



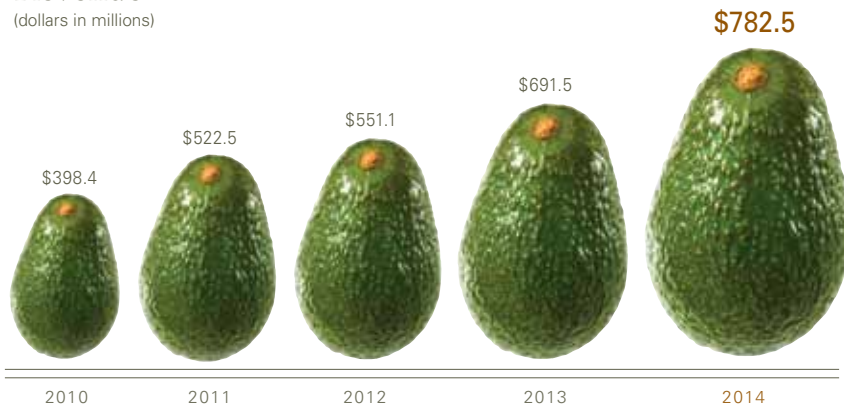
Calavo Growers, Inc. 2014 ANNUAL REPORT

Eat. *Live.* Grow.



## Revenue

(dollars in millions)



## Gross Margins

(dollars in millions)



## Net Income

(dollars in millions)



## Earnings Per Share

(in dollars)



(\*) Adjusted Annual Net Income before RFG non-cash contingent consideration expense equal to \$1.3 million (2012) and \$19.1 million (2013). After amounts, net income totaled \$15.8 million (2012) and a net loss of \$1.8 million (2013).

(\*\*) Adjusted Annual Net Income before RFG non-cash contingent consideration expense of \$33.2 million and including gain of \$8.3 from deconsolidation of FreshRealm. After amounts, net income totaled \$0.1 million

(†) After RFG non-cash contingent consideration, mentioned above, diluted EPS totaled \$1.05 (2012) and a net loss per share of \$0.12 (2013).

(††) After RFG non-cash contingent consideration, and including the gain on deconsolidation of FreshRealm, diluted EPS totaled \$0.01.

Ours is a company and industry story that continues to unfold—now 90 years in the making.

Calavo Growers, Inc. was the force behind the launch of the modern avocado industry—and continues leading it to this day. We introduced and established the market for the delicious, pebble-skinned fruit. In effect, our company has played an influential role in **What We Eat**—spawning a near-century-long love affair between consumers and their avocados that grows with each passing year. Our avocados and other fresh foods are welcomed into homes—and lives—finding a place at cherished family dinners or game-day parties with friends. A taste of a wholesome, delicious Calavo avocado may harken a beloved childhood memory of being hoisted on dad’s shoulders to pull down fruit right from the tree.

Over this same time span, we have witnessed and responded to the massive shift in **How We Live**. People are busier and more time-constrained than ever—two working-adult families, smaller households and the pace of urban lives. Demand for fresher, healthier food grows at a staggering clip, as does the need for convenience. Our success in diversifying into a full-line leader in fresh refrigerated packaged goods points to our deep understanding of the dynamics driving today’s consumers.

Most importantly, these achievements underscore **Why We Grow**, most notably posting record operating results again in fiscal 2014. We remain focused squarely on maximizing value for shareholders. Yet, even as our company grows, we hold true to the values—integrity, quality and stewardship, among them—that have guided Calavo since its humble roots.

**Eat. Live. Grow. There’s nothing more fundamental. There’s nothing that better defines Calavo.**

One avocado daily as part of a moderate-fat diet improved the cholesterol ratios of overweight and obese men and women who participated in a recent study by The Pennsylvania State University. Researchers concluded that food sources rich in monounsaturated fats, fiber and phytosterols—all found in avocados—“...confer greater cardiovascular health benefits...”



Eat...

Notably, the Penn State diet that included avocado provided 35 percent more fiber than those that did not. Awareness of the fruit's healthful properties continues to be a driver of increased avocado consumption. In addition to monounsaturated "good fat," avocados are packed with potassium—nearly twice as much as found in a banana—and have the highest levels of protein

found in any fruit. It is no wonder that avocados were named a 2015 superfood in a recent poll of 500 dieticians. And, avocados even have the ability to lessen the inflammatory properties of other foods eaten alongside them, including red meat, according to a study at U.C.L.A.



# ...Fresh.



The Hass Avocado Board has a budget of nearly \$50 million in 2015, principally for advertising, marketing and promotion. A Super Bowl ad by Avocados from Mexico, “First Draft Ever,” was one of this year’s most talked about and widely publicized. Evolving demographics, awareness of healthful benefits and new ways to enjoy avocados—along with promotion—are driving consumption upward.



Per capita annual U.S. avocado consumption has risen to 5 pounds, up from 1.5 pounds in the past two decades. More than half of all American grocery shoppers today purchase avocados and, as a result of advanced pre-conditioning technologies such as Calavo's ProRipeVIP™, fruit is now available in produce sections ripe and ready-to-eat—another boon to consumption. Year-round availability of

fruit, thanks to an abundant supply of avocados sourced from Mexico and South America, are another key factor. Add to that shifting demographics—a burgeoning Hispanic population in the U.S., 97 percent of which buy avocados regularly—and it adds up to consumption trending toward two billion pounds annually.

Calavo's Renaissance Food Group is a rapidly expanding player in the "sweet spot" of the grocery industry: the fresh-prepared segment. Consulting firm A.T. Kearney forecasts that dollar sales of the \$26 billion fresh-prepared segment will expand at a 6 to 7 percent compound annual growth rate (CAGR) through 2017, outpacing the 2 to 3 percent CAGR of retail grocery food and beverage overall.

A woman with long brown hair, wearing a blue short-sleeved button-down shirt and dark pants, stands in a kitchen. She is looking down at a smartphone held in her hands. The kitchen features wooden cabinets, a green subway tile backsplash, and a countertop with various items including a green glass, a cutting board with vegetables, and a bowl of fruit. A large window or glass door is visible in the background.

Live...



RFG is widely hailed for its rate and breadth of product innovation and the speed-to-shelf applied to every aspect of its business. Backed by Calavo's vast resources, the business unit continues to expand its footprint in the retail grocery channel through a portfolio of ultra-fresh, high-quality products marketed under the Garden Highway and Chef Essentials brands. RFG's

expansive portfolio of offerings—with new items added frequently—is enabling the fast-growth unit to penetrate the grocery channel through produce, meat and deli departments, as well as the foodservice category and other high-volume operations.



Smaller households and urban consumers want convenient, healthier and fresher products. As a result, sales of fresh-cut fruit and snacking vegetables grew 20 percent last year, while salad kit sales jumped a formidable 26 percent, according to Nielsen industry data. Convenient produce options that fit the “semi-prepared” bill appeal to consumers who want to feel involved in meal preparation, regardless of a lack of cooking skills or kitchen space.



...Healthy.

Active, busy lifestyles have precipitated these eating changes. Recognizing this opportunity, Calavo jumped into the refrigerated fresh food category through its 2011 acquisition of RFG, which has been a resounding success and a model for future transactions. In RFG, Calavo identified a well-managed company that understood the intricacies of the fresh prepared foods segment: factors

such as the supply chain and distribution, frequent inventory turnover and optimized product assortment. Leveraging the resources of its new parent, RFG revenues have expanded more than 150 percent since it became part of Calavo, while earnings before interest, taxes, depreciation and amortization (EBITDA) have risen seven-fold.





Calavo is widely recognized as a logistics and distribution powerhouse. Three Value-Added Depots (VADs), along with six strategically situated RFG production facilities, provide the company with seamless distribution coverage of North America. The VADs, equipped with our ProRipeVIP™ technology, allow the company to ship fresh avocados pre-conditioned to customers' precise specifications. Speedy RFG excels in just-in-time distribution with orders expedited within hours of being received.

Grow...

Fresh food distribution seems simple in principle but is highly complex in execution. Time-to-market efficiency is essential. The benefits are apparent for perishable products: less chance to deteriorate or be prone to damage. Our success comes from being able to meet our customers' product requirements wherever they may be and whenever they need them.

Calavo brand equity and its sterling reputation are a result of freshness, great taste and, most of all, product quality. Sourcing the highest caliber products is only one half of the success equation; the other is our vast capability bringing nature's bounty to market in the most efficient ways possible.



# ...Strategically.



Our company is steadfast in balancing the dual objectives of reinvesting sufficient profit to drive the growth of our business while maximizing value and return to shareholders. Calavo's annual cash dividend has increased 275 percent since the company's listing on the Nasdaq Market. \$10,000 invested in Calavo common stock on October 31, 2004, along with reinvested dividends, would have appreciated to more than \$60,000 at the close of the most recent fiscal year.



Calavo's market capitalization at the close of fiscal 2014 stood at \$765 million, an increase of more than 700 percent from \$95 million at October 31, 2002. The company's rate of compound annual growth in revenues (CAGR) over the past five years equals 17.8 percent. Numbers like these speak for themselves but represent only one facet of Calavo's equation for success. More importantly, look

behind these metrics. Our operating and financial resources layer strength upon strength. It begins with a focused strategic blueprint and disciplined execution: in sourcing and marketing domestically and around the globe; in packing and distribution; in ripening technologies that drive avocado consumption higher...and higher.

To Our Shareholders,





I am pleased to report that Calavo Growers, Inc. posted record results from operations in its most recent year, and our company is squarely positioned to reach historic new highs again in fiscal 2015.

While preparing this letter, I mentioned to a colleague that I am more optimistic than ever about Calavo's prospects moving forward. My associate replied: "Lee, you say that every year." You know, I guess I do. But that's because our company's operating performance continues to strengthen and the trend lines of our key metrics ascend steadily as a result of the successful implementation of Calavo's focused strategic agenda.

Notable accomplishments in fiscal 2014 underscore this point. Among these are:

- Double-digit growth in revenues and gross margin, with strong sales increases in all three of the company's principal business segments;
- New highs in adjusted annual net income and earnings per share, significantly outstripping all prior results;
- Continued outstanding performance by our Renaissance Food Group, LLC (RFG) business unit, which has surpassed all expectations; and,
- Planned expansion of fresh avocado operations in Mexico through a second packinghouse in a fertile agriculture region of Jalisco state.

To recap our operating results, revenues for the 12 months ended October 31, 2014 rose 13.2 percent to a record \$782.5 million, up from \$691.5 million in the previous year. Fiscal 2014 gross margin reached an all-time high of \$71.2 million, rising 19.8 percent from \$59.4 million one year earlier. On the strength of this outstanding sales and gross margin expansion, adjusted annual net income soared 44.5 percent to \$25.0 million, equal to \$1.45 per diluted share, from \$17.3 million, or \$1.11 per diluted share, in fiscal 2013.

These adjusted net income and EPS amounts are before contingent consideration expense related to the RFG acquisition of \$33.2 million, or \$1.93 per share, and a gain after tax of \$8.3 million, or \$0.48 per share, from the deconsolidation of FreshRealm, LLC. Including these amounts, fiscal 2014 net income totaled \$0.1 million, or \$0.01 per diluted share, which compares with a net loss of \$1.8 million, or \$0.12 per diluted share, last year.

Calavo's balance sheet is stronger than ever—flexible and with untapped capacity for leverage. Total assets reached \$283.5 million at fiscal-year end, up from \$239.9 million at October 31, 2013. Long-term debt—principally the balance of borrowings to finance our acquisition of RFG—stood at just \$2.8 million at the close of the most recent year, down from \$7.8 million one-year earlier and \$13.0 million on October 31, 2012. Since fiscal 2011, the year Calavo acquired RFG, long-term borrowings have been pared from \$18.2 million. Reciprocally, while debt has been reduced, our company's net book value per share has risen sharply, climbing to \$10.37 at October 31, 2014, from \$7.58 at the close of the prior year.

On the strength of the company's operating results, our Board of Directors declared a 75 cent per share annual cash dividend on Calavo common stock, which was paid to owners subsequent to fiscal-year end. The dividend reflects a seven percent increase from 12 months earlier and a 275 percent jump from fiscal 2002, the year Calavo shares began trading on the Nasdaq Market. Expressed another way, the most recent payout translates to \$13 million returned to our shareholders in the form of Calavo's cash dividend—further indication of the company's solid profitability that enables us to balance the dual objectives of rewarding our owners while investing in the growth of our businesses.

Nowhere is this successful reinvestment to fuel growth more evident than the company's acquisition of RFG three years ago. In every respect—from the favorable structure of the transaction itself to the complementary fit within our company's operations to RFG's outstanding execution since becoming part of Calavo—this deal was a win. The purchase was on risk-averse terms to our company, principally compensating the sellers for meeting or exceeding agreed performance targets. And meet them they did.

Last year, sales in the RFG business segment climbed more than 31 percent to \$252.3 million from \$191.5 million in fiscal 2013. Segment gross margin also grew 135 basis points in fiscal 2014. Since its acquisition by Calavo, RFG revenues have soared from a "run rate" of \$94.1 million in fiscal 2011, while earnings before interest, taxes, depreciation and amortization (EBITDA) are up 515 percent to \$16.0 million from \$2.6 million.

I am confident of RFG's continued strong prospects, and expect sales and gross margin to rise by 20 percent in fiscal 2015. One component of RFG's success is directly attributable to the financial and operational resources available to it as a wholly owned Calavo subsidiary. Another significant factor is the growth rate of the fresh refrigerated packaged goods category—the fastest growing segment of the retail grocery channel. The unit's execution has been flawless as it builds a category leadership position: quick-to-shelf order fulfillment, product innovation, and the nimble distribution that is a Calavo hallmark.

It is remarkable that, after 90 years, the fresh avocado sector still can be considered a growth industry. But that is what it is and, by all indications, will continue to be well into the foreseeable future. U.S. per capita consumption of fresh avocados now exceeds five pounds annually, up from about one and a half pounds two decades ago. I expect domestic avocado consumption will reach or exceed two billion pounds this year. Just a decade ago, that figure was 800 million pounds. Popular acceptance and widespread appeal is being fueled by a perfect avocado storm of outstanding industry promotion, awareness of the fruit's healthful benefits, and shifting demographics.

Avocados seem to be regularly in the headlines. A recent Penn State study trumpeted the cardiovascular health benefits of a diet rich with the fruit. A Super Bowl ad by Avocados from Mexico, one of the big game's most memorable, resulted in stories across all media that yielded tens of millions of additional impressions. Just weeks ago, respected magazine *The Atlantic* published an in-depth story about the rise of the avocado industry. It is a great read.

The impact of the rise of the Mexican avocado market, and the opening of the borders for year-round importation of fruit to all 50 states, cannot be overstated as a factor driving the market. Today, about 60 percent of United States avocado volume is sourced from Mexico, making possible 12-month availability of fruit. Calavo was an early entrant to the Mexican avocado market in the late 1990s with packing, and later with prepared food operations, in Uruapan, Michoacán. Our success in Mexico contributes substantially to our undisputed market leadership in fresh and prepared avocados in which we command 22 and 35 percent category shares, respectively.

I am pleased to inform you that Calavo is expanding its Mexican operations during the current fiscal year through the construction of a second packinghouse in Guzmán, Jalisco, a prime growing region about 45 minutes east of Guadalajara. The 70,000-square-foot facility—being built on a sizable piece of company-owned property that provides room for future growth—will pack fresh avocados for export to both the United States and international markets. With the potential of markets such as China and other parts of the Asia-Pacific region, we see tremendous opportunity in being an early entrant in Guzmán, just as we were in Uruapan. A number of the growers with whom Calavo already does business in Michoacán also have avocado groves in Jalisco, providing us a significant competitive advantage as we enter this new region. Additionally, our new packing operation, which will be online by mid-year, is a short distance from our company’s successful tomato-growing partnership with Agricola Belhar, further deepening our ties to the region. Longer term, we will likely build another prepared products facility in Guzmán that can source its principal ingredient from the sister packinghouse nearby. We fully expect this capital investment to translate into new revenue and profit drivers; I look forward to sharing more about Calavo’s progress in Jalisco in the future.

As you can see, the “building blocks” are in place for another outstanding year in fiscal 2015. In addition to expectations of formidable performances by our Fresh and RFG business units, the Calavo Foods prepared avocado business segment, which posted record sales in fiscal 2014, is trending strongly. I expect Calavo Foods to realize double-digit sales and gross margin growth in the current year. With each of Calavo’s three business units “firing on all cylinders,” you can understand my confidence in the company’s prospects: fiscal 2015 will be another record year, with revenues and earnings per share surpassing all prior highs.

Let me close by expressing deep appreciation to Calavo’s senior management team for its leadership and our employees for their dedication. To our board of directors, I offer thanks for your wise counsel and insight. And to you, Calavo’s owners, I extend gratitude for your confidence and support, which we work hard to justify every day.

Sincerely,



Lee E. Cole  
Chairman, President and Chief Executive Officer

March 4, 2015

## Board of Directors



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(from left to right)

**GEORGE H. "BUD" BARNES** Avocado Grower, Valley Center, California   **LECIL E. COLE** Chairman, President and CEO, Calavo Growers, Inc., Santa Paula, 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   **JAMES D. HELIN** President, CEO, JDH Associates, Los Angeles, California   **J. LINK LEAVENS** First Vice Chairman, General Manager, Leavens Ranches, Ventura, California   **MICHAEL A. "MIKE" DIGREGORIO** Board & Strategic Advisory Services, Westlake Village, California



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(from left to right)

**JOHN M. HUNT** Manager, Embarcadero Ranch, Goleta, California   **HAROLD S. EDWARDS** President and CEO, Limoneria Company, Santa Paula, California   **STEVEN W. HOLLISTER** Managing Member, Rocking Spade, LLC, Arroyo Grande, California   **MARC L. BROWN** Attorney/Partner, Troy Gould PC, Los Angeles, California   **DONALD “MIKE” SANDERS** President, S&S Grove Management, Escondido, California   **EGIDIO “GENE” CARBONE, JR.** Retired CFO, Calavo Growers, Inc., Santa Paula, California

## Selected Consolidated Financial Data

The following information as of and for the years ended October 31, 2013, 2012 and 2011 has been restated to reflect adjustments to our previously issued financial statements as more fully discussed in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in Note 3, "Restatement of Previously-Issued Financial Statements" to the Consolidated Financial Statements included in Item 8 of this Annual Report. The following data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the financial statements of the Company, including the notes thereto, in Items 7 and 8, respectively, of this Annual Report in order to fully understand factors that may affect the comparability of the financial data.

The following selected financial data as of October 31, 2014 and 2010 and for the years ended October 31, 2014, 2013, 2012 and 2010 (other than pounds information), are derived from the audited consolidated financial statements of Calavo Growers, Inc. The financial data as of October 31, 2011 and the year ended October 31, 2011 are derived from our restated financial statements.

We have not amended our previously-filed Annual Reports on Form 10-K or Quarterly Reports on Form 10-Q for the periods affected by the restatement. The financial information that has been previously filed or otherwise reported for these periods is superseded by the information in this Form 10-K, and the financial statements and related financial information contained in such previously-filed reports should no longer be relied upon.

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,	2014	2013	2012	2011	2010
(In thousands, except per share data)		RESTATED	RESTATED	RESTATED <sup>(1)</sup>	
<b>INCOME STATEMENT DATA:</b> <sup>(1)(2)(3)(4)(8)(9)</sup>					
Net sales	\$ 782,510	\$ 691,451	\$ 551,119	\$ 522,529	\$ 398,351
Gross margin	71,228	59,448	60,665	42,931	51,530
Selling, general and administrative	36,605	33,485	32,714	24,934	23,168
Net income attributable to Calavo Growers, Inc.	97	(1,795)	15,802	10,863	17,764
Basic net income per share	\$ 0.01	\$ (0.12)	\$ 1.07	\$ 0.74	\$ 1.22
Diluted net income per share	\$ 0.01	\$ (0.12)	\$ 1.05	\$ 0.74	\$ 1.22
<b>BALANCE SHEET DATA AS OF END OF PERIOD:</b> <sup>(4)(10)</sup>					
Working capital	\$ 22,047	\$ (3,252)	\$ 1,287	\$ 2,323	\$ 14,801
Total assets	283,464	239,939	207,787	185,284	150,198
Accrued expenses	25,303	36,541	30,554	25,565	15,353
Current portion of long-term obligations	5,099	5,258	5,416	5,448	1,369
Long-term debt, less current portion	2,791	7,792	13,039	18,244	6,089
Shareholders' equity	179,406	119,093	102,719	89,632	88,257
<b>CASH FLOWS PROVIDED BY (USED IN):</b>					
Operations	\$ 21,345	\$ 13,712	\$ 22,011	\$ 7,866	\$ 19,979
Investing <sup>(2)(3)(5)(7)</sup>	(18,551)	(7,746)	(7,449)	(20,907)	(9,502)
Financing <sup>(6)</sup>	(4,069)	(5,050)	(10,233)	14,751	(10,288)
<b>OTHER DATA:</b>					
Dividends declared per share	\$ 0.75	\$ 0.70	\$ 0.65	\$ 0.55	\$ 0.55
Net book value per share	\$ 10.37	\$ 7.58	\$ 6.90	\$ 6.07	\$ 6.04
Pounds of California avocados sold	74,438	141,400	127,145	84,913	170,650
Pounds of non-California avocados sold	258,940	218,244	174,995	156,973	123,700
Pounds of processed avocados products sold	26,451	21,636	17,341	18,811	21,651

- (1) In July 2013, we entered into an Amended and Restated Limited Liability Company Agreement of FreshRealm. When we deconsolidated FreshRealm (see below), planned, principal operations had not yet commenced. As a result, FreshRealm has no sales or cost of sales. FreshRealm has incurred \$1.0 million and \$1.9 million of expenses related to its development as of October 31, 2014 and 2013, which are included in selling, general and administrative expenses.
- (2) On May 2, 2014, we closed our Second Amended and Restated Limited Liability Company Agreement (Agreement) by and among FreshRealm and the ownership members of FreshRealm. Pursuant to this agreement, Impermanence, LLC (Impermanence) was admitted as an ownership member of FreshRealm. As a result of the admission of Impermanence, Calavo's ownership was reduced from 71.1% to 50.8%. Due to this dilution and lack of super majority on the board of directors of FreshRealm, Calavo cannot control FreshRealm. Based on the foregoing, we deconsolidated FreshRealm as of May 2, 2014. Based on the above, we recorded a gain on the deconsolidation of FreshRealm of \$12.6 million, which has been recorded on the face of the income statement as other income. Our investment of \$17.0 million in FreshRealm has been recorded as investment in unconsolidated subsidiaries on our balance sheet.
- (3) In October 2012, we entered into a sale agreement with SRD, pursuant to which the Company has agreed to sell to SRD all of our interest, representing one-half ownership, in Maui Fresh for \$2.6 million. This transaction resulted in a gain on sale of approximately \$0.5 million.
- (4) Operating results for fiscal 2014, 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 2014, RFG net sales, gross margins, and net income before taxes were \$252.3 million, \$22.1 million and \$11.1 million. For fiscal year 2013, RFG net sales, gross margins, and net income before taxes were \$191.5 million, \$14.9 million and \$5.9 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.
- (5) For fiscal year 2011, we made a \$3.0 million infrastructure advance to Agricola Belher. We collected \$0.8 million, \$1.7 million, \$1.2 million and \$1.8 million in fiscal years 2014, 2013, 2011 and 2010 related to infrastructure advances. For fiscal 2012, the 2012 payment was not made and both parties agreed to defer the payment until 2013.
- (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 fiscal 2014, we have advanced an additional \$3.2 million for construction of greenhouses (bridge loan). The bridge loan will be replaced with a loan from an institutional lender in the amount of \$4.5 million and the bridge loan will be immediately repaid from the proceeds of the new loan. In the second quarter of 2015, we expect to finalize a joint venture agreement with Belher. Such joint venture will 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 \$3.2 million has been recorded as a receivable in prepaid and other current assets.
- (8) Cost of Sales for fiscal 2014, 2013, and 2012 include non-cash compensation expense related to the acquisition of RFG totaling \$1.9 million, \$0.7 million, and an insignificant amount. These non-cash expenses will not continue into fiscal 2015 nor beyond. See Note 3 to our Consolidated Financial Statements.
- (9) Selling, General, and Administrative expenses for fiscal 2014, 2013 and 2012 include non-cash compensation expense related to the acquisition of RFG totaling \$0.7 million, \$0.3 million, and an insignificant amount. These non-cash expenses will not continue into fiscal 2015 nor beyond. See Note 3 to our Consolidated Financial Statements.
- (10) Included in accrued liabilities as of October 31, 2013, 2012, and 2011 is a non-cash, contingent consideration liability totaling \$15.6 million, \$11.2 million, and \$8.3 million related to the acquisition of RFG. This liability resolved during fiscal 2014 and will not continue in fiscal 2015 or beyond. See Note 3 to our Consolidated Financial Statements.
- (11) This has been derived from our restated, unaudited financial statements for the year ended October 31, 2011.

# Financials.

# Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion and analysis of our financial condition and results of operations together with "Selected Consolidated Financial Data" and our consolidated financial statements and notes thereto that appear elsewhere in this Annual Report. This discussion and analysis contains forward-looking statements that involve risks, uncertainties, and assumptions. Actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including, but not limited to, those presented under "Risks related to our business" included in Item 1A and elsewhere in our Annual Report filed 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 12 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 24% of the California avocado crop during the 2014 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 2013-2014 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 55% and 54% of total processed segment sales for the years ended October 31, 2014 and 2013. Net sales of our ultra-high pressure products represented approximately 45% and 46% of total processed segment sales for the years ended October 31, 2014 and 2013.

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

### Restatement of Previously-Issued Financial Statements

In connection with the preparation, review and audit of the Company's consolidated financial statements required to be included in its Annual Report on Form 10-K for the fiscal year ended October 31, 2014, the Company identified a non-cash misstatement in its historical consolidated financial statements related to its treatment of contingent consideration in the acquisition of RFG in June 2011. In accordance with the earn-out



provisions in the RFG acquisition agreement, if RFG's operating results exceeded defined thresholds, additional purchase price was required to be paid by the Company, subject to a ceiling. RFG's results substantially exceeded defined thresholds and expectations and, accordingly, RFG's former owners received the maximum earn-out payment permitted pursuant to the acquisition agreement.

The total cumulative amount of non-cash operating expense, primarily related to the revaluation of RFG earn-out liability, that needed to be recorded is approximately \$88.1 million, accounted for over the period from the date of acquisition of RFG (i.e. June 1, 2011) through the period ended October 31, 2014.

Initially, we recorded the contingent consideration, which was settleable in common stock, as an equity instrument and therefore did not record expense based on the changes in fair value of the contingent consideration. However, the contingent consideration should have been accounted for as a liability requiring re-measurement to fair value. Additionally, certain amounts of the consideration have been recorded as compensation expense. See following table for the adjustments relating to total contingent consideration and non-cash compensation for the acquisition of RFG for fiscal years 2014, 2013, and 2012:

	2014	2013	2012
Contingent Consideration	\$ 51,082	\$ 31,066	\$ 2,157
Non-cash compensation recorded in cost of sales	1,807	676	1
Non-cash compensation recorded in selling, general and administrative	722	268	1
Total	\$ 53,611	\$ 32,010	\$ 2,159

The Company has also identified certain immaterial adjustments primarily relating to non-controlling interest, diluted number of shares outstanding, and income tax expense related to fiscal years ended October 31, 2014, October 31, 2013, and October 31, 2012, which are reflected in the restated consolidated financial statements for the Relevant Periods. See Note 3, "Restatement of Previously-Issued Financial Statements" to the Consolidated Financial Statements for more information.

We have not amended our previously-filed Annual Reports on Form 10-K or Quarterly Reports on Form 10-Q for the periods affected by the restatement. The financial information that has been previously filed or otherwise reported for these periods is superseded by the information in this Form 10-K, and the financial statements and related financial information contained in such previously-filed reports should no longer be relied upon.

#### Dividend Payment

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

#### Contingencies

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

In January 2015, various class action lawsuits have been initiated against the company related to the restatement of previously-issued financial statements, we believe these are without merit and will defend ourselves vigorously. See Item 3 of this Annual Report on Form 10-K which is incorporated by reference herein.

#### Deconsolidation of FreshRealm, LLC

On May 2, 2014, we closed our Second Amended and Restated Limited Liability Company Agreement (Agreement) by and among FreshRealm and the ownership members of FreshRealm. The effective date of this agreement was April 30, 2014. Pursuant to this agreement, Impermanence, LLC (Impermanence) was admitted as an ownership member of FreshRealm. Impermanence contributed \$10.0 million to FreshRealm for 28.6% ownership. We agreed to dilute our ownership percentage in FreshRealm, as an injection of significant working capital would reduce the immediate need of Calavo to provide operating funds to FreshRealm and would also serve to preserve the value of our investment.

As a result of the admission of Impermanence, Calavo's ownership was reduced from 71.1% to 50.8% and \$4.6 million was attributed to noncontrolling interest. Additionally, effective April 1, 2014, the first \$10.0 million of losses will be allocated primarily to Impermanence.

Even though Calavo controlled greater than 50% of the outstanding units of FreshRealm as of May 2, 2014, the minority/non-Calavo unit-holders held substantive participating rights. These rights existed primarily in two forms: (1) two out of a total of four board of director seats and (2) a provision in the Agreement that states that for situations for which the approval of the Members, as defined, (rather than the approval of the board of directors on behalf of the Members) is required by the Agreement, the Members shall act by Super-Majority Vote. Super-Majority Vote is defined in the Agreement as the affirmative vote of the holders of at least seventy percent of the outstanding units that are held by the Members. As such, Calavo cannot control FreshRealm through its two board of director seats, nor its 50.8% ownership. Based on the foregoing, we deconsolidated FreshRealm as of May 2, 2014.

As a result of the deconsolidation, we were required to record a gain related to this transaction. Pursuant to ASC 810-10-40-5, we calculated our gain on deconsolidation by considering: a) the aggregate of (1) the fair value of any retained noncontrolling investment in the former subsidiary at the date the subsidiary is deconsolidated and (2) the carrying amount of any noncontrolling interest in the former subsidiary; less b) the carrying amount of the former subsidiary's assets and liabilities. See following table:

(AS OF MAY 2, 2014, IN THOUSANDS)

Fair value of retained noncontrolling investment	\$ 16,962
Carrying amount of noncontrolling interest	\$ 4,031
Carrying amount of FreshRealm's assets and liabilities	\$ (8,371)
Gain on deconsolidation of FreshRealm	\$ 12,622

We estimated the fair value of our noncontrolling interest in FreshRealm by performing a forecast projection analysis. This analysis was conducted with the consultation from a third party consulting firm. See Note 16 to the financial statements for additional information regarding the fair value calculation and assumptions used.

Based on the above, we recorded a gain on the deconsolidation of FreshRealm of \$12.6 million, which has been recorded on the face of the income statement. Our investment in FreshRealm has been recorded as investment in unconsolidated subsidiaries on our balance sheet.

As of July 31, 2014, FreshRealm issued additional units to various 3rd parties, which reduced our ownership percentage to exactly 50%.

#### CRITICAL ACCOUNTING ESTIMATES

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an ongoing basis, we re-evaluate all of our estimates, including those related to the areas of customer and grower receivables, inventories, useful lives of property, plant and equipment, promotional allowances, income taxes, retirement benefits, and commitments and contingencies. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Additionally, we frequently engage 3rd party valuation experts to assist us with estimates described below. Actual results may materially differ from these estimates under different assumptions or conditions as additional information becomes available in future periods.

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

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

#### Promotional allowances

We provide for promotional allowances at the time of sale, based on our historical experience. Our estimates are generally based on evaluating the relationship between promotional allowances and gross sales. The derived percentage is then applied to the current period's sales revenues in order to arrive at the appropriate debit to sales allowances for the period. The offsetting credit is made to accrued liabilities. When certain amounts of specific customer accounts are subsequently identified as promotional, they are written off against this allowance. Actual amounts may differ from these estimates and such differences are recognized as an adjustment to net sales in the period they are identified. A 1% change in the derived percentage for the entire year would impact results of operations by approximately \$0.7 million.

#### Income taxes

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

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

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

#### Goodwill and acquired intangible assets

Goodwill, defined as unidentified asset(s) acquired in conjunction with a business acquisition, is tested for impairment on an annual basis and between annual tests whenever events or changes in circumstances indicate that the carrying amount

may not be recoverable. Goodwill is tested at the reporting unit level, which is defined as an operating segment or one level below the operating segment. Goodwill impairment testing is a two-step process. The first step of the goodwill impairment test, used to identify potential impairment, compares the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired, and the second step of the impairment test would be unnecessary. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test must be performed to measure the amount of impairment loss, if any. The second step of the goodwill impairment test, used to measure the amount of impairment loss, compares the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss must be recognized in an amount equal to that excess. Goodwill impairment testing requires significant judgment and management estimates, including, but not limited to, the determination of (i) the number of reporting units, (ii) the goodwill and other assets and liabilities to be allocated to the reporting units and (iii) the fair values of the reporting units. The estimates and assumptions described above, along with other factors such as discount rates, will significantly affect the outcome of the impairment tests and the amounts of any resulting impairment losses. We performed our annual assessment of goodwill and determined that no impairment existed as of October 31, 2014.

#### Contingent consideration

See Note 3, "Restatement of Previously-Issued Financial Statements" to the Consolidated Financial Statements for information on the adjustments made related to the restatement of previously-issued financial statements. Each period, we revalue our contingent consideration obligations to their fair value and record increases or decreases in the fair value into contingent consideration, cost of sales and/or 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, changes in stock values, 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 years 2014, 2013 and 2012 totaled \$53.1 million, \$33.6 million (restated) and \$2.6 million (restated).

#### 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,	2014	2013	2012
		RESTATED	RESTATED
Net sales	100.0%	100.0%	100.0%
Gross margins	9.1%	8.6%	11.0%
Selling, general and administrative	4.7%	4.8%	5.9%
Contingent consideration related to RFG acquisition	6.5%	4.8%	0.5%
Operating income	(2.1)%	(1.0)%	4.6%
Interest income	0.0%	0.0%	0.0%
Interest expense	(0.1)%	(0.2)%	(0.2)%
Other income, net	0.1%	0.1%	0.2%
Net income (loss)	(0.0)%	(0.4)%	2.8%

#### 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 2012/13 reaching 5.6 pounds per person, up 10 percent from the previous year, and approximately 130% higher the estimate of a decade ago. We believe that the healthy eating trend that has been developing in the United States contributes to such growth, as avocados, which are cholesterol and sodium free, are dense in fiber, vitamin B6, antioxidants, potassium, folate, and contain unsaturated fat, which help lower cholesterol. Also, a growing number of research studies seem to suggest that phytonutrients, which avocados are rich in, help fight chronic illnesses, such as heart disease and cancer.

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

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

In October 2002, the USDA announced the creation of a Hass Avocado Board to promote the sale of Hass variety avocados in the U.S. marketplace. This board provides a basis for a unified funding of promotional activities based on an assessment on all avocados sold in the U.S. marketplace. The California Avocado Commission, which receives its funding from California avocado growers, has historically shouldered the promotional and advertising costs supporting 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 2014, 2013 and 2012, on behalf of avocado growers, we remitted approximately \$1.7 million, \$2.0 million and \$0.9 million to the California Avocado Commission. During fiscal 2014, 2013 and 2012, we remitted approximately \$7.1 million, \$8.0 million and \$5.7 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 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, 2014				YEAR ENDED OCTOBER 31, 2013			
	FRESH PRODUCTS	CALAVO FOODS	RFG	TOTAL	FRESH PRODUCTS	CALAVO FOODS	RFG	TOTAL
<b>THIRD-PARTY SALES:</b>								
Avocados	\$ 433,581	\$ —	\$ —	\$ 433,581	\$ 407,678	\$ —	\$ —	\$ 407,678
Tomatoes	19,705	—	—	19,705	22,623	—	—	22,623
Papayas	12,619	—	—	12,619	13,077	—	—	13,077
Pineapples	5,086	—	—	5,086	5,739	—	—	5,739
Other fresh products	1,037	—	—	1,037	601	—	—	601
Food service	—	48,085	—	48,085	—	43,616	—	43,616
Retail and club	—	22,334	255,074	277,408	—	18,789	195,376	214,165
Total gross sales	472,028	70,419	255,074	797,521	449,718	62,405	195,376	707,499
Less sales incentives	(1,079)	(11,140)	(2,792)	(15,011)	(1,349)	(10,791)	(3,908)	(16,048)
Net sales	\$ 470,949	\$ 59,279	\$ 252,282	\$ 782,510	\$ 448,369	\$ 51,614	\$ 191,468	\$ 691,451

	YEAR ENDED OCTOBER 31, 2013				YEAR ENDED OCTOBER 31, 2012			
	FRESH PRODUCTS	CALAVO FOODS	RFG	TOTAL	FRESH PRODUCTS	CALAVO FOODS	RFG	TOTAL
<b>THIRD-PARTY SALES:</b>								
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

Net sales to third parties by segment exclude inter-segment sales and cost of sales. For fiscal years 2014, 2013, and 2012, inter-segment sales and cost of sales for Fresh products totaling \$33.7 million, \$29.9 million and \$22.2 million were eliminated.

For fiscal years 2014, 2013, and 2012, inter-segment sales and cost of sales for Calavo Foods totaling \$16.4 million, \$14.3 million, and \$11.6 million were eliminated.

The following table summarizes our net sales by business segment:

	2014	CHANGE	2013	CHANGE	2012
(Dollars in thousands)					
<b>NET SALES:</b>					
Fresh products	\$ 470,949	5.0%	\$ 448,369	27.9%	\$ 350,582
Calavo Foods	59,279	14.9%	51,614	11.2%	46,424
RFG	252,282	31.8%	191,468	24.2%	154,113
Total net sales	\$ 782,510	13.2%	\$ 691,451	25.5%	\$ 551,119
<b>AS A PERCENTAGE OF NET SALES:</b>					
Fresh products	60.2%		64.8%		63.6%
Calavo Foods	7.6%		7.5%		8.4%
RFG	32.2%		27.7%		28.0%
	100.0%		100.0%		100.0%

### Summary

Net sales for the year ended October 31, 2014, compared to 2013, increased by \$91.1 million, or 13.2%. The increases in sales, when compared to the same corresponding prior year periods, are related to increases in sales from all segments. We experienced an increase in RFG sales during fiscal year 2014, which was due primarily to increased sales from cut fruit and vegetables platters, as well as an increase in sales of deli products. We experienced an increase in Fresh product sales during fiscal 2014, which was

due primarily to increased sales of Mexican sourced avocados. Partially offsetting this increase in Fresh product sales, however, was a decrease in sales of California sourced avocados. We experienced an increase in our Calavo Foods segment during fiscal year 2014, which was due primarily to an increase in the sales of our guacamole products. While the procurement of fresh avocados related to our Fresh products segment is very seasonal, our Calavo Foods business is generally not subject to a seasonal effect. See detailed explanations below.

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

### Fresh products

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

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

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

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

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

Sales of tomatoes decreased to \$19.7 million for the year ended October 31, 2014, compared to \$22.6 million for the same period for fiscal 2013. The decrease in sales for tomatoes is due to a decrease in cartons sold to 1.9 million cartons from 2.6 million cartons. Partially offsetting this decrease is an increase in the sales price per carton, which increased

approximately 19.6%. We attribute this increase in the per carton selling price primarily to the 2013 (tomato) suspension agreement, which increased the floor sales price of Mexican tomatoes sold in the U.S. marketplace.

We anticipate that sales volume of California grown avocados will increase in fiscal 2015, due to a larger expected California avocado crop. We anticipate that sales of Mexican grown avocados will increase in fiscal 2015, when compared to the same prior year period, due to higher overall volume. In addition, we anticipate that sales volume of tomatoes will increase in fiscal 2015.

#### *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.

### Calavo Foods

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

Sales for Calavo Foods for the year ended October 31, 2014, when compared to the same period for fiscal 2013, increased \$7.7 million, or 14.9%. This increase is due to an increase in sales of prepared guacamole products which increased approximately \$8.1 million, or 16.5%, for the year ended October 31, 2014, when compared to the same prior year period. The increase in sales of prepared guacamole was primarily related to an increase in overall pounds sold, which increased 4.8 million pounds, or 22.3%, partially offset by a decrease in the average net selling price per pound for both our frozen guacamole products and our refrigerated guacamole products of approximately 4.4%, primarily due to a change in the product mix.

#### *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%.

### RFG

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

Sales for RFG for the year ended October 31, 2014, when compared to the same prior year period, increased \$60.8 million, or 31.8%. This increase is due primarily to increased sales from packaged fresh cut fruit, packaged fresh cut vegetables and fresh prepared and packaged deli style salads, sandwiches and wraps. The overall increase in sales is primarily due to an increase in sales volume. Collectively, cut fruit, cut vegetable, and deli product sales increased 18.8 million units, or 25.9%. We believe the overall increase in sales volume is primarily due to an increase in demand for the variety of innovative packaged fresh food products that we offer. As point of note, under Calavo ownership RFG revenues have grown from a fiscal 2011 "run rate" of \$94.1 million to \$252.3 million for the fiscal year ended Oct. 31, 2014.

#### *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.

### GROSS MARGINS

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

	2014	CHANGE	2013	CHANGE	2012
(Dollars in thousands)			(RESTATED)		(RESTATED)
<b>GROSS MARGINS:</b>					
Fresh products	\$ 36,129	15.8%	\$ 31,193	(9.0)%	\$ 34,295
Calavo Foods	13,010	(2.8)%	13,388	(4.4)%	14,002
RFG	22,089	48.6%	14,867	20.2%	12,368
Total gross margins	\$ 71,228	19.8%	\$ 59,448	(2.0)%	\$ 60,665
<b>GROSS PROFIT PERCENTAGES:</b>					
Fresh products	7.7%		7.0%		9.8%
Calavo Foods	21.9%		25.9%		30.2%
RFG	8.8%		7.8%		8.0%
Consolidated	9.1%		8.6%		11.0%

## Summary

Our cost of goods sold consists predominantly of fruit costs, packing materials, freight and handling, labor and overhead (including depreciation) associated with preparing food products and other direct expenses pertaining to products sold. Gross margins increased by approximately \$11.8 million, or 19.8%, for the year ended October 31, 2014, when compared to the same period for fiscal 2013. These increases were attributable to gross

margin increases in our Fresh products and RFG segments, partially offset by a decrease in our Calavo Foods segment.

Note that RFG's Cost of Sales for fiscal 2014, 2013, and 2012 include non-cash compensation expense related to the sale/acquisition of RFG totaling \$1.8 million, and \$0.7 million, and an insignificant amount. See Note 3 to our Consolidated Financial Statements. If we did not include this non-cash expense, RFG's gross margin and resulting gross profit percentages would be as follows:

	2014	CHANGE	2013	CHANGE	2012
(Dollars in thousands)					
<b>GROSS MARGINS:</b>					
RFG	23,896	53.7%	15,543	25.7%	12,369
<b>GROSS PROFIT PERCENTAGES:</b>					
RFG	9.5%		8.1%		8.0%

## Fresh products

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

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

Partially offsetting this increase in gross margin percentage was a decrease in the gross margin percentage for California sourced avocados for fiscal 2014, as compared to the same prior year periods. Gross margin percentages related to California avocados are largely dependent on production yields achieved at our packinghouses, current market prices of avocados, our packing and marketing fee, and volume of avocados packed. A significant portion of our costs are fixed. As such, a lower volume of fruit going through our packinghouses will decrease our gross margin percentage. Pounds of California avocados sold decreased 47.4% in fiscal 2014 as compared to fiscal 2013. This had the effect of increasing our per pound costs, which, as a result, negatively impacted gross margins.

The gross margin and/or gross profit percentage for consignment sales, including certain Chilean avocados, tomatoes and pineapples, are dependent on the volume of fruit we

handle, the average selling prices, and the competitiveness of the returns that we provide to third-party growers/packers. The gross margin we earn is generally based on a commission agreed to with each party, which usually is a percent of the overall selling price. Although we generally do not take legal title to such avocados and perishable products, we do assume responsibilities (principally assuming credit risk, inventory loss and delivery risk, and limited pricing risk) that are consistent with acting as a principal in the transaction. Accordingly, our results of operations include sales and cost of sales from the sale of avocados and perishable products procured under consignment arrangements. For fiscal years 2014, we generated gross margins of \$3.0 million from consigned sales. This is a \$0.1 million increase in gross margin for consigned sales compared to previous year. Sales of Chilean sourced avocados increased \$2.9 million for the year ended October 31, 2014, when compared to the same prior year period. The increase in Chilean sourced avocados was due to an increase in pounds sold. Chilean sourced avocados sales reflect an increased in 2.7 million pounds of avocados sold, when compared to the same prior year period. This increase in sales is due to the lower availability of California avocados, and an increased focus on obtaining an increased supply of avocados from more diversified sources. Sales of tomatoes decreased to \$19.7 million for the year ended October 31, 2014, compared to \$22.6 million for the same period for fiscal 2013. The decrease in sales for tomatoes is due to a decrease in cartons sold to 1.9 million cartons from 2.6 million cartons. Partially offsetting this decrease is an increase in the sales price per carton, which increased approximately 19.6%. We attribute this increase in the per carton selling price primarily to the 2013 (tomato) suspension agreement, which increased the floor sales price of Mexican tomatoes sold in the U.S. marketplace.



#### *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.

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.

#### **Calavo Foods**

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

The Calavo Foods segment gross margin percentage during our year ended October 31, 2014, when compared to the same prior year periods, decreased primarily due to an increase in fruit costs. Fruit costs increased during our year ended October 31, 2014, by approximately 2.8%. In addition, gross margins decreased due to an increase in sales of frozen, high volume but low margin customers. Partially offsetting these decreases to the gross margin percentage was the strengthening of the U.S. Dollar compared to the Mexican Peso, which decreased many of our per pound costs. We anticipate that the gross margin percentage for our Calavo Foods segment will continue to experience significant fluctuations during this fiscal year primarily due to the uncertainty of the cost of fruit that will be used in the production process. Note that 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 segments.

#### *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.

#### **RFG**

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

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

*Fiscal 2013 vs. Fiscal 2012:*

Not considering the non-cash compensation expense as described above, 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.

**SELLING, GENERAL AND ADMINISTRATIVE**

	2014	CHANGE	2013	CHANGE	2012
(Dollars in thousands)			(RESTATED)		(RESTATED)
Selling, general and administrative	\$ 36,605	9.3%	\$ 33,485	2.4%	\$ 32,714
Percentage of net sales	4.7%		4.8%		5.9%

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 \$3.1 million, or 9.3%, for the year ended October 31, 2014, when compared to the same prior year period. This increase was primarily related to higher corporate costs, including, but not limited to, general and administrative costs related to accrued management bonuses (approximately \$1.3 million), salaries (approximately \$1.2 million), non-cash compensation related to RFG acquisition (approximately \$0.5 million), stock option expense (approximately \$0.4 million), accounting fees (approximately \$0.4 million), bad debt expense (approximately \$0.2 million), employee benefits (approximately \$0.2 million), other administration fees (approximately \$0.2 million) and broker commissions (approximately \$0.1 million), partially offset by a decrease in the expenses related to the start-up operations of FreshRealm (approximately \$0.9 million), write-down of contingent consideration related

to Salsa Lisa (approximately \$0.3 million), promotions and advertising (approximately \$0.1 million) and legal fees (approximately \$0.1 million).

Selling, general and administrative expenses increased \$0.8 million, or 2.4%, 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 (approximately \$1.9 million), as well as higher corporate costs, including, but not limited to, salaries (approximately \$0.7 million), non-cash compensation related to RFG acquisition (approximately \$0.3 million), accounting fees (approximately \$0.2 million), and legal fees (approximately \$0.2 million), partially offset by decreases in management bonuses (approximately \$2.2 million), consulting fees (approximately \$0.1 million), data processing (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 (approximately \$0.1 million).

**CONTINGENT CONSIDERATION  
RELATED TO RFG ACQUISITION**

	2014	CHANGE	2013	CHANGE	2012
(Dollars in thousands)			(RESTATED)		(RESTATED)
Contingent consideration related to RFG acquisition	\$ 51,082	55.4%	\$ 32,867	1,177.9%	\$ 2,572
Percentage of net sales	6.5%		4.8%		0.5%

See Note 3, "Restatement of Previously-Issued Financial Statements" to the Consolidated Financial Statements for information on the adjustments made related to the restatement of previously-issued financial statements.

We revalued contingent consideration obligations to their fair value and recorded increases or decreases in the fair value into contingent consideration expense. Increases or decreases in the fair value of the contingent consideration obligations resulted 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 impacted the discount rate used in the fair valuation. Significant

judgment was employed in determining the appropriateness of these assumptions as of the acquisition date and for each subsequent period. RFG and Salsa Lisa are the two acquisitions that have contingent consideration. RFG's results substantially exceeded defined thresholds and expectations and, accordingly, RFG's former owners received the maximum earn-out payment permitted pursuant to the acquisition agreement. This caused the significant increase in contingent consideration for fiscal year 2014 and 2013. As discussed in Note 3 and Note 17, RFG's former owners received the maximum earn-out payment permitted pursuant to the acquisition agreement, as amended, and there will be no future expenses related to this acquisition.

<b>INTEREST INCOME</b>	2014	CHANGE	2013	CHANGE	2012
(Dollars in thousands)					
Interest income	\$ 228	(10.6)%	\$ 255	11.4%	\$ 229
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 2014 as compared to 2013 is due to the borrowings by California avocado growers decreasing in the current year compared to the prior year.

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.

<b>INTEREST EXPENSE</b>	2014	CHANGE	2013	CHANGE	2012
(Dollars in thousands)					
Interest expense	983	(10.5)%	\$ 1,098	(4.7)%	\$ 1,152
Percentage of net sales	0.1%		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 2014, as compared to fiscal 2013, the decrease in interest expense was primarily related to a lower average outstanding balance on

our non-collateralized, revolving credit facilities with FCW and BoA.

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.

<b>OTHER INCOME, NET</b>	2014	CHANGE	2013	CHANGE	2012
(Dollars in thousands)					
Other income, net	\$ 473	5.6%	\$ 448	(49.5)%	\$ 887
Percentage of net sales	0.1%		0.1%		0.2%

Other income, net includes dividend income, as well as certain other transactions that are outside of the normal course of operations. Other Income stayed relatively consistent in fiscal 2014 compared to fiscal 2013. During fiscal 2014 and 2013, we received \$0.3 million as dividend income from Limoneira. During fiscal 2012, we received \$0.2 million as dividend income from Limoneira.

The decrease in fiscal year 2013, compared to 2012 is due to 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.

Not included in the other income discussion above, is the gain on the deconsolidation of FreshRealm that is disclosed on its own line on the income statement. For further discussion on the \$12.6 million gain in fiscal 2014, see Note 18 of the consolidated financial statements.

<b>PROVISION (BENEFIT) FOR INCOME TAXES</b>	2014	CHANGE	2013	CHANGE	2012
(Dollars in thousands)					
Provision for income taxes	\$ (3,916)	(16.9)%	\$ (4,715)	(146.2)%	\$ 10,213
Effective tax rate	(94.8)%		(63.7)%		39.5%

See Note 3, "Restatement of Previously-Issued Financial Statements" to the Consolidated Financial Statements for information on the adjustments made related to the restatement of previously-issued financial statements.

The benefit for income taxes of \$3.9 million is attributable to the revaluation adjustment of \$88.1 million related to contingent consideration which was spread between fiscal year 2014 through fiscal year 2011. The revalued contingent consideration

and non-cash compensation expense resulted in \$53.7 million, \$32.0 million, and \$2.2 million additional GAAP expense recorded in fiscal years 2014, 2013, and 2012, respectively. The current year revaluation expense drove pre-tax book income into a loss position, thus causing a benefit for income taxes as this revaluation adjustment is capitalized and amortized as goodwill over the remaining useful life for income tax purposes resulting in a taxable income position for the current year.

## QUARTERLY RESULTS OF OPERATIONS

The following operating results for each of the eight fiscal quarters in the period ended October 31, 2014 (except for the current quarter ending October 31, 2014) has been restated to reflect adjustments to our previously issued financial statements as more fully discussed in Note 3, "Restatement of Previously-Issued Financial Statements" to the Consolidated Financial Statements included in Item 8 of this Form 10-K. The information should be read in conjunction with our audited consolidated financial statements included in this Annual Report. Historically, we receive and sell a substantially smaller volume of California avocados in our first fiscal quarter.

See Note 19, "Selected Quarterly Financial Data (Unaudited)" to the Consolidated Financial Statements for information on the adjustments made related to the restatement of previously-issued financial statements.

## LIQUIDITY AND CAPITAL RESOURCES

Operating activities for fiscal 2014, 2013 and 2012 provided cash flows of \$21.3 million, \$13.7 million, and \$22.0 million. Fiscal year 2014 operating cash flows reflect our net loss of \$0.2 million, net decrease of 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 and non-cash compensation expense, impairment on intangible assets, stock compensation expense and gain from deconsolidation of FreshRealm) of \$33.3 million and a net decrease from changes in the non-cash components of our working capital accounts of approximately \$11.8 million.

Fiscal year 2014 decreases in operating cash flows, caused by working capital changes, includes an increase in prepaid expenses and other current assets of \$8.8 million, a decrease in payable to growers of \$7.0 million, an increase in accounts receivable of \$1.7 million, an increase in inventory of \$2.3 million and an increase in income tax receivable of \$0.6 million, partially offset by an increase in trade accounts payable and accrued expenses of \$8.6 million.

The decrease in payable to our growers primarily reflects a decrease in California fruit delivered in the month of October 2014, as compared to the month of October 2013. 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 our accounts receivable balance as of October 31, 2014, when compared to October 31, 2013, primarily reflects an increase in sales in our Foods and RFG segments in the month of October 2014, as compared to October 2013. The increase in our inventory balance is primarily related to an increase in Mexico avocado inventory on hand at October 31, 2014, as compared to the same prior year period. 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

2014, as compared to October 2013. 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 2014, as compared to October 2013.

Cash used in investing activities was \$18.6 million, \$7.7 million, and \$7.4 million for fiscal years 2014, 2013, and 2012. Fiscal year 2014 cash flows used in investing activities include capital expenditures of \$11.6 million, the deconsolidation of FreshRealm, net of cash \$6.8 million, and investments in unconsolidated entities of \$0.2 million.

Cash used in financing activities was \$4.1 million, \$5.1 million and \$10.2 million for fiscal years 2014, 2013 and 2012. Cash used during fiscal year 2014 primarily related to the payment of a dividend of \$11.0 million and payments on long-term debt obligations of \$5.1 million. Partially offsetting these proceeds, however, includes proceeds received for the issuance of FreshRealm stock of \$10.0 million, proceeds from our non-collateralized, revolving credit facilities totaling \$1.9 million, and exercises of stock options of \$0.1 million.

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, 2014 and 2013 totaled \$6.7 million and \$8.0 million. Our working capital at October 31, 2014 was \$22.0 million, compared to a negative \$3.3 million (restated) at October 31, 2013.

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. We are currently working on additional financing based on expected future growth of the company.

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% at October 31, 2014 and 2013. Under these credit facilities, we had \$35.9 million and \$34.0 million outstanding as October 31, 2014 and 2013. 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, 2014.

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, 2014:

	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)	\$	8,170	\$ 5,294	\$ 2,390	\$ 215	\$ 271
Revolving credit facilities		35,900	35,900	—	—	—
Defined benefit plan		196	35	70	70	21
Operating lease commitments		27,670	3,353	6,690	6,059	11,568
Total	\$	71,936	\$ 44,582	\$ 9,150	\$ 6,344	\$ 11,860

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.

#### RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

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 standard had no impact 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 standard had no impact on our financial statements.

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 standard had no impact on our financial statements.

#### RECENTLY ISSUED ACCOUNTING STANDARDS

In May 2014, the Financial Accounting Standards Board ("FASB") amended the existing accounting standards for revenue recognition. The amendments are based on the principle that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. We are required to adopt the amendments in the first quarter of fiscal 2018. Early adoption is not permitted. The amendments may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. We do not expect the adoption of these amendments to have a material impact on our financial statements.

In April 2014, the FASB issued guidance which changes the criteria for identifying a discontinued operation. The guidance limits the definition of a discontinued operation to the disposal of a component or group of components that is disposed of or is classified as held for sale and represents a strategic shift that has, or will have, a major effect on an entity's operations and financial results. We are required to adopt the guidance in the first quarter of fiscal 2016, with early adoption permitted for transactions that have not been reported in financial statements previously issued. We do not expect the adoption of this guidance to have a material impact on our financial statements.

In July 2013, the FASB issued a new accounting standard requiring the presentation of certain unrecognized tax benefits as reductions to deferred tax assets rather than as liabilities in the Consolidated Balance Sheets when a net operating loss carryforward, a similar tax loss or a tax credit carryforward exists. We are required to adopt this new standard on a prospective basis in the first quarter of fiscal 2015; however, early adoption is permitted as is retrospective application. We will adopt the new standard in the first fiscal quarter of 2015 on a prospective basis. Adoption of the new standard is not expected to have a material effect on our Consolidated 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, 2014.

EXPECTED MATURITY DATE OCTOBER 31,

	2015	2016	2017	2018	2019	THEREAFTER	TOTAL	FAIR VALUE
(All amounts in thousands)								
<b>ASSETS</b>								
Cash and cash equivalents <sup>(1)</sup>	\$ 6,744	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 6,744	\$ 6,744
Accounts receivable <sup>(1)</sup>	56,618	—	—	—	—	—	56,618	56,618
Advances to suppliers <sup>(1)</sup>	3,258	—	—	—	—	—	3,258	3,258
<b>LIABILITIES</b>								
Payable to growers <sup>(1)</sup>	\$ 6,660	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 6,660	\$ 6,660
Accounts payable <sup>(1)</sup>	15,065	—	—	—	—	—	15,065	15,065
Current borrowings pursuant to credit facilities <sup>(1)</sup>	35,900	—	—	—	—	—	35,900	35,900
Fixed-rate long-term obligations <sup>(2)</sup>	5,099	2,241	109	89	92	260	7,890	7,988

- (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 2.8%. 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 \$117,000.

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 2015. Total foreign currency losses for fiscal years 2014 and 2013, net of gains, were \$0.1 million and \$0.4 million. Total foreign currency gains for fiscal 2012, net of losses was \$0.1 million.

## Consolidated Balance Sheets

OCTOBER 31,	2014	2013
(in thousands)		RESTATED
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 6,744	\$ 8,019
Accounts receivable, net of allowances of \$3,248 (2014) and \$1,697 (2013)	56,618	55,060
Inventories, net	30,975	28,673
Prepaid expenses and other current assets	19,528	10,757
Advances to suppliers	3,258	3,213
Income taxes receivable	2,627	2,013
Deferred income taxes	3,294	1,995
Total current assets	123,044	109,730
Property, plant, and equipment, net	57,352	52,649
Investment in Limoneira Company	44,355	45,531
Investment in unconsolidated entities	18,380	1,420
Deferred income taxes	12,287	—
Goodwill	18,262	18,262
Other assets	9,784	12,347
	\$ 283,464	\$ 239,939
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Payable to growers	\$ 6,660	\$ 14,490
Trade accounts payable	15,065	11,699
Accrued expenses	25,303	36,541
Short-term borrowings	35,900	33,990
Dividend payable	12,970	11,004
Current portion of long-term obligations	5,099	5,258
Total current liabilities	100,997	112,982
<b>LONG-TERM LIABILITIES:</b>		
Long-term obligations, less current portion	2,791	7,792
Deferred income taxes	—	129
Total long-term liabilities	2,791	7,921
Commitments and contingencies		
Noncontrolling interest, Calavo Salsa Lisa	270	(57)
<b>SHAREHOLDERS' EQUITY:</b>		
Common stock (\$0.001 par value, 100,000 shares authorized; 17,295 and 15,720 shares outstanding at October 31, 2014 and 2013)	17	15
Additional paid-in capital	144,496	70,790
Accumulated other comprehensive income	12,713	13,414
Noncontrolling interest, FreshRealm	—	(180)
Retained earnings	22,180	35,054
Total shareholders' equity	179,406	119,093
	\$ 283,464	\$ 239,939

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Operations

YEAR ENDED OCTOBER 31,	2014	2013	2012
(in thousands, except per share amounts)		RESTATED	RESTATED
Net sales	\$ 782,510	\$ 691,451	\$ 551,119
Cost of sales	711,282	632,003	490,454
Gross margin	71,228	59,448	60,665
Selling, general and administrative	36,605	33,485	32,714
Contingent consideration related to RFG acquisition	51,082	32,867	2,572
Operating income (loss)	(16,459)	(6,904)	25,379
Equity (losses) in earnings from unconsolidated entities	(12)	(100)	500
Interest income	228	255	229
Interest expense	(983)	(1,098)	(1,152)
Gain on deconsolidation of FreshRealm	12,622	—	—
Other income, net	473	448	887
Income (loss) before provision for income taxes	(4,131)	(7,399)	25,843
Provision (benefit) for income taxes	(3,916)	(4,715)	10,213
Net income (loss)	(215)	(2,684)	15,630
Add: Net loss attributable to noncontrolling interest	312	889	172
Net income (loss) attributable to Calavo Growers, Inc.	\$ 97	\$ (1,795)	\$ 15,802
<b>CALAVO GROWERS, INC.'S NET INCOME (LOSS) PER SHARE:</b>			
Basic	\$ 0.01	\$ (0.12)	\$ 1.07
Diluted	\$ 0.01	\$ (0.12)	\$ 1.05
<b>NUMBER OF SHARES USED IN PER SHARE COMPUTATION:</b>			
Basic	15,765	14,856	14,795
Diluted	17,220	14,856	15,100

See accompanying notes to consolidated financial statements.



## Consolidated Statements of Comprehensive Operations

YEAR ENDED OCTOBER 31,	2014	2013	2012
(in thousands)		RESTATED	RESTATED
Net income (loss)	\$ (215)	\$ (2,684)	\$ 15,630
Other comprehensive income (loss), before tax:			
Unrealized investment gains (losses) arising during period	(1,175)	6,690	8,850
Income tax benefit (expense) related to items of other comprehensive income (loss)	474	(2,666)	(3,395)
Other comprehensive income (loss), net of tax	(701)	4,024	5,455
Comprehensive income (loss)	(916)	1,340	21,085
Add: Net loss attributable to noncontrolling interest	312	889	172
Comprehensive income (loss) – Calavo Growers, Inc.	\$ (469)	\$ 2,229	\$ 21,257

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Shareholders' Equity

	COMMON STOCK SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED OTHER COMPRE- HENSIVE INCOME	RETAINED EARNINGS	NON- CONTROLLING INTEREST, FRESHREALM	TOTAL
(in thousands)							
<b>Balance, October 31, 2011 (Restated)</b>	14,770	14	43,986	3,935	41,697	—	89,632
Exercise of stock options and income tax benefit of \$139	54	—	930	—	—	—	930
Stock compensation expense	—	—	417	—	—	—	417
Non-cash compensation related to RFG acquisition*	—	—	95	—	—	—	95
Restricted stock issued	11	—	—	—	—	—	—
Unrealized loss on Limoneira investment, net	—	—	—	5,455	—	—	5,455
Dividend declared to shareholders	—	—	—	—	(9,612)	—	(9,612)
Net income attributable to Calavo Growers, Inc.*	—	—	—	—	15,802	—	15,802
<b>Balance, October 31, 2012 (Restated)</b>	14,835	14	45,428	9,390	47,887	—	102,719
Exercise of stock options and income tax benefit of \$59	39	—	801	—	—	—	801
Stock compensation expense	—	—	376	—	—	—	376
Restricted stock issued	12	—	—	—	—	—	—
Issuance of stock related to RFG Contingent consideration and non-cash compensation*	999	1	28,973	—	—	—	28,974
Retirement of stock purchased from Limoneira	(165)	—	(4,788)	—	—	—	(4,788)
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*	—	—	—	—	—	(542)	(542)
Net loss attributable to Calavo Growers, Inc. *	—	—	—	—	(1,795)	—	(1,795)
<b>Balance, October 31, 2013 (Restated)</b>	15,720	15	70,790	13,414	35,054	(180)	119,093
Exercise of stock options and income tax benefit of \$191	8	—	318	—	—	—	318
Stock compensation expense	—	—	727	—	—	—	727
Issuance of stock related to RFG Contingent Consideration and non-cash compensation, net tax	1,532	2	67,288	—	—	—	67,290
Restricted stock issued	35	—	—	—	—	—	—
Unrealized loss on Limoneira investment, net	—	—	—	(701)	—	—	(701)
Dividend declared to shareholders	—	—	—	—	(12,971)	—	(12,971)
FreshRealm noncontrolling interest contribution	—	—	5,373	—	—	4,627	10,000
Deconsolidation of FreshRealm	—	—	—	—	—	(4,030)	(4,030)
Net loss attributable to FreshRealm	—	—	—	—	—	(417)	(417)
Net income attributable to Calavo Growers, Inc.	—	—	—	—	97	—	97
<b>Balance, October 31, 2014</b>	17,295	\$ 17	\$ 144,496	\$ 12,713	\$ 22,180	\$ —	\$ 179,406

\*Restated

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

YEAR ENDED OCTOBER 31,	2014	2013	2012
(in thousands)		RESTATED	RESTATED
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income (loss)	\$ (215)	\$ (2,684)	\$ 15,630
<b>Adjustments to reconcile net income (loss) to net cash provided by operating activities:</b>			
Depreciation and amortization	6,926	6,367	5,909
Provision for losses on accounts receivable	154	1	68
Income (loss) from unconsolidated entities	15	100	(501)
Interest on contingent consideration	37	146	128
Contingent consideration and non-cash compensation expense related to the acquisition of RFG	53,611	33,811	2,574
Contingent consideration related to acquisition of Salsa Lisa	(491)	(230)	5
Stock compensation expense	727	376	417
Gain on deconsolidation of FreshRealm	(12,622)	—	—
Loss on disposal of property, plant, and equipment	115	30	136
Distribution from unconsolidated entity	—	—	288
Gain on sale of Maui Fresh International	—	—	(519)
Intangible assets impairment on Calavo Salsa Lisa	—	615	87
Deferred income taxes	(15,076)	(12,121)	(1,673)
<b>Effect on cash of changes in operating assets and liabilities:</b>			
Accounts receivable	(1,712)	(16,191)	(2,837)
Inventories, net	(2,302)	(5,725)	(5,161)
Prepaid expenses and other current assets	(8,816)	(3,567)	(639)
Advances to suppliers	(45)	(844)	980
Income taxes receivable	(648)	781	475
Other assets	48	135	14
Payable to growers	(6,985)	7,705	3,394
Trade accounts payable and accrued expenses	8,624	5,007	3,236
Net cash provided by operating activities	21,345	13,712	22,011
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Acquisitions of property, plant, and equipment	(11,613)	(6,746)	(7,749)
Investment in unconsolidated entity	(125)	—	—
Proceeds from sale of Maui Fresh International	—	—	300
Decrease in cash due to deconsolidation of FreshRealm	(6,813)	—	—
Investment in Agricola Don Memo	—	(1,000)	—
Net cash used in investing activities	(18,551)	(7,746)	(7,449)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Payment of dividend to shareholders	(11,005)	(9,646)	(8,123)
Proceeds from revolving credit facility	242,340	200,670	158,200
Payments on revolving credit facility	(240,430)	(186,850)	(155,890)
Proceeds from issuance of long-term obligations	—	—	—
Payments on long-term obligations	(5,160)	(5,405)	(5,237)
Retirement of stock purchased from Limoneira	—	(4,788)	—
Proceeds from stock option exercises	127	751	791
Proceeds from issuance of FreshRealm stock	10,000	79	—
Tax benefit of stock option exercises	59	139	26
Net cash used in financing activities	(4,069)	(5,050)	(10,233)
Net increase (decrease) in cash and cash equivalents	(1,275)	916	4,329
Cash and cash equivalents, beginning of year	8,019	7,103	2,774
Cash and cash equivalents, end of year	\$ 6,744	\$ 8,019	\$ 7,103
<b>SUPPLEMENTAL INFORMATION:</b>			
Cash paid during the year for:			
Interest	\$ 986	\$ 1,087	\$ 1,146
Income taxes	\$ 11,355	\$ 5,532	\$ 9,274
<b>NONCASH INVESTING AND FINANCING ACTIVITIES:</b>			
Tax receivable increase related to stock option exercise	\$ 191	\$ 59	\$ 139
Issuance of stock related to RFG contingent consideration	\$ 66,988	\$ 28,973	\$ —
Declared dividends payable	\$ 12,971	\$ 11,004	\$ 9,612
Notes receivable issued for sale of Maui Fresh International	\$ —	\$ —	\$ 2,204
Construction in progress included in trade accounts payable and accrued expenses	\$ —	\$ —	\$ 28
Collection for Agricola Belher Infrastructure Advance	\$ 845	\$ 1,690	\$ —
Unrealized holding gains (losses)	\$ (1,175)	\$ 6,690	\$ 8,850

See accompanying notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

## 1. DESCRIPTION OF THE BUSINESS

### BUSINESS

Calavo Growers, Inc. (Calavo, the Company, we, us or our), is a global leader in the avocado industry and an expanding provider of value-added fresh food. Our expertise in marketing and distributing avocados, prepared avocados, and other perishable foods allows us to deliver a wide array of fresh and prepared food products to food distributors, produce wholesalers, supermarkets, and restaurants on a worldwide basis. We procure avocados principally from California, Mexico, and Chile. Through our various operating facilities, we sort, pack, and/or ripen avocados, tomatoes, 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 18 for more information on the deconsolidation of FreshRealm, LLC (FreshRealm).

## 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. 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 \$17.0 million and \$8.3 million at October 31, 2014 and 2013. Included in non-trade receivables are \$11.9 million and \$6.6 million related to Mexican IVA (i.e. value-added) taxes. Infrastructure advances are discussed below. Prepaid expenses totaling \$1.7 million and \$1.6 million at October 31, 2014 and 2013, 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 5 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 years 2014 and 2013, we performed our annual assessment of goodwill and noted no impairments as of October 31, 2014 and 2013.

The following table reconciles by segment goodwill and the impairment losses recognized for the year ended October 31, 2012, 2013 and 2014 (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
Calavo Salsa Lisa Goodwill impairment losses	—	—	—	—
Goodwill, October 31, 2014	\$ 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. For fiscal year 2014, we performed our annual assessment of long-lived assets and determined that no impairment existed as of October 31, 2014.

#### 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 Chile and commenced operations in July 2009. M5 and Calavo each have an equal one-half ownership interest in Calavo Chile, but M5 has overall management responsibility for the operations of Calavo Chile. We use the equity method to account for this investment.

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 fiscal 2014, we have advanced an additional \$3.2 million for construction of greenhouses in the form of a bridge loan. This bridge loan will be replaced with a loan from an institutional lender in the amount of \$4.5 million and the bridge loan will be repaid as soon as possible from the proceeds of the new loan. In the second quarter of 2015, we expect to finalize a joint venture agreement with Agricola Belher (Belher). Such joint venture will 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 \$3.2 million has been recorded as a receivable in prepaid and other current assets.

Effective May 2014, we closed our Second Amended and Restated Limited Liability Company Agreement by and among FreshRealm and the ownership members of FreshRealm. Pursuant to this agreement, Impermanence, LLC (Impermanence) was admitted as an ownership member of FreshRealm. Impermanence contributed \$10.0 million

to FreshRealm for 28.6% ownership. We agreed to dilute our ownership percentage in FreshRealm, as an injection of significant working capital would reduce the immediate need of Calavo to provide operating funds to FreshRealm and would also serve to preserve the value of our investment. As a result of the admission of Impermanence, Calavo's ownership was reduced from 71.1% to 50.8%. Even though Calavo controlled greater than 50% of the outstanding units of FreshRealm, the minority/non-Calavo unit-holders held substantive participating rights. These rights existed primarily in two forms: (1) two out of a total of four board of director seats and (2) a provision in the Agreement that states that for situations for which the approval of the Members, as defined, is required by the Agreement, the Members shall act by Super-Majority Vote. As such, Calavo cannot control FreshRealm through its two board of director seats, nor its 50.8% ownership. Based on the foregoing, we deconsolidated FreshRealm in May 2014.

We estimated the fair value of our noncontrolling interest in FreshRealm by performing a forecast projection analysis. This analysis was conducted with the consultation from a third party consulting firm. Our investment of \$17.0 million in FreshRealm million has been recorded as investment in unconsolidated subsidiaries on our balance sheet. As of July 31, 2014, FreshRealm issued additional units to various 3rd parties, which reduced our ownership percentage to exactly 50%. See Note 18 for more information on the deconsolidation of FreshRealm.

#### **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 \$44.4 million, \$23.5 million and \$20.9 million as of October 31, 2014. 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.

#### **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, 2014, nor October 31, 2013.

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, 2014 and 2013, we have total advances of \$3.0 million to Belher pursuant to this agreement, which is recorded in advances to suppliers.

#### **INFRASTRUCTURE ADVANCES**

Pursuant to our infrastructure agreement, we make advances to be used solely for the acquisition, construction, and installation of improvements to and on certain land owned/controlled by Belher, as well as packing line equipment. Advances incur interest at 4.7% at October 31, 2014 and 2013. As of October 31, 2014, we have advanced a total of \$1.6 million (\$0.8 million included in prepaid expenses and other current assets and \$0.8 million included in other long-term assets). As of October 31, 2013, 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, 2014 and 2013 are liabilities related to the receipt of goods and/or services for which an invoice has not yet been received. These totaled approximately \$4.7 million and \$3.7 million. Additionally, included in accrued expenses at October 31, 2013 are liabilities related to contingent consideration and non-cash compensation related to the acquisition of RFG. These totaled approximately \$15.6 million.

See Note 3, "Restatement of Previously-Issued Financial Statements" to the Consolidated Financial Statements for information on the adjustments made related to the restatement of previously-issued financial statements.

## 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, 2014, 2013 and 2012 in the financial statements pursuant to consignment arrangements are as follows (in thousands):

	2014	2013	2012
Sales	\$ 30,721	\$ 30,620	\$ 28,297
Cost of Sales	27,759	27,679	25,893
Gross Margin	\$ 2,962	\$ 2,941	\$ 2,404

## ADVERTISING EXPENSE

Advertising costs are expensed when incurred. Such costs were approximately \$0.2 million, \$0.1 million, and \$0.2 million for fiscal years 2014, 2013, and 2012.

## 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 2014 and 2013 were approximately \$0.8 million and \$1.5 million. Total research and development costs for fiscal years 2012 was less than \$0.1 million.

## OTHER INCOME, NET

Included in other income, net is dividend income totaling \$0.5 million for fiscal year 2014. Dividend income totaled \$0.4 million for fiscal year 2013 and 2012. See Note 10 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 and contingent consideration. The basic weighted-average number of common shares outstanding was 15,765,000, 14,856,000, and 14,795,000 for fiscal years 2014, 2013, and 2012. 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 and the effect of contingent consideration shares, which were 1,455,000, and 305,000 (restated) for fiscal years 2014 and 2012. For fiscal year 2013, no dilutive shares were considered due to the impact of anti-dilution.

#### 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 years 2014 and 2012. The following assumptions were used in the estimated grant date fair value calculations for stock options issued in 2013:

	2013
Risk-free interest rate	0.70%
Expected volatility	44.30%
Dividend yield	2.60%
Expected life (years)	5.0

For the years ended October 31, 2014, 2013 and 2012, we recognized compensation expense of \$727,000, \$376,000, and \$417,000 related to non-acquisition stock-based compensation. Contingent consideration treated as non-cash compensation expense totaled \$2.5 million, \$0.9 million, and less than \$0.1 million in fiscal years 2014, 2013, and 2012. See Note 3 and Note 14 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 2014, net of gains, were \$0.1 million. 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.

#### **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 \$8.0 million as of October 31, 2014, with a corresponding carrying value of approximately \$7.9 million.

#### **DERIVATIVE FINANCIAL INSTRUMENTS**

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 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 standard had no impact 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 standard had no impact on our financial statements.

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 standard had no impact on our financial statements.

#### **RECENTLY ISSUED ACCOUNTING STANDARDS**

In May 2014, the Financial Accounting Standards Board ("FASB") amended the existing accounting standards for revenue recognition. The amendments are based on the principle that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. We are required to adopt the amendments in the first quarter of fiscal 2018. Early adoption is not permitted. The amendments may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. We do not expect the adoption of these amendments to have a material impact on our financial statements.

In April 2014, the FASB issued guidance which changes the criteria for identifying a discontinued operation. The guidance limits the definition of a discontinued operation to the disposal of a component or group of components that is disposed of or is classified as held for sale and represents a strategic shift that has, or will have, a major effect on an entity's operations and financial results. We are required to adopt the guidance in the first quarter of fiscal 2016, with early adoption permitted for transactions that have not been reported in financial statements previously issued. We do not expect the adoption of this guidance to have a material impact on our financial statements.

In July 2013, the FASB issued a new accounting standard requiring the presentation of certain unrecognized tax benefits as reductions to deferred tax assets rather than as liabilities in the Consolidated Balance Sheets when a net operating loss carryforward, a similar tax loss or a tax credit carryforward exists. We are required to adopt this new standard on a prospective basis in the first quarter of fiscal 2015; however, early adoption is permitted as is retrospective application. We will adopt the new standard in the first fiscal quarter of 2015 on a prospective basis. Adoption of the new standard is not expected to have a material effect on our Consolidated 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, 2014, other comprehensive loss includes the unrealized loss on our Limoneira investment totaling \$0.7 million, net of income taxes. Limoneira's stock price at October 31, 2014 equaled \$25.66 per share. 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 loss 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.

## 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 18 for additional information related to FreshRealm. See Note 3, "Restatement of Previously-Issued Financial Statements" to the Consolidated Financial Statements for information on the adjustments made related to the restatement of previously-issued financial statements.

SALSA LISA NON-CONTROLLING INTEREST	YEAR ENDED OCTOBER 31, 2014	YEAR ENDED OCTOBER 31, 2013 RESTATED
Noncontrolling interest, beginning (Restated)	\$ (57)	\$ 290
Net loss attributable to noncontrolling interest of Salsa Lisa	(152)	(347)
Other	479	—
Noncontrolling interest, ending	\$ 270	\$ (57)

FRESHREALM NON-CONTROLLING INTEREST	YEAR ENDED OCTOBER 31, 2014	YEAR ENDED OCTOBER 31, 2013 RESTATED
Noncontrolling interest, beginning (Restated)	\$ (180)	\$ —
Noncontrolling interest contribution	4,627	362
Net loss attributable to noncontrolling interest of FreshRealm	(417)	(542)
Deconsolidation of FreshRealm	(4,030)	—
Noncontrolling interest, ending	\$ —	\$ (180)

We recorded an immaterial error correction of \$479,000 in the current year whereby the noncontrolling interest for Salsa Lisa should have been recorded historically at the greater of the noncontrolling interest balance adjusted for the attribution of losses or the amount redeemable pursuant to the acquisition agreement. Our management evaluated the materiality of these errors both qualitatively and quantitatively in accordance with Staff Accounting Bulletin No. 99, Materiality, and determined that these errors were not material to our previously reported financial statements. Of this amount, \$257,000 has been included in net loss attributable to noncontrolling interest.

## 3. RESTATEMENT OF PREVIOUSLY-ISSUED FINANCIAL STATEMENTS

In connection with the preparation, review and audit of the Company's consolidated financial statements required to be included in its Annual Report on Form 10-K for the fiscal year ended October 31, 2014, the Company identified a non-cash misstatement in its historical consolidated financial statements related to its treatment of contingent consideration resulting from the acquisition of RFG in June 2011. In accordance with the earn-out provisions in the RFG acquisition agreement, if RFG's operating results exceeded defined thresholds, additional purchase price was required to be paid by the Company, subject to a ceiling. RFG's results substantially exceeded defined thresholds and expectations and, accordingly, RFG's former owners received the maximum earn-out payment permitted pursuant to the acquisition agreement.

The total cumulative amount of non-cash operating expense, primarily related to the revaluation of RFG earn-out liability, that needed to be recorded was approximately \$88.1 million, accounted for over the period from the date of acquisition of RFG (i.e. June 1, 2011) through the period ended October 31, 2014. Initially, we recorded the contingent consideration, which was settleable in common stock, as an equity instrument and therefore did not record expense based on the changes in fair value of the contingent consideration. However, the contingent consideration should have been accounted for as a liability requiring re-measurement to fair value. Additionally, certain amounts of the consideration have been recorded as compensation expense. See following table for the adjustments relating to total contingent consideration and non-cash compensation for the acquisition of RFG for fiscal years 2014, 2013, and 2012:

	2014	2013	2012
Contingent Consideration	\$ 51,082	\$ 31,066	\$ 2,157
Non-cash compensation recorded in cost of sales	1,807	676	1
Non-cash compensation recorded in selling, general and administrative	722	268	1
Total	\$ 53,611	\$ 32,010	\$ 2,159

The Company has also identified certain immaterial adjustments primarily relating to non-controlling interest, diluted number of shares outstanding, and income tax expense related to fiscal years ended October 31, 2014, October 31, 2013, and October 31, 2012, which are reflected in the restated consolidated financial statements.

We have not amended our previously-filed Annual Reports on Form 10-K or Quarterly Reports on Form 10-Q for the periods affected by the restatement. The financial information that has been previously filed or otherwise reported for these periods is superseded by the information in this Form 10-K, and the

financial statements and related financial information contained in such previously-filed reports should no longer be relied upon.

See Note 19, "Selected Quarterly Financial Data (Unaudited)" to the Consolidated Financial Statements for information on the adjustments made related to the restatement of previously-

issued interim financial statements.

The following tables summarize the impact of the restatement on our previously reported statements of consolidated operations for fiscal years 2013 and 2012 (in thousands, except per share data):

	YEAR ENDED OCTOBER 31, 2013			YEAR ENDED OCTOBER 31, 2012		
	AS REPORTED	ADJUSTMENTS	RESTATED	AS REPORTED	ADJUSTMENTS	RESTATED
Net sales	\$ 691,451	\$ —	\$ 691,451	\$ 551,119	\$ —	\$ 551,119
Cost of sales	631,327	676	632,003	490,453	1	490,454
Gross margin	60,124	(676)	59,448	60,666	(1)	60,665
Selling, general and administrative	33,217	268	33,485	32,713	1	32,714
Contingent consideration related to RFG acquisition	1,801	31,066	32,867	415	2,157	2,572
Operating income (loss)	25,106	(32,010)	(6,904)	27,538	(2,159)	25,379
Equity (losses) in earnings from unconsolidated entities	(100)	—	(100)	500	—	500
Interest income	255	—	255	229	—	229
Interest expense	(1,098)	—	(1,098)	(1,152)	—	(1,152)
Other income, net	448	—	448	887	—	887
Income (loss) before provision for income taxes	24,611	(32,010)	(7,399)	28,002	(2,159)	25,843
Provision (benefit) for income taxes	7,866	(12,581)	(4,715)	11,055	(842)	10,213
Net income (loss)	16,745	(19,429)	(2,684)	16,947	(1,317)	15,630
Add: Net loss attributable to noncontrolling interest	604	285	889	105	67	172
Net income (loss) attributable to Calavo Growers, Inc.	\$ 17,349	\$ (19,144)	\$ (1,795)	\$ 17,052	\$ (1,250)	\$ 15,802
Calavo Growers, Inc.'s net income (loss) per share:						
Basic	\$ 1.17	\$ (1.29)	\$ (0.12)	\$ 1.15	\$ (0.08)	\$ 1.07
Diluted	\$ 1.17	\$ (1.29)	\$ (0.12)	\$ 1.15	\$ (0.10)	\$ 1.05
Number of shares used in per share computation:						
Basic	14,856	—	14,856	14,795	—	14,795
Diluted	14,863	(7)	14,856	14,808	292	15,100

The following tables summarize the impact of the restatement on our previously reported consolidated statements of comprehensive income (loss) for fiscal years 2013 and 2012:

	YEAR ENDED OCTOBER 31, 2013			YEAR ENDED OCTOBER 31, 2012		
	AS REPORTED	ADJUSTMENTS	RESTATED	AS REPORTED	ADJUSTMENTS	RESTATED
Net income (loss)	\$ 16,745	\$ (19,429)	\$ (2,684)	\$ 16,947	\$ (1,317)	\$ 15,630
Other comprehensive income, before tax:						
Unrealized investment gains arising during period	6,690	—	6,690	8,850	—	8,850
Income tax expense related to items of other comprehensive income	(2,666)	—	(2,666)	(3,395)	—	(3,395)
Other comprehensive income, net of tax	4,024	—	4,024	5,455	—	5,455
Comprehensive income	20,769	(19,429)	1,340	22,402	(1,317)	21,085
Add: Net loss attributable to noncontrolling interest	604	285	889	105	67	172
Comprehensive income – Calavo Growers, Inc.	\$ 21,373	\$ (19,144)	\$ 2,229	\$ 22,507	\$ (1,250)	\$ 21,257

The following table summarizes the impact of the restatement on our previously reported consolidated balance sheet for year ending October 31, 2013 (in thousands):

OCTOBER 31, 2013	AS REPORTED	ADJUSTMENTS	RESTATED
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	\$ 8,019	\$ —	\$ 8,019
Accounts receivable, net of allowances of \$1,697 (2013)	55,060	—	55,060
Inventories, net	28,673	—	28,673
Prepaid expenses and other current assets	10,757	—	10,757
Advances to suppliers	3,213	—	3,213
Income taxes receivable	2,013	—	2,013
Deferred income taxes	1,995	—	1,995
Total current assets	109,730	—	109,730
Property, plant, and equipment, net	52,649	—	52,649
Investment in Limoneira Company	45,531	—	45,531
Investment in unconsolidated entities	1,420	—	1,420
Goodwill	18,262	—	18,262
Other assets	12,347	—	12,347
	\$ 239,939	\$ —	\$ 239,939
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Payable to growers	\$ 14,490	\$ —	\$ 14,490
Trade accounts payable	11,699	—	11,699
Accrued expenses	20,939	15,602	36,541
Short-term borrowings	33,990	—	33,990
Income tax payable	—	—	—
Dividend payable	11,004	—	11,004
Current portion of long-term obligations	5,258	—	5,258
Total current liabilities	97,380	15,602	112,982
<b>LONG-TERM LIABILITIES:</b>			
Long-term obligations, less current portion	7,792	—	7,792
Deferred income taxes	6,194	(6,065)	129
Total long-term liabilities	13,986	(6,065)	7,921
Commitments and contingencies			
Noncontrolling interest, Calavo Salsa Lisa	121	(178)	(57)
<b>SHAREHOLDERS' EQUITY:</b>			
Common stock (\$0.001 par value, 100,000 shares authorized; 15,720 shares outstanding at October 31, 2013)	15	—	15
Additional paid-in capital	59,376	11,414	70,790
Accumulated other comprehensive income	13,414	—	13,414
Noncontrolling interest, FreshRealm	(6)	(174)	(180)
Retained earnings	55,653	(20,599)	35,054
Total shareholders' equity	128,452	(9,359)	119,093
	\$ 239,939	\$ —	\$ 239,939

The following tables summarize the impact of the restatement on our previously reported consolidated statements of cash flows for fiscal years 2013 and 2012 (in thousands):

YEAR ENDED OCTOBER 31, 2013	AS REPORTED	ADJUSTMENTS	RESTATED
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income (loss)	\$ 16,745	\$ (19,429)	\$ (2,684)
<b>Adjustments to reconcile net income (loss) to net cash provided by operating activities:</b>			
Depreciation and amortization	6,367	—	6,367
Provision for losses on accounts receivable	1	—	1
Income (loss) from unconsolidated entities	100	—	100
Interest on contingent consideration	146	—	146
Contingent consideration and non-cash compensation related to the acquisition of RFG	1,801	32,010	33,811
Contingent consideration related to the acquisition of Salsa Lisa	(230)	—	(230)
Stock compensation expense	376	—	376
Loss on disposal of property, plant, and equipment	30	—	30
Intangible assets impairment on Calavo Salsa Lisa	615	—	615
Deferred income taxes	(6,917)	(5,204)	(12,121)
<b>Effect on cash of changes in operating assets and liabilities:</b>			
Accounts receivable	(16,191)	—	(16,191)
Inventories, net	(5,725)	—	(5,725)
Prepaid expenses and other current assets	(3,567)	—	(3,567)
Advances to suppliers	(844)	—	(844)
Income taxes receivable	8,158	(7,377)	781
Other assets	135	—	135
Payable to growers	7,705	—	7,705
Trade accounts payable and accrued expenses	5,007	—	5,007
Net cash provided by operating activities	13,712	—	13,712
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Acquisitions of property, plant, and equipment	(6,746)	—	(6,746)
Investment in Agricola Don Memo	(1,000)	—	(1,000)
Net cash used in investing activities	(7,746)	—	(7,746)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Payment of dividend to shareholders	(9,646)	—	(9,646)
Proceeds from revolving credit facility, net	200,670	—	200,670
Payments on revolving credit facility, net	(186,850)	—	(186,850)
Payments on long-term obligations	(5,405)	—	(5,405)
Retirement of stock purchased from Limoneira	(4,788)	—	(4,788)
Proceeds from stock option exercises	751	—	751
Proceeds from issuance of FreshRealm stock	79	—	79
Tax benefit of stock option exercises	139	—	139
Net cash used in financing activities	(5,050)	—	(5,050)
Net increase in cash and cash equivalents	916	—	916
Cash and cash equivalents, beginning of year	7,103	—	7,103
Cash and cash equivalents, end of year	\$ 8,019	\$ —	\$ 8,019
<b>SUPPLEMENTAL INFORMATION:</b>			
Cash paid during the year for:			
Interest	\$ 1,087	\$ —	\$ 1,087
Income taxes	\$ 5,532	\$ —	\$ 5,532
<b>NONCASH INVESTING AND FINANCING ACTIVITIES:</b>			
Tax receivable increase related to stock option exercise	\$ 59	\$ —	\$ 59
Conversion of cash consideration to stock consideration for RFG acquisition	\$ 11,711	\$ 17,262	\$ 28,973
Declared dividends payable	\$ 11,004	\$ —	\$ 11,004
Collection for Agricola Belher Infrastructure Advance	\$ 1,690	\$ —	\$ 1,690
Unrealized holding gains (losses)	\$ 6,690	\$ —	\$ 6,690

YEAR ENDED OCTOBER 31, 2012

AS REPORTED

ADJUSTMENTS

RESTATED

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Net income	\$ 16,947	\$ (1,317)	\$ 15,630
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>			
Depreciation and amortization	5,909	—	5,909
Provision for losses on accounts receivable	68	—	68
loss from unconsolidated entities	(501)	—	(501)
Interest on contingent consideration	128	—	128
Contingent consideration and non-cash compensation related to the acquisition of RFG	415	2,159	2,574
Contingent consideration related to the acquisition of Salsa Lisa	5	—	5
Stock compensation expense	417	—	417
Loss on disposal of property, plant, and equipment	136	—	136
Distribution from unconsolidated entity	288	—	288
Gain on sale of Maui Fresh International	(519)	—	(519)
Intangible assets impairment on Calavo Salsa Lisa	87	—	87
Deferred income taxes	(818)	(855)	(1,673)
<b>Effect on cash of changes in operating assets and liabilities:</b>			
Accounts receivable	(2,837)	—	(2,837)
Inventories, net	(5,161)	—	(5,161)
Prepaid expenses and other current assets	(639)	—	(639)
Advances to suppliers	980	—	980
Income taxes receivable	462	13	475
Other assets	14	—	14
Payable to growers	3,394	—	3,394
Trade accounts payable and accrued expenses	3,236	—	3,236
Net cash provided by operating activities	22,011	—	22,011
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Acquisitions of property, plant, and equipment	(7,749)	—	(7,749)
Proceeds from sale of Maui Fresh International	300	—	300
Net cash used in investing activities	(7,449)	—	(7,449)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Payment of dividend to shareholders	(8,123)	—	(8,123)
Proceeds from revolving credit facility, net	158,200	—	158,200
Payments on revolving credit facility, net	(155,890)	—	(155,890)
Payments on long-term obligations	(5,237)	—	(5,237)
Proceeds from stock option exercises	791	—	791
Tax benefit of stock option exercises	26	—	26
Net cash used in financing activities	(10,233)	—	(10,233)
Net increase in cash and cash equivalents	4,329	—	4,329
Cash and cash equivalents, beginning of year	2,774	—	2,774
Cash and cash equivalents, end of year	\$ 7,103	\$ —	\$ 7,103

**SUPPLEMENTAL INFORMATION:**

Cash paid during the year for:			
Interest	\$ 1,146	\$ —	\$ 1,146
Income taxes	\$ 9,274	\$ —	\$ 9,274

**NONCASH INVESTING AND FINANCING ACTIVITIES:**

Tax receivable increase related to stock option exercise	\$ 139	\$ —	\$ 139
Declared dividends payable	\$ 9,612	\$ —	\$ 9,612
Notes receivable issued for sale of Maui Fresh International	\$ 2,204	\$ —	\$ 2,204
Construction in progress included in trade accounts payable and accrued expenses	\$ 28	\$ —	\$ 28
Unrealized holding gains (losses)	\$ 8,850	\$ —	\$ 8,850

#### 4. INVENTORIES

Inventories consist of the following (in thousands):

OCTOBER 31,	2014	2013
Fresh fruit	\$ 15,640	\$ 13,928
Packing supplies and ingredients	6,324	5,511
Finished prepared foods	9,011	9,234
	\$ 30,975	\$ 28,673

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 2014 and 2013.

#### 5. PROPERTY, PLANT, AND EQUIPMENT

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

OCTOBER 31,	2014	2013
Land	\$ 7,023	\$ 7,023
Buildings and improvements	21,713	20,304
Leasehold improvements	4,435	1,671
Equipment	55,467	50,426
Information systems – hardware and software	7,564	7,188
Construction in progress	1,057	1,535
	97,259	88,147
Less accumulated depreciation and amortization	(39,907)	(35,498)
	\$ 57,352	\$ 52,649

Depreciation expense was \$5.3 million, \$4.6 million and \$4.2 million for fiscal years 2014, 2013, and 2012, of which \$0.6 million was related to depreciation on capital leases for fiscal year 2014, 2013, and 2012.

Property, plant, and equipment include various capital leases which total \$3.4 million and \$3.6 million, less accumulated depreciation of \$1.7 million and \$1.2 million as of October 31, 2014 and 2013.

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.

#### 6. OTHER ASSETS

Other assets consist of the following (in thousands):

OCTOBER 31,	2014	2013
Intangibles, net	\$ 5,925	\$ 7,272
Grower advances	642	938
Loan to Agricola Belher	845	1,690
Loan to FreshRealm members	296	283
Notes receivable from San Rafael	1,343	1,594
Other	733	570
	\$ 9,784	\$ 12,347

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.



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

	WEIGHTED-AVERAGE USEFUL LIFE	OCTOBER 31, 2014			OCTOBER 31, 2013		
		GROSS CARRYING VALUE	ACCUM. AMORTIZATION	NET BOOK VALUE	GROSS CARRYING VALUE	ACCUM. AMORTIZATION	NET BOOK VALUE
Customer list/relationships	8.0 years	\$ 7,640	\$ (3,323)	\$ 4,317	\$ 7,640	\$ (2,364)	\$ 5,276
Trade names	8.4 years	2,760	(1,900)	860	2,760	(1,636)	1,124
Trade secrets/recipes	13.0 years	630	(220)	410	630	(137)	493
Brand name intangibles	indefinite	275	—	275	275	—	275
Non-competition agreements	5.0 years	267	(204)	63	267	(163)	104
Intangibles, net		\$ 11,572	\$ (5,647)	\$ 5,925	\$ 11,572	\$ (4,300)	\$ 7,272

We recorded amortization expense of approximately \$1.3 million, \$1.4 million, and \$1.4 million for fiscal years 2014, 2013, and 2012. We anticipate recording amortization expense of approximately \$1.3 million, \$1.2 million, \$1.1 million, \$1.1 million, and \$0.7 million for fiscal years 2015 through 2019. The remainder of approximately \$0.2 million will be amortized over fiscal years 2020 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.

## 7. 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 \$65.0 million, with a weighted-average interest rate of 1.7% at October 31, 2014 and 2013. Under these credit

facilities, we had \$35.9 million and \$34.0 million outstanding as October 31, 2014 and 2013. 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, 2014.

## 8. EMPLOYEE BENEFIT PLANS

We sponsor two defined contribution retirement plans for salaried and hourly employees. We have three additional defined contribution retirement plans bringing the total to five. Expenses for these plans approximated \$943,000, \$807,000, and \$811,000 for fiscal years 2014, 2013 and 2012, 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 \$9,000, \$12,000 and \$16,000 for the year ended October 31, 2014, 2013, and 2012. 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):

	2014	2013
<b>CHANGE IN PROJECTED BENEFIT OBLIGATION:</b>		
Projected benefit obligation at beginning of year	\$ 218	\$ 245
Interest cost	9	8
Actuarial loss	4	4
Benefits paid	(35)	(39)
Projected benefit obligation at end of year (unfunded)	\$ 196	\$ 218

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

	2014	2013
Projected benefit obligation	\$ 196	\$ 218
Unrecognized net (gain) loss	—	—
Recorded pension liabilities	\$ 196	\$ 218

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

	2014	2013
Discount rate on projected benefit obligation	4.10%	4.60%

## 9. 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, 2014, as follows (in thousands):

2015	\$ 3,353
2016	3,358
2017	3,332
2018	3,201
2019	2,859
Thereafter	11,568
	\$ 27,671

Total rent expense amounted to approximately \$3.8 million, \$3.5 million and \$3.0 million for the years ended October 31, 2014, 2013, and 2012. Rent to Limoneira, for our corporate office, amounted to approximately \$0.3 million for fiscal years 2014, 2013, and 2012. In fiscal 2014, we renewed our lease with Limoneira for our corporate facility through fiscal 2020 at an annual rental of \$0.3 million per annum (subject to annual CPI increases, as defined).

In fiscal 2014, we renewed the lease of our distribution facility in Garland Texas through fiscal 2029 at an annual rental of \$0.8 million per annum (subject to annual CPI increases, as defined).

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 June 2018. Total rent for fiscal 2014 and 2013 was approximately \$0.4 million. Total rent for fiscal 2012 was

approximately \$0.3 million. The processing facility in Sacramento has an operating lease through May 2021. Total rent for fiscal 2014 and 2013 was approximately \$0.5 million. Total rent for fiscal 2012 was approximately \$0.5 million. The processing facility in Houston has an operating lease through May 2021. Total rent for fiscal 2014 and 2013 was approximately \$0.3 million. Total rent for fiscal 2012 was approximately \$0.3 million.

We indemnify our directors and have the power to indemnify each of our officers, 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.

In January 2015, various class action lawsuits have been initiated against the company related to the restatement of previously-issued financial statements. We believe these lawsuits are without merit and will defend ourselves vigorously. We do not expect that such legal claims and litigation will ultimately have a material adverse effect on our consolidated financial position or results of operations.

### 10. 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, 2014, 2013, and 2012, the aggregate amount of avocados procured from entities owned or controlled by members of our Board of Directors was \$10.5 million, \$20.9 million and \$21.1 million. Accounts payable to these Board members was \$0.1 million and \$3.3 million as of October 31, 2014, and 2013.

During fiscal years 2014 and 2013, we received \$0.3 million as dividend income from Limoneira. During fiscal year 2012, 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, 2014 and 2013, 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, 2014 and 2013, total rent paid to THNC was \$0.3 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, 2014 and 2013, total sales made to Third Coast were \$1.0 million and \$2.3 million. For the year ended October 31, 2014 and 2013, total purchases made from Third Coast were \$0.4 million and \$1.1 million. Amounts due from Third Coast were \$0.4 million and \$1.0 million as of October 31, 2014 and 2013. Amounts due to Third Coast were less than \$0.1 million as of October 31, 2014 and 2013.

## 11. INCOME TAXES

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

	2014	2013	2012
		RESTATED	RESTATED
<b>CURRENT:</b>			
Federal	\$ 7,379	\$ 5,587	\$ 8,225
State	939	1,261	1,233
Foreign	842	549	2,428
Total current	9,160	7,397	11,886
<b>DEFERRED:</b>			
Federal	(10,392)	(9,536)	(935)
State	(2,870)	(2,548)	(693)
Foreign	186	(28)	(45)
Total deferred	(13,076)	(12,112)	(1,673)
Total income tax provision	\$ (3,916)	\$ (4,715)	\$ 10,213

At October 31, 2014 and 2013, gross deferred tax assets totaled approximately \$39.7 million and \$18.6 million, while gross deferred tax liabilities totaled approximately \$24.1 million and \$16.6 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):

	2014	2013
		RESTATED
Allowances for accounts receivable	\$ 1,312	\$ 634
Inventories	478	417
State taxes	202	269
Credits and incentives	300	—
Accrued liabilities	1,002	675
Current deferred income taxes	\$ 3,294	\$ 1,995
Property, plant, and equipment	(6,373)	(6,892)
Intangible assets	34,697	15,610
Unrealized gain, Limoneira investment	(8,199)	(8,674)
Investment in FreshRealm	(7,594)	—
Stock-based compensation	355	369
State taxes	(1,690)	(847)
Credits and incentives	1,287	713
Other	(196)	(242)
Long-term deferred income taxes	\$ 12,287	\$ 37

The October 31, 2014 net increase in deferred intangible assets by \$19.1 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.

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:

	2014	2013	2012
		RESTATED	RESTATED
Federal statutory tax rate	35.0%	35.0%	35.0%
State taxes, net of federal effects	22.3	11.8	1.5
Foreign income taxes greater (less) than U.S.	5.8	6.1	(2.9)
Hacienda assessment	—	—	6.8
Section 199 deduction	15.8	8.2	(0.8)
Tax Credits	15.2	(0.9)	—
Other	0.7	3.5	(0.1)
	94.8%	63.7%	39.5%

We intend to reinvest our accumulated foreign earnings, which approximated \$13.2 million at October 31, 2014, indefinitely. As a result, we have not provided any deferred income taxes on such unremitted earnings. For fiscal years 2014, 2013 and 2012, income (loss) before income taxes related to domestic operations was approximately \$(0.6) million, \$(10.6) million, and \$22.0 million. For fiscal years 2014, 2013 and 2012, income before income taxes related to foreign operations was approximately \$3.6 million, \$2.9 million and \$3.8 million.

As of October 31, 2014 and 2013, 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.

The benefit for income taxes of \$3.9 million is attributable to the revaluation adjustment of \$88.1 million related to contingent consideration which was spread between fiscal year 2014 through fiscal year 2011. The revalued contingent consideration and non-cash compensation expense resulted in \$53.6 million, \$32.0 million, and \$2.2 million additional GAAP expense recorded in fiscal years 2014, 2013, and 2012, respectively. The current year revaluation expense drove pre-tax book income into a loss position, thus causing a benefit for income taxes as this revaluation adjustment is capitalized and amortized as goodwill over the remaining useful life for income tax purposes resulting in a taxable income position for the current year.

See Note 3, "Restatement of Previously-Issued Financial Statements" to the Consolidated Financial Statements for information on the adjustments made related to the restatement of previously-issued financial statements.

## 12. SEGMENT INFORMATION

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

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

	FRESH PRODUCTS	CALAVO FOODS	RFG	TOTAL
(All amounts are presented in thousands)				
<b>YEAR ENDED OCTOBER 31, 2014</b>				
Net sales	\$ 470,949	\$ 59,279	\$ 252,282	\$ 782,510
Cost of sales	434,820	46,269	230,193	711,282
Gross margin	\$ 36,129	\$ 13,010	\$ 22,089	\$ 71,228
<b>YEAR ENDED OCTOBER 31, 2013</b>				
Net sales	\$ 448,369	\$ 51,614	\$ 191,468	\$ 691,451
Cost of sales <sup>(1)</sup>	417,176	38,226	176,601	632,003
Gross margin	\$ 31,193	\$ 13,388	\$ 14,867	\$ 59,448
<b>YEAR ENDED OCTOBER 31, 2012</b>				
Net sales	\$ 350,582	\$ 46,424	\$ 154,113	\$ 551,119
Cost of sales <sup>(1)</sup>	316,287	32,422	141,745	490,454
Gross margin	\$ 34,295	\$ 14,002	\$ 12,368	\$ 60,665

(1) Cost of sales for RFG and the corresponding totals have been restated for the years ended October 31, 2013 and 2012.

For fiscal years 2014, 2013 and 2012, inter-segment sales and cost of sales of \$50.1 million, \$44.2 million, and \$33.8 million were eliminated in consolidation.

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

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

	YEAR ENDED OCTOBER 31, 2013				YEAR ENDED OCTOBER 31, 2012			
	FRESH PRODUCTS	CALAVO FOODS	RFG	TOTAL	FRESH PRODUCTS	CALAVO FOODS	RFG	TOTAL
<b>THIRD-PARTY SALES:</b>								
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

Net sales to third parties by segment exclude inter-segment sales and cost of sales. For fiscal years 2014, 2013, and 2012, inter-segment sales and cost of sales for Fresh products totaling \$33.7 million, \$29.9 million and \$22.2 million were eliminated. For fiscal years 2014, 2013, and 2012, inter-segment sales and cost of sales for Calavo Foods totaling \$16.4 million, \$14.3 million, and \$11.6 million were eliminated.

Sales to customers outside the United States were approximately \$32.8 million, \$37.2 million and \$28.8 million for fiscal years 2014, 2013, and 2012.

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

	UNITED STATES	MEXICO	CONSOLIDATED
2014	\$ 36,052	\$ 21,300	\$ 57,352
2013	\$ 31,250	\$ 21,399	\$ 52,649

### 13. LONG-TERM OBLIGATIONS

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

	2014	2013
Farm Credit West, PCA, (FCW) term loan, bearing interest at 1.7%	\$ 2,504	\$ 4,007
Bank of America, N.A. (BoA) term loan, bearing interest at 1.7%	2,548	4,077
FCW, term loan, bearing interest at 5.7%	1,300	2,600
Capital leases	1,538	2,366
	7,890	13,050
Less current portion	(5,099)	(5,258)
	\$ 2,791	\$ 7,792

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, 2014, annual current and long-term obligation payments are scheduled as follows (in thousands):

YEAR ENDING OCTOBER 31:	TOTAL
2015	\$ 5,099
2016	2,241
2017	109
2018	89
2019	92
Thereafter	260
	\$ 7,890

At October 31, 2014, capital lease payments are scheduled as follows (in thousands):

YEAR ENDING OCTOBER 31:	TOTAL
2015	\$ 814
2016	218
2017	168
2018	128
2019	108
Thereafter	231
Minimum lease payments	1,667
Less interest	(129)
Present value of future minimum lease payments	\$ 1,538

### 14. 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	AGGREGATE INTRINSIC VALUE
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	
Exercised	(10)	\$ 13.25	
Outstanding at			
October 31, 2014	17	\$ 17.22	\$ 856
Exercisable at			
October 31, 2014	15	\$ 17.03	\$ 758

The weighted average remaining life of such outstanding options is 3.6 years and the total intrinsic value of options exercised during fiscal 2014 was \$0.3 million. The weighted average remaining life of such exercisable options is 3.3 years. The fair value of shares vested during the year ended October 31, 2014, 2013, and 2012 was approximately \$0.8 million, \$0.6 million, and \$0.3 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.

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, 2014 was approximately \$0.1 million, which will be recognized over the remaining service period of 60 months.

In January 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.

In January 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.

In January 2014, all 12 of our non-employee directors were granted 1,750 restricted shares each (total of 21,000 shares). These shares have full voting rights and participate in dividends as if unrestricted. The closing price of our stock on such date was \$32.49. This grant of restricted stock incurred \$0.6 million in stock compensation expenses in fiscal 2014. As of January 1, 2015, these shares will vest and be unrestricted.

In January 2014, our executive officers were granted a total of 10,774 restricted shares. These shares have full voting rights and participate in dividends as if unrestricted. The closing price of our stock on such date was \$30.50. These shares vest in one-third increments, on an annual basis, beginning January 1, 2015. This grant of restricted stock incurred \$0.1 million in stock compensation expenses in fiscal 2014.

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	AGGREGATE INTRINSIC VALUE
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	
Outstanding at			
October 31, 2014	20	\$ 22.64	\$ 525
Exercisable at			
October 31, 2014	8	\$ 22.22	\$ 213

The weighted average remaining life of such outstanding options is 5.6 years. 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, 2014, was \$0.2 million.

## 15. DIVIDENDS

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

## 16. 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, 2014 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 <sup>(1)</sup>	\$ 44,355	—	—	\$ 44,355
Total assets at fair value	\$ 44,355	\$ —	\$ —	\$ 44,355

(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, 2014 and October 31, 2013 equaled \$25.66 per share and \$26.34 per share. Unrealized gains and losses are recognized through other comprehensive income. Unrealized investment holding losses arising during the year ended October 31, 2014 was \$1.2 million. Unrealized investment holding gains arising during the year ended October 31, 2013, and 2012 was \$6.7 million, and \$8.9 million.

The following table sets forth our financial assets as of October 31, 2014 that are measured on a non-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 FreshRealm <sup>(3)</sup>	\$ —	\$ —	\$ 16,962	\$ 16,962
Total assets at fair value	\$ —	\$ —	\$ 16,962	\$ 16,962

(3) See Note 18 for additional information on the deconsolidation of FreshRealm. We estimated the fair value of our noncontrolling interest in FreshRealm by performing a forecast projection analysis. This analysis was conducted with the consultation from a third party consulting firm. Increases or decreases in the fair value calculation can result from changes in assumed discount periods and rates, changes in the assumed timing and amount of revenue and expense estimates. Significant judgment is employed in determining the appropriateness of these assumptions. We recorded a gain on the deconsolidation of FreshRealm of \$12.6 million, which has been recorded on the face of the income statement. Our investment in FreshRealm has been recorded as investment in unconsolidated subsidiaries on our balance sheet.

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

	BALANCE AT 10/31/13	INTEREST	REVALUE ADJUSTMENT	SETTLED	BALANCE AT 10/31/14
(All amounts are presented in thousands)					
RFG contingent consideration (Restated) <sup>(1)</sup>	\$ 15,602	—	\$ 53,611	\$ (69,213)	—

	BALANCE AT 10/31/12	INTEREST	REVALUE ADJUSTMENT	SETTLED	BALANCE AT 10/31/13
(All amounts are presented in thousands)					
RFG contingent consideration (Restated) (1)	\$ 10,667	\$ 97	\$ 33,811	\$ (28,973)	\$ 15,602

(1) We have amended our acquisition agreement with RFG in regards to the cash payment portion of the Stage 2 & 3 earnouts. See Note 17.

See Note 3, "Restatement of Previously-Issued Financial Statements" to the Consolidated Financial Statements for information on the adjustments made related to the restatement of previously-issued financial statements.



## 17. 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.

On October 23, 2014, based on the results of operations to date, the Stage 3 Maximum Earn-Out Trigger was met and we issued 434,783 shares of unregistered Calavo common stock to the Sellers. Additionally, on October 23, 2014, we issued 1,097,213 shares of unregistered Calavo common stock, with a value on the date of issuance totaling \$50 million, to a trust for the benefit of the Sellers. Shortly after, we filed a Form S-3 registration statement, registering the resale of these 1,097,213 shares.

See Note 3, "Restatement of Previously-Issued Financial Statements" to the Consolidated Financial Statements for information on the adjustments made related to the restatement of previously-issued financial statements.

## 18. DECONSOLIDATION OF FRESHREALM, LLC

On May 2, 2014, we closed our Second Amended and Restated Limited Liability Company Agreement (Agreement) by and among FreshRealm and the ownership members of FreshRealm. The effective date of this agreement was April 30, 2014. Pursuant to this agreement, Impermanence, LLC (Impermanence) was admitted as an ownership member of FreshRealm. Impermanence contributed \$10.0 million to FreshRealm for 28.6% ownership. We agreed to dilute our ownership percentage in FreshRealm, as an injection of significant working capital would reduce the immediate need of Calavo to provide operating funds to FreshRealm and would also serve to preserve the value of our investment.

As a result of the admission of Impermanence, Calavo's ownership was reduced from 71.1% to 50.8% and \$4.6 million was attributed to noncontrolling interest. Additionally, effective April 1, 2014, the first \$10.0 million of losses will be allocated primarily to Impermanence.

Even though Calavo controlled greater than 50% of the outstanding units of FreshRealm as of May 2, 2014, the minority/non-Calavo unit-holders held substantive participating rights. These rights existed primarily in two forms: (1) two out of a total of four board of director seats and (2) a provision in the Agreement that states that for situations for which the approval of the Members, as defined, (rather than the approval of the board of directors on behalf of the Members) is required by the Agreement, the Members shall act by Super-Majority Vote. Super-Majority Vote is defined in the Agreement as the affirmative vote of the holders of at least seventy percent of the outstanding units that are held by the Members. As such, Calavo cannot control FreshRealm through its two board of director seats, nor its 50.8% ownership. Based on the foregoing, we deconsolidated FreshRealm as of May 2, 2014.

As a result of the deconsolidation, we were required to record a gain related to this transaction. Pursuant to ASC 810-10-40-5, we calculated our gain on deconsolidation by considering: a) the aggregate of (1) the fair value of any retained noncontrolling investment in the former subsidiary at the date the subsidiary is deconsolidated and (2) the carrying amount of any noncontrolling interest in the former subsidiary; less b) the carrying amount of the former subsidiary's assets and liabilities. See following table:

(AS OF MAY 2, 2014, IN THOUSANDS)

Fair value of retained noncontrolling investment	\$ 16,962
Carrying amount of noncontrolling interest	\$ 4,031
Carrying amount of FreshRealm's assets and liabilities	\$ (8,371)
Gain on deconsolidation of FreshRealm	\$ 12,622

We estimated the fair value of our noncontrolling interest in FreshRealm by performing a forecast projection analysis. This analysis was conducted with the consultation from a third party consulting firm. See Note 16 to the financial statements for additional information regarding the fair value calculation and assumptions used.

Based on the above, we recorded a gain on the deconsolidation of FreshRealm of \$12.6 million, which has been recorded on the face of the income statement. Our investment in FreshRealm has been recorded as investment in unconsolidated subsidiaries on our balance sheet.

As of July 31, 2014, FreshRealm issued additional units to various 3rd parties, which reduced our ownership percentage to exactly 50%.

## 19. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

The following operating results for each of the eight fiscal quarters in the period ended October 31, 2014 (except for the current quarter ending October 31, 2014) has been restated to reflect adjustments to our previously issued financial statements as more fully discussed in Note 3, "Restatement of Previously-Issued Financial Statements".

The Company has also identified certain immaterial adjustments primarily relating to non-controlling interest, diluted number of shares outstanding, and income tax expense related to fiscal years ended October 31, 2014, October 31, 2013, which are reflected in the restated consolidated financial statements for the Relevant Periods.

The following tables summarize the impact of the restatement on our previously reported interim consolidated statements of operations (in thousands, except per share data):

	THREE MONTHS ENDED JANUARY 31, 2014			THREE MONTHS ENDED JANUARY 31, 2013		
	AS REPORTED	ADJUSTMENTS	RESTATED	AS REPORTED	ADJUSTMENTS	RESTATED
Net sales	\$ 168,165	\$ —	\$ 168,165	\$ 139,499	\$ —	\$ 139,499
Cost of sales	154,475	49	154,524	126,375	1	126,376
Gross margin	13,690	(49)	13,641	13,124	(1)	13,123
Selling, general and administrative	8,272	20	8,292	7,576	—	7,576
Contingent consideration related to RFG acquisition	—	9,218	9,218	1,245	8,152	9,397
Operating income (loss)	5,418	(9,287)	(3,869)	4,303	(8,153)	(3,850)
Interest expense	(256)	—	(256)	(252)	—	(252)
Other income, net	135	—	135	138	—	138
Income (loss) before provision for income taxes	5,297	(9,287)	(3,990)	4,189	(8,153)	(3,964)
Provision (benefit) for income taxes	1,822	(3,898)	(2,076)	1,508	(4,020)	(2,512)
Net income (loss)	3,475	(5,389)	(1,914)	2,681	(4,133)	(1,452)
Add: Net loss attributable to noncontrolling interest	500	(352)	148	26	16	42
Net income (loss) attributable to Calavo Growers, Inc.	\$ 3,975	\$ (5,741)	\$ (1,766)	\$ 2,707	\$ (4,117)	\$ (1,410)
Calavo Growers, Inc.'s net income (loss) per share:						
Basic	\$ 0.25	\$ (0.36)	\$ (0.11)	\$ 0.18	\$ (0.28)	\$ (0.10)
Diluted	\$ 0.25	\$ (0.36)	\$ (0.11)	\$ 0.18	\$ (0.28)	\$ (0.10)
Number of shares used in per share computation:						
Basic	15,726	—	15,726	14,834	—	14,834
Diluted	15,736	(10)	15,726	14,854	(20)	14,834

	THREE MONTHS ENDED APRIL 30, 2014			THREE MONTHS ENDED APRIL 30, 2013		
	AS REPORTED	ADJUSTMENTS	RESTATED	AS REPORTED	ADJUSTMENTS	RESTATED
Net sales	\$ 194,894	\$ —	\$ 194,894	\$ 166,336	\$ —	\$ 166,336
Cost of sales	175,917	85	176,002	154,800	61	154,861
Gross margin	18,977	(85)	18,892	11,536	(61)	11,475
Selling, general and administrative	9,111	34	9,145	7,991	24	8,015
Contingent consideration related to RFG acquisition	—	7,036	7,036	199	1,926	2,125
Operating income	9,866	(7,155)	2,711	3,346	(2,011)	1,335
Interest expense	(292)	—	(292)	(317)	—	(317)
Other income, net	270	—	270	235	—	235
Income before provision for income taxes	9,844	(7,155)	2,689	3,264	(2,011)	1,253
Provision for income taxes	3,432	(1,999)	1,433	1,071	(292)	779
Net income	6,412	(5,156)	1,256	2,193	(1,719)	474
Add: Net loss attributable to noncontrolling interest	298	—	298	20	15	35
Net income attributable to Calavo Growers, Inc.	\$ 6,710	\$ (5,156)	\$ 1,554	\$ 2,213	\$ (1,704)	\$ 509
Calavo Growers, Inc.'s net income per share:						
Basic	\$ 0.43	\$ (0.33)	\$ 0.10	\$ 0.15	\$ (0.12)	\$ 0.03
Diluted	\$ 0.43	\$ (0.34)	\$ 0.09	\$ 0.15	\$ (0.12)	\$ 0.03
Number of shares used in per share computation:						
Basic	15,755	—	15,755	14,819	—	14,819
Diluted	15,764	1,412	17,176	14,839	756	15,595

	SIX MONTHS ENDED JANUARY 31, 2014			SIX MONTHS ENDED JANUARY 31, 2013		
	AS REPORTED	ADJUSTMENTS	RESTATED	AS REPORTED	ADJUSTMENTS	RESTATED
Net sales	\$ 363,059	\$ —	\$ 363,059	\$ 305,835	\$ —	\$ 305,835
Cost of sales	330,392	134	330,526	281,175	62	281,237
Gross margin	32,667	(134)	32,533	24,660	(62)	24,598
Selling, general and administrative	17,383	54	17,437	15,567	24	15,591
Contingent consideration related to RFG acquisition	—	16,254	16,254	1,444	10,078	11,522
Operating income	15,284	(16,442)	(1,158)	7,649	(10,164)	(2,515)
Interest expense	(548)	—	(548)	(569)	—	(569)
Other income, net	405	—	405	373	—	373
Income before provision for income taxes	15,141	(16,442)	(1,301)	7,453	(10,164)	(2,711)
Provision for income taxes	5,254	(5,897)	(643)	2,579	(4,312)	(1,733)
Net income	9,887	(10,545)	(658)	4,874	(5,852)	(978)
Add: Net loss attributable to noncontrolling interest	798	(352)	446	46	31	77
Net income (loss) attributable to Calavo Growers, Inc.	\$ 10,685	\$ (10,897)	\$ (212)	\$ 4,920	\$ (5,821)	\$ (901)
Calavo Growers, Inc.'s net income (loss) per share:						
Basic	\$ 0.68	\$ (0.69)	\$ (0.01)	\$ 0.33	\$ (0.39)	\$ (0.06)
Diluted	\$ 0.68	\$ (0.69)	\$ (0.01)	\$ 0.33	\$ (0.39)	\$ (0.06)
Number of shares used in per share computation:						
Basic	15,755	—	15,755	14,819	—	14,819
Diluted	15,764	(9)	15,755	14,839	(20)	14,819

	THREE MONTHS ENDED JULY 31, 2014			THREE MONTHS ENDED JULY 31, 2013		
	AS REPORTED	ADJUSTMENTS	RESTATED	AS REPORTED	ADJUSTMENTS	RESTATED
Net sales	\$ 218,702	\$ —	\$ 218,702	\$ 194,943	\$ —	\$ 194,943
Cost of sales	197,757	769	198,526	176,865	181	177,046
Gross margin	20,945	(769)	20,176	18,078	(181)	17,897
Selling, general and administrative	9,431	307	9,738	8,349	72	8,421
Contingent consideration related to RFG acquisition	—	23,249	23,249	357	2,974	3,331
Operating income	11,514	(24,325)	(12,811)	9,372	(3,227)	6,145
Interest expense	(220)	—	(220)	(293)	—	(293)
Gain on deconsolidation of FreshRealm	12,622	—	12,622	—	—	—
Other income, net	120	—	120	209	—	209
Income before provision for income taxes	24,036	(24,325)	(289)	9,288	(3,227)	6,061
Provision for income taxes	8,064	(9,844)	(1,780)	3,163	636	3,799
Net income	15,972	(14,481)	1,491	6,125	(3,863)	2,262
Add: Net loss attributable to noncontrolling interest	60	—	60	274	136	410
Net income attributable to Calavo Growers, Inc.	\$ 16,032	\$ (14,481)	\$ 1,551	\$ 6,399	\$ (3,727)	\$ 2,672
Calavo Growers, Inc.'s net income per share:						
Basic	\$ 1.02	\$ (0.92)	\$ 0.10	\$ 0.43	\$ (0.25)	\$ 0.18
Diluted	\$ 1.02	\$ (0.93)	\$ 0.09	\$ 0.43	\$ (0.26)	\$ 0.17
Number of shares used in per share computation:						
Basic	15,760	—	15,760	14,848	—	14,848
Diluted	15,769	1,898	17,667	14,870	946	15,816

	NINE MONTHS ENDED JULY 31, 2014			NINE MONTHS ENDED JULY 31, 2013		
	AS REPORTED	ADJUSTMENTS	RESTATED	AS REPORTED	ADJUSTMENTS	RESTATED
Net sales	\$ 581,761	\$ —	\$ 581,761	\$ 500,778	\$ —	\$ 500,778
Cost of sales	528,149	903	529,052	458,040	243	458,283
Gross margin	53,612	(903)	52,709	42,738	(243)	42,495
Selling, general and administrative	26,814	361	27,175	23,916	96	24,012
Contingent consideration related to RFG acquisition	—	39,503	39,503	1,801	13,052	14,853
Operating income	26,798	(40,767)	(13,969)	17,021	(13,391)	3,630
Interest expense	(768)	—	(768)	(862)	—	(862)
Gain on deconsolidation of FreshRealm	12,622	—	12,622	—	—	—
Other income, net	525	—	525	582	—	582
Income before provision for income taxes	39,177	(40,767)	(1,590)	16,741	(13,391)	3,350
Provision for income taxes	13,318	(15,741)	(2,423)	5,742	(3,676)	2,066
Net income (loss)	25,859	(25,026)	833	10,999	(9,715)	1,284
Add: Net loss attributable to noncontrolling interest	858	(352)	506	320	167	487
Net income attributable to Calavo Growers, Inc.	\$ 26,717	\$ (25,378)	\$ 1,339	\$ 11,319	\$ (9,548)	\$ 1,771
Calavo Growers, Inc.'s net income per share:						
Basic	\$ 1.70	\$ (1.62)	\$ 0.08	\$ 0.76	\$ (0.64)	\$ 0.12
Diluted	\$ 1.69	\$ (1.61)	\$ 0.08	\$ 0.76	\$ (0.65)	\$ 0.11
Number of shares used in per share computation:						
Basic	15,760	—	15,760	14,848	—	14,848
Diluted	15,769	1,461	17,230	14,870	805	15,675



	THREE MONTHS ENDED	THREE MONTHS ENDED OCTOBER 31, 2013		
	OCTOBER 31, 2014	AS REPORTED	ADJUSTMENTS	RESTATE
Net sales	\$ 200,749	\$ 190,673	\$ —	\$ 190,673
Cost of sales	182,230	173,287	433	173,720
Gross margin	18,519	17,386	(433)	16,953
Selling, general and administrative	9,430	9,301	172	9,473
Contingent consideration related to RFG acquisition	11,579	—	18,014	18,014
Operating income	(2,490)	8,085	(18,619)	(10,534)
Interest expense	(215)	(236)	—	(236)
Other income, net	164	21	—	21
Income before provision for income taxes	(2,541)	7,870	(18,619)	(10,749)
Provision for income taxes	(1,493)	2,124	(8,905)	(6,781)
Net income (loss)	(1,048)	5,746	(9,714)	(3,968)
Add: Net loss attributable to noncontrolling interest	(194)	284	118	402
Net income attributable to Calavo Growers, Inc.	\$ (1,242)	\$ 6,030	\$ (9,596)	\$ (3,566)
Calavo Growers, Inc.'s net income (loss) per share:				
Basic	\$ (0.08)	\$ .40	\$ (0.64)	\$ (0.24)
Diluted	\$ (0.08)	\$ .40	\$ (0.64)	\$ (0.24)
Number of shares used in per share computation:				
Basic	15,815	15,030	—	15,030
Diluted	15,815	15,038	(8)	15,030

The following table summarizes the impact of the restatement on our previously reported interim consolidated statements of comprehensive operations for fiscal years 2014 and 2013:

	THREE MONTHS ENDED JANUARY 31, 2014			THREE MONTHS ENDED JANUARY 31, 2013		
	AS REPORTED	ADJUSTMENTS	RESTATE	AS REPORTED	ADJUSTMENTS	RESTATE
Net income (loss)	\$ 3,475	\$ (5,389)	\$ (1,914)	\$ 2,681	\$ (4,133)	\$ (1,452)
Other comprehensive income (loss), before tax:						
Unrealized investment losses arising during period	(9,628)	—	(9,628)	(1,244)	—	(1,244)
Income tax benefit related to items of other comprehensive income	3,755	—	3,755	485	—	485
Other comprehensive loss, net of tax	(5,873)	—	(5,873)	(759)	—	(759)
Comprehensive income (loss)	(2,398)	(5,389)	(7,787)	1,922	(4,133)	(2,211)
Add: Net loss attributable to noncontrolling interest	500	(352)	148	26	16	42
Comprehensive income (loss) – Calavo Growers, Inc.	\$ (1,898)	\$ (5,741)	\$ (7,639)	\$ 1,948	\$ (4,117)	\$ (2,169)

	THREE MONTHS ENDED APRIL 30, 2014			THREE MONTHS ENDED APRIL 30, 2013		
	AS REPORTED	ADJUSTMENTS	RESTATED	AS REPORTED	ADJUSTMENTS	RESTATED
Net income	\$ 6,412	\$ (5,156)	\$ 1,256	\$ 2,193	\$ (1,719)	\$ 474
Other comprehensive income (loss), before tax:						
Unrealized investment gains (losses) arising during period	3,803	—	3,803	(5,393)	—	(5,393)
Income tax benefit (expense) related to items of other comprehensive income	(1,483)	—	(1,483)	2,103	—	2,103
Other comprehensive income (loss), net of tax	2,320	—	2,320	(3,290)	—	(3,290)
Comprehensive income (loss)	8,732	(5,156)	3,576	(1,097)	(1,719)	(2,816)
Add: Net loss attributable to noncontrolling interest	298	—	298	20	15	35
Comprehensive income (loss) – Calavo Growers, Inc.	\$ 9,030	\$ (5,156)	\$ 3,874	\$ (1,077)	\$ (1,704)	\$ (2,781)

	SIX MONTHS ENDED APRIL 30, 2014			SIX MONTHS ENDED APRIL 30, 2013		
	AS REPORTED	ADJUSTMENTS	RESTATED	AS REPORTED	ADJUSTMENTS	RESTATED
Net income (loss)	\$ 9,887	\$ (10,545)	\$ (658)	\$ 4,874	\$ (5,852)	\$ (978)
Other comprehensive income (loss), before tax:						
Unrealized investment losses arising during period	(5,825)	—	(5,825)	(6,638)	—	(6,638)
Income tax benefit related to items of other comprehensive income	2,272	—	2,272	2,589	—	2,589
Other comprehensive loss, net of tax	(3,553)	—	(3,553)	(4,049)	—	(4,049)
Comprehensive income (loss)	6,334	(10,545)	(4,211)	825	(5,852)	(5,027)
Add: Net loss attributable to noncontrolling interest	798	(352)	446	46	31	77
Comprehensive income (loss) – Calavo Growers, Inc.	\$ 7,132	\$ (10,897)	\$ (3,765)	\$ 871	\$ (5,821)	\$ (4,950)

	THREE MONTHS ENDED JULY 31, 2014			THREE MONTHS ENDED JULY 31, 2013		
	AS REPORTED	ADJUSTMENTS	RESTATED	AS REPORTED	ADJUSTMENTS	RESTATED
Net income	\$ 15,972	\$ (14,481)	\$ 1,491	\$ 6,125	\$ (3,863)	\$ 2,262
Other comprehensive income (loss), before tax:						
Unrealized investment gains (losses) arising during period	(1,590)	—	(1,590)	6,586	—	6,586
Income tax benefit (expense) related to items of other comprehensive income	620	—	620	(2,568)	—	(2,568)
Other comprehensive income (loss), net of tax	(970)	—	(970)	4,018	—	4,018
Comprehensive income (loss)	15,002	(14,481)	521	10,143	(3,863)	6,280
Add: Net loss attributable to noncontrolling interest	60	—	60	274	136	410
Comprehensive income (loss) – Calavo Growers, Inc.	\$ 15,062	\$ (14,481)	\$ 581	\$ 10,417	\$ (3,727)	\$ 6,690

	NINE MONTHS ENDED JULY 31, 2014			NINE MONTHS ENDED JULY 31, 2013		
	AS REPORTED	ADJUSTMENTS	RESTATED	AS REPORTED	ADJUSTMENTS	RESTATED
Net income (loss)	\$ 25,859	\$ (25,026)	\$ 833	\$ 10,999	\$ (9,715)	\$ 1,284
Other comprehensive income (loss), before tax:						
Unrealized investment losses arising during period	(7,416)	—	(7,416)	(52)	—	(52)
Income tax benefit related to items of other comprehensive income	2,893	—	2,893	20	—	20
Other comprehensive loss, net of tax	(4,523)	—	(4,523)	(32)	—	(32)
Comprehensive income (loss)	21,336	(25,026)	(3,690)	10,967	(9,715)	1,252
Add: Net loss attributable to noncontrolling interest	858	(352)	506	320	167	487
Comprehensive income (loss) – Calavo Growers, Inc.	\$ 22,194	\$ (25,378)	\$ (3,184)	\$ 11,287	\$ (9,548)	\$ 1,739

The following table summarizes the impact of the restatement on our previously reported interim consolidated balance sheet for fiscal years 2014 and 2013:

	JANUARY 31, 2014			JANUARY 31, 2013		
	AS REPORTED	ADJUSTMENTS	RESTATED	AS REPORTED	ADJUSTMENTS	RESTATED
<b>ASSETS</b>						
<b>CURRENT ASSETS:</b>						
Cash and cash equivalents	\$ 6,346	\$ —	\$ 6,346	\$ 9,067	\$ —	\$ 9,067
Accounts receivable, net of allowances of \$2,289 (2014) and \$1,697 (2013)	60,060	—	60,060	48,367	—	48,367
Inventories, net	27,659	—	27,659	22,331	—	22,331
Prepaid expenses and other current assets	11,965	—	11,965	8,013	—	8,013
Advances to suppliers	3,419	—	3,419	1,324	—	1,324
Income taxes receivable	2,235	(1,731)	504	2,807	(90)	2,717
Deferred income taxes	1,995	—	1,995	2,222	—	2,222
Total current assets	113,679	(1,731)	111,948	94,131	(90)	94,041
Property, plant, and equipment, net	53,050	—	53,050	50,966	—	50,966
Investment in Limoneira Company	35,902	—	35,902	37,596	—	37,596
Investment in unconsolidated entities	1,544	—	1,544	520	—	520
Deferred income taxes	—	9,255	9,255	—	—	—
Goodwill	18,262	—	18,262	18,262	—	18,262
Other assets	12,034	—	12,034	14,949	—	14,949
	\$ 234,471	\$ 7,524	\$ 241,995	\$ 216,424	\$ (90)	\$ 216,334
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>						
<b>CURRENT LIABILITIES:</b>						
Payable to growers	\$ 4,720	\$ —	\$ 4,720	\$ 5,985	\$ —	\$ 5,985
Trade accounts payable	12,330	—	12,330	9,498	—	9,498
Accrued expenses	23,802	24,833	48,635	27,832	16,244	44,076
Short-term borrowings	52,690	—	52,690	32,780	—	32,780
Current portion of long-term obligations	5,245	—	5,245	5,329	—	5,329
Total current liabilities	98,787	24,833	123,620	81,424	16,244	97,668
<b>LONG-TERM LIABILITIES:</b>						
Long-term obligations, less current portion	6,841	—	6,841	12,073	—	12,073
Deferred income taxes	2,439	(2,439)	—	10,179	(5,084)	5,095
Total long-term liabilities	9,280	(2,439)	6,841	22,252	(5,084)	17,168
Commitments and contingencies						
Noncontrolling interest, Calavo Salsa Lisa	(69)	—	(69)	331	(83)	248
<b>SHAREHOLDERS' EQUITY:</b>						
Common stock (\$0.001 par value, 100,000 shares authorized; 15,752 and 15,720 shares outstanding at January 31, 2014 and January 31, 2013)	15	—	15	14	—	14
Additional paid-in capital	59,606	11,470	71,076	51,757	(5,595)	46,162
Accumulated other comprehensive income	7,541	—	7,541	8,631	—	8,631
Noncontrolling interest, FreshRealm	(316)	—	(316)	—	—	—
Retained earnings	59,627	(26,340)	33,287	52,015	(5,572)	46,443
Total shareholders' equity	126,473	(14,870)	111,603	112,417	(11,167)	101,250
	\$ 234,471	\$ 7,524	\$ 241,995	\$ 216,424	\$ (90)	\$ 216,334

	APRIL 30, 2014			APRIL 30, 2013		
	AS REPORTED	ADJUSTMENTS	RESTATED	AS REPORTED	ADJUSTMENTS	RESTATED
<b>ASSETS</b>						
<b>CURRENT ASSETS:</b>						
Cash and cash equivalents	\$ 19,914	\$ (10,000)	\$ 9,914	\$ 7,119	\$ —	\$ 7,119
Accounts receivable, net of allowances of \$2,789 (2014) and \$1,697 (2013)	64,093	—	64,093	59,349	—	59,349
Inventories, net	32,261	—	32,261	25,434	—	25,434
Prepaid expenses and other current assets	13,528	—	13,528	8,539	—	8,539
Advances to suppliers	39	—	39	31	—	31
Income taxes receivable	773	(773)	—	3,083	(101)	2,982
Deferred income taxes	1,995	—	1,995	2,222	—	2,222
Total current assets	132,603	(10,773)	121,830	105,777	(101)	105,676
Property, plant, and equipment, net	55,568	—	55,568	51,230	—	51,230
Investment in Limoneira Company	39,705	—	39,705	32,203	—	32,203
Investment in unconsolidated entities	1,533	—	1,533	520	—	520
Deferred income taxes	—	8,826	8,826	—	—	—
Goodwill	18,262	—	18,262	18,262	—	18,262
Other assets	11,436	—	11,436	13,540	—	13,540
	\$ 259,107	\$ (1,947)	\$ 257,160	\$ 221,532	\$ (101)	\$ 221,431
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>						
<b>CURRENT LIABILITIES:</b>						
Payable to growers	\$ 19,117	\$ —	\$ 19,117	\$ 17,301	\$ —	\$ 17,301
Trade accounts payable	15,850	—	15,850	12,535	—	12,535
Accrued expenses	22,568	31,944	54,512	24,155	18,174	42,329
Short-term borrowings	41,030	—	41,030	35,140	—	35,140
Income taxes payable	—	14	14	—	—	—
Current portion of long-term obligations	5,321	—	5,321	5,747	—	5,747
Total current liabilities	103,886	31,958	135,844	94,878	18,174	113,052
<b>LONG-TERM LIABILITIES:</b>						
Long-term obligations, less current portion	5,801	—	5,801	11,097	—	11,097
Deferred income taxes	3,922	(3,922)	—	8,076	(5,387)	2,689
Total long-term liabilities	9,723	(3,922)	5,801	19,173	(5,387)	13,786
Commitments and contingencies						
Noncontrolling interest, Calavo Salsa Lisa	(104)	—	(104)	311	(98)	213
<b>SHAREHOLDERS' EQUITY:</b>						
Common stock (\$0.001 par value, 100,000 shares authorized; 15,760 and 15,720 shares outstanding at April 30, 2014 and April 30, 2013)	15	—	15	14	—	14
Additional paid-in capital	65,358	6,123	71,481	47,587	(5,514)	42,073
Accumulated other comprehensive income	9,861	—	9,861	5,341	—	5,341
Noncontrolling interest, FreshRealm	4,031	(4,610)	(579)	—	—	—
Retained earnings	66,337	(31,496)	34,841	54,228	(7,276)	46,952
Total shareholders' equity	145,602	(29,983)	115,619	107,170	(12,790)	94,380
	\$ 259,107	\$ (1,947)	\$ 257,160	\$ 221,532	\$ (101)	\$ 221,431

	JULY 31, 2014			JULY 31, 2013		
	AS REPORTED	ADJUSTMENTS	RESTATED	AS REPORTED	ADJUSTMENTS	RESTATED
<b>ASSETS</b>						
<b>CURRENT ASSETS:</b>						
Cash and cash equivalents	\$ 9,436	\$ —	\$ 9,436	\$ 5,927	\$ —	\$ 5,927
Accounts receivable, net of allowances of \$3,127 (2014) and \$1,697 (2013)	63,731	—	63,731	60,464	—	60,464
Inventories, net	33,035	—	33,035	31,590	—	31,590
Prepaid expenses and other current assets	15,492	—	15,492	8,784	—	8,784
Advances to suppliers	1,385	—	1,385	1,963	—	1,963
Income taxes receivable	—	—	—	1,519	(114)	1,405
Deferred income taxes	1,995	—	1,995	2,222	—	2,222
Total current assets	125,074	—	125,074	112,469	(114)	112,355
Property, plant, and equipment, net	54,565	—	54,565	51,798	—	51,798
Investment in Limoneira Company	38,115	—	38,115	38,789	—	38,789
Investment in unconsolidated entities	18,382	—	18,382	520	—	520
Deferred income taxes	—	17,912	17,912	—	—	—
Goodwill	18,262	—	18,262	18,262	—	18,262
Other assets	10,114	—	10,114	13,186	—	13,186
	\$ 264,512	\$ 17,912	\$ 282,424	\$ 235,024	\$ (114)	\$ 234,910
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>						
<b>CURRENT LIABILITIES:</b>						
Payable to growers	\$ 20,920	\$ —	\$ 20,920	\$ 28,049	\$ —	\$ 28,049
Trade accounts payable	16,061	—	16,061	13,308	—	13,308
Accrued expenses	26,236	56,122	82,358	19,140	25,540	44,680
Short-term borrowings	28,740	—	28,740	25,980	—	25,980
Income tax payable	3,680	(591)	3,089	—	—	—
Current portion of long-term obligations	5,231	—	5,231	5,679	—	5,679
Total current liabilities	100,868	55,531	156,399	92,156	25,540	117,696
<b>LONG-TERM LIABILITIES:</b>						
Long-term obligations, less current portion	3,629	—	3,629	8,843	—	8,843
Deferred income taxes	3,302	(3,302)	—	12,085	(4,764)	7,321
Total long-term liabilities	6,931	(3,302)	3,629	20,928	(4,764)	16,164
Commitments and contingencies						
Noncontrolling interest, Calavo Salsa Lisa	(146)	—	(146)	37	(234)	(197)
<b>SHAREHOLDERS' EQUITY:</b>						
Common stock (\$0.001 par value, 100,000 shares authorized; 15,762 and 15,720 shares outstanding at July 31, 2014 and July 31, 2013)	15	—	15	14	—	14
Additional paid-in capital	65,584	11,660	77,244	51,904	(9,653)	42,251
Accumulated other comprehensive income	8,891	—	8,891	9,358	—	9,358
Noncontrolling interest, FreshRealm	—	—	—	—	—	—
Retained earnings	82,369	(45,977)	36,392	60,627	(11,003)	49,624
Total shareholders' equity	156,859	(34,317)	122,542	121,903	(20,656)	101,247
	\$ 264,512	\$ 17,912	\$ 282,424	\$ 235,024	\$ (114)	\$ 234,910

The following table summarizes the impact of the restatement on our previously reported interim consolidated statement of cash flows for fiscal years 2014 and 2013:

THREE MONTHS ENDED JANUARY 31, 2013	AS REPORTED	ADJUSTMENTS	RESTATED
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income (loss)	\$ 2,681	\$ (4,133)	\$ (1,452)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	1,607	—	1,607
Interest on contingent consideration	35	—	35
Contingent consideration and non-cash compensation related to the acquisition of RFG	1,245	8,153	9,398
Contingent consideration related to the acquisition of Salsa Lisa	—	—	—
Stock compensation expense	116	—	116
Deferred income taxes	—	(4,058)	(4,058)
Effect on cash of changes in operating assets and liabilities:			
Accounts receivable	(9,497)	—	(9,497)
Inventories, net	617	—	617
Prepaid expenses and other current assets	22	—	22
Advances to suppliers	1,045	—	1,045
Income taxes receivable	87	38	125
Other assets	13	—	13
Payable to growers	(2,490)	—	(2,490)
Trade accounts payable and accrued expenses	5,887	—	5,887
Net cash provided by operating activities	1,368	—	1,368
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Acquisitions of property, plant, and equipment	(1,548)	—	(1,548)
Net cash used in investing activities	(1,548)	—	(1,548)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Payment of dividend to shareholders	(9,646)	—	(9,646)
Proceeds from revolving credit facility, net	12,610	—	12,610
Payments on long-term obligations	(1,053)	—	(1,053)
Tax benefit of stock option exercises	233	—	233
Net cash provided by financing activities	2,144	—	2,144
Net increase in cash and cash equivalents	1,964	—	1,964
Cash and cash equivalents, beginning of year	7,103	—	7,103
Cash and cash equivalents, end of year	\$ 9,067	\$ —	\$ 9,067
<b>NONCASH INVESTING AND FINANCING ACTIVITIES:</b>			
Tax receivable increase related to stock option exercise	\$ 132	\$ —	\$ 132
Construction in progress included in trade accounts payable	28	—	28
Unrealized holding (losses)	\$ (1,244)	\$ —	\$ (1,244)

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Net income (loss)	\$ 4,874	\$ (5,852)	\$ (978)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	3,293	—	3,293
Interest on contingent consideration	84	—	84
Contingent consideration and non-cash compensation related to the acquisition of RFG	1,444	10,164	11,608
Stock compensation expense	191	—	191
Deferred income taxes	—	(4,361)	(4,361)
Effect on cash of changes in operating assets and liabilities:			
Accounts receivable	(20,479)	—	(20,479)
Inventories, net	(2,486)	—	(2,486)
Prepaid expenses and other current assets	(1,349)	—	(1,349)
Advances to suppliers	2,338	—	2,338
Income taxes receivable	(113)	49	(64)
Other assets	143	—	143
Payable to growers	10,516	—	10,516
Trade accounts payable and accrued expenses	5,027	—	5,027
Net cash provided by operating activities	3,483	—	3,483

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Acquisitions of property, plant, and equipment	(3,092)	—	(3,092)
Net cash used in investing activities	(3,092)	—	(3,092)

**CASH FLOWS FROM FINANCING ACTIVITIES:**

Payment of dividend to shareholders	(9,646)	—	(9,646)
Proceeds from revolving credit facility, net	14,970	—	14,970
Payments on long-term obligations	(1,611)	—	(1,611)
Retirement of stock purchased from Limoneira	(4,788)	—	(4,788)
Proceeds from stock option exercises	700	—	700
Net cash used in financing activities	(375)	—	(375)
Net increase in cash and cash equivalents	16	—	16
Cash and cash equivalents, beginning of year	7,103	—	7,103
Cash and cash equivalents, end of year	\$ 7,119	\$ —	\$ 7,119

**NONCASH INVESTING AND FINANCING ACTIVITIES:**

Tax receivable increase related to stock option exercise	\$ 208	\$ —	\$ 208
Collection for Agricola Belher Infrastructure Advance	\$ 1,690	\$ —	\$ 1,690
Unrealized holding (losses)	(6,638)	\$ —	(6,638)



**CASH FLOWS FROM OPERATING ACTIVITIES:**

Net income	\$ 10,999	\$ (9,715)	\$ 1,284
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	5,011	—	5,011
Interest on contingent consideration	133	—	133
Contingent consideration and non-cash compensation related to the acquisition of RFG	1,801	13,391	15,192
Stock compensation expense	288	—	288
Deferred income taxes	—	(3,738)	(3,738)
Effect on cash of changes in operating assets and liabilities:			
Accounts receivable	(21,594)	—	(21,594)
Inventories, net	(8,642)	—	(8,642)
Prepaid expenses and other current assets	(1,594)	—	(1,594)
Advances to suppliers	406	—	406
Income taxes receivable	2,891	62	2,953
Other assets	62	—	62
Payable to growers	21,264	—	21,264
Trade accounts payable and accrued expenses	4,599	—	4,599
Net cash provided by operating activities	15,624	—	15,624

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Acquisitions of property, plant, and equipment	(4,943)	—	(4,943)
Net cash used in investing activities	(4,943)	—	(4,943)

**CASH FLOWS FROM FINANCING ACTIVITIES:**

Payment of dividend to shareholders	(9,646)	—	(9,646)
Proceeds from revolving credit facility, net	5,810	—	5,810
Payments on long-term obligations	(3,933)	—	(3,933)
Retirement of stock purchased from Limoneira	(4,788)	—	(4,788)
Proceeds from stock option exercises	700	—	700
Net cash used in financing activities	(11,857)	—	(11,857)
Net (decrease) in cash and cash equivalents	(1,176)	—	(1,176)
Cash and cash equivalents, beginning of year	7,103	—	7,103
Cash and cash equivalents, end of year	\$ 5,927	\$ —	\$ 5,927

**NONCASH INVESTING AND FINANCING ACTIVITIES:**

Tax receivable increase related to stock option exercise	\$ 208	\$ —	\$ 208
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**CASH FLOWS FROM OPERATING ACTIVITIES:**

Net income (loss)	\$ 3,475	\$ (5,389)	\$ (1,914)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	1,689	—	1,689
Income (loss) from unconsolidated entities	1	—	1
Interest on contingent consideration	9	—	9
Contingent consideration and non-cash compensation related to the acquisition of RFG	—	9,287	9,287
Stock compensation expense	93	—	93
Deferred income taxes	—	(5,463)	(5,463)
Effect on cash of changes in operating assets and liabilities:			
Accounts receivable	(5,000)	—	(5,000)
Inventories, net	1,014	—	1,014
Prepaid expenses and other current assets	(1,208)	—	(1,208)
Advances to suppliers	(206)	—	(206)
Income taxes receivable	(100)	1,565	1,465
Other assets	(103)	—	(103)
Payable to growers	(9,769)	—	(9,769)
Trade accounts payable and accrued expenses	3,485	—	3,485
Net cash used in operating activities	(6,620)	—	(6,620)

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Acquisitions of property, plant, and equipment	(1,674)	—	(1,674)
Investment in unconsolidated entity	(125)	—	(125)
Net cash used in investing activities	(1,799)	—	(1,799)

**CASH FLOWS FROM FINANCING ACTIVITIES:**

Payment of dividend to shareholders	(11,005)	—	(11,005)
Proceeds from revolving credit facility, net	18,700	—	18,700
Payments on long-term obligations	(964)	—	(964)
Proceeds from stock option exercises	15	—	15
Net cash provided by financing activities	6,746	—	6,746
Net (decrease) in cash and cash equivalents	(1,673)	—	(1,673)
Cash and cash equivalents, beginning of year	8,019	—	8,019
Cash and cash equivalents, end of year	\$ 6,346	\$ —	\$ 6,346

**NONCASH INVESTING AND FINANCING ACTIVITIES:**

Tax receivable increase related to stock option exercise	\$ 122	\$ —	\$ 122
Unrealized holding (losses)	\$ (9,628)	\$ —	\$ (9,628)

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Net income (loss)	\$ 9,887	\$ (10,545)	\$ (658)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	3,378	—	3,378
Loss from unconsolidated entities	12	—	12
Interest on contingent consideration	18	—	18
Contingent consideration and non-cash compensation related to the acquisition of RFG	—	16,442	16,442
Stock compensation expense	303	—	303
Deferred income taxes	—	(6,518)	(6,518)
Effect on cash of changes in operating assets and liabilities:			
Accounts receivable	(9,033)	—	(9,033)
Inventories, net	(3,588)	—	(3,588)
Prepaid expenses and other current assets	(2,771)	—	(2,771)
Advances to suppliers	3,174	—	3,174
Income taxes receivable	1,415	621	2,036
Other assets	78	—	78
Payable to growers	4,628	—	4,628
Trade accounts payable and accrued expenses	5,762	—	5,762
Net cash provided by operating activities	13,263	—	13,263

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Acquisitions of property, plant, and equipment	(5,464)	—	(5,464)
Investment in unconsolidated entity	(125)	—	(125)
Net cash used in investing activities	(5,589)	—	(5,589)

**CASH FLOWS FROM FINANCING ACTIVITIES:**

Payment of dividend to shareholders	(11,005)	—	(11,005)
Proceeds from revolving credit facility, net	7,040	—	7,040
Payments on long-term obligations	(1,928)	—	(1,928)
Proceeds from issuance of FreshRealm stock	10,000	(10,000)	—
Proceeds from stock option exercises	114	—	114
Net cash used in financing activities	4,221	(10,000)	(5,779)
Net increase in cash and cash equivalents	11,895	(10,000)	1,895
Cash and cash equivalents, beginning of year	8,019	—	8,019
Cash and cash equivalents, end of year	\$ 19,914	\$ (10,000)	\$ 9,914

**NONCASH INVESTING AND FINANCING ACTIVITIES:**

Tax receivable increase related to stock option exercise	\$ 175	\$ —	\$ 175
Unrealized holding (losses)	\$ (5,825)	\$ —	\$ (5,825)

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Net income (loss)	\$ 25,859	\$ (25,026)	\$ 833
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	5,113	—	5,113
Provision for losses on accounts receivable	88	—	88
Loss from unconsolidated entities	13	—	13
Interest on contingent consideration	28	—	28
Contingent consideration and non-cash compensation related to the acquisition of RFG	—	40,767	40,767
Stock compensation expense	517	—	517
Gain on deconsolidation of FreshRealm	(12,622)	—	(12,622)
Deferred income taxes	—	(14,984)	(14,984)
Effect on cash of changes in operating assets and liabilities:			
Accounts receivable	(8,759)	—	(8,759)
Inventories, net	(4,362)	—	(4,362)
Prepaid expenses and other current assets	(3,280)	—	(3,280)
Advances to suppliers	1,828	—	1,828
Income taxes receivable	5,884	(757)	5,127
Other assets	135	—	135
Payable to growers	7,274	—	7,274
Trade accounts payable and accrued expenses	9,769	—	9,769
Net cash provided by operating activities	27,485	—	27,485

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Acquisitions of property, plant, and equipment	(7,085)	—	(7,085)
Decrease in cash due to deconsolidation of FreshRealm	(6,813)	—	(6,813)
Investment in Agricola Don Memo	(1,730)	—	(1,730)
Investment in unconsolidated entity	(125)	—	(125)
Net cash used in investing activities	(15,753)	—	(15,753)

**CASH FLOWS FROM FINANCING ACTIVITIES:**

Payment of dividend to shareholders	(11,005)	—	(11,005)
Proceeds from revolving credit facility, net	(5,250)	—	(5,250)
Payments on long-term obligations	(4,190)	—	(4,190)
Proceeds from stock option exercises	130	—	130
Proceeds from issuance of FreshRealm stock	10,000	—	10,000
Net cash used in financing activities	(10,315)	—	(10,315)
Net increase in cash and cash equivalents	1,417	—	1,417
Cash and cash equivalents, beginning of year	8,019	—	8,019
Cash and cash equivalents, end of year	\$ 9,436	\$ —	\$ 9,436

**NONCASH INVESTING AND FINANCING ACTIVITIES:**

Tax receivable increase related to stock option exercise	\$ 191	\$ —	\$ 191
Collection for Agricola Belher Infrastructure Advance	\$ 845	\$ —	\$ 845
Unrealized holding (losses)	\$ (7,416)	\$ —	\$ (7,416)

## 20. 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.

## Controls and Procedures

### DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Exchange Act, are controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the rules and forms of the SEC. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information we are required to disclose in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

As of October 31, 2014, our management, with the participation of our Chief Executive Officer and Chief Financial Officer, carried out an evaluation of the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15(e) promulgated under the Exchange Act. Based on that evaluation and as a result of the material weakness in internal control over financial reporting as set forth below, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were not effective as of October 31, 2014. Our management's annual report on internal control over financial reporting is set forth below.

### MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Internal control over financial reporting refers to the process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer, and effected by our Board of Directors, management and other personnel, 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.

With the participation of the Chief Executive Officer and Chief Financial Officer, our management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework and criteria established in the 1992 "Internal Control—Integrated Framework," issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of October 31, 2014, our internal controls over financial reporting

In January 2015, various class action lawsuits have been initiated against the company related to the restatement of previously-issued financial statements, we believe these are without merit and will defend ourselves vigorously.

were not effective due to a material weakness in our controls over our accounting for contingent consideration as such applies to business combinations.

As of October 31, 2014, there was a material weakness in the Company's controls over its accounting for and reporting of contingent consideration as such applies to business combinations. Specifically, our controls did not properly identify the failure to apply generally accepted accounting principles with respect to what qualifies as an equity instrument vs. a liability instrument in a business combination. Initially, we recorded the contingent consideration, which was settleable in common stock, as an equity instrument and therefore did not record expense based on the changes in fair value of the contingent consideration. However, the contingent consideration should have been accounted for as a liability requiring re-measurement to fair value. As a result, material errors to the recorded contingent consideration occurred and were not timely detected.

Ernst & Young LLP, an independent registered public accounting firm, issued an attestation report on the Company's internal control over financial reporting as of October 31, 2014, as stated in their report which is included herein.

### REMEDIATION EFFORTS TO ADDRESS MATERIAL WEAKNESS

To remediate the material weakness described above, we are currently evaluating the controls and procedures we will design and put in place to address this material weakness and plan to implement appropriate measures as part of this effort. These controls and procedures may include engagement of independent consultants to aid the Company in its review of future acquisitions for proper accounting.

Any actions we have taken or may take to remediate this material weakness are subject to continued management review supported by testing, as well as oversight by the Audit Committee of our Board of Directors. We cannot assure you, in any way, even if we involve an independent consultant, that material weaknesses or significant deficiencies will not occur in the future and that we will be able to remediate such weaknesses or deficiencies in a timely manner, which could impair our ability to accurately and timely report our financial position, results of operations or cash flows.

### CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

Except as described above, there has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Exchange Act) during our fiscal quarter ended October 31, 2014, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## Report of Independent Registered Public Accounting Firm

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

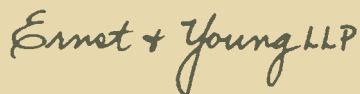
We have audited the accompanying consolidated balance sheets of Calavo Growers, Inc. as of October 31, 2014 and 2013 (restated), and the related consolidated statements of operations, comprehensive income (loss), shareholders' equity and cash flows for the years ended October 31, 2014, October 31, 2013 (restated) and October 31, 2012 (restated). 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, 2014 and 2013 (restated), and the consolidated results of its operations and its cash flows for the years ended October 31, 2014, October 31, 2013 (restated) and October 31, 2012 (restated), 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.

As discussed in Note 3 to the consolidated financial statements, the October 31, 2013 and 2012 consolidated financial statements have been restated to correct errors for the improper accounting for business combination contingent consideration.

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, 2014, 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 30, 2015 expressed an adverse opinion thereon.

The logo for Ernst & Young LLP is written in a cursive, handwritten-style font. The letters are dark and the overall appearance is professional and elegant.

Los Angeles, California  
January 30, 2015

# Report of Independent Registered Public Accounting Firm

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

We have audited Calavo Growers, Inc.'s internal control over financial reporting as of October 31, 2014, 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.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management's report on internal control over financial reporting. Management has identified a material weakness in the design and operation of the Company's controls over its accounting for business combination contingent consideration. 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, 2014 and 2013 (restated) and the related consolidated statements of operations, comprehensive income (loss), shareholders' equity and cash flows for the years ended October 31, 2014, October 31, 2013 (restated) and October 31, 2012 (restated). This material weakness was considered in determining the nature, timing and extent of audit tests applied in our audit of those financial statements, and this report does not affect our report dated January 30, 2015, which expressed an unqualified opinion on those financial statements.

In our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, Calavo Growers, Inc. has not maintained effective internal control over financial reporting as of October 31, 2014, based on the COSO criteria.

The logo for Ernst & Young LLP, featuring the company name in a stylized, cursive script font.

Los Angeles, California  
January 30, 2015

## 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 2014	HIGH	LOW	FISCAL 2013	HIGH	LOW
First Quarter	\$ 32.49	\$ 28.30	First Quarter	\$ 24.74	\$ 20.88
Second Quarter	\$ 36.17	\$ 28.69	Second Quarter	\$ 29.06	\$ 24.57
Third Quarter	\$ 35.23	\$ 29.91	Third Quarter	\$ 31.68	\$ 25.66
Fourth Quarter	\$ 48.63	\$ 35.51	Fourth Quarter	\$ 30.77	\$ 24.19

As of November 30, 2014, there were approximately 948 stockholders of record of our common stock.

As previously reported on Current Reports on Form 8-K, we issued 1,531,996 shares of unregistered Calavo common stock per the RFG Amended Acquisition Agreement, in October 2014. We filed an S-3 registration statement registering the resale of 1,097,213 of these shares in October 2014.

### DIVIDEND POLICY

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

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

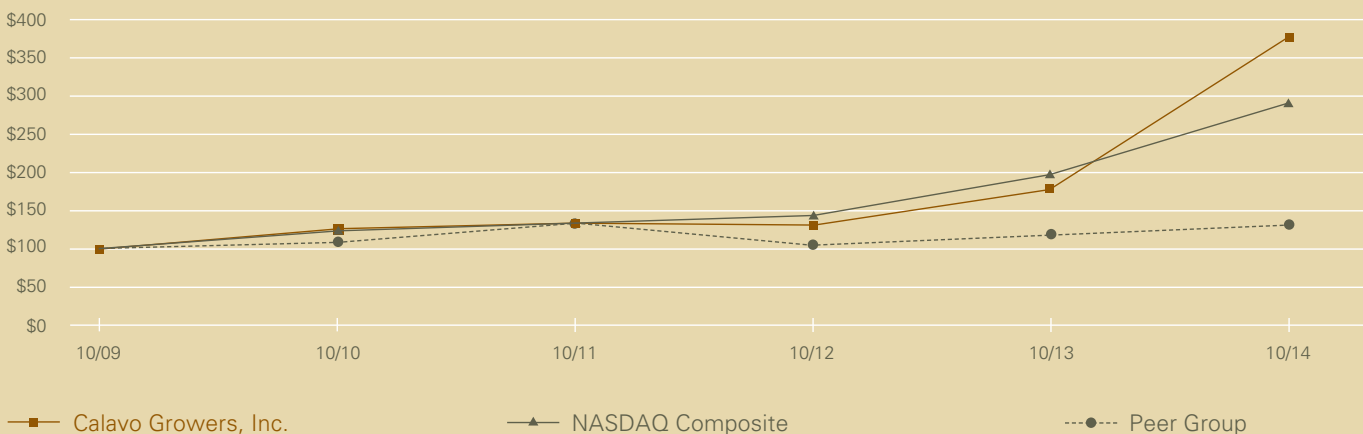
On December 12, 2013, we paid a \$0.70 per share dividend in the aggregate amount of \$11.0 million to shareholders of record on November 29, 2013.

## 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, 2009 and ending October 31, 2014. 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, 2009. 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 10/31/09 in stock or index, including reinvestment of dividends. Fiscal year ending October 31.



## 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  
Foods Division 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

**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](http://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.

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 22 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 nearly 2,000 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.

# Calavo.

## Senior Management



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(from left to right)

**ARTHUR J. BRUNO** Chief Operating Officer, Chief Financial Officer and Corporate Secretary   **ROB WEDIN** Vice President, Fresh Sales and Marketing  
**AL AHMER** Vice President, Foods Division Sales and Operations   **MIKE BROWNE** Vice President, Fresh Operations



Calavo Growers, Inc. 1141A Cummings Road, Santa Paula, California 93060 [www.calavo.com](http://www.calavo.com)

