

CALAVO GROWERS INC

Form 10-Q

September 09, 2015

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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FORM 10-Q

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

For the quarterly period ended July 31, 2015

OR

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

Commission file number: 000-33385

CALAVO GROWERS, INC.

(Exact name of registrant as specified in its charter)

California 33-0945304  
(State of incorporation) (I.R.S. Employer Identification No.)

1141-A Cummings Road

Santa Paula, California 93060

(Address of principal executive offices) (Zip code)

(805) 525-1245

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting Company  
(Do not check if a smaller reporting company)

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

Registrant's number of shares of common stock outstanding as of July 31, 2015 was 17,383,295

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CAUTIONARY STATEMENT

This Quarterly Report on Form 10-Q, including “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 2, contains forward-looking statements that involve risks, uncertainties and assumptions. If the risks or uncertainties ever materialize or the assumptions prove incorrect, the results of Calavo Growers, Inc. and its consolidated subsidiaries (Calavo, the Company, we, us or our) may differ materially from those expressed or implied by such forward-looking statements and assumptions. All statements, other than statements of historical fact, are statements that could be deemed forward-looking statements, including, but not limited to, any projections of revenue, margins, expenses, earnings, earnings per share, tax provisions, cash flows, currency exchange rates, the impact of acquisitions or other financial items; any statements of the plans, strategies and objectives of management for future operations, including execution of restructuring and integration plans; any statements regarding current or future macroeconomic trends or events and the impact of those trends and events on Calavo and its financial performance; any statements regarding pending investigations, claims or disputes; any statements of expectation or belief; and any statements of assumptions underlying any of the foregoing. Risks, uncertainties and assumptions include the impact of macroeconomic trends and events; the competitive pressures faced by Calavo's businesses; the development and transition of new products and services (and the enhancement of existing products and services) to meet customer needs; integration and other risks associated with business combinations; the hiring and retention of key employees; the resolution of pending investigations, claims and disputes; and other risks that are described herein, including, but not limited to, the items discussed in Item 1A, Risk Factors, in our Annual Report on Form 10-K for the fiscal year ended October 31, 2014, and those detailed from time to time in our other filings with the Securities and Exchange Commission. Calavo assumes no obligation and does not intend to update these forward-looking statements.

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## CALAVO GROWERS, INC.

## CONSOLIDATED CONDENSED BALANCE SHEETS (UNAUDITED)

(in thousands, except per share amounts)

|   | July 31,<br>2015 | October 31,<br>2014 |
|---|------------------|---------------------|
| Assets  |                  |                     |
| Current assets:   |                  |                     |
| Cash and cash equivalents   | \$ 5,536         | \$ 6,744            |
| Accounts receivable, net of allowances of \$1,797 (2015) and \$3,248 (2014) | 66,147           | 56,618              |
| Inventories, net  | 31,574           | 30,975              |
| Prepaid expenses and other current assets                                   | 19,263           | 19,528              |
| Advances to suppliers   | 2,746            | 3,258               |
| Income taxes receivable   | 978              | 2,627               |
| Deferred income taxes   | 3,294            | 3,294               |
| Total current assets  | 129,538          | 123,044             |
| Property, plant, and equipment, net   | 66,446           | 57,352              |
| Investment in Limoneira Company   | 35,591           | 44,355              |
| Investment in unconsolidated entities                                       | 19,760           | 18,380              |
| Deferred income taxes   | 15,354           | 12,287              |
| Goodwill  | 18,262           | 18,262              |
| Other assets  | 7,753            | 9,784               |
|   | \$ 292,704       | \$ 283,464          |
| Liabilities and shareholders' equity  |                  |                     |
| Current liabilities:  |                  |                     |
| Payable to growers  | \$ 15,035        | \$ 6,660            |
| Trade accounts payable  | 19,510           | 15,065              |
| Accrued expenses  | 19,679           | 25,303              |
| Short-term borrowings   | 36,080           | 35,900              |
| Dividend payable  | —                | 12,970              |
| Current portion of long-term obligations                                    | 3,006            | 5,099               |
| Total current liabilities   | 93,310           | 100,997             |
| Long-term liabilities:  |                  |                     |

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|   |            |            |
|---|------------|------------|
| Long-term obligations, less current portion   | 624        | 2,791      |
| Commitments and contingencies   |            |            |
| Noncontrolling interest, Calavo Salsa Lisa  | 270        | 270        |
| Shareholders' equity:   |            |            |
| Common stock (\$0.001 par value, 100,000 shares authorized; 17,383 (2015) and 17,295 (2014) shares issued and outstanding | 17         | 17         |
| Additional paid-in capital  | 146,875    | 144,496    |
| Accumulated other comprehensive income  | 7,016      | 12,713     |
| Retained earnings   | 44,592     | 22,180     |
| Total shareholders' equity  | 198,500    | 179,406    |
|   | \$ 292,704 | \$ 283,464 |

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

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CALAVO GROWERS, INC.

## CONSOLIDATED CONDENSED STATEMENTS OF INCOME (UNAUDITED)

(in thousands, except per share amounts)

|   | Three months ended<br>July 31, |            | Nine months ended<br>July 31, |            |
|---|--------------------------------|------------|-------------------------------|------------|
|   | 2015                           | 2014       | 2015                          | 2014       |
| Net sales   | \$ 232,450                     | \$ 218,702 | \$ 648,830                    | \$ 581,761 |
| Cost of sales                                       | 208,172                        | 198,526    | 583,772                       | 529,052    |
| Gross margin  | 24,278                         | 20,176     | 65,058                        | 52,709     |
| Selling, general and administrative                 | 10,620                         | 9,738      | 30,116                        | 27,175     |
| Contingent consideration related to RFG acquisition | —                              | 23,249     | —                             | 39,503     |
| Operating income (loss)                             | 13,658                         | (12,811)   | 34,942                        | (13,969)   |
| Interest expense                                    | (195)                          | (220)      | (654)                         | (768)      |
| Gain on deconsolidation of FreshRealm               | —                              | 12,622     | —                             | 12,622     |
| Other income, net                                   | 88                             | 120        | 514                           | 525        |
| Income (loss) before provision for income taxes     | 13,551                         | (289)      | 34,802                        | (1,590)    |
| Provision (benefit) for income taxes                | 4,910                          | (1,780)    | 12,390                        | (2,423)    |
| Net income  | 8,641                          | 1,491      | 22,412                        | 833        |
| Add: Net loss attributable to                       |                                |            |                               |            |
| noncontrolling interest                             | —                              | 60         | —                             | 506        |
| Net income attributable to Calavo Growers, Inc.     | \$ 8,641                       | \$ 1,551   | \$ 22,412                     | \$ 1,339   |
| Calavo Growers, Inc.'s net income per share:        |                                |            |                               |            |
| Basic   | \$ 0.50                        | \$ 0.10    | \$ 1.30                       | \$ 0.08    |
| Diluted   | \$ 0.50                        | \$ 0.09    | \$ 1.29                       | \$ 0.08    |
| Number of shares used in per share computation:     |                                |            |                               |            |
| Basic   | 17,301                         | 15,760     | 17,291                        | 15,760     |
| Diluted   | 17,386                         | 17,667     | 17,354                        | 17,230     |

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

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CALAVO GROWERS, INC.

## CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(in thousands)

|   | Three months ended<br>July 31, |          | Nine months ended<br>July 31, |            |
|---|--------------------------------|----------|-------------------------------|------------|
|   | 2015                           | 2014     | 2015                          | 2014       |
| Net income  | \$ 8,641                       | \$ 1,491 | \$ 22,412                     | \$ 833     |
| Other comprehensive loss, before tax:                           |                                |          |                               |            |
| Unrealized investment losses arising during period              | (4,062)                        | (1,590)  | (8,764)                       | (7,416)    |
| Income tax benefit related to items of other comprehensive loss | 1,422                          | 620      | 3,067                         | 2,893      |
| Other comprehensive loss, net of tax                            | (2,640)                        | (970)    | (5,697)                       | (4,523)    |
| Comprehensive income (loss)                                     | 6,001                          | 521      | 16,715                        | (3,690)    |
| Add: Net loss attributable to noncontrolling interest           | —                              | 60       | —                             | 506        |
| Comprehensive income (loss) – Calavo Growers, Inc.              | \$ 6,001                       | \$ 581   | \$ 16,715                     | \$ (3,184) |

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

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CALAVO GROWERS, INC.

## CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

|  | Nine months ended<br>July 31, |          |
|--|-------------------------------|----------|
|  | 2015                          | 2014     |
| Cash Flows from Operating Activities:  |                               |          |
| Net income   | \$ 22,412                     | \$ 833   |
| Adjustments to reconcile net income to net cash provided by operating activities:            |                               |          |
| Depreciation and amortization  | 5,968                         | 5,113    |
| Provision for losses on accounts receivable  | 37                            | 88       |
| Loss from unconsolidated entities  | 110                           | 13       |
| Interest on contingent consideration   | —                             | 28       |
| Contingent consideration and non-cash compensation expense related to the acquisition of RFG | —                             | 40,767   |
| Stock compensation expense   | 2,021                         | 517      |
| Gain on deconsolidation of FreshRealm  | —                             | (12,622) |
| Deferred income taxes  | —                             | (14,984) |
| Effect on cash of changes in operating assets and liabilities:                               |                               |          |
| Accounts receivable  | (9,566)                       | (8,759)  |
| Inventories, net   | (551)                         | (4,362)  |
| Prepaid expenses and other current assets  | 2,068                         | (3,280)  |
| Advances to suppliers  | 512                           | 1,828    |
| Income taxes receivable  | 1,772                         | 5,127    |
| Other assets   | (296)                         | 135      |
| Payable to growers   | 9,220                         | 7,274    |
| Trade accounts payable and accrued expenses  | (1,179)                       | 9,769    |
| Net cash provided by operating activities  | 32,528                        | 27,485   |
| Cash Flows from Investing Activities:  |                               |          |
| Acquisitions of property, plant, and equipment   | (13,855)                      | (7,085)  |
| Investment in unconsolidated entities  | —                             | (125)    |
| Proceeds received for repayment of San Rafael note   | 275                           | —        |
| Proceeds from liquidation of Calavo Chile  | 262                           | —        |
| Decrease in cash due to deconsolidation of FreshRealm  | —                             | (6,813)  |
| Investment in FreshRealm   | (800)                         | —        |
| Loan to Agricola Don Memo  | (1,803)                       | (1,730)  |
| Investment in Agricola Don Memo  | (1,000)                       | —        |
| Net cash used in investing activities  | (16,921)                      | (15,753) |
| Cash Flows from Financing Activities:  |                               |          |
| Payment of dividend to shareholders  | (12,970)                      | (11,005) |

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|   |            |            |
|---|------------|------------|
| Proceeds from (payments on) revolving credit facility | 180        | (5,250)    |
| Payments on long-term obligations                     | (4,260)    | (4,190)    |
| Proceeds from stock option exercises                  | 235        | 130        |
| Proceeds from issuance of FreshRealm stock            | —          | 10,000     |
| Net cash used in financing activities                 | (16,815)   | (10,315)   |
| Net increase (decrease) in cash and cash equivalents  | (1,208)    | 1,417      |
| Cash and cash equivalents, beginning of period        | 6,744      | 8,019      |
| Cash and cash equivalents, end of period              | \$ 5,536   | \$ 9,436   |
| Noncash Investing and Financing Activities:           |            |            |
| Collection for Agricola Belher Infrastructure Advance | \$ 845     | \$ 845     |
| Unrealized holding losses                             | \$ (8,764) | \$ (7,416) |

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

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CALAVO GROWERS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(UNAUDITED)

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 and Mexico. 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.

The accompanying unaudited consolidated condensed financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, the accompanying unaudited consolidated condensed financial statements contain all adjustments, consisting of adjustments of a normal recurring nature necessary to present fairly the Company's financial position, results of operations and cash flows. The results of operations for interim periods are not necessarily indicative of the results that may be expected for a full year. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended October 31, 2014.

Recently Adopted Accounting Pronouncements

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

#### Recently Issued Accounting Standards

In April 2015, the Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update ("ASU") which changes the presentation of debt issuance costs in financial statements. Under the ASU, an entity presents such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs is reported as interest expense. The amendment in this ASU will be effective for us beginning the first day of our 2016 fiscal year. Early adoption is permitted. We do not expect the adoption of these amendments to have a material impact on our financial statements.

In February 2015, the FASB issued an ASU which amends certain requirements in ASC 810 for determining whether a variable interest entity must be consolidated. The amendment in this ASU will be effective for us beginning the first day of our 2016 fiscal year. Early adoption is permitted. We do not expect the adoption of these amendments to have a material impact on our financial statements.

In May 2014, the 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

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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.

## 2. Information regarding our operations in different segments

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 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):

|                      | Three months ended July 31, 2015 |              |      |            | Three months ended July 31, 2014 |              |      |            |
|----------------------|----------------------------------|--------------|------|------------|----------------------------------|--------------|------|------------|
|                      | Fresh products                   | Calavo Foods | RFG  | Total      | Fresh products                   | Calavo Foods | RFG  | Total      |
| Third-party sales:   |                                  |              |      |            |                                  |              |      |            |
| Avocados             | \$ 132,165                       | \$ —         | \$ — | \$ 132,165 | \$ 124,429                       | \$ —         | \$ — | \$ 124,429 |
| Tomatoes             | 1,154                            | —            | —    | 1,154      | 610                              | —            | —    | 610        |
| Papayas              | 2,559                            | —            | —    | 2,559      | 3,369                            | —            | —    | 3,369      |
| Pineapples           | 535                              | —            | —    | 535        | 1,658                            | —            | —    | 1,658      |
| Other fresh products | 72                               | —            | —    | 72         | 265                              | —            | —    | 265        |
| Food service         | —                                | 13,575       | —    | 13,575     | —                                | 13,748       | —    | 13,748     |

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|                       |            |           |           |            |            |           |           |            |
|-----------------------|------------|-----------|-----------|------------|------------|-----------|-----------|------------|
| Retail and club       | —          | 6,331     | 79,927    | 86,258     | —          | 6,082     | 72,477    | 78,559     |
| Total gross sales     | 136,485    | 19,906    | 79,927    | 236,318    | 130,331    | 19,830    | 72,477    | 222,638    |
| Less sales incentives | (715)      | (2,421)   | (732)     | (3,868)    | (499)      | (2,737)   | (700)     | (3,936)    |
| Net sales             | \$ 135,770 | \$ 17,485 | \$ 79,195 | \$ 232,450 | \$ 129,832 | \$ 17,093 | \$ 71,777 | \$ 218,702 |

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|                       | Nine months ended July 31, 2015 |              |            |            | Nine months ended July 31, 2014 |              |            |            |
|-----------------------|---------------------------------|--------------|------------|------------|---------------------------------|--------------|------------|------------|
|                       | Fresh products                  | Calavo Foods | RFG        | Total      | Fresh products                  | Calavo Foods | RFG        | Total      |
| Third-party sales:    |                                 |              |            |            |                                 |              |            |            |
| Avocados              | \$ 360,334                      | \$ —         | \$ —       | \$ 360,334 | \$ 320,506                      | \$ —         | \$ —       | \$ 320,506 |
| Tomatoes              | 16,813                          | —            | —          | 16,813     | 19,706                          | —            | —          | 19,706     |
| Papayas               | 6,977                           | —            | —          | 6,977      | 9,793                           | —            | —          | 9,793      |
| Pineapples            | 2,165                           | —            | —          | 2,165      | 4,413                           | —            | —          | 4,413      |
| Other fresh products  | 406                             | —            | —          | 406        | 409                             | —            | —          | 409        |
| Food service          | —                               | 37,223       | —          | 37,223     | —                               | 36,393       | —          | 36,393     |
| Retail and club       | —                               | 17,451       | 218,547    | 235,998    | —                               | 17,137       | 185,349    | 202,486    |
| Total gross sales     | 386,695                         | 54,674       | 218,547    | 659,916    | 354,827                         | 53,530       | 185,349    | 593,706    |
| Less sales incentives | (1,423)                         | (7,673)      | (1,990)    | (11,086)   | (1,321)                         | (8,464)      | (2,160)    | (11,945)   |
| Net sales             | \$ 385,272                      | \$ 47,001    | \$ 216,557 | \$ 648,830 | \$ 353,506                      | \$ 45,066    | \$ 183,189 | \$ 581,761 |

Fresh products    Calavo Foods    RFG    Total  
(All amounts are presented in thousands)

## Three months ended July 31, 2015

|               |            |           |           |            |
|---------------|------------|-----------|-----------|------------|
| Net sales     | \$ 135,770 | \$ 17,485 | \$ 79,195 | \$ 232,450 |
| Cost of sales | 126,105    | 11,415    | 70,652    | 208,172    |
| Gross margin  | \$ 9,665   | \$ 6,070  | \$ 8,543  | \$ 24,278  |

## Three months ended July 31, 2014

|               |            |           |           |            |
|---------------|------------|-----------|-----------|------------|
| Net sales     | \$ 129,832 | \$ 17,093 | \$ 71,777 | \$ 218,702 |
| Cost of sales | 120,318    | 13,253    | 64,955    | 198,526    |
| Gross margin  | \$ 9,514   | \$ 3,840  | \$ 6,822  | \$ 20,176  |

For the three months ended July 31, 2015 and 2014, inter-segment sales and cost of sales for Fresh products totaling \$7.8 million and \$6.9 million were eliminated. For the three months ended July 31, 2015 and 2014, inter-segment sales and cost of sales for Calavo Foods totaling \$4.3 million and \$4.4 million were eliminated.



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|  | Fresh<br>products | Calavo<br>Foods | RFG        | Total      |
|--|-------------------|-----------------|------------|------------|
| (All amounts are presented in thousands) |                   |                 |            |            |
| Nine months ended July 31, 2015          |                   |                 |            |            |
| Net sales                                | \$ 385,272        | \$ 47,001       | \$ 216,557 | \$ 648,830 |
| Cost of sales                            | 355,991           | 31,725          | 196,056    | 583,772    |
| Gross margin                             | \$ 29,281         | \$ 15,276       | \$ 20,501  | \$ 65,058  |
| Nine months ended July 31, 2014          |                   |                 |            |            |
| Net sales                                | \$ 353,506        | \$ 45,066       | \$ 183,189 | \$ 581,761 |
| Cost of sales                            | 328,101           | 34,811          | 166,140    | 529,052    |
| Gross margin                             | \$ 25,405         | \$ 10,255       | \$ 17,049  | \$ 52,709  |

For the nine months ended July 31, 2015 and 2014, inter-segment sales and cost of sales for Fresh products totaling \$26.9 million and \$24.5 million were eliminated. For the nine months ended July 31, 2015 and 2014, inter-segment sales and cost of sales for Calavo Foods totaling \$11.8 million and \$12.0 million were eliminated.

## 3. Inventories

Inventories consist of the following (in thousands):

|                                  | July 31,<br>2015 | October 31,<br>2014 |
|----------------------------------|------------------|---------------------|
| Fresh fruit                      | \$ 17,718        | \$ 15,640           |
| Packing supplies and ingredients | 6,808            | 6,324               |
| Finished prepared foods          | 7,048            | 9,011               |
|                                  | \$ 31,574        | \$ 30,975           |

Inventories are stated at the lower of cost or market. We periodically review the value of items in inventory and record any necessary reserves of inventory based on our assessment of market conditions. No inventory reserve was considered necessary as of July 31, 2015 and October 31, 2014.

## 4. Related party transactions

Certain members of our Board of Directors market California avocados through Calavo pursuant to marketing agreements substantially similar to the marketing agreements that we enter into with other growers. During the three months ended July 31, 2015 and 2014, the aggregate amount of avocados procured from entities owned or controlled by members of our Board of Directors was \$9.1 million and \$8.0 million. During the nine months ended July 31, 2015 and 2014, the aggregate amount of avocados procured from entities owned or controlled by members of our Board of Directors was \$15.4 million and \$9.2 million. Amounts payable to these board members were \$2.9 million and \$0.6 million as of July 31, 2015 and October 31, 2014.

During the three months ended July 31, 2015 and 2014, we received \$0.1 million as dividend income from Limoneira Company (Limoneira). During the nine months ended July 31, 2015 and 2014, we received \$0.2 million as dividend income from Limoneira. In addition, we lease office space from Limoneira and paid rental expenses of \$0.1 million for the three months ended July 31, 2015 and 2014. In addition, we paid rental expenses of \$0.2 million for the nine months ended July 31, 2015 and 2014. Harold Edwards, who is a member of our Board of Directors, is the Chief Executive Officer of Limoneira Company.

During our 3rd fiscal quarter, in conjunction with another round of financing for FreshRealm, LLC (FreshRealm), we invested \$0.8 million. Based on the total number of shares issued, our ownership interest in FreshRealm decreased from

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approximately 50% to a total of 49.5%. Additionally, two officers of Calavo contributed \$1.8 million, in exchange for a 2.8% ownership interest, and three board of director members contributed \$0.3 million in exchange for 0.44% ownership interest.

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. RFG's Texas operating facility leases a building from THNC, LLC (THNC) pursuant to an operating lease. 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). LIG, THNC and Third Coast are majority owned by entities owned by three employees of Calavo (former/current executives of RFG). See the following tables for the related party activity and balances for fiscal year 2015 and 2014:

| (in thousands)             | Three months<br>ended July 31, |        | Nine months<br>ended July 31, |        |
|----------------------------|--------------------------------|--------|-------------------------------|--------|
|                            | 2015                           | 2014   | 2015                          | 2014   |
| Rent paid to LIG           | \$ 131                         | \$ 131 | \$ 409                        | \$ 392 |
| Rent paid to THNC, LLC     | \$ 76                          | \$ 76  | \$ 228                        | \$ 228 |
| Sales to Third Coast       | \$ 31                          | \$ 270 | \$ 270                        | \$ 783 |
| Purchases from Third Coast | \$ 86                          | \$ 157 | \$ 203                        | \$ 296 |

| (in thousands):      | July 31, 2015 | October 31, 2014 |
|----------------------|---------------|------------------|
| Due to Third Coast   | \$ 98         | \$ 17            |
| Due from Third Coast | \$ -          | \$ 407           |

## 5. Other assets

Other assets consist of the following (in thousands):

|                                  | July 31,<br>2015 | October 31,<br>2014 |
|----------------------------------|------------------|---------------------|
| Intangibles, net                 | \$ 4,942         | \$ 5,925            |
| Grower advances                  | 420              | 642                 |
| Loan to Agricola Belher          | —                | 845                 |
| Loan to FreshRealm members       | 304              | 296                 |
| Notes receivable from San Rafael | 1,279            | 1,343               |
| Other                            | 808              | 733                 |
|                                  | \$ 7,753         | \$ 9,784            |

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Intangible assets consist of the following (in thousands):

|                             | Weighted-Average Useful Life | July 31, 2015        |                     |                | October 31, 2014     |                     |                |
|-----------------------------|------------------------------|----------------------|---------------------|----------------|----------------------|---------------------|----------------|
|                             |                              | Gross Carrying Value | Accum. Amortization | Net Book Value | Gross Carrying Value | Accum. Amortization | Net Book Value |
| Customer list/relationships | 8.0 years                    | \$ 7,640             | \$ (4,042)          | \$ 3,598       | \$ 7,640             | \$ (3,323)          | \$ 4,317       |
| Trade names                 | 8.4 years                    | 2,760                | (2,098)             | 662            | 2,760                | (1,900)             | 860            |
| Trade secrets/recipes       | 13.0 years                   | 630                  | (257)               | 373            | 630                  | (220)               | 410            |
| Brand name intangibles      | indefinite                   | 275                  | —                   | 275            | 275                  | —                   | 275            |
| Non-competition agreements  | 5.0 years                    | 267                  | (233)               | 34             | 267                  | (204)               | 63             |
| Intangibles, net            |                              | \$ 11,572            | \$ (6,630)          | \$ 4,942       | \$ 11,572            | \$ (5,647)          | \$ 5,925       |

We anticipate recording amortization expense of approximately \$0.3 million for the remainder of fiscal 2015, with \$1.2 million of amortization expense for fiscal year 2016, \$1.1 million for fiscal year 2017 and 2018, \$0.7 million for each of the fiscal year 2019, and \$0.2 million for years thereafter, through fiscal year 2023.

## 6. Stock-Based Compensation

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.

On January 20, 2015, 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 \$40.39. On January 1, 2016, as long as the directors are still serving on the board, these shares lose their restriction and become non-forfeitable and transferable. These shares were granted pursuant to our 2011 Management Incentive Plan. The total recognized stock-based compensation expense for these grants was \$0.2 million and \$0.5 million for the three and nine months ended July 31, 2015.

On February 6, 2015, our executive officers were granted a total of 55,394 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 \$40.17. These shares vest in one-third increments, on an annual basis, beginning January 8, 2016. These shares were granted pursuant to our 2011 Management Incentive Plan. The total recognized stock-based compensation expense for these grants was \$0.1 million and \$0.3 million for the three and nine months ended July 31, 2015. On June 15, 2015, our Chief Operating Officer/Chief Financial Officer retired from Calavo. His unvested portion of restricted stock of 12,322 shares issued in February of 2015 and January of 2014 was forfeited. As part of his retirement he was granted 12,322 shares of unrestricted stock. The closing price of our stock on such date was \$49.95. We recorded for this grant \$0.6 million of stock-based compensation expense for the three and nine months ended July 31, 2015.

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

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. We measure the fair value of our stock based compensation awards on the date of grant.

A summary of stock option activity, related to our 2005 Stock Incentive Plan, is as follows (in thousands, except for per share amounts):

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|                                 | Number of Shares | Weighted-Average<br>Exercise Price | Aggregate<br>Intrinsic Value |
|---------------------------------|------------------|------------------------------------|------------------------------|
| Outstanding at October 31, 2014 | 17               | \$ 17.22                           |                              |
| Exercised                       | (6)              | \$ 16.00                           |                              |
| Outstanding at July 31, 2015    | 11               | \$ 17.94                           | \$ 601                       |
| Exercisable at July 31, 2015    | 9                | \$ 19.28                           | \$ 491                       |

At July 31, 2015, outstanding stock options had a weighted-average remaining contractual term of 3.3 years. At July 31, 2015, exercisable stock options had a weighted-average remaining contractual term of 2.9 years. The total recognized and unrecognized stock-based compensation expense was insignificant for the three and nine months ended July 31, 2015.

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<br>Exercise<br>Price | Aggregate<br>Intrinsic<br>Value |
|---------------------------------|------------------|---------------------------------------|---------------------------------|
| Outstanding at October 31, 2014 | 20               | \$ 22.64                              |                                 |
| Exercised                       | (6)              | \$ 21.80                              |                                 |
| Outstanding at July 31, 2015    | 14               | \$ 23.00                              | \$ 443                          |
| Exercisable at July 31, 2015    | 4                | \$ 23.48                              | \$ 125                          |

At July 31, 2015, outstanding stock options had a weighted-average remaining contractual term of 5.6 years. At July 31, 2015, exercisable stock options had a weighted-average remaining contractual term of 4.0 years. The total recognized and unrecognized stock-based compensation expense was insignificant for the three and nine months ended July 31, 2015.

## 7. Other events

## 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

In January 2015, various class action lawsuits, which have been consolidated into a single lawsuit during our second fiscal quarter, were initiated against the company related to the restatement of previously-issued financial statements. In the third quarter of fiscal 2015, the plaintiffs filed an amended complaint, to which we filed a motion to dismiss (MTD). In the fourth quarter of fiscal 2015, the plaintiffs filed an opposition to this MTD, to which we subsequently filed a reply to said opposition. Currently, a hearing is scheduled in October 2015. During our 3rd fiscal quarter, we incurred \$0.2 million in legal expenses related to that lawsuit. We intend to vigorously defend ourselves against this lawsuit and we do not expect that such legal claims and litigation will ultimately have a material adverse effect on our consolidated financial position or results of operations.

## 8. 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).

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The following table sets forth our financial assets and liabilities as of July 31, 2015 that are measured on a recurring basis during the period, segregated by level within the fair value hierarchy:

|                                    | Level 1                                  | Level 2 | Level 3 | Total     |
|------------------------------------|--|---------|---------|-----------|
|                                    | (All amounts are presented in thousands) |         |         |           |
| Assets at Fair Value:              |  |         |         |           |
| Investment in Limoneira Company(1) | \$ 35,591                                | -       | -       | \$ 35,591 |
| Total assets at fair value         | \$ 35,591                                | \$ -    | \$ -    | \$ 35,591 |

(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 July 31, 2015 and October 31, 2014 equaled \$20.59 per share and \$25.66 per share. Unrealized gains and losses are recognized through other comprehensive income. Unrealized investment holding losses arising during the three months ended July 31, 2015 and 2014 was \$4.1 million and \$1.6 million. Unrealized investment holding losses arising during the nine months ended July 31, 2015 and 2014 was \$8.8 million and \$7.4 million.

The following table sets forth our financial assets as of July 31, 2015 that are measured on a non-recurring basis during the period, segregated by level within the fair value hierarchy:

|                             | Level 1                                  | Level 2 | Level 3   | Total     |
|-----------------------------|--|---------|-----------|-----------|
|                             | (All amounts are presented in thousands) |         |           |           |
| Assets at Fair Value:       |  |         |           |           |
| Investment in FreshRealm(2) | \$ -                                     | \$ -    | \$ 17,760 | \$ 17,760 |
| Total assets at fair value  | \$ -                                     | \$ -    | \$ 17,760 | \$ 17,760 |

(2) We estimated the fair value of our noncontrolling interest in FreshRealm by performing a forecast projection analysis when FreshRealm was

deconsolidated in fiscal 2014. This analysis was conducted with 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. Our investment in FreshRealm has

been recorded as investment in unconsolidated subsidiaries on our balance sheet. In June of 2015, we contributed an additional \$0.8 million as an

investment into FreshRealm.

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

|                              | Balance at<br>October 31,<br>2013        | Interest | Revalue<br>Adjustment | Settled | Balance at<br>July 31,<br>2014 |
|------------------------------|--|----------|-----------------------|---------|--------------------------------|
|                              | (All amounts are presented in thousands) |          |                       |         |                                |
| RFG contingent consideration | \$ 15,602                                | —        | \$ 40,767             | \$ —    | 56,369                         |
| Total                        | \$ 15,602                                | —        | \$ 40,767             | \$ —    | 56,369                         |

There was no contingent consideration expense for the first nine months ended of fiscal 2015. In fiscal 2014, 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.

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## 9. Noncontrolling interest

The following table reconciles shareholders' equity attributable to noncontrolling interest related to the Salsa Lisa acquisition (in thousands).

| Salsa Lisa noncontrolling interest                             | Three months<br>ended<br>July 31, 2015 | Three months<br>ended<br>July 31, 2014 |
|--|--|--|
| Noncontrolling interest, beginning                             | \$ 270                                 | \$ (104)                               |
| Net loss attributable to noncontrolling interest of Salsa Lisa | —                                      | (42)                                   |
| Noncontrolling interest, ending                                | \$ 270                                 | \$ (146)                               |

|  | Nine months<br>ended<br>July 31, 2015 | Nine months<br>ended<br>July 31, 2014 |
|--|---------------------------------------|---------------------------------------|
| Noncontrolling interest, beginning                             | \$ 270                                | \$ (57)                               |
| Net loss attributable to noncontrolling interest of Salsa Lisa | —                                     | (89)                                  |
| Noncontrolling interest, ending                                | \$ 270                                | \$ (146)                              |

## 10. Agricola Don Memo

In December 2014, Calavo formed a wholly owned subsidiary Calavo Growers De Mexico, S. de R.L. de C.V. ("Calavo Sub"). In July 2015, Calavo Sub entered into a Shareholder Agreement with Grupo Belo del Pacifico, S.A. de C.V., ("Belo") a Mexican Company owned by Agricola Belher, and Agricola Don Memo, S.A. de C.V. ("Don Memo"). Don Memo, a Mexican corporation created in July 2013, is engaged in the business of owning and improving land in Jalisco, Mexico for the growing of tomatoes and other produce and the sale and distribution of tomatoes and other produce. Pending shareholder resolution (expected to occur during our 4th fiscal quarter), Belo and Calavo Sub will

have an equal one-half ownership interest in Don Memo in exchange for \$2 million each. Via a management service agreement, Belo, through its officers and employees, shall have day-to-day power and authority to manage the operations. Belo is entitled to a management fee equal to 20% of the earnings before interest and taxes (EBIT), as defined, which is payable annually in July of each year. Additionally, Calavo Sub is entitled to a 12% commission, calculated in U.S. dollars, for the sale of produce in the Mexican National Market, United States, Canada, and any other overseas market.

We have loaned \$5.0 million to Don Memo since its formation. We have recorded such loans in prepaids and other current assets. These monies, effectively a bridge loan, are expected to be replaced with a loan from an institutional lender during our 4th fiscal quarter and this bridge loan will be immediately repaid from the proceeds of the new loan. Additionally, \$2.0 million, representing Calavo Sub's 50% ownership in Don Memo, is included in investment in unconsolidated entities on our balance sheet.

#### 11. Jacksonville

In July 2015, we entered into a Lease Agreement with Green Cove, LLC to lease an operating facility in Jacksonville Florida. The facility is approximately 200,000 square feet and is expected to be a value-added distribution center for all operating segments. We took possession of the property in August 2015 and plan to make significant improvements to this facility. Through July 31, 2015, we have capitalized \$0.6 million in construction in progress in connection to the improvements for this facility. Green Cove, LLC has agreed to reimburse Calavo for up to \$1.0 million for tenant improvements. The lease is scheduled to begin in November 2015 and terminate in October 2031.

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12.Subsequent events

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

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## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This information should be read in conjunction with the unaudited consolidated condensed financial statements and the notes thereto included in this Quarterly Report, and the audited consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in the Annual Report on Form 10-K for the year ended October 31, 2014 of Calavo Growers, Inc. (we, Calavo, or the Company).

## Recent Developments

## 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.

## Net Sales

The following table summarizes our net sales by business segment for each of the three and nine-month periods ended July 31, 2015 and 2014:

| (in thousands)  | Three months ended July 31, |        |            | Nine months ended July 31, |        |            |
|-----------------|-----------------------------|--------|------------|----------------------------|--------|------------|
|                 | 2015                        | Change | 2014       | 2015                       | Change | 2014       |
| Net sales:      |                             |        |            |                            |        |            |
| Fresh products  | \$ 135,770                  | 4.6 %  | \$ 129,832 | \$ 385,272                 | 9.0 %  | \$ 353,506 |
| Calavo Foods    | 17,485                      | 2.3 %  | 17,093     | 47,001                     | 4.3 %  | 45,066     |
| RFG             | 79,195                      | 10.3 % | 71,777     | 216,557                    | 18.2 % | 183,189    |
| Total net sales | \$ 232,450                  | 6.3 %  | \$ 218,702 | \$ 648,830                 | 11.5 % | \$ 581,761 |

## As a percentage of net sales:

|                |        |        |        |        |
|----------------|--------|--------|--------|--------|
| Fresh products | 58.4 % | 59.4 % | 59.4 % | 60.8 % |
|----------------|--------|--------|--------|--------|

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|              |       |   |       |   |       |   |       |   |
|--------------|-------|---|-------|---|-------|---|-------|---|
| Calavo Foods | 7.5   | % | 7.8   | % | 7.2   | % | 7.7   | % |
| RFG          | 34.1  | % | 32.8  | % | 33.4  | % | 31.5  | % |
|              | 100.0 | % | 100.0 | % | 100.0 | % | 100.0 | % |

Summary

Net sales for the three months ended July 31, 2015, compared to fiscal 2014, increased by \$13.7 million, or 6.3%. Net sales for the nine months ended July 31, 2015, compared to fiscal 2014, increased by \$67.1 million, or 11.5%. The increases in sales, when compared to the same corresponding prior year periods, are related to increases in sales from all segments.

For the quarter ended July 31, 2015, our largest percentage increase in sales was RFG sales, followed by our Fresh Products segment, as shown above. The increase in RFG sales was due primarily to increased sales from cut fruit and vegetables platters, as well as an increase in sales of deli products. Our increase in Fresh product sales during the third quarter of fiscal 2015, was due primarily to increased sales of Mexican and Peruvian sourced avocados. Partially offsetting this increase in Fresh product sales for the third quarter of fiscal 2015, however, were decreases in sales of California sourced avocados and pineapples. We experienced an increase in our Calavo Foods segment during the three months ended July 31, 2015, which was due primarily to an increase in the sales of our guacamole and salsa products. See discussion below for further details.

For the nine months ended July 31, 2015, our largest percentage increase in sales was RFG sales, followed by our Fresh Products segment, as shown above. Our increase in RFG sales was due primarily to increased sales from cut fruit and vegetables platters, as well as an increase in sales of deli products. Our increase in Fresh product sales during the

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nine months ended July 31, 2015 was due primarily to increased sales of Mexican, California and Peruvian sourced avocados. Partially offsetting this increase in Fresh product sales for the nine months ended July 31, 2015, however, were decreases in sales of tomatoes, papayas, Chilean sourced avocados and pineapples. We experienced an increase in our Calavo Foods segment during the nine months ended July 31, 2015, which was due primarily to an increase in the sales of our guacamole and salsa products. See discussion below for further details.

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

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

Third Quarter 2015 vs. Third Quarter 2014

Net sales delivered by the Fresh products business increased by approximately \$5.9 million, or 4.6%, for the third quarter of fiscal 2015, when compared to the same period for fiscal 2014. As discussed above, this increase in Fresh product sales during the third quarter of fiscal 2015 was primarily related to increased sales of Mexican and Peruvian sourced avocados, partially offset by decreases in sales from California sourced avocados and pineapples.

Sales of Mexican sourced avocados increased \$12.7 million, or 19.9%, for the third quarter of 2015, when compared to the same prior year period. The increase in Mexican sourced avocados was primarily due to an increase in the pounds sold, which increased by approximately 15.2 million pounds, or 34.6%. Partially offsetting this increase in pounds sold, however, is a decrease in the sales price per carton, which decreased by approximately 10.9%. We attribute much of this change to the higher supply of avocados in the market.

Sales of Peruvian sourced avocados increased to \$4.2 million for the third quarter of fiscal 2015, compared to \$0.2 million for the same period for fiscal 2014. The increase in Peruvian sourced avocados was primarily due to an increase in in the pounds sold, which increased by approximately 3.7 million pounds.

Partially offsetting this increase was a decrease in sales of California sourced avocados, which decreased \$9.5 million, or 15.9%, for the third quarter of 2015, 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 5.4 million pounds of avocados sold, or 12.4%, when compared to the same prior year period. We attribute most of this decrease in volume to the deliveries coming earlier in fiscal 2015 compared to prior year. Due to weather conditions, growers opted to pick fruit earlier in fiscal 2015 (i.e. during the first six months of fiscal 2015), which caused a decline of fruit deliveries during our 3rd fiscal quarter. Further contributing to this decrease, was a decrease in the sales price per carton, which decreased by approximately 3.9%. We attribute much of this change to a higher supply of avocados in the market.

Sales of pineapples decreased to \$0.5 million for the third quarter of fiscal 2015, compared to \$1.7 million for the same period for fiscal 2014. The decrease in sales for pineapples is due to a decrease in cartons sold to 0.1 million cartons from 0.2 million cartons. In addition to this decrease is a decrease in the sales price per carton, which decreased approximately 24.9%.

#### Nine Months Ended 2015 vs. Nine Months Ended 2014

Net sales delivered by the Fresh products business increased by approximately \$31.8 million, or 9.0%, for the nine months ended July 31, 2015, when compared to the same period for fiscal 2014. As discussed above, this increase in Fresh product sales during the nine months ended July 31, 2015, was primarily related to increased sales of Mexican,

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California and Peruvian sourced avocados, partially offset by a decrease in sales from tomatoes, papayas, Chilean sourced avocados and pineapples. See details below.

Sales of Mexican sourced avocados increased \$27.1 million, or 11.2%, for the nine months ended July 31, 2015, when compared to the same prior year period. The increase in Mexican sourced avocados was primarily due to an increase in the pounds sold, which increased by approximately 33.1 million pounds of avocados sold, or 17.9%, when compared to the same prior year period. Partially offsetting this increase in pounds sold, however, is a decrease in the sales price per carton. The sales price per carton for Mexican sourced avocados decreased by approximately 5.7%. We attribute much of this change to a higher supply of avocados in the market.

Sales of California sourced avocados increased \$10.9 million, or 14.4%, for the nine months ended July 31, 2015, when compared to the same prior year period. The increase in California sourced avocados was primarily due to an increase in pounds sold. California sourced avocados sales reflect an increase in 9.4 million pounds of avocados sold, or 16.8%, when compared to the same prior year period. We attribute most of this increase in volume to the timing of the deliveries of the California avocado crop for fiscal 2015. Due to weather conditions, growers opted to pick fruit earlier during the first nine months of fiscal 2015, which we expected to cause a decline during our 4th fiscal quarter, as total fruit deliveries are expected to be similar in total, year over year. Partially offsetting this increase in pounds sold, however, was a decrease in the sales price per carton. The sales price per carton for California sourced avocados decreased by approximately 2.1%. We attribute much of this change to a higher supply of avocados in the market.

Sales of Peruvian sourced avocados increased to \$4.2 million for the nine months ended July 31, 2015, compared to \$0.2 million for the same period for fiscal 2014. The increase in Peruvian sourced avocados was primarily due to an increase in the pounds sold, which increased by approximately 3.7 million pounds.

Partially offsetting these increases were decreases in sales of tomatoes, pineapples and papayas. Sales of tomatoes, decreased \$2.9 million, or 14.7%, sales of papayas decreased \$2.5 million, or 27.9% and sales of pineapples decreased \$2.2 million, or 50.9%, for the nine months ended July 31, 2015, when compared to the same period for fiscal 2014. The decrease in sales for tomatoes, pineapples and papayas are primarily due to decreases in the number of cartons sold. We attribute all of these decreases in cartons sold due to weather related issues.

Sales of Chilean sourced avocados decreased \$2.4 million, or 96.5%, for the nine months ended July 31, 2015, when compared to the same prior year period. The decrease in Chilean sourced avocados was due to a decrease in pounds sold. Chilean sourced avocados sales reflect a decrease in 2.2 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 nine months ended July 31, 2015. In addition, we have liquidated our unconsolidated subsidiary Calavo Chile, which further caused the above decrease.

We anticipate that net sales related to Mexican sourced avocados will increase during our fourth fiscal quarter of 2015, as compared to the third fiscal quarter of 2015. We anticipate that sales of Mexican grown avocados will increase in the fourth quarter of fiscal 2015, when compared to the same prior year period, due to higher overall volume.

We anticipate that California avocado sales will experience a seasonal and cyclical decrease during our fourth fiscal quarter of 2015, as compared to the third quarter of fiscal 2015 (see discussion above). We believe that there will be a decrease in California avocado volume when compared to the fourth fiscal quarter of 2014.

#### Calavo Foods

#### Third Quarter 2015 vs. Third Quarter 2014

Sales for Calavo Foods for the quarter ended July 31, 2015, when compared to the same period for fiscal 2014, increased \$0.4 million, or 2.3%. This increase is due to an increase in sales of prepared guacamole products which increased approximately \$0.2 million, or 1.6%, in the third quarter of fiscal year 2015, when compared to the same prior year period. In addition, there was an increase in sales of salsa products which increased approximately \$0.2 million, or

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60.3%, in the third quarter of fiscal year 2015, when compared to the same prior year period. The increase in sales of prepared guacamole and salsa was primarily related to an increase in overall pounds sold.

Nine Months Ended 2015 vs. Nine Months Ended 2014

Sales for Calavo Foods for the nine months ended July 31, 2015, when compared to the same period for fiscal 2014, increased \$1.9 million, or 4.3%. This increase is due to an increase in sales of prepared guacamole products which increased approximately \$1.6 million, or 3.7%, for the nine months ended July 31, 2015, when compared to the same prior year period. The increase in sales of prepared guacamole was primarily related to an increase in overall pounds sold, which increased 0.8 million pounds, or 3.8%. In addition, sales of salsa products increased approximately \$0.3 million, or 27.0%, for the nine months ended July 31, 2015, when compared to the same prior year period. The increase in sales of salsa was primarily related to an increase in overall pounds sold, which increased 0.2 million pounds, or 20.7%.

RFG

Third Quarter 2015 vs. Third Quarter 2014

Sales for RFG for the quarter ended July 31, 2015, when compared to the same period for fiscal 2014, increased \$7.4 million, or 10.3%. This increase is due primarily to increased sales from cut fruit and deli products, as well as an increase in sales of cut vegetables. The overall increase in sales is primarily due to an increase in sales volume, partially offset by a decrease in the sales price per carton, which was primarily related to a change in sales mix. Collectively, cut fruit, cut vegetable, and deli product sales increased 1.8 million units, or 22.3%. We believe the overall increase in sales volume is primarily due to an increase in demand for the variety of innovative products that we offer.

Nine Months Ended 2015 vs. Nine Months Ended 2014

Sales for RFG for the nine months ended July 31, 2014, when compared to the same period for fiscal 2013, increased \$33.4 million, or 18.2%. This increase is due primarily to increased sales from cut fruit and deli products, as well as an increase in sales of cut vegetables. The overall increase in sales is primarily due to an increase in sales volume, partially offset by a decrease in the sales price per carton. Collectively, cut fruit, cut vegetable, and deli product sales increased 6.7 million units, or 33.9%. We believe the overall increase in sales volume is primarily due to an increase

in demand for the variety of innovative products that we offer.

### Gross Margins

The following table summarizes our gross margins and gross profit percentages by business segment for each of the three and nine-month periods ended July 31, 2015 and 2014:

|                       | Three months ended July 31, |        |             | Nine months ended July 31, |        |             |
|-----------------------|-----------------------------|--------|-------------|----------------------------|--------|-------------|
|                       | 2015                        | Change | 2014        | 2015                       | Change | 2014        |
| <b>Gross Margins:</b> |                             |        |             |                            |        |             |
| Fresh products        | \$ 9,665                    | 1.6    | % \$ 9,514  | \$ 29,281                  | 15.3   | % \$ 25,405 |
| Calavo Foods          | 6,070                       | 58.1   | % 3,840     | 15,276                     | 49.0   | % 10,255    |
| RFG                   | 8,543                       | 25.2   | % 6,822     | 20,501                     | 20.2   | % 17,049    |
| Total gross margins   | \$ 24,278                   | 20.3   | % \$ 20,176 | \$ 65,058                  | 23.4   | % \$ 52,709 |