CALAVO GROWERS INC
Form 10-Q
September 07, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended July 31, 2012

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 x 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 x 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	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	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 x

Registrant s number of shares of common stock outstanding as of July 31, 2012 was 14,787,433

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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, 2011, 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, 2012	October 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	$ 5,124	$ 2,774
Accounts receivable, net of allowances of $3,060 (2012) and $2,285 (2011)	44,303	36,101
Inventories, net	21,001	17,787
Prepaid expenses and other current assets	5,574	6,220
Advances to suppliers	1,795	3,349
Income taxes receivable	2,471	3,111
Deferred income taxes	2,136	2,136
Total current assets	82,404	71,478
Property, plant, and equipment, net	50,193	47,091
Investment in Limoneira Company	30,941	29,991
Investment in unconsolidated entities	2,466	2,292
Goodwill	18,349	18,349
Other assets	14,805	16,122
	$ 199,158	$ 185,323
Liabilities and shareholders equity		
Current liabilities:		
Payable to growers	$ 14,132	$ 5,082
Trade accounts payable	10,884	7,038
Accrued expenses	18,017	19,285
Short-term borrowings	20,020	17,860
Dividend payable		8,123
Current portion of long-term obligations	5,480	5,448
Total current liabilities	68,533	62,836
Long-term liabilities:		
Long-term obligations, less current portion	13,965	18,244
Deferred income taxes	8,373	8,002
Total long-term liabilities	22,338	26,246
Commitments and contingencies		
Noncontrolling interest	400	461
Shareholders equity:		
Common stock, $0.001 par value; 100,000 shares authorized; 14,787 (2012) and 14,770 (2011) issued and outstanding	14	14
Additional paid-in capital	50,565	49,929
Accumulated other comprehensive income	4,515	3,935

Retained earnings	52,793	41,902
Total shareholders equity	107,887	95,780
	$ 199,158	$ 185,323

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 July 31,		Nine months ended July 31,	
	2012	**2011**	**2012**	**2011**
Net sales	$ 153,181	$ 165,141	$ 409,567	$ 375,180
Cost of sales	136,968	153,902	366,757	346,077
Gross margin	16,213	11,239	42,810	29,103
Selling, general and administrative	7,758	6,743	22,870	17,168
Operating income	8,455	4,496	19,940	11,935
Interest expense	(300)	(280)	(909)	(719)
Other income, net	173	175	879	859
Income before provision for income taxes	8,328	4,391	19,910	12,075
Provision for income taxes	2,684	1,689	9,079	4,709
Net income	5,644	2,702	10,831	7,366
Add: Net loss noncontrolling interest	21	11	61	62
Net income attributable to Calavo Growers, Inc.	$ 5,665	$ 2,713	$ 10,892	$ 7,428
Calavo Growers, Inc. s net income per share:				
Basic	$ 0.38	$ 0.18	$ 0.74	$ 0.50
Diluted	$ 0.38	$ 0.18	$ 0.74	$ 0.50
Number of shares used in per share computation:				
Basic	14,787	14,755	14,782	14,735
Diluted	14,806	14,767	14,800	14,744

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 July 31,		Nine months ended July 31,	
	2012	**2011**	**2012**	**2011**
Net income	$ 5,644	$ 2,702	$ 10,831	$ 7,366
Other comprehensive income (loss), before tax:				
Unrealized holding gains (losses) arising during period	1,884	(2,213)	951	847
Income tax benefit (expense) related to items of other comprehensive income (loss)	(735)	863	(371)	(252)
Other comprehensive income (loss), net of tax	1,149	(1,350)	580	595
Comprehensive income	6,793	1,352	11,411	7,961
Add: Net loss noncontrolling interest	21	11	61	62
Comprehensive income Calavo Growers, Inc.	$ 6,814	$ 1,363	$ 11,472	$ 8,023

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 July 31, 2012	2011
Cash Flows from Operating Activities:		
Net income	$ 10,831	$ 7,366
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	4,276	3,046
Provision for losses on accounts receivable	5	(31)
Income from unconsolidated entities	(407)	(514)
Interest on contingent consideration	94	53
Revalue adjustment on contingent consideration	416	
Stock-based compensation expense	324	132
Effect on cash of changes in operating assets and liabilities:		
Accounts receivable	(8,207)	(22,989)
Inventories, net	(3,214)	(6,202)
Prepaid expenses and other current assets	646	2,693
Advances to suppliers	1,554	371
Income taxes receivable	735	331
Other assets	108	(205)
Payable to growers	9,050	18,837
Trade accounts payable and accrued expenses	2,037	(5,418)
Net cash provided by (used in) operating activities	18,248	(2,530)
Cash Flows from Investing Activities:		
Acquisitions of and deposits on property, plant, and equipment	(6,137)	(3,368)
Loan to Agricola Belher		(1,000)
Distributions from unconsolidated entity	233	244
Acquisition of Renaissance Food Group, net of cash acquired		(13,362)
Net cash used in investing activities	(5,904)	(17,486)
Cash Flows from Financing Activities:		
Payment of dividend to shareholders	(8,124)	(8,099)
Proceeds on revolving credit facilities, net	2,160	16,070
Proceeds on (payments on) long-term obligations	(4,247)	13,222
Exercise of stock options	217	213
Net cash provided by (used in) financing activities	(9,994)	21,406
Net increase in cash and cash equivalents	2,350	1,390
Cash and cash equivalents, beginning of period	2,774	1,064
Cash and cash equivalents, end of period	$ 5,124	$ 2,454
Noncash Investing and Financing Activities:		
Tax benefit related to stock option exercise	$ 95	$ 42
Construction in progress included in trade accounts payable	$ 32	$ 17
Collection for Beltran Infrastructure Advance	$	$ 1,225

Unrealized investment holding gains	$	951	$	847

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

At June 1, 2011

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

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

Notes to Condensed Consolidated Financial Statements

1. Description of the business

Business

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

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

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, 2011.

Recently Adopted Accounting Pronouncements

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

Recently Issued Accounting Standards

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

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

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

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

Reclassifications

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

2. Information regarding our operations in different segments

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

	Nine months ended July 31, 2012				Nine months ended July 31, 2011			
	Fresh products	**Calavo Foods**	**RFG**	**Total**	**Fresh products**	**Calavo Foods**	**RFG (1)**	**Total**
Third-party sales:								
Avocados	$ 232,976	$	$	$ 232,976	$ 281,503	$	$	$ 281,503
Tomatoes	11,426			11,426	23,894			23,894
Papayas	9,488			9,488	9,637			9,637
Pineapples	5,066			5,066	1,706			1,706
Other fresh products	1,357			1,357	2,384			2,384
Food service		27,199		27,199		27,830		27,830
Retail and club		15,012	115,111	130,123		12,906	22,842	35,748
Total gross sales	260,313	42,211	115,111	417,635	319,124	40,736	22,842	382,702
Less sales incentives	(705)	(7,363)		(8,068)	(783)	(6,739)		(7,522)
Net sales	$ 259,608	$ 34,848	$ 115,111	$ 409,567	$ 318,341	$ 33,997	$ 22,842	$ 375,180

(1) As the acquisition for RFG was completed on June 1, 2011, only two months are included in prior year s nine months ended July 31, 2011.

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	Three months ended July 31, 2012				Three months ended July 31, 2011			
	Fresh products	Calavo Foods	RFG	Total	Fresh products	Calavo Foods	RFG (1)	Total
Third-party sales:								
Avocados	$ 91,898	$	$	$ 91,898	$ 121,210	$	$	$ 121,210
Tomatoes	280			280	3,782			3,782
Papayas	2,853			2,853	3,249			3,249
Pineapples	1,849			1,849	1,112			1,112
Other fresh products	164			164	878			878
Food service		9,877		9,877		10,040		10,040
Retail and club		5,245	44,074	49,319		4,752	22,842	27,594
Total gross sales	97,044	15,122	44,074	156,240	130,231	14,792	22,842	167,865
Less sales incentives	(304)	(2,755)		(3,059)	(196)	(2,528)		(2,724)
Net sales	$ 96,740	$ 12,367	$ 44,074	$ 153,181	$ 130,035	$ 12,264	$ 22,842	$ 165,141

(1) As the acquisition for RFG was completed on June 1, 2011, only two months are included in prior year s quarter end July 31, 2011.

	Fresh products	Calavo Foods	RFG	Total
	(All amounts are presented in thousands)			
Nine months ended July 31, 2012				
Net sales	$ 259,608	$ 34,848	$ 115,111	$ 409,567
Cost of sales	236,719	24,030	106,008	366,757
Gross margin	$ 22,889	$ 10,818	$ 9,103	$ 42,810
Nine months ended July 31, 2011				
Net sales	$ 318,341	$ 33,997	$ 22,842	$ 375,180
Cost of sales	294,710	29,910	21,457	346,077
Gross margin	$ 23,631	$ 4,087	$ 1,385	$ 29,103

For the nine months ended July 31, 2012 and 2011, inter-segment sales and cost of sales for Fresh products totaling $14.8 million and $11.7 million were eliminated. For the nine months ended July 31, 2012 and 2011, inter-segment sales and cost of sales for Calavo Foods totaling $8.4 million and $8.5 million were eliminated.

	Fresh products	Calavo Foods	RFG	Total
	(All amounts are presented in thousands)			
Three months ended July 31, 2012				
Net sales	$ 96,740	$ 12,367	$ 44,074	$ 153,181
Cost of sales	87,785	8,876	40,307	136,968
Gross margin	$ 8,955	$ 3,491	$ 3,767	$ 16,213
Three months ended July 31, 2011				
Net sales	$ 130,035	$ 12,264	$ 22,842	$ 165,141
Cost of sales	119,926	12,519	21,457	153,902

Gross margin	$ 10,109	$ (255)	$ 1,385	$ 11,239

For the three months ended July 31, 2012 and 2011, inter-segment sales and cost of sales for Fresh products totaling $3.5 million and $3.2 million were eliminated. For the three months ended July 31, 2012 and 2011, inter-segment sales and cost of sales for Calavo Foods totaling $2.6 million and $2.7 million were eliminated.

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3. Inventories

Inventories consist of the following (in thousands):

	July 31, 2012	October 31, 2011
Fresh fruit	$ 7,039	$ 6,588
Packing supplies and ingredients	8,522	5,610
Finished prepared foods	5,440	5,589
	$ 21,001	$ 17,787

During the three and nine-month periods ended July 31, 2012 and 2011, we were not required to and did not record any provisions to reduce our inventories to the lower of cost or market.

4. 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 three months ended July 31, 2012 and 2011, the aggregate amount of avocados procured from entities owned or controlled by members of our Board of Directors was $11.6 million and $10.2 million. During the nine months ended July 31, 2012 and 2011, the aggregate amount of avocados procured from entities owned or controlled by members of our Board of Directors was $13.6 million and $13.7 million. Amounts payable to these board members were $ 3.5 million and $0.1 million as of July 31, 2012 and October 31, 2011.

During the three months ended July 31, 2012 and 2011, we received $0.1 million as dividend income from Limoneira Company. During the nine months ended July 31, 2012 and 2011, we received $0.2 million as dividend income from Limoneira Company.

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 three months ended July 31, 2012 and 2011, total rent paid to LIG was $0.1 million and $0.1 million. For the nine months ended July 31, 2012, and 2011, total rent paid to LIG was $0.4 million and $0.1 million. Additionally, RFG sells cut produce and purchases raw materials, obtains transportation services, and shares costs for certain utilities with Third Coast Fresh Distribution (Third Coast). Third Coast is majority owned by an entity owned by such three executives of RFG. For the three months ended July 31, 2012, and 2011, total sales made to Third Coast were $0.3 million. For the nine months ended July 31, 2012 and 2011, total sales made to Third Coast were $1.8 million and $0.3 million. For the three months July 31, 2012, and 2011, total purchases made from Third Coast were $0.4 million and $0.2 million. For the nine months July 31, 2012, and 2011, total purchases made from Third Coast were $1.4 million and $0.2 million. Amounts due from Third Coast were $0.1 million and $0.3 million at July 31, 2012 and October 31, 2011. Amounts due to Third Coast were $0.2 million at July 31, 2012 and October 31, 2011.

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5. Other assets

Other assets consist of the following (in thousands):

	July 31, 2012	October 31, 2011
Intangibles, net	$ 9,689	$ 10,771
Grower advances	1,308	1,531
Loan to Agricola Belher	3,380	3,380
Other	428	440
	$ 14,805	$ 16,122

Intangible assets consist of the following (in thousands):

		July 31, 2012			October 31, 2011		
	Weighted-Average Useful Life	Gross Carrying Value	Accum. Amortization	Net Book Value	Gross Carrying Value	Accum. Amortization	Net Book Value
Customer list/relationships	8.0 years	$ 7,640	$ (1,165)	$ 6,475	$ 7,640	$ (445)	$ 7,195
Trade names	8.4 years	3,009	(1,418)	1,591	3,009	(1,207)	1,802
Trade secrets/recipes	12.0 years	1,520	(326)	1,194	1,520	(205)	1,315
Brand name intangibles	indefinite	275		275	275		275
Non-competition agreements	5.0 years	267	(113)	154	267	(83)	184
Intangibles, net		$ 12,711	$ (3,022)	$ 9,689	$ 12,711	$ (1,940)	$ 10,771

We anticipate recording amortization expense of approximately $0.4 million for the remainder of fiscal 2012, with $1.4 million of amortization expense for each of the fiscal years 2013 through 2015. We anticipate recording amortization expense of approximately $1.3 million for fiscal year 2016. The remainder of approximately $3.5 million will be amortized over fiscal years 2017 through 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. As a result of such new plan, no new awards will be made under our 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.

On January 26, 2012, all 12 of our non-employee directors were granted 1,000 restricted shares each (total of 12,000 shares). These shares have full voting rights and participate in dividends as if unrestricted. The closing price of our stock on such date was $27.68. On January 1, 2013, 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.

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.

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A summary of stock option activity, related to our 2005 Stock 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	72	$ 13.75	
Exercised	(18)	$ 14.58	
Outstanding at July 31, 2012	54	$ 14.23	$ 1,472
Exercisable at July 31, 2012	31	$ 17.85	$ 833

At July 31, 2012, outstanding stock options had a weighted-average remaining contractual term of 4.9 years. At July 31, 2012, exercisable stock options had a weighted-average remaining contractual term of 4.1 years. The total recognized stock-based compensation expense was insignificant for the three months ended July 31, 2012.

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	
Outstanding at July 31, 2012	65	$ 21.82	$ 340
Exercisable at July 31, 2012	55	$ 21.82	$ 1,488

At July 31, 2012, outstanding stock options had a weighted-average remaining contractual term of 1.9 years. The total recognized stock-based compensation expense was $0.1 million for the three months ended July 31, 2012, and $0.3 million for the nine months ended July 31, 2012.

7. Other events

Dividend payment

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

Contingencies

Hacienda Suits During the fourth quarter of fiscal 2012, we won our appeal related to the examination of the tax year ended December 31, 2005. Based on discussions with our legal counsel, we believe that the Hacienda has not appealed this decision and the deadline to appeal has expired.

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

Based on discussions with our outside legal counsel in Mexico, we do not believe it is likely that we will be able to appeal this decision any further (i.e. to the Mexican Supreme Court). The total net assessment related to these allegations was approximately $1.7 million, which we recorded as income tax expense for the six-month period ended April 30, 2012. The payment related to this tax assessment was paid during our third fiscal quarter.

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

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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).

The following table sets forth our financial assets and liabilities as of July 31, 2012 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]	$ 30,941			$ 30,941
Total assets at fair value	$ 30,941	$	$	$ 30,941

(1) The investment in Limoneira Company consists of marketable securities in the Limoneira Company stock. We currently own approximately 15% of Limoneira s outstanding common stock. These securities are measured at fair value by quoted market prices. Limoneira s stock price at July 31, 2012 and October 31, 2011 equaled $17.90 per share and $17.35 per share. Unrealized gains and losses are recognized through other comprehensive income. Unrealized investment holding gains arising during the three months ended July 31, 2012 was $1.9 million. Unrealized investment holding losses arising during the three months ended July 31, 2011 was $2.2 million. Unrealized investment holding gains arising during the nine months ended July 31, 2012 and 2011 were $1.0 million and $0.8 million.

	Level 1	Level 2	Level 3	Total
	(All amounts are presented in thousands)			
Liabilities at fair value:				
Salsa Lisa contingent consideration[2]			$ 1,020	$ 1,020
RFG contingent consideration[2]			2,120	2,120
Total liabilities at fair value	$	$	$ 3,140	$ 3,140

(2) Each period we revalue the contingent consideration obligations to their fair value and record increases or decreases in the fair value into selling, general and administrative expense. Increases or decreases in the fair value of the contingent consideration obligations can result from changes in 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 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 during the three and nine months ended July 31, 2012 totaled $0.2 million and $0.5 million.

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

	Balance at October 31, 2011	Interest	Revalue Adjustment	Balance July 31, 2012
	(All amounts are presented in thousands)			

Salsa Lisa contingent consideration	$ 978	$ 42	$	$ 1,020
RFG contingent consideration	1,652	52	416	2,120
Total	$ 2,630	$ 94	$ 416	$ 3,140

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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):

	Three months ended July 31, 2012	Three months ended July 31, 2011
Noncontrolling interest, beginning	$ 421	$ 524
Net loss attributable to noncontrolling interest	(21)	(11)
Noncontrolling interest, ending	$ 400	$ 513

	Nine months ended July 31, 2012	Nine months ended July 31, 2011
Noncontrolling interest, beginning	$ 461	$ 575
Net loss attributable to noncontrolling interest	(61)	(62)
Noncontrolling interest, ending	$ 400	$ 513

10. 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 (except as disclosed in Note 7) 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, 2011 of Calavo Growers, Inc. (we, Calavo, or the Company).

Recent Developments

Dividend payment

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

Contingencies

Hacienda Suits During the fourth quarter of fiscal 2012, we won our appeal related to the examination of the tax year ended December 31, 2005. Based on discussions with our legal counsel, we believe that the Hacienda has not appealed this decision and the deadline to appeal has expired.

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

Based on discussions with our outside legal counsel in Mexico, we do not believe it is likely that we will be able to appeal this decision any further (i.e. to the Mexican Supreme Court). The total net assessment related to these allegations was approximately $1.7 million, which we recorded as income tax expense for the six-month period ended April 30, 2012. The payment related to this tax assessment was paid during our third fiscal quarter.

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

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Net Sales

The following table summarizes our net sales by business segment for each of the three and nine-month periods ended July 31, 2012 and 2011:

	Three months ended July 31,			Nine months ended July 31,		
(in thousands)	2012	Change	2011	2012	Change	2011
Net sales to third-parties:						
Fresh products	$ 96,740	(25.6)%	$ 130,034	$ 259,608	(18.4)%	$ 318,341
Calavo Foods	12,367	0.8%	12,265	34,848	2.5%	33,997
RFG	44,074	93.0%	22,842	115,111	403.9%	22,842
Total net sales	$ 153,181	(7.2)%	$ 165,141	$ 409,567	9.2%	$ 375,180
As a percentage of net sales:						
Fresh products	63.1%		78.8%	63.4%		84.8%
Calavo Foods	8.1%		7.4%	8.5%		9.1%
RFG	28.8%		13.8%	28.1%		6.1%
	100.0%		100.0%	100.0%		100.0%

Net sales for the third quarter of fiscal 2012, compared to fiscal 2011, decreased by $12.0 million, or 7.2%. The decrease in sales, when compared to the same corresponding prior year period, is primarily related to a decrease in sales of the Fresh products segment. We experienced a decrease in Fresh product sales during the third quarter of fiscal 2012, which was due primarily to decreased sales of Mexican and California sourced avocados, as well as tomatoes, partially offset by an increase in sales of Chilean sourced avocados and pineapples.

Net sales for the nine months ended July 31, 2012, compared to fiscal 2011, increased by $34.4 million, or 9.2%. The increase in sales, when compared to the same corresponding prior year period, is primarily related to the sales of RFG. Not considering RFG, we experienced a decrease in Fresh product sales during the nine months ended of fiscal 2012, which was due primarily to decreased sales of Mexican and California sourced avocados, as well as tomatoes, partially offset by an increase in sales of Chilean sourced avocados and pineapples. While the procurement of fresh avocados related to our Fresh products segment is very seasonal, our Calavo Foods business is generally not subject to a seasonal effect.

Fresh products

Third Quarter 2012 vs. Third Quarter 2011

Net sales delivered by the Fresh products business decreased by approximately $33.3 million, or 25.6%, for the third quarter of fiscal 2012, when compared to the same period for fiscal 2011. As discussed above, this decrease in Fresh product sales during the third quarter of fiscal 2012 was primarily related to decreased sales of Mexican and California sourced avocados, as well as tomatoes, partially offset by an increase in sales from Chilean sourced avocados and pineapples. See details below.

Sales of California sourced avocados decreased $18.0 million, or 23.2%, for the third quarter of 2012, when compared to the same prior year period. The decrease in California sourced avocados was due to a decrease in the sales price per carton, which decreased 42.1%, when compared to the same prior year period. Partially offsetting this decrease is an increase in pound of avocados sold by 13.4 million or 32.6%, when compared to the same prior year period. We attribute most of this increase in volume and decrease in per sale price per carton to the larger California avocado crop and other imports into the U.S. market in 2012, when compared to 2011.

Sales of Mexican sourced avocados decreased $12.7 million, or 29.1%, for the third quarter of 2012, when compared to the same prior year period. The decrease in Mexican sourced avocados was primarily due to a decrease in the sales price per carton, which decreased by approximately 37.9%, when compared to the same prior year period. We attribute this decrease primarily to a higher overall volume of avocados in the marketplace, partially offset by increase in pounds sold of 3.3 million pounds or 14.1%, when compared to the same prior year period.

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Sales of tomatoes decreased $3.5 million, or 92.6%, for the third quarter of fiscal 2012, when compared to the same period for fiscal 2011. The decrease in sales for tomatoes is primarily due to a decrease in tomatoes sold, due to the tomato season ending earlier this year compared to prior year. The higher overall volume of tomatoes in the U.S. marketplace in the current year caused prices to be significantly less than prior year.

Partially offsetting such decreases was an increase in sales of Chilean sourced avocados, which increased $1.2 million for the third quarter of 2012, when compared to the same prior year period, which had an insignificant amount of sales. We attribute much of this increase in volume to the larger Chilean avocado crop in 2012, when compared to prior year.

Sales of pineapples increased $0.7 million, or 66.3%, for the third quarter of 2012, when compared to the same prior year period. The increase in sales of pineapples was due to an increase in units sold of 52.5%, when compared to the same prior year period. We believe this increase is primarily related to the popularity of pineapples in the U.S. marketplace, which we believe has increased demand for the fruit.

Nine Months Ended 2012 vs. Nine Months Ended 2011

Net sales delivered by the Fresh products business decreased by approximately $58.7 million, or 18.4%, for the nine months ended July 31, 2012, when compared to the same period for fiscal 2011. As discussed above, this decrease in Fresh product sales during the first nine months of fiscal 2012 was primarily related to decreased sales of Mexican and California sourced avocados, as well as tomatoes. These decreases were partially offset, however, by increased sales from Chilean sourced avocados and pineapples. See details below.

Sales of California sourced avocados decreased $31.0 million, or 28.1%, for the nine months ended July 31, 2012, when compared to the same prior year period. The decrease in California sourced avocados was due to a decrease in sales price per carton, which decreased approximately 41.0%. Partially offsetting this decrease was an increase in pounds sold, which increased approximately 14.4 million pounds or 21.9%. We attribute most of this increase in volume and decrease in per sale price per carton to the larger California avocado crop in 2012, when compared to 2011.

Sales of Mexican sourced avocados decreased $21.6 million, or 13.0%, for the nine months ended July 31, 2012, when compared to the same prior year period. The decrease in Mexican sourced avocados was due to a decrease in the sales price per carton, which decreased by approximately 24.4%, when compared to the same prior year period. We attribute this decrease primarily to a higher overall volume of avocados in the marketplace. Partially offsetting this decrease, is an increase in pounds sold of 17.4 million pounds or 15.2%, when compared to the same prior year period.

Sales of tomatoes decreased $12.5 million, or 52.2%, for the nine months ended July 31, 2012, when compared to the same period for fiscal 2011. The decrease in sales for tomatoes is primarily due to a decrease in the sales price per carton of 52.6%, when compared to the same prior year period. We attribute most of the decrease in the per carton selling price to the higher volume of tomatoes from all sources in the U.S. marketplace.

Partially offsetting such decreases was an increase in sales of pineapples, which increased $3.4 million, or 197.0%, for the nine months ended July 31, 2012, when compared to the same prior year period. The increase in sales of pineapples was due to an increase in units sold of 218.0%, when compared to the same prior year period. We believe this increase is primarily related to the popularity of pineapples in the U.S. marketplace, which we believe has increased demand for the fruit.

Sales of Chilean sourced avocados increased $2.9 million, or 95.9% for first nine months of fiscal 2012, 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 2.8 million pounds of avocados sold, or 98.8%, when compared to the same prior year period. We attribute much of this increase in volume to the larger Chilean avocado crop in 2012, when compared to prior year.

We anticipate that California avocado sales will experience a seasonal and cyclical decrease during our fourth fiscal quarter of 2012, as compared to the third quarter of fiscal 2012. We believe that there will be a significant increase in California avocado volume when compared to the fourth fiscal quarter of 2011.

We anticipate that net sales related to Mexican sourced avocados will increase during our fourth fiscal quarter of 2012, as compared to the third fiscal quarter of 2012. We anticipate that sales of Mexican grown avocados will decrease in the fourth quarter of fiscal 2012, when compared to the same prior year period, due to an expected higher volume of avocados in the marketplace, which should decrease overall sales prices. We also expect, however, that the total number of units of Mexican sourced avocados to increase during this same period.

Calavo Foods

Third Quarter 2012 vs. Third Quarter 2011

Sales for Calavo Foods for the quarter ended July 31, 2012, when compared to the same period for fiscal 2011, increased $0.1 million, or 0.8%. This increase is due to an increase in sales of Calavo tortilla chips which increased approximately $0.1 million, or 51.1%, in the third quarter of fiscal year 2012, when compared to the same prior year period, as well as an increase in sales prepared guacamole products which increased approximately $0.1 million, or 0.9%, in the third quarter of fiscal year 2012, when compared to the same prior year period. Partially offsetting these increases, is a decrease of sales of Calavo Salsa Lisa products of 0.1 million or 19.1%. The increase in sales of prepared guacamole was primarily related to an increase in the average net selling price per pound for both our frozen guacamole products and our refrigerated guacamole products (formally high-pressure) of approximately 1.4%, partially offset by 0.6% decrease in overall pounds sold.

Nine Months Ended 2012 vs. Nine Months Ended 2011

Sales for Calavo Foods for the nine months ended July 31, 2012, when compared to the same period for fiscal 2011, increased $0.9 million, or 2.5%. This increase is due to an increase in sales of Calavo Salsa Lisa, which increased approximately $0.4 million, or 31.2%, an increase in sales of Calavo tortilla chips, which increased approximately $0.3 million, or 42.1%, and an increase of sales of prepared guacamole products of $0.2 million or 0.6%. This increase was primarily related to a 12.6% increase in the average net selling price per pound for our frozen and refrigerated guacamole products (formerly high-pressure), partially offset by a decrease in overall pounds sold by 10.5%.

RFG

Sales for RFG for the quarter ended July 31, 2012, when compared to the same period for fiscal 2011, increased $21.2 million, or 93.0%. As the acquisition was completed on June 1, 2011, only two months are included in prior year s quarter end.

Sales for RFG for the nine months ended July 31, 2012, when compared to the same period for fiscal 2011, increased $92.3 million, or 403.9%. As the acquisition was completed on June 1, 2011, only two months are included in prior year s nine months ended.

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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, 2012 and 2011:

	Three months ended July 31,			Nine months ended July 31,		
(in thousands)	**2012**	**Change**	**2011**	**2012**	**Change**	**2011**
Gross margins:						
Fresh products	$ 8,955	(11.4)%	$ 10,109	$ 22,889	(3.1)%	$ 23,631
Calavo Foods	3,491	1,469.0%	(255)	10,818	164.7%	4,087
RFG	3,767	172.0%	1,385	9,103	557.3%	1,385
Total gross margins	$ 16,213	44.2%	$ 11,239	$ 42,810	47.1%	$ 29,103
Gross profit percentages:						
Fresh products	9.3%		7.8%	8.8%		7.4%
Calavo Foods	28.2%		(2.1)%	31.0%		12.0%
RFG	8.5%		6.1%	7.9%		6.1%
Consolidated	10.5%		6.8%	10.4%		7.8%

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 $5.0 million, or 44.2%, for the third quarter of fiscal 2012, when compared to the same period for fiscal 2011. This increase was attributable to gross margin increases in the Calavo Foods and RFG segments, partially offset by a decrease in gross margins from the Fresh products segment. Gross margins increased by approximately $13.7 million, or 47.1%, for the first nine months of fiscal 2012 when compared to the same period for fiscal 2011. This increase was attributable to gross margin increases in the Calavo Foods and RFG segments, partially offset by a decrease in gross margins from the Fresh products segment.

During our three and nine-month periods of fiscal 2012, as compared to the same prior year periods, we experienced an overall increase in the Fresh segment gross margin percentage. The increase was primarily related to an increase in the gross margin percentage for California avocados. This was due to a significant increase in the volume of California avocados sold in the three and nine-month periods of fiscal 2012, as compared to the same prior year periods, which increased 32.6% and 21.9%. This increase was primarily related to the larger California avocado crop for 2012, when compared to prior year. This had the effect of decreasing our fixed per pound costs, which, as a result, positively impacted gross margins. In addition, Mexican sourced avocados had an increased margin by percentage. This is due to lower fruit costs per pound in the third quarter of fiscal 2012, which decreased by 45.6%, when compared to the same prior year period. Fruit costs for the first nine months of fiscal 2012 decreased 28.4%, when compared to the same prior year period. We believe this decrease was primarily related to the increase in the availability of avocados in the U.S. marketplace, when compared to the same prior year period. In addition, the U.S. Dollar to Mexican Peso exchange rate strengthened in the third fiscal quarter of 2012, when compared to the same prior period. All of these combined had the effect of decreasing our per pound costs related to Mexican sourced avocados, which, as a result, positively impacted gross margins.

The Calavo Foods segment gross margin for the three and nine month periods of fiscal 2012, when compared to the same prior year period, increased primarily as a result of lower fruit and operating costs, partially offset by a decrease in total pounds sold. Fruit costs for the third quarter of fiscal 2012 decreased 45.6%, when compared to the same prior year period. Fruit costs for the first nine months of fiscal 2012 decreased 28.4%, when compared to the same prior year period. These decreases in fruit costs are due to the increase in the availability of avocados in the U.S. marketplace, when compared to same prior year period. In addition, the strengthening of the U.S. Dollar compared to the Mexican Peso, decreased our per pound costs. All of these combined had the effect of decreasing our per pound costs, which, as a result, positively impacted gross margins. We anticipate that the gross margin percentage for our Calavo Foods segment will continue to experience significant fluctuations during this fiscal year

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primarily due to the uncertainty of the cost of fruit that will be used in the production process. In addition, any significant fluctuation in the exchange rate between the U.S. Dollar and the Mexican Peso may have a material impact on future gross margins for our Fresh products and Calavo Foods segments.

RFG s gross margin for the three and nine months ended July 31, 2012 was $3.8 million and $9.1 million. As the acquisition was completed on June 1, 2011, only two months are included in prior year s three month and nine month periods ended July 31, 2011.

Selling, General and Administrative

	Three months ended July 31,			Nine months ended July 31,		
(in thousands)	**2012**	**Change**	**2011**	**2012**	**Change**	**2011**
Selling, general and administrative	$ 7,758	15.1%	$ 6,743	$ 22,870	33.2%	$ 17,168
Percentage of net sales	5.1%		4.1%	5.6%		4.2%

Selling, general and administrative expenses include costs of marketing and advertising, sales expenses and other general and administrative costs. Selling, general and administrative expenses increased $1.0 million, or 15.1%, for the three months ended July 31, 2012, when compared to the same period for fiscal 2011. Selling, general and administrative expenses related to RFG for the quarter ended July 31, 2012, when compared to the same period for fiscal 2011, increased $0.8 million, or 63.6%. As the acquisition of RFG was completed on June 1, 2011, only two months are included in prior year s quarter end July 31, 2011. The remaining increase of $0.2 million is due to higher corporate costs, including, but not limited to, management bonuses (totaling approximately $0.2 million), promotion expenses (totaling approximately $0.2 million), the fair value adjustment, including interest, of the contingent consideration related to the acquisition of RFG (totaling approximately $0.2 million), other administration fees (totaling approximately $0.1 million), partially offset by decreases in legal fees (totaling approximately $0.1 million), salaries (totaling approximately $0.1 million), audit fees (totaling approximately $0.1 million), broker commissions (totaling approximately $0.1 million), and travel and entertainment expenses (totaling approximately $0.1 million).

Selling, general and administrative expenses increased $5.7 million, or 33.2%, for the nine months ended July 31, 2012, when compared to the same period for fiscal 2011. Selling, general and administrative expenses related to RFG for the nine month ended July 31, 2012, when compared to the same period for fiscal 2011, increased $4.6 million, or 371.6%. As the acquisition of RFG was completed on June 1, 2011, only two months are included in prior year s nine month ended July 31, 2011. The remaining increase of $1.1 million is due to higher corporate costs, including, but not limited to, management bonuses (totaling approximately $0.7 million), the fair value adjustment, including interest, of the contingent consideration related to the acquisition of RFG (totaling approximately $0.5 million), other administration expenses (totaling approximately $0.3 million), stock-based compensation expenses (totaling approximately $0.2 million), and promotion expenses (totaling approximately $0.2 million), partially offset by decrease in legal fees (totaling approximately $0.3 million), broker commissions (totaling approximately $0.2 million), salaries (totaling approximately $0.1 million), travel and entertainment expenses (totaling approximately $0.1 million), and audit fees (totaling approximately $0.1 million).

Provision for Income Taxes

	Three months ended July 31,			Nine months ended July 31,		
(in thousands)	**2012**	**Change**	**2011**	**2012**	**Change**	**2011**
Provision for income taxes	$ 2,684	58.9%	$ 1,689	$ 9,079	92.8%	$ 4,709
Percentage of income before provision for income taxes	32.2%		38.5%	45.6%		39.0%

For the third quarter of fiscal 2012, our provision for income taxes was $2.7 million, as compared to $1.7 million recorded for the comparable prior year period.

For the first nine months of fiscal 2012, our provision for income taxes was $9.1 million, as compared to $4.7 million recorded for the comparable prior year period. During the second quarter of fiscal year 2012, we received an update from our outside legal counsel regarding the Hacienda s examination of the tax year ended December 31, 2004. As previously disclosed, we were awaiting the resolution of two outstanding tax assessments from the Hacienda for which we had previously received unfavorable rulings. The appellate court, via a second resolution, upheld the lower court s decision on these two remaining items. Management, as well as our outside legal counsel, still believes the company s position was correct.

Based on discussions with our outside legal counsel in Mexico, we do not believe it is likely that we will be able to appeal this decision any further (i.e. to the Mexican Supreme Court). The total net assessment related to these allegations was approximately $1.7 million, which we recorded as income tax expense for the six-month period ended April 30, 2012. The payment related to this tax assessment was paid during our third fiscal quarter.

Excluding the Hacienda assessment, mentioned above, we expect our effective tax rate to approximate 39.0% during fiscal 2012.

Liquidity and Capital Resources

Cash provided by operating activities was $18.2 million for the nine months ended July 31, 2012, compared to $2.5 million used in operations for the similar period in fiscal 2011. Operating cash flows for the nine months ended July 31, 2012 reflect our net income of $10.8 million, net non-cash charges (depreciation and amortization, stock compensation expense, interest and revalue adjustment on contingent consideration, and income from unconsolidated entities) of $4.7 million and a net increase in the noncash components of our operating capital of approximately $2.7 million.

Our operating capital increase includes a net increase in payable to growers of $9.1 million, an increase in accounts payable and accrued expenses of $2.0 million, a decrease in advances to suppliers of $1.6 million, a decrease in income tax receivable of $0.7 million, a decrease in prepaid expenses and other current assets of $0.6 million, and a decrease in other assets of $0.1 million, partially offset by an increase in accounts receivable of $8.2 million and an increase in inventory of $3.2 million.

The increase in payable to growers primarily reflects an increase in California fruit delivered in the month of July 2012, as compared to October 2011. The decrease in advances to suppliers primarily reflects fewer advances made to Agricola Belher related to the receipt of tomatoes. In October, the tomato season is starting, while in July the season is over and everything has been settled. The net increase in income tax payable relates primarily income from operations through the nine months ended July 31, 2012. The increase in our accounts receivable, as of July 31, 2012, when compared to October 31, 2011, primarily reflects higher sales recorded in the month of July 2012, as compared to October 2011. The increase in inventory is primarily related to an increase in the fresh fruit on hand at July 31, 2012. This was primarily driven by more fruit being delivered for California sourced avocados in the month of April 2012, as compared to October 2011.

Cash used in investing activities was $5.9 million for the nine months ended July 31, 2012 and related principally to the purchase of property, plant and equipment items of $6.1 million, partially offset by a cash distribution from an unconsolidated entity of $0.2 million.

Cash used financing activities was $10.0 million for the nine months ended July 31, 2012, which related principally to the payment of our $8.1 million dividend and payments on long-term obligations of $4.2 million, partially offset by proceeds from our credit facilities totaling $2.1 million and exercises of stock options of $0.2 million,

Our principal sources of liquidity are our existing cash balances, cash generated from operations and amounts available for borrowing under our existing credit facilities. Cash and cash equivalents as of July 31, 2012 and October 31, 2011 totaled $5.1 million and $2.8 million. Our working capital at July 31, 2012 was $13.9 million, compared to $8.6 million at October 31, 2011.

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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. Our non-collateralized, revolving credit facilities with Farm Credit West, PCA and Bank of America, N.A. expire in February 2016. Under the terms of these agreements, we are advanced funds for both working capital and long-term productive asset purchases. Total credit available under these combined borrowing agreements was $65 million, with a weighted-average interest rate of 1.8% and 1.6% at July 31, 2012 and October 31, 2011. Under these credit facilities, we had $20.0 million and $17.9 million outstanding as July 31, 2012 and October 31, 2011. These credit facilities contain various financial covenants, the most significant relating to Tangible Net Worth (as defined), Current Ratio (as defined), and Fixed Charge Coverage Ratio (as defined). We were in compliance with all such covenants at July 31, 2012.

Contractual Obligations

There have been no material changes to our contractual commitments from those previously disclosed in our Annual Report on Form 10-K for our fiscal year ended October 31, 2011. For a summary of the contractual commitments at October 31, 2011, see Part II, Item 7, in our 2011 Annual Report on Form 10-K.

Impact of Recently Issued Accounting Pronouncements

See footnote 1 to the consolidated condensed financial statements that are included in this Quarterly Report on Form 10-Q.

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ITEM 3. 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 July 31, 2012.

(All amounts in thousands)	Expected maturity date July 31,							
	2012	2013	2014	2015	2016	Thereafter	Total	Fair Value
Assets								
Cash and cash equivalents (1)	$ 5,124	$	$	$	$	$	$ 5,124	$ 5,124
Accounts receivable (1)	44,303						44,303	44,303
Advances to suppliers (1)	1,795						1,795	1,795
Liabilities								
Payable to growers (1)	$ 14,132	$	$	$	$	$	$ 14,132	$ 14,132
Accounts payable (1)	10,884						10,884	10,884
Current borrowings pursuant to credit facilities (1)	20,020						20,020	20,020
Fixed-rate long-term obligations (2)	5,480	5,409	5,128	2,885	108	435	19,445	19,255

(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 1.8% to 5.7% with a weighted-average interest rate of 3.1%. 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 $428,000.

Except for the buyout option for Calavo Salsa Lisa, LLC, as mentioned on Note 16 on Form 10-K for our fiscal year ended October 31, 2011, 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 2012. Total foreign currency losses for the three months and nine months ended July 31, 2012, net of gains, were less than $0.1 million. Total foreign currency gains for the three months ended July 31, 2011, net of losses, was $0.1 million. Total foreign currency losses for the nine months ended July 31, 2011, net of gains, was $0.2 million.

ITEM 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act), as of the end of the period covered by this report. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective.

There were no changes in the Company s internal control over financial reporting during the quarter ended July 31, 2012 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Item 2 of Part I with respect to the resolution of the Hacienda Suits, which is hereto incorporated by reference.

We are involved in litigation in the ordinary course of business, none of which we believe will have a material adverse impact on our financial position or results of operations.

ITEM 1A. RISK FACTORS

For a discussion of our risk factors, see Part 1, item 1A Risk Factors of our Annual Report on Form 10-K for the year ended October 31, 2011. There have been no material changes from the risk factors set forth in such Annual Report on Form 10-K. However, the risks and uncertainties that we face are not limited to those set forth in the 2011 Form 10-K. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also adversely affect our business and the trading price of our common stock.

ITEM 6. EXHIBITS

31.1	Certification of Chief Executive Officer Pursuant to 15 U.S.C. § 7241, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer Pursuant to 15 U.S.C. § 7241, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification by Chief Executive Officer and Chief Financial Officer of Periodic Report Pursuant to 18 U.S.C. Section 1350.
101	The following financial information from the Quarterly Report on Form 10-Q of Calavo Growers, Inc. for the quarter ended July 31, 2012, formatted in XBRL (eXtensible Business Reporting Language): (1) Consolidated Condensed Balance Sheets as of July 31, 2012 and October 31, 2011; (2) Consolidated Condensed Statements of Income for the three and nine months ended July 31, 2012 and 2011; (3) Consolidated Condensed Statements of Comprehensive Income for the three and nine months ended July 31, 2012 and 2011; (4) Consolidated Condensed Statements of Cash Flows for the nine months ended July 31, 2012 and 2011; and (5) Notes to Unaudited Condensed Financial Statements.*

* Pursuant to Rule 406T of Regulation S-T, the information in Exhibit 101 (a) is furnished and is not deemed to be filed or part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, (b) is deemed not to be filed for purposes of Section 18 of the Securities

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Calavo Growers, Inc.

(Registrant)

Date: September 7, 2012

By /s/ Lecil E. Cole
Lecil E. Cole
Chairman of the Board of Directors,
Chief Executive Officer and President
(Principal Executive Officer)

Date: September 7, 2012

By /s/ Arthur J. Bruno
Arthur J. Bruno
Chief Operating Officer, Chief Financial Officer and

Corporate Secretary
(Principal Financial Officer)

INDEX TO EXHIBITS

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