July 17, 2013. 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, 2013, other comprehensive income includes the unrealized gain on our Limoneira investment totaling $4.0 million, net of income taxes. Limoneira's stock price at October 31, 2013 equaled $26.34 per share. 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.

### Noncontrolling Interest

The following table reconciles shareholders' equity attributable to noncontrolling interest related to the Salsa Lisa acquisition and FreshRealm, LLC (in thousands). See Note 17 for additional information related to FreshRealm.

| SALSA LISA NON-CONTROLLING INTEREST | YEAR ENDED OCTOBER 31, 2013 | YEAR ENDED OCTOBER 31, 2012 |
|---|---|---|
| Noncontrolling interest, beginning | $ 357 | $ 462 |
| Net loss attributable to noncontrolling interest of Salsa Lisa | (236) | (105) |
| Noncontrolling interest, ending | $ 121 | $ 357 |

| FRESHREALM NON-CONTROLLING INTEREST | YEAR ENDED OCTOBER 31, 2013 | YEAR ENDED OCTOBER 31, 2012 |
|---|---|---|
| Noncontrolling interest, beginning | $ — | $ — |
| Noncontrolling interest contribution | 362 | |
| Net loss attributable to noncontrolling interest of FreshRealm | (368) | — |
| Noncontrolling interest, ending | $ (6) | $ — |



### 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, | 2013 | 2012 |
|---|---|---|
| Fresh fruit | $ 13,928 | $ 10,776 |
| Packing supplies and ingredients | 5,511 | 7,294 |
| Finished prepared foods | 9,234 | 4,878 |
| | $ 28,673 | $ 22,948 |

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 2013 and 2012.

## 4. PROPERTY, PLANT, AND EQUIPMENT

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

| OCTOBER 31, | 2013 | 2012 |
|---|---|---|
| Land | $ 7,023 | $ 7,023 |
| Buildings and improvements | 20,304 | 19,756 |
| Leasehold improvements | 1,671 | 1,395 |
| Equipment | 50,426 | 46,980 |
| Information systems – hardware and software | 7,188 | 8,346 |
| Construction in progress | 1,535 | 512 |
| | 88,147 | 84,012 |
| Less accumulated depreciation and amortization | (35,498) | (33,450) |
| | $ 52,649 | $ 50,562 |

Depreciation expense was $4.6 million, $4.2 million and $3.2 million for fiscal years 2013, 2012, and 2011, of which $0.6 million was related to depreciation on capital leases for fiscal year 2013 and 2012. Depreciation related to capital leases were $0.2 million for fiscal years 2011.

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.

## 5. OTHER ASSETS

Other assets consist of the following (in thousands):

| | OCTOBER 31,2013 | OCTOBER 31, 2012 |
|---|---|---|
| Intangibles, net | $ 7,272 | $ 9,328 |
| Grower advances | 938 | 1,234 |
| Loan to Agricola Belher | 1,690 | 3,380 |
| Loan to FreshRealm members | 283 | — |
| Notes receivable from San Rafael | 1,594 | 1,873 |
| Other | 570 | 427 |
| | $ 12,347 | $ 16,242 |

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.

Effective July 31, 2013, we entered into with certain noncontrolling members an Amended and Restated Limited Liability Company Agreement of FreshRealm. As part of this agreement, we loaned certain noncontrolling members $0.3 million for their part of the contribution into FreshRealm. See Note 17 for further information regarding FreshRealm.

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

| | | October 31, 2013 | | | October 31, 2012 | | |
|---|---|---|---|---|---|---|---|
| | Weighted-Average Useful Life | Gross Carrying Value | Accum. Amortization | Net Book Value | Gross Carrying Value | Accum. Amortization | Net Book Value |
| Customer list/relationships | 8.0 years | $ 7,640 | $ (2,364) | $ 5,276 | $ 7,640 | $ (1,405) | $ 6,235 |
| Trade names | 8.5 years | 2,760 | (1,636) | 1,124 | 3,009 | (1,489) | 1,520 |
| Trade secrets/recipes | 12.2 years | 630 | (137) | 493 | 1,520 | (366) | 1,154 |
| Brand name intangibles | indefinite | 275 | — | 275 | 275 | — | 275 |
| Non-competition agreements | 5.0 years | 267 | (163) | 104 | 267 | (123) | 144 |
| Intangibles, net | | $ 11,572 | $ (4,300) | $ 7,272 | $ 12,711 | $ (3,383) | $ 9,328 |

We recorded amortization expense of approximately $1.4 million, $1.4 million, and $0.8 million for fiscal years 2013, 2012, and 2011. We anticipate recording amortization expense of approximately $1.3 million for each of the fiscal years 2014 through 2015. We anticipate recording amortization expense of approximately $1.2 million for fiscal year 2016. We anticipate recording amortization expense of approximately $1.1 million for fiscal years 2017 through 2018. The remainder of approximately $0.8 million will be amortized over fiscal years 2019 through 2023.

For fiscal year 2013, we performed our annual assessment of long-lived assets and determined that an impairment of $0.6 million existed related to the trade name and trade secrets/recipes of CSL. This impairment was a result of less than anticipated sales since acquisition and was calculated via a forecast projection analysis, with consultation from a third party consulting firm.

## 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.

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.

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 1.7% and 1.8% at October 31, 2013 and 2012. Under these credit facilities, we had $34.0 million and $20.2 million outstanding as October 31, 2013 and 2012. 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, 2013.

## 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 $807,000, $810,000, and $733,000 for fiscal years 2013, 2012 and 2011, 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 $12,000, $16,000 and $35,000 for the year ended October 31, 2013, 2012, and 2011. 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):

| | 2013 | 2012 |
|---|---|---|
| **Change in projected benefit obligation:** | | |
| Projected benefit obligation at beginning of year | $ 245 | $ 268 |
| Interest cost | 8 | 10 |
| Actuarial loss | 4 | 6 |
| Benefits paid | (39) | (39) |
| Projected benefit obligation at end of year (unfunded) | $ 218 | $ 245 |



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

| | 2013 | 2012 |
|---|---|---|
| Projected benefit obligation | $ 218 | $ 245 |
| Unrecognized net (gain) loss | — | — |
| Recorded pension liabilities | $ 218 | $ 245 |

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

| | 2013 | 2012 |
|---|---|---|
| Discount rate on projected benefit obligation | 4.60% | 3.70% |

## 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, 2013, as follows (in thousands):

| | |
|---|---|
| 2014 | $ 3,071 |
| 2015 | 2,903 |
| 2016 | 2,694 |
| 2017 | 2,593 |
| 2018 | 2,293 |
| Thereafter | 3,675 |
| | $ 17,229 |

Total rent expense amounted to approximately $3.5 million, $3.0 million and $2.1 million for the years ended October 31, 2013, 2012, and 2011. Rent to Limoneira, for our corporate office, amounted to approximately $0.3 million for fiscal years 2013, 2012, and 2011. 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 2013 and 2012 was approximately $0.4 million and $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 2013 and 2012 was approximately $0.6 million and $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 2013 and 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*

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, 2013, 2012, and 2011, the aggregate amount of avocados procured from entities owned or controlled by members of our Board of Directors was $20.9 million, $21.1 million and $18.6 million. Accounts payable to these Board members was $3.3 million and $0.9 million as of October 31, 2013, and 2012.

During fiscal 2013, we received $0.3 million as dividend income from Limoneira. During fiscal years 2012 and 2011, we received $0.2 million as dividend income from Limoneira.

On April 10, 2013, we repurchased 165,000 shares of our common stock from Limoneira at a purchase price of $29.02 per share, the closing price on April 10, 2013. The total amount wired to Limoneira was $4.8 million. These shares were cancelled and returned to authorized, but unissued, status.

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, 2013 and 2012, total rent paid to LIG was $0.5 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, 2013 and 2012, total rent paid to THNC was $0.3 million and $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, 2013 and 2012, total sales made to Third Coast were $2.3 million and $2.7 million. For the year ended October 31, 2013 and 2012, total purchases made from Third Coast were $1.1 million and $1.6 million. Amounts due from Third Coast were $1.0 million and $ 0.8 million as of October 31, 2013 and 2012. Amounts due to Third Coast were less than $0.1 million as of October 31, 2013 and 2012.

## 10. INCOME TAXES

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

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| **CURRENT:** | | | |
| Federal | $ 11,708 | $ 8,212 | $ 4,405 |
| State | 2,517 | 1,233 | 1,107 |
| Foreign | 549 | 2,428 | (170) |
| Total current | 14,774 | 11,873 | 5,342 |
| **DEFERRED:** | | | |
| Federal | (5,214) | (214) | 1,277 |
| State | (1,666) | (559) | 208 |
| Foreign | (28) | (45) | 422 |
| Total deferred | (6,908) | (818) | 1,907 |
| Total income tax provision | $ 7,866 | $ 11,055 | $ 7,249 |

At October 31, 2013 and 2012, gross deferred tax assets totaled approximately $12.4 million and $3.6 million, while gross deferred tax liabilities totaled approximately $16.6 million and $12.1 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):

| | 2013 | 2012 |
|---|---|---|
| Allowances for accounts receivable | $ 634 | $ 714 |
| Inventories | 417 | 483 |
| State taxes | 269 | 350 |
| Accrued liabilities | 675 | 675 |
| Current deferred income taxes | $ 1,995 | $ 2,222 |
| Property, plant, and equipment | (6,892) | (5,604) |
| Intangible assets | 8,716 | 105 |
| Unrealized gain, Limoneira investment | (8,674) | (6,008) |
| Stock-based compensation | 369 | 286 |
| State taxes | 232 | 546 |
| Other | 55 | 10 |
| Long-term deferred income taxes | $ (6,194) | $ (10,665) |

The October 31, 2013 net increase in deferred intangible assets by $8.6 million is mostly attributable to the RFG contingent liability payout during the year. The payout of the contingent liability resulted in additional RFG tax basis goodwill equal to the fair market value of the stock issued, which increased the Company's net intangibles deferred tax asset. Due to the fact that the payout was paid via stock issuance, the offset to this deferred tax asset was recorded through additional paid-in capital. See Note 16.

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:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Federal statutory tax rate | 35.0% | 35.0% | 35.0% |
| State taxes, net of federal effects | 2.1 | 1.7 | 4.8 |
| Foreign income taxes greater (less) than U.S. | (1.8) | (2.7) | (0.9) |
| Hacienda assessment | — | 6.3 | — |
| Section 199 deduction | (2.5) | (0.8) | — |
| Other | (0.8) | — | 0.9 |
| | 32.0% | 39.5% | 39.8% |

We intend to reinvest our accumulated foreign earnings, which approximated $10.0 million at October 31, 2013, indefinitely. As a result, we have not provided any deferred income taxes on such unremitted earnings. For fiscal years 2013, 2012 and 2011, income before income taxes related to domestic operations was approximately $21.7 million, $24.2 million, and $17.1 million. For fiscal years 2013, 2012 and 2011, income before income taxes related to foreign operations was approximately $2.9 million, $3.8 million and $1.1 million.



As of October 31, 2013 and 2012, we did not have a liability 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, 2011 | $ 41 |
| Reductions of tax positions from prior years | (41) |
| Balance at October 31, 2012 | — |
| Reductions of tax positions from prior years | — |
| Balance at October 31, 2013 | $ — |

The decrease in our provision for income taxes in fiscal 2013, as compared to 2012, is due to the income tax assessment payment of $1.8 million made in 2012, related to the Hacienda's examination of the tax year ended December 31, 2004. In addition, we were able to take advantage of additional tax credits through California's Enterprise Zone Hiring Credit Program (EZC) and an increase in the Section 199 deduction in fiscal 2013.

## 11. SEGMENT INFORMATION

As discussed in Note 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. When principal operations commence, FreshRealm is expected to become our fourth segment. See Note 17 for additional information.

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

| | FRESH PRODUCTS | CALAVO FOODS | RFG | TOTAL |
|---|---|---|---|---|
| *(All amounts are presented in thousands)* | | | | |
| **YEAR ENDED OCTOBER 31, 2013** | | | | |
| Net sales | $ 448,369 | $ 51,614 | $ 191,468 | $ 691,451 |
| Cost of sales | 417,176 | 38,226 | 175,925 | 631,327 |
| Gross margin | $ 31,193 | $ 13,388 | $ 15,543 | $ 60,124 |
| **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 |

*(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 2013, 2012 and 2011, inter-segment sales and cost of sales of $44.2 million, $33.8 million, and $27.0 million were eliminated in consolidation.

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

| | YEAR ENDED OCTOBER 31, 2013 | | | | YEAR ENDED OCTOBER 31, 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| | FRESH PRODUCTS | CALAVO FOODS | RFG | TOTAL | FRESH PRODUCTS | CALAVO FOODS | RFG | TOTAL |
| **THIRD-PARTY SALES:** | | | | | | | | |
| Avocados | $ 407,678 | $ — | $ — | $ 407,678 | $ 318,556 | $ — | $ — | $ 318,556 |
| Tomatoes | 22,623 | — | — | 22,623 | 11,404 | — | — | 11,404 |
| Papayas | 13,077 | — | — | 13,077 | 12,753 | — | — | 12,753 |
| Pineapples | 5,739 | — | — | 5,739 | 6,840 | — | — | 6,840 |
| Other fresh products | 601 | — | — | 601 | 1,788 | — | — | 1,788 |
| Food service | — | 43,616 | — | 43,616 | — | 36,289 | — | 36,289 |
| Retail and club | — | 18,789 | 195,376 | 214,165 | — | 19,758 | 157,333 | 177,091 |
| Total gross sales | 449,718 | 62,405 | 195,376 | 707,499 | 351,341 | 56,047 | 157,333 | 564,721 |
| Less sales incentives | (1,349) | (10,791) | (3,908) | (16,048) | (759) | (9,623) | (3,220) | (13,602) |
| Net sales | $ 448,369 | $ 51,614 | $ 191,468 | $ 691,451 | $ 350,582 | $ 46,424 | $ 154,113 | $ 551,119 |

| | 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.*



Net sales to third parties by segment exclude inter-segment sales and cost of sales. For fiscal years 2013, 2012, and 2011, inter-segment sales and cost of sales for Fresh products totaling $29.9 million, $22.2 million and $15.8 million were eliminated. For fiscal years 2013, 2012, and 2011, inter-segment sales and cost of sales for Calavo Foods totaling $14.3 million, $11.6 million, and $11.2 million were eliminated.

Sales to customers outside the United States were approximately $37.2 million, $28.8 million and $24.3 million for fiscal years 2013, 2012, and 2011.

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

| | UNITED STATES | MEXICO | CONSOLIDATED |
|---|---|---|---|
| 2013 | $ 31,250 | $ 21,399 | $ 52,649 |
| 2012 | $ 29,893 | $ 20,669 | $ 50,562 |

## 12. LONG-TERM OBLIGATIONS

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

| | 2013 | 2012 |
|---|---|---|
| Farm Credit West, PCA, (FCW) term loan, bearing interest at 1.7% | $ 4,007 | $ 5,509 |
| Bank of America, N.A. (BoA) term loan, bearing interest at 1.7% | 4,077 | 5,606 |
| FCW, term loan, bearing interest at 5.7% | 2,600 | 3,900 |
| Capital leases | 2,366 | 3,440 |
| | 13,050 | 18,455 |
| Less current portion | (5,258) | (5,416) |
| | $ 7,792 | $ 13,039 |

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, 2013, annual current and long-term obligation payments are scheduled as follows (in thousands):

| YEAR ENDING OCTOBER 31: | TOTAL |
|---|---|
| 2014 | $ 5,258 |
| 2015 | 5,105 |
| 2016 | 2,132 |
| 2017 | 109 |
| 2018 | 92 |
| Thereafter | 354 |
| | $ 13,050 |

## 13. STOCK-BASED COMPENSATION

### *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, 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 | | |
| Exercised | (8) | $ 12.84 | | |
| Outstanding at October 31, 2013 | 27 | $ 15.79 | | $ 811 |
| Exercisable at October 31, 2013 | 21 | $ 15.93 | | $ 632 |

The weighted average remaining life of such outstanding options is 4.5 years and the total intrinsic value of options exercised during fiscal 2013 was $0.1 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, 2013, 2012, and 2011 was approximately $0.6 million, $0.3 million, and $0.7 million.

The total compensation cost for stock option grants not yet recognized as of October 31, 2013 was $0.1 million.

### *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, 2013 was less than $0.1 million, which will be recognized over the remaining service period of 60 months.

In January 2013, 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 $23.48 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 $23.48. 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, 2013 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.

On January 28, 2013, 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 $24.71. This grant of restricted stock incurred $0.2 million in stock compensation expenses in fiscal 2013. As of January 2014, all shares have vested, because such board members were still serving on the board at this time.

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 | | |
| Granted | 10 | $ 23.48 | | |
| Exercised | (40) | $ 21.82 | | |
| Outstanding at October 31, 2013 | 20 | $ 22.64 | | $ 141 |
| Exercisable at October 31, 2013 | 4 | $ 21.80 | | $ 32 |

The weighted average remaining life of such outstanding options is 6.6 years and the total intrinsic value of options exercised during fiscal 2013 was 0.3 million. The weighted average remaining life of such exercisable options is 4.5 years. The fair value of shares vested during the year ended October 31, 2013, was less than $0.1 million.

## 14. DIVIDENDS

On December 12, 2013, we paid a $0.70 per share dividend in the aggregate amount of $11.0 million to shareholders of record on November 29, 2013. 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.

## 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, 2013 that are measured on a recurring basis during the period, segregated by level within the fair value hierarchy:

| ASSETS AT FAIR VALUE: | LEVEL 1 | LEVEL 2 | LEVEL 3 | TOTAL |
|---|---|---|---|---|
| *(All amounts are presented in thousands)* | | | | |
| Investment in Limoneira Company[1] | $ 45,531 | $ — | $ — | $ 45,531 |
| Total assets at fair value | $ 45,531 | $ — | $ — | $ 45,531 |

*(1) The investment in Limoneira Company consists of marketable securities in the Limoneira Company stock. We currently own approximately 12% of Limoneira's outstanding common stock. These securities are measured at fair value by quoted market prices. Limoneira's stock price at October 31, 2013 and October 31, 2012 equaled $26.34 per share and $22.47 per share. Unrealized gains and losses are recognized through other comprehensive income. Unrealized investment holding gains arising during the year ended October 31, 2013 and 2012 was $6.7 million and $8.9 million. Unrealized investment holding losses arising during the year ended October 31, 2011 was $5.0 million.*

| LIABILITIES AT FAIR VALUE: | LEVEL 1 | LEVEL 2 | LEVEL 3[3] | TOTAL |
|---|---|---|---|---|
| *(All amounts are presented in thousands)* | | | | |
| Salsa Lisa contingent consideration[2] | $ — | $ — | $ 676 | $ 676 |
| RFG contingent consideration[2][3] | — | — | — | — |
| Total liabilities at fair value | $ — | $ — | $ 676 | $ 676 |

*(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 2013 and 2012 totaled $1.6 million and $0.4 million. Total net decrease to the contingent considerations in fiscal year 2011 totaled $0.5 million. See Note 16 for further discussion.*

*(3) In 2013, we amended our acquisition agreement with RFG in regards to the cash payment portion of the Stage II & III earnouts. See Note 16.*

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

| | BALANCE AT 10/31/12 | INTEREST | REVALUE ADJUSTMENT | RECLASSIFICATION | BALANCE AT 10/31/13 |
|---|---|---|---|---|---|
| *(All amounts are presented in thousands)* | | | | | |
| Salsa Lisa contingent consideration | $ 857 | $ 49 | $ (230) | $ — | $ 676 |
| RFG contingent consideration[1] | 2,322 | 97 | 1,801 | (4,220) | — |
| Total | $ 3,179 | $ 146 | $ 1,571 | $ (4,220) | $ 676 |

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

*(1) We have amended our acquisition agreement with RFG in regards to the cash payment portion of the Stage II & III earnouts. See Note 16.*



## 16. AMENDMENTS TO RFG ACQUISITION AGREEMENT

### *Amendment No.1 to RFG Acquisition Agreement*

Calavo, 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 Amendment No. 1 of the Agreement and Plan of Merger dated July 31, 2013 (the "First Amendment").

Calavo, RFG and the Sellers are parties to an Agreement and Plan of Merger dated as of May 25, 2011 (the "Merger Agreement") pursuant to which, among other things, Calavo acquired RFG from the Sellers and Calavo agreed to make Earn-Out Payments to the Sellers upon the satisfaction of certain performance requirements specified in the Merger Agreement.

The Merger Agreement states that, upon the attainment of the Stage 2 Maximum Earn-Out Trigger prior to the end of the Earn-Out Period, Calavo shall be obligated to pay the Stage 2 Maximum Earn-Out Consideration to the Sellers. The Merger Agreement states that the Stage 2 Maximum Earn-Out Consideration shall be $5,000,000 in cash and 827,000 shares of Calavo common stock. The Merger Agreement states that the Stage 2 Maximum Earn-Out Trigger shall be met if, for any 12-month period during the Earn-Out Period, (1) the EBITDA for RFG is equal to or greater than $8,000,000 and (2) the Revenue for RFG is equal to or greater than $130,000,000.

Calavo, RFG and the Sellers have amended the Merger Agreement by the First Amendment to provide, among other things, that: (1) Calavo shall deliver $5,000,000 of Common Stock to the Sellers, as part of the Stage 2 Maximum Earn-Out Consideration instead of delivering $5,000,000 of cash to the Sellers; (2) the Sellers shall receive specified price protection from Calavo with respect to the sale of such Common Stock; and (3) Calavo shall file with the Securities and Exchange Commission (the "SEC") a Registration Statement on Form S-3 (the "Registration Statement") which shall cover the public resale of such Common Stock by the Sellers during the period specified in the First Amendment.

Price protection, as defined, is broken into two parts: (1) additional shares of our common stock ("Price Protection Shares" or "PPS") and (2) a potential cash payment. During the thirty-day period starting on the later of the date that the Additional Shares are issued to the Sellers or the date that the Registration Statement is declared effective by the SEC (the "Initial Price Protection Period"), the Sellers shall have price protection for any Additional Shares sold by the Sellers on the Nasdaq Stock Market. We shall be obligated to issue additional shares of PPS to the Sellers only if the Sellers sell any Additional Shares on the Nasdaq Stock Market during the Initial Price Protection Period for a price that is less than the Valuation Price. The dollar value of the Price Protection Shares required to be issued by Calavo shall equal the difference between (1) the aggregate sales price of all Additional Shares sold by the Sellers on the Nasdaq Stock Market during the Initial Price Protection Period for sales prices that were less than the Valuation Price and (2) the aggregate sales price that the Trust would have received for such Additional Shares if they had been sold for the Valuation Price. The amount calculated pursuant to the immediately preceding sentence is referred to in the First Amendment as the "Shortfall", and the closing price of our stock on the Nasdaq Stock Market that is used to determine the number of price protection shares that we must issue is referred to as the "Initial Price Protection Valuation."

If, during the thirty-day period immediately following its receipt of the PPS, the Sellers sell any of the PPS on the Nasdaq Stock Market for a sales price that is less than the Initial Price Protection Valuation, Calavo shall be obligated to deliver to the Sellers a cash payment equal to the difference between (a) the aggregate sales price of all Price Protection Shares sold by the Sellers on the Nasdaq Stock Market during such thirty-day period for sales prices that were less than the Initial Price Protection Valuation and (b) the aggregate sales price that the Sellers would have received for such Price Protection Shares if they had been sold for the Initial Price Protection Valuation. Such cash payment shall be made by Calavo within twenty days after Calavo and the Sellers have agreed upon the amount of such shortfall.

As a result of this transaction, we evaluated the fair market value of the cash derivative per the Merger Agreement with the equity derivative per this First Amendment, noting no significant difference. Further, we also believe the estimated fair market value of the cash derivative per this First Amendment is not material.

Additionally, we have reclassified the RFG contingent consideration liability of $4.2 million from accrued expenses to additional paid in capital as of July 31, 2013.

During our fourth fiscal quarter, RFG attained the Stage 2 Maximum Earn-Out Trigger. As such, and pursuant to this amendment, we filed the Registration Statement and issued 172,117 shares of common stock, valued at $29.05, to the Sellers in October 2013. From October 2013 to November 2013, the Sellers sold all 172,117 shares for $5.0 million.

*Amendment No.2 to RFG Acquisition Agreement*

Calavo, 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 Amendment No. 2 of the Agreement and Plan of Merger dated October 1, 2013 (the "Second Amendment").

Calavo, RFG and the Sellers are parties to an Agreement and Plan of Merger dated as of May 25, 2011, as amended by Amendment No. 1 thereto, dated July 28, 2013 (as so amended the "Merger Agreement"), pursuant to which, among other things, Calavo acquired RFG from the Sellers and Calavo agreed to make Earn-Out Payments to the Sellers upon the satisfaction of certain performance requirements specified in the Merger Agreement.

The Merger Agreement provides that, upon the attainment of the Stage 3 Maximum Earn-Out Trigger or the Stage 3 Scale Earn-Out Trigger, as applicable, Calavo shall be obligated to make a Stage 3 Earn-Out Payment to the Sellers consisting of either the Stage 3 Maximum Earn-Out Consideration or the Stage 3 Scale Earn-Out Consideration, each of which shall consist of a specified amount of cash and a specified number of Merger Shares.

Pursuant to the Second Amendment, Calavo, RFG and the Sellers amended the Merger Agreement to provide, among other things, that: (1) with respect to the portion of the Stage 3 Maximum Earn-Out Consideration or the Stage 3 Scale Earn-Out Consideration, as applicable, that is currently required by the Merger Agreement to be paid in cash to the Sellers, Calavo shall have the right to elect to pay all or a portion of such cash amount by delivery of additional Merger Shares to the RFG Nominee Trust (the "Trust"), for the benefit of the Sellers; (2) the Sellers shall receive specified price protection from Calavo with respect to the Trust's sale of shares of Common Stock on the Nasdaq Stock Market, up to the total number of shares of Common Stock issued to the Trust pursuant to this Second Amendment; and (3) Calavo shall file with the SEC a Registration Statement on Form S-3 covering the Trust's resale on the Nasdaq Stock Market of any additional Merger Shares issued pursuant to the Second Amendment for sales that occur during the period specified in this Second Amendment. Any additional Merger Shares issued by Calavo in lieu of cash payments to the Sellers will be valued for this purpose at the closing price of Calavo Common Stock as reported on the Nasdaq Stock Market at the time of issuance.

Price protection, as defined, is broken into two parts: (1) additional shares of our common stock ("Price Protection Shares" or "PPS") and (2) a potential cash payment. During the 120-day period starting on the later of the date that the Additional Shares are issued to the Sellers or the date that the Registration Statement is declared effective by the SEC (the "Initial Price Protection Period"), the Sellers shall have price protection for any Additional Shares sold by the Sellers on the Nasdaq Stock Market. We shall be obligated to issue additional shares of PPS to the Sellers only if the Sellers sell any Additional Shares on the Nasdaq Stock Market during the Initial Price Protection Period for a price that is less than the Valuation Price. The dollar value of the Price Protection Shares required to be issued by Calavo shall equal the difference between (1) the aggregate sales price of all Additional Shares sold by the Sellers on the Nasdaq Stock Market during the Initial Price Protection Period for sales prices that were less than the Valuation Price and (2) the aggregate sales price that the Trust would have received for such Additional Shares if they had been sold for the Valuation Price. The amount calculated pursuant to the immediately preceding sentence is referred to in the Second Amendment as the "Shortfall", and the closing price of our stock on the Nasdaq Stock Market that is used to determine the number of price protection shares that we must issue is referred to as the "Initial Price Protection Valuation."

If, during the 120-day period immediately following its receipt of the PPS, the Sellers sell any of the PPS on the Nasdaq Stock Market for a sales price that is less than the Initial Price Protection Valuation (First-Stage Price Protection Shortfall), Calavo shall be obligated to deliver to the Sellers additional shares "Second-Stage Price Protection Shares" equal to the difference between (a) the aggregate sales price of all Price Protection Shares sold by the Sellers on the Nasdaq Stock Market during such 120-day period for sales prices that were less than the Initial Price Protection Valuation and (b) the aggregate sales price that the Sellers would have received for such Price Protection Shares if they had been sold for the Initial Price Protection Valuation. If additional shortfalls continue to occur (Second-Stage Price Protection Shortfall) a cash payment shall be made by Calavo within twenty days after Calavo and the Sellers have agreed upon the amount of such shortfall.

As a result of this transaction, we evaluated the fair market value of the cash derivative per the Merger Agreement with the equity derivative per this Second Amendment, noting no significant difference. Further, we also believe the estimated fair market value of the cash derivative per this Second Amendment is not material.



## 17. AMENDED AND RESTATED LIMITED LIABILITY COMPANY AGREEMENT OF FRESHREALM, LLC

Effective July 31, 2013, Calavo and certain noncontrolling members have entered into an Amended and Restated Limited Liability Company Agreement (the "Agreement") of FreshRealm, LLC (FreshRealm).

The purpose of FreshRealm is to engage in activities relating to the marketing of food products directly to consumers or other entities. FreshRealm's technology platform is currently being developed and is expected to allow participants such as traditional retailers, large and small enterprises, communities and food banks to enter into a platform resembling a national fresh food cooperative. FreshRealm is expected to serve as a way to connect participants to a network of regional fresh food producers.

Pursuant to this Agreement, in 2013 FreshRealm issued approximately 1.3 million units, with Calavo owning approximately 71.5% of FreshRealm for a capital contribution of $0.9 million. The noncontrolling members, representing the remaining 28.5% ownership, contributed either cash (totaling approximately $0.1 million) or a full-recourse promissory note payable to Calavo (totaling approximately $0.3 million) in exchange for their units. Each full-recourse promissory note described above will be due and payable in full on May 1, 2016, with interest at 4% per annum, also due and payable on May 1, 2016. If, prior to May 1, 2016, FreshRealm terminates an employee's employment for cause, as defined, or the employee terminates his employment other than (A) for good reason, as defined, or (B) as a result of the employee's death or disability, notwithstanding whether prior to such date the employee repaid his note in full, then all of the employee's units will be transferred to Calavo.

Members have limited voting rights. In any matters presented to the members for approval, each member will have one vote for each unit held by such member. For situations for which the approval of the members is required, the members shall act by majority vote.

Members may make loans to FreshRealm with the consent of the board of directors of FreshRealm (the "Board"). The Board approved loans of up to $3,000,000 from Calavo to FreshRealm under the Line of Credit and Security Agreement between Calavo and FreshRealm. At October 31, 2013, FreshRealm has borrowed $1.7 million under this line of credit, which is eliminated in consolidation.

Subject to certain limitations, the Board has the sole discretion regarding the amounts and timing of distributions to members. After making tax distributions required for a given fiscal year, all distributions will be made to the members pro rata, pari passu in accordance with their respective percentage interests, except FreshRealm will first apply distributions (other than tax distributions) to each member who is an employee against such member's promissory note until the promissory note is paid in full.

FreshRealm's losses and income that are determined for accounting purposes will also be allocated for each fiscal year, including for the full 2013 fiscal year, to the members in accordance with the allocation principles for net loss and net income. As a result, a $0.6 million loss has been allocated to the noncontrolling members as of October 31, 2013. See additional discussion below.

FreshRealm started operating as a development stage company in the second quarter of 2013. As of October 31, 2013, planned, principal operations have not commenced. As a result, FreshRealm has no sales or cost of sales. When principal operations commence, FreshRealm is expected to become our fourth segment. FreshRealm has incurred $1.9 million of expenses related to its development as of October 31, 2013, which are included in selling, general and administrative expenses. Of the $1.9 million in selling, general and administrative expenses, $1.3 million has been attributed to Calavo and a $0.6 million loss has been attributed to the noncontrolling members. See Note 2 for further information related to noncontrolling interests.

## 18. INVESTMENT IN UNCONSOLIDATED ENTITY

In October 2013, we contributed $1.0 million for the purchase of 60 hectares of property in Jalisco, Mexico. The property will be used, for the development of facilities to grow tomatoes. We expect in the first quarter of 2014 to enter into a joint venture agreement with our tomato grower Agricola Belher (Belher). Such joint venture is expected to operate under the name of Agricola Don Memo. Belher and Calavo will each have an equal one-half ownership interest in Agricola Don Memo, but Belher will have overall management responsibility for the operations of Agricola Don Memo. The contribution of $1.0 million has been recorded as an investment in unconsolidated entities on our consolidated financial statements.

## 19. 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, 2013 and 2012, 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, 2013. 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, 2013 and 2012, and the consolidated results of its operations and its cash flows for each of the three years in the period ended October 31, 2013, 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, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 Framework) and our report dated January 13, 2014 expressed an unqualified opinion thereon.

Ernst & Young LLP

Los Angeles, California
January 13, 2014



# Report of Independent Registered Public Accounting Firm - Internal Control Over Financial Reporting

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

We have audited Calavo Growers, Inc.'s internal control over financial reporting as of October 31, 2013, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the COSO criteria). Calavo Growers, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Calavo Growers, Inc. maintained, in all material respects, effective internal control over financial reporting as of October 31, 2013, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Calavo Growers, Inc. as of October 31, 2013 and 2012, 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, 2013 of Calavo Growers Inc. and our report dated January 13, 2014 expressed an unqualified opinion thereon.

Ernst & Young LLP

Los Angeles, California
January 13, 2014

# Report on Management

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 (1992 framework).

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, 2013. Our internal control over financial reporting as of October 31, 2013 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 2013**

| | HIGH | LOW |
|---|---|---|
| First Quarter | $ 24.74 | $ 20.88 |
| Second Quarter | $ 29.06 | $ 24.57 |
| Third Quarter | $ 31.68 | $ 25.66 |
| Fourth Quarter | $ 30.77 | $ 24.19 |

**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 |

As of November 30, 2013, there were approximately 963 stockholders of record of our common stock.

As previously reported on Current Reports on Form 8-K, we issued 999,117 shares of unregistered Calavo common stock per the RFG Amended Acquisition Agreement, in October 2013. We filed an S-3 registration statement registering the resale of 172,117 of these shares in October 2013.

As previously reported on a Form 10-Q Report for the quarter ended April 30, 3013, on April 10, 2013, we repurchased 165,000 shares of our common stock from Limoneira for cash consideration of $4.8 million at a purchase price of $29.02 per share, the closing price on April 10, 2013. These shares were cancelled and returned to authorized, but unissued, status.

## 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, 2013, we paid a $0.70 per share dividend in the aggregate amount of $11.0 million to shareholders of record on November 29, 2013.

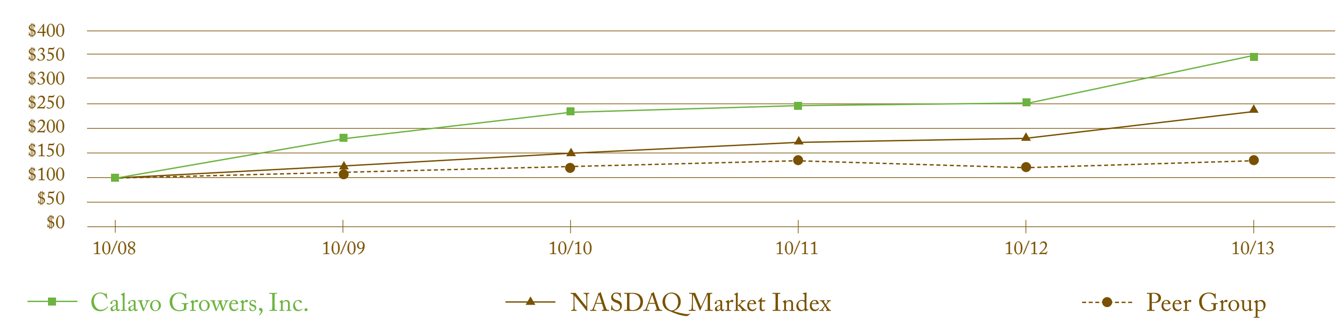
On December 12, 2012, we paid a $0.65 per share dividend in the aggregate amount of $9.6 million to shareholders of record on November 28, 2012.

# 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, 2008 and ending October 31, 2013. 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, 2008. 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 10/31/08 in stock or index, including reinvestment of dividends. Fiscal year ending October 31, 2013*

# 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

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

**Mike Browne**
Vice President
Fresh Operations

**James E. Snyder**
Corporate Controller
Chief Accounting Officer

### 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

**Dorcas H. Thille**

**Donald "Mike" Sanders**

**Harold S. Edwards**

### AUDIT COMMITTEE

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

**George H. Barnes**

**John M. Hunt**

**Steven W. Hollister**

**Michael A. "Mike" DiGregorio**

### NOMINATING & GOVERNANCE COMMITTEE

**John M. Hunt**
Chairman

**George H. Barnes**

**Marc Brown**

### COMPENSATION COMMITTEE

**Steven W. Hollister**
Chairman

**James D. Helin**

**Michael A. "Mike" DiGregorio**

### OPERATING DIRECTORS & MANAGERS

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

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

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

**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.**
1141A Cummings Road
Santa Paula, California 93060
Telephone 805.525.1245
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.

Creative Direction: **Dan McNulty** Designed: **MC BrandStudios** mc-brandstudios.com Concept/Editorial: **FoleyFreisleben LLC** folfry.com
Photography: **Jerry Davidson** davidsonstudio.com Printing: **Jano Graphics** janographics.com

# Senior MANAGEMENT

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

**MIKE BROWNE**
Vice President
Fresh Operations

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

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

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