

CALAVO GROWERS INC  
Form 10-Q  
March 11, 2014  
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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 January 31, 2014**

**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**  
**(State of incorporation)**

**33-0945304**  
**(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  (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

Registrant's number of shares of common stock outstanding as of January 31, 2014 was 15,752,314.

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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, 2013, 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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**CALAVO GROWERS, INC.**

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**Table of Contents****PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****CALAVO GROWERS, INC.****CONSOLIDATED CONDENSED BALANCE SHEETS (UNAUDITED)****(in thousands)**

	<b>January 31, 2014</b>	<b>October 31, 2013</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 6,346	\$ 8,019
Accounts receivable, net of allowances of \$2,289 (2014) and \$1,697 (2013)	60,060	55,060
Inventories, net	27,659	28,673
Prepaid expenses and other current assets	11,965	10,757
Advances to suppliers	3,419	3,213
Income taxes receivable	2,235	2,013
Deferred income taxes	1,995	1,995
Total current assets	113,679	109,730
Property, plant, and equipment, net	53,050	52,649
Investment in Limoneira Company	35,902	45,531
Investment in unconsolidated entities	1,544	1,420
Goodwill	18,262	18,262
Other assets	12,034	12,347
	\$ 234,471	\$ 239,939
<b>Liabilities and shareholders equity</b>		
Current liabilities:		
Payable to growers	\$ 4,720	\$ 14,490
Trade accounts payable	12,330	11,699
Accrued expenses	23,802	20,939
Short-term borrowings	52,690	33,990
Dividend payable		11,004
Current portion of long-term obligations	5,245	5,258
Total current liabilities	98,787	97,380
Long-term liabilities:		
Long-term obligations, less current portion	6,841	7,792
Deferred income taxes	2,439	6,194
Total long-term liabilities	9,280	13,986

Commitments and contingencies		
Noncontrolling interest, Calavo Salsa Lisa	(69)	121
Shareholders' equity:		
Common stock, \$0.001 par value, 100,000 shares authorized; 15,752 (2014) and 15,720 (2013) shares issued and outstanding	15	15
Additional paid-in capital	59,606	59,376
Accumulated other comprehensive income	7,541	13,414
Noncontrolling interest, FreshRealm	(316)	(6)
Retained earnings	59,627	55,653
Total shareholders' equity	126,473	128,452
	\$ 234,471	\$ 239,939

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

Table of Contents**CALAVO GROWERS, INC.****CONSOLIDATED CONDENSED STATEMENTS OF INCOME (UNAUDITED)****(in thousands, except per share amounts)**

	<b>Three months ended</b>	
	<b>January 31,</b>	
	<b>2014</b>	<b>2013</b>
Net sales	\$ 168,165	\$ 139,499
Cost of sales	154,475	126,375
Gross margin	13,690	13,124
Selling, general and administrative	8,272	8,821
Operating income	5,418	4,303
Interest expense	(256)	(252)
Other income, net	135	138
Income before provision for income taxes	5,297	4,189
Provision for income taxes	1,822	1,508
Net income	3,475	2,681
Add: Net loss attributable to noncontrolling interest	500	26
Net income attributable to Calavo Growers, Inc.	\$ 3,975	\$ 2,707
Calavo Growers, Inc.'s net income per share:		
Basic	\$ 0.25	\$ 0.18
Diluted	\$ 0.25	\$ 0.18
Number of shares used in per share computation:		
Basic	15,726	14,834
Diluted	15,736	14,854

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

**Table of Contents****CALAVO GROWERS, INC.****CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)****(in thousands)**

	<b>Three months ended</b>	
	<b>January 31,</b>	
	<b>2014</b>	<b>2013</b>
Net income	\$ 3,475	\$ 2,681
Other comprehensive loss, before tax:		
Unrealized investment holding losses arising during period	(9,628)	(1,244)
Income tax benefit related to items of other comprehensive income	3,755	485
Other comprehensive loss, net of tax	(5,873)	(759)
Comprehensive income (loss)	(2,398)	1,922
Add: Net loss attributable to noncontrolling interest	500	26
Comprehensive income (loss) Calavo Growers, Inc.	\$ (1,898)	\$ 1,948

*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)

	<b>Three months ended January 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 3,475	\$ 2,681
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,689	1,607
Income from unconsolidated entities	1	
Interest on contingent consideration	9	35
Revalue adjustment on contingent consideration		1,245
Stock compensation expense	93	116
Effect on cash of changes in operating assets and liabilities:		
Accounts receivable	(5,000)	(9,497)
Inventories, net	1,014	617
Prepaid expenses and other current assets	(1,208)	22
Advances to suppliers	(206)	1,045
Income taxes receivable	(100)	87
Other assets	(103)	13
Payable to growers	(9,769)	(2,490)
Trade accounts payable and accrued expenses	3,485	5,887
Net cash provided by (used in) operating activities	(6,620)	1,368
<b>Cash Flows from Investing Activities:</b>		
Acquisitions of property, plant, and equipment	(1,674)	(1,548)
Investment in unconsolidated entity	(125)	
Net cash used in investing activities	(1,799)	(1,548)
<b>Cash Flows from Financing Activities:</b>		
Payment of dividend to shareholders	(11,005)	(9,646)
Proceeds from revolving credit facilities, net	18,700	12,610
Payments on long-term obligations	(964)	(1,053)
Exercise of stock options	15	233
Net cash provided by financing activities	6,746	2,144
Net increase in cash and cash equivalents	(1,673)	1,964
Cash and cash equivalents, beginning of period	8,019	7,103
Cash and cash equivalents, end of period	\$ 6,346	\$ 9,067

**Noncash Investing and Financing Activities:**

Tax benefit related to stock based compensation	\$ 122	\$ 132
Construction in progress included in trade accounts payable	\$	\$ 28
Unrealized investment holding losses	\$ (9,628)	\$ (1,244)

*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, Mexico, and Chile. Through our various operating facilities, we sort, pack, and/or ripen avocados, tomatoes, pineapples and/or Hawaiian grown papayas. Additionally, we also produce salsa and prepare ready-to-eat produce and deli products.

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, 2013.

***Recently Adopted Accounting Pronouncements***

In February 2013, the FASB issued a standard that revised the disclosure requirements for items reclassified out of accumulated other comprehensive income and requires entities to present information about significant items reclassified out of accumulated other comprehensive income by component either (1) on the face of the statement where net income is presented or (2) as a separate disclosure in the notes to the financial statements. This guidance is effective for annual reporting periods beginning after December 15, 2012. The adoption of this standard had no impact on our financial statements.

In July 2013, the FASB issued a standard permitting the Fed Funds Effective Swap Rate to be used as a U.S. benchmark interest rate for hedge accounting purposes, in addition to the United States Treasury rate and London Interbank Offered Rate (LIBOR). In addition, the restriction on using different benchmark rates for similar hedges is removed. The Company is required to adopt these provisions prospectively for qualifying new or re-designated hedging relationships entered into on or after July 17, 2013. The adoption of this standard had no impact on our financial statements.

***Recently Issued Accounting Standards***

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

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

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## CALAVO GROWERS, INC.

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (CONTINUED)

## (UNAUDITED)

**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. Since it has not commenced principal operations, FreshRealm, LLC (FreshRealm) is currently considered a developmental stage entity. Once principal operations commence, FreshRealm is expected to become our fourth segment. 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 January 31, 2014				Three months ended January 31, 2013			
	Fresh products	Calavo Foods	RFG	Total	Fresh products	Calavo Foods	RFG	Total
Third-party sales:								
Avocados	\$ 89,364	\$	\$	\$ 89,364	\$ 74,082	\$	\$	\$ 74,082
Tomatoes	6,506			6,506	6,961			6,961
Papayas	3,285			3,285	3,234			3,234
Pineapples	897			897	1,019			1,019
Other fresh products	64			64	63			63
Food service		9,971		9,971		9,924		9,924
Retail and club		5,522	56,533	62,055		4,660	43,278	47,938
Total gross sales	100,116	15,493	56,533	172,142	85,359	14,584	43,278	143,221
Less sales incentives	(394)	(2,637)	(946)	(3,977)	(292)	(2,654)	(776)	(3,722)
Net sales	\$ 99,722	\$ 12,856	\$ 55,587	\$ 168,165	\$ 85,067	\$ 11,930	\$ 42,502	\$ 139,499

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

**Three months ended January 31, 2014**

Net sales	\$ 99,722	\$ 12,856	\$ 55,587	\$ 168,165
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Cost of sales	93,514	10,262	50,699	154,475
Gross margin	\$ 6,208	\$ 2,594	\$ 4,888	\$ 13,690
<b>Three months ended January 31, 2013</b>				
Net sales	\$ 85,067	\$ 11,930	\$ 42,502	\$ 139,499
Cost of sales	78,298	8,842	39,235	126,375
Gross margin	\$ 6,769	\$ 3,088	\$ 3,267	\$ 13,124

**Table of Contents****CALAVO GROWERS, INC.****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (CONTINUED)****(UNAUDITED)**

For the three months ended January 31, 2014 and 2013, inter-segment sales and cost of sales for Fresh products totaling \$9.0 million and \$9.8 million were eliminated in consolidation. For three months ended January 31, 2014 and 2013, inter-segment sales and cost of sales for Calavo Foods totaling \$3.7 million and \$3.1 million were eliminated in consolidation.

**3. Inventories**

Inventories consist of the following (in thousands):

	<b>January 31, 2014</b>	<b>October 31, 2013</b>
Fresh fruit	\$ 13,842	\$ 13,928
Packing supplies and ingredients	5,377	5,511
Finished prepared foods	8,440	9,234
	<b>\$ 27,659</b>	<b>\$ 28,673</b>

During the three months ended January 31, 2014 and 2013, 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 January 31, 2014 and 2013, the aggregate amount of avocados procured from entities owned or controlled by members of our Board of Directors was \$0.4 million and \$0.3 million. Accounts payable to these Board members were \$0.3 million and \$3.3 million at January 31, 2014 and October 31, 2013.

During the first quarter of fiscal 2014 and 2013, we received \$0.1 million as dividend income from Limoneira.

The three previous owners and current executives of RFG have a majority ownership of certain entities that provide various services to RFG. RFG's California operating facility leases a building from LIG partners, LLC (LIG) pursuant to an operating lease. LIG is majority owned by an entity owned by such three executives of RFG. For the three months ended January 31, 2014 and 2013, total rent paid to LIG was \$0.1 million. RFG's Texas operating facility leases a building from THNC, LLC (THNC) pursuant to an operating lease. THNC is majority owned by an entity owned by such three executives of RFG. For the three months ended January 31, 2014, total rent paid to THNC was

\$0.1 million. Additionally, RFG sells cut produce and purchases raw materials, obtains transportation services, and shares costs for certain utilities with Third Coast Fresh Distribution (Third Coast). Third Coast is majority owned by an entity owned by such three executives of RFG. For the three months ended January 2014 and 2013, total sales made to Third Coast were \$0.2 million and \$1.1 million. For the three months ended January 31, 2014 and 2013, total purchases made from Third Coast were \$0.1 million and \$0.5 million. Amounts due from Third Coast were \$0.9 million and \$1.0 million as of January 31, 2014 and October 31, 2013. Amounts due to Third Coast were less than \$0.1 million as of January 31, 2014 and October 31, 2013.



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## CALAVO GROWERS, INC.

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (CONTINUED)

## (UNAUDITED)

**5. Other assets**

Other assets consist of the following (in thousands):

	January 31, 2014	October 31, 2013
Intangibles, net	\$ 6,930	\$ 7,272
Grower advances	864	938
Loan to Agricola Belher	1,690	1,690
Loan to FreshRealm members	287	283
Notes receivable from San Rafael	1,517	1,594
Other	746	570
	\$ 12,034	\$ 12,347

Intangible assets consist of the following (in thousands):

	Weighted- Average Useful Life	January 31, 2014			October 31, 2013		
		Gross Carrying Value	Accum. Amortization	Net Book Value	Gross Carrying Value	Accum. Amortization	Net Book Value
Customer list/relationships	8.0 years	\$ 7,640	\$ (2,603)	\$ 5,037	\$ 7,640	\$ (2,364)	\$ 5,276
Trade names	8.4 years	2,760	(1,702)	1,058	2,760	(1,636)	1,124
Trade secrets/recipes	12.6 years	630	(164)	466	630	(137)	493
Brand name intangibles	indefinite	275		275	275		275
Non-competition agreements	5.0 years	267	(173)	94	267	(163)	104
Intangibles, net		\$ 11,572	\$ (4,642)	\$ 6,930	\$ 11,572	\$ (4,300)	\$ 7,272

We anticipate recording amortization expense of approximately \$1.0 million for the remainder of fiscal 2014, with \$1.3 million of amortization expense for fiscal year 2015. We anticipate recording amortization expense of approximately \$1.2 million for fiscal year 2016. We anticipate recording amortization expense of approximately \$1.1 million for fiscal years 2017 through 2018. We anticipate recording amortization expense of approximately \$0.8 million for fiscal year 2019 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.

On January 9, 2014, all 12 of our non-employee directors were granted 1,750 restricted shares each (total of 21,000 shares). These shares have full voting rights and participate in dividends as if unrestricted. The closing price of our stock on such date was \$32.49. On January 1, 2015, 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.

On January 27, 2014, our executive officers were granted a total of 10,774 restricted shares. These shares have full voting rights and participate in dividends as if unrestricted. The closing price of our stock on such date was \$30.50. These shares vest in one-third increments, on an annual basis, beginning January 1, 2015.

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## CALAVO GROWERS, INC.

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (CONTINUED)

## (UNAUDITED)

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):

	Number of Shares	Weighted-Average Exercise Price	Aggregate Intrinsic Value
Outstanding at October 31, 2013	27	\$ 15.79	
Exercised	(1)	\$ 14.58	
Outstanding at January 31, 2014	26	\$ 15.84	\$ 791
Exercisable at January 31, 2014	22	\$ 15.28	\$ 671

At January 31, 2014, outstanding stock options had a weighted-average remaining contractual term of 4.3 years. At January 31, 2014, exercisable stock options had a weighted-average remaining contractual term of 4.0 years. The total recognized stock-based compensation expense was insignificant for the three months ended January 31, 2014.

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

	Number of Shares	Weighted-Average Exercise Price	Aggregate Intrinsic Value
Outstanding at October 31, 2013	20	\$ 22.64	
Outstanding at January 31, 2014	20	\$ 22.64	\$ 149
Exercisable at January 31, 2014	6	\$ 22.36	\$ 46

At January 31, 2014, outstanding stock options had a weighted-average remaining contractual term of 6.4 years. At January 31, 2014, exercisable stock options had a weighted-average remaining contractual term of 4.5 years. The total recognized stock-based compensation expense was \$0.1 million for the three months ended January 31, 2014.

## **7. Other events**

### *Dividend payment*

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

### *Contingencies*

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

## **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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## CALAVO GROWERS, INC.

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (CONTINUED)

## (UNAUDITED)

The following table sets forth our financial assets and liabilities as of January 31, 2014 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)			
<b>Assets at Fair Value:</b>				
Investment in Limoneira Company <sup>(1)</sup>	\$ 35,902			\$ 35,902
Total assets at fair value	\$ 35,902	\$	\$	\$ 35,902

- (1) The investment in Limoneira Company consists of marketable securities in the Limoneira Company stock. At January 31, 2014 we 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 January 31, 2014 and October 31, 2013 equaled \$20.77 per share and \$26.34 per share. Unrealized gains and losses are recognized through other comprehensive income. Unrealized investment holding losses arising during the quarters ended January 31, 2014 and 2013 were \$9.6 million and \$1.2 million.

	Level 1	Level 2	Level 3	Total
	(All amounts are presented in thousands)			
<b>Liabilities at fair value:</b>				
Salsa Lisa contingent consideration <sup>(2)</sup>			\$ 685	\$ 685
Total liabilities at fair value	\$	\$	\$ 685	\$ 685

- (2) On at least an annual basis, 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. The total revalue adjustment of the contingent consideration during the three months ended January 31, 2013 totaled \$1.2 million. No revalue adjustments were necessary during the three months ended

January 31, 2014.

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

	<b>Balance at October 31, 2013</b>	<b>Interest</b>	<b>Revalue Adjustment</b>	<b>Balance January 31, 2014</b>
<b>(All amounts are presented in thousands)</b>				
Salsa Lisa contingent consideration	\$ 676	\$ 9	\$	\$ 685
Total	\$ 676	\$ 9	\$	\$ 685

	<b>Balance at October 31, 2012</b>	<b>Interest</b>	<b>Revalue Adjustment</b>	<b>Balance January 31, 2013</b>
<b>(All amounts are presented in thousands)</b>				
Salsa Lisa contingent consideration	\$ 857	\$ 12	\$	\$ 869
RFG contingent consideration <sup>(1)</sup>	2,322	23	1,245	3,590
Total	\$ 3,179	\$ 35	\$ 1,245	\$ 4,459

- (1) We have amended our acquisition agreement with RFG in regards to the cash payment portion of the Stage II & III earnouts. See Note 16 of the most recently filed 10-K for more information.

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## CALAVO GROWERS, INC.

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (CONTINUED)

## (UNAUDITED)

**9. Noncontrolling interest**

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

	<b>Three months ended January 31, 2014</b>	<b>Three months ended January 31, 2013</b>
<b>Salsa Lisa noncontrolling interest</b>		
Noncontrolling interest, beginning	\$ 121	\$ 357
Loss attributable to noncontrolling interest of Salsa Lisa	(190)	(26)
<b>Noncontrolling interest, ending</b>	<b>\$ (69)</b>	<b>\$ 331</b>

	<b>Three months ended January 31, 2014</b>	<b>Three months ended January 31, 2013</b>
<b>FreshRealm noncontrolling interest</b>		
Noncontrolling interest, beginning	\$ (6)	\$
Loss attributable to noncontrolling interest of FreshRealm	(310)	
<b>Noncontrolling interest, ending</b>	<b>\$ (316)</b>	<b>\$</b>

Since it has not commenced principal operations, FreshRealm is currently considered a developmental stage entity. For the three months ended January 31, 2014, FreshRealm has incurred \$0.5 million in expenses, which has been recorded in selling, general and administrative. Since its creation, FreshRealm has had \$2.4 million in cumulative losses.

**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 occurred that require recognition in the financial statements.





**Table of Contents****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, 2013 of Calavo Growers, Inc. (we, Calavo, or the Company).

***Recent Developments******Dividend payment***

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

***Net Sales***

The following table summarizes our net sales by business segment for each of the three-month periods ended January 31, 2014 and 2013:

<b>(in thousands)</b>	<b>Three months ended January 31,</b>		
	<b>2014</b>	<b>Change</b>	<b>2013</b>
Net sales to third-parties:			
Fresh products	\$ 99,722	17.2%	\$ 85,067
Calavo Foods	12,856	7.8%	11,930
RFG	55,587	30.8%	42,502
<b>Total net sales</b>	<b>\$ 168,165</b>	<b>20.5%</b>	<b>\$ 139,499</b>
As a percentage of net sales:			
Fresh products	59.3%		60.9%
Calavo Foods	7.6%		8.6%
RFG	33.1%		30.5%
	100.0%		100.0%

Net sales for the first quarter of fiscal 2014, compared to fiscal 2013, increased by \$28.7 million, or 20.5%. The increase in sales, when compared to the same corresponding prior year period, is related to an increase in sales across all segments. We experienced an increase in RFG sales during the first quarter of fiscal 2014, which was due primarily to increased sales from cut fruit and vegetables platters, as well as an increase in sales of Deli products. We experienced an increase in Fresh product sales during the first quarter of fiscal 2014, which was due primarily to increased sales of Mexican and Chilean sourced avocados. Partially offsetting this increase in Fresh product sales, however, was a decrease in sales of California sourced avocados. We experienced an increase in our Calavo Foods segment during the first quarter of fiscal 2014, which was due primarily to an increase in the sales of our guacamole products. While the procurement of fresh avocados related to our Fresh products segment is very seasonal, our Calavo Foods business is generally not subject to a seasonal effect.

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.

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*Fresh products*

Net sales delivered by the Fresh products business increased by approximately \$14.7 million, or 17.2%, for the first quarter of fiscal 2014, when compared to the same period for fiscal 2013. As discussed above, this increase in Fresh product sales during the first quarter of fiscal 2014 was primarily related to increased sales of Mexican and Chilean sourced avocados. These increases were partially offset, however, by decreased sales from California sourced avocados. See details below.

Sales of Mexican sourced avocados increased \$15.2 million, or 21.4% for the first quarter of 2014, when compared to the same prior year period. The increase in Mexican sourced avocados was primarily due to an increase in the sales price per carton, which increased by approximately 22.1%. We attribute this increase primarily to a lower overall volume of avocados in the marketplace, and an overall increase in the demand of avocados. Partially offsetting this increase, however, was a decrease in the pounds sold, which decreased by approximately 0.4 million pounds of avocados sold, or 0.5%, when compared to the same prior year period.

Sales of Chilean sourced avocados increased \$1.5 million for the first quarter of 2014, when compared to the same prior year period. The increase in Chilean sourced avocados was due to an increased in pounds sold. Chilean sourced avocados sales reflect an increased in 1.4 million pounds of avocados sold, when compared to the same prior year period. This increase in sales is due to the lower availability of other avocado sources, and an increased focus on obtaining an increased supply of avocados from more diversified sources.

Partially offsetting such increases was a decrease in sales of California sourced avocados, which decreased \$1.5 million, or 47.8% for the first quarter of 2014, when compared to the same prior year period. The decrease in California sourced avocados was due to a decrease in pounds sold. California sourced avocados sales reflect a decrease in 1.9 million pounds of avocados sold, or 57.1%, when compared to the same prior year period. We attribute most of this decrease in volume to the cyclically smaller California avocado crop expected for fiscal 2014. Partially offsetting this decrease, however, was the increase in the sales price per carton, which increased by approximately 21.5%. We attribute this increase primarily to a lower overall volume of avocados in the marketplace, and an overall increase in the demand of avocados.

Sales of tomatoes decreased \$0.5 million, or 6.5%, for the first quarter of fiscal 2014, when compared to the same period for fiscal 2013. The decrease in sales for tomatoes is primarily due to a decrease in the number of cartons sold, partially offset by an increase in the per carton selling price. Both of these changes are primarily related to a decrease in grade 2 tomatoes being shipped to US marketplace in the first quarter of fiscal 2014, as compared to the same prior year period.

We anticipate that California avocado sales will experience an increase during our second fiscal quarter of 2014, as compared to the first quarter of 2014. Additionally, we believe that the sales volume of California grown avocados will decrease in second quarter of fiscal 2014, when compared to the same prior year period. This decrease is due to the aforementioned, expected, cyclically smaller avocado crop.

We anticipate that net sales related to tomatoes will increase during our second fiscal quarter of 2014, as compared to the first fiscal quarter of 2014. We anticipate that sales of Mexican grown avocados will increase in the second quarter of fiscal 2014, when compared to the same prior year period, due to higher volume of avocados in the marketplace.

**Table of Contents***Calavo Foods*

Sales for Calavo Foods for the quarter ended January 31, 2014, when compared to the same period for fiscal 2013, increased \$0.9 million, or 7.8%. This increase is due to an increase in sales of prepared guacamole products which increased approximately \$1.1 million, or 10.2%, in the first quarter of fiscal year 2014, when compared to the same prior year period. Partially offsetting these increases, is a decrease of sales of Calavo Tortilla Chips of \$0.1 million or 51.6% and Calavo Salsa Lisa products of \$0.1 million or 19.4%. The increase in sales of prepared guacamole was primarily related to an increase in overall pounds sold, which increased 1.0 million pounds, or 20.8%, partially offset by a decrease in the average net selling price per pound for both our frozen guacamole products and our refrigerated guacamole products of approximately 6.4%.

*RFG*

Sales for RFG for the quarter ended January 31, 2014, when compared to the same period for fiscal 2013, increased \$13.1 million, or 30.8%. This increase is due primarily to increased sales from packaged fresh cut fruit, packaged fresh cut vegetables and fresh prepared and packaged deli style salads, sandwiches and wraps. The overall increase in sales is primarily due to an increase in sales volume. Collectively, cut fruit, cut vegetable, and deli product sales increased 4.9 million units, or 29.6%. We believe the overall increase in sales volume is primarily due to an increase in demand for the variety of innovative packaged fresh food products that we offer.

*Gross Margins*

The following table summarizes our gross margins and gross profit percentages by business segment for each of the three-month periods ended January 31, 2014 and 2013:

(in thousands)	Three months ended January 31,		
	2014	Change	2013
Gross margins:			
Fresh products	\$ 6,208	(8.3)%	\$ 6,769
Calavo Foods	2,594	(16.0)%	3,088
RFG	4,888	49.6%	3,267
<b>Total gross margins</b>	<b>\$ 13,690</b>	<b>4.3%</b>	<b>\$ 13,124</b>
Gross profit percentages:			
Fresh products	6.2%		8.0%
Calavo Foods	20.2%		25.9%
RFG	8.8%		7.7%
Consolidated	8.1%		9.4%

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 \$0.6 million, or 4.3%, for the first quarter of fiscal 2014 when compared to the same period for fiscal 2013. This increase was primarily attributable to our RFG segment.

During our first fiscal quarter of 2014, as compared to the same prior year period, the decrease in our Fresh products segment gross margin percentage was primarily related to higher Mexican sourced avocado fruit costs year-over-year.

We were able to increase the selling prices of Mexican sourced avocados, but not at the same rate at which fruit costs increased. The net effect of these negatively impacted gross margins. In addition, our gross margin percentage decreased further due to the decrease in pounds sold of California sourced avocados, compared to the same period in fiscal 2013. We attribute most of this decrease in volume to the cyclically smaller California avocado crop expected for fiscal 2014.

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The Calavo Foods segment gross margin percentage during our first fiscal quarter of 2014, when compared to the same prior year period, decreased primarily due an increase in the fruit cost per pound by approximately 24.7%. In addition, gross margins decreased due to an increase in sales of frozen, high volume but low margin customers. Partially offsetting these decreases to the gross margin percentage was a decrease in the production cost per pound by approximately 1.8%. Production costs per pound decreased due to an overall increase in the pounds produced in the first quarter of 2014, compared to the same prior year period. In addition, the strengthening of the U.S. Dollar compared to the Mexican Peso, decreased our per pound costs. We anticipate that the gross margin percentage for our Calavo Foods segment will continue to experience significant fluctuations during this fiscal year primarily due to the uncertainty of the cost of fruit that will be used in the production process. 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.

The RFG segment gross margin percentage during our first fiscal quarter of 2014, when compared to the same prior year period, increased primarily as a result of lower operating costs due to an overall increase in units of products produced. Sales for RFG for the quarter ended January 31, 2014, when compared to the same period for fiscal 2013, increased \$13.1 million, or 30.8%. The increase in production to support such increase in sales had the effect of decreasing our per pound operating costs, which, as a result, positively impacted gross margins.

***Selling, General and Administrative***

(in thousands)	Three months ended January 31,		
	2014	Change	2013
Selling, general and administrative	\$ 8,272	(6.2)%	\$ 8,821
Effective tax rate	4.9%		5.2%

Selling, general and administrative expenses include costs of marketing and advertising, sales expenses and other general and administrative costs. Selling, general and administrative expenses decreased \$0.5 million, or 6.2%, for the three months ended January 31, 2014, when compared to the same period for fiscal 2013. This decrease was primarily to lower corporate costs, including, but not limited to, a revalue adjustment on contingent consideration related to the acquisition of RFG in the prior year, with none occurring in the current year (totaling approximately \$1.2 million), and promotions and advertising (totaling approximately \$0.1 million), partially offset by increases due to the start-up operations of FreshRealm (totaling approximately \$0.5 million), salaries (totaling approximately \$0.1 million), employee benefits (totaling approximately \$0.1 million), and legal fees (totaling approximately \$0.1 million).

***Provision for Income Taxes***

(in thousands)	Three months ended January 31,		
	2014	Change	2013
Provision for income taxes	\$ 1,822	20.8%	\$ 1,508
Effective tax rate	34.4%		36.0%

For the first three months of fiscal 2014, our provision for income taxes was \$1.8 million, as compared to \$1.5 million for the comparable prior year period. We expect our effective tax rate to be approximately 34% during fiscal 2014. The expected lower tax rate, compared to prior year, is due to tax benefits related to the shift of income between tax jurisdictions and tax credits received through California's Enterprise Zone Hiring Credit Program and research and development. See Note 10 of the most recently filed 10-K for more information.



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**Liquidity and Capital Resources**

Cash used by operating activities was \$6.6 million for the three months ended January 31, 2014, compared to \$1.4 million provided by operations for the similar period in fiscal 2013. Operating cash flows for the three months ended January 31, 2014 reflect our net income of \$3.5 million, net non-cash charges (depreciation and amortization, stock compensation expense, interest on deferred consideration, revalue adjustments on contingent consideration and income from unconsolidated entities) of \$1.8 million and net of cash used in the components of our operating capital of approximately \$11.9 million.

Cash used in operations caused by working capital changes, when compared to October 31, 2013, includes a net decrease in payable to growers of \$9.8 million, a net increase in accounts receivable of \$5.0 million, a net increase in prepaid and other current assets of \$1.2 million, a net increase in advances to suppliers of \$0.2 million, a net increase in other assets of \$0.1 million, and a net increase in income tax receivable of \$0.1 million, partially offset by, an increase in trade accounts payable and accrued expenses of \$3.5 million, and a decrease in inventory of \$1.0 million.

The decrease in our payable to growers primarily reflects a decrease in California fruit delivered in the month of January 2014, as compared to October 31, 2013. The increase in our accounts receivable, as of January 31, 2014, when compared to October 31, 2013, primarily reflects higher sales recorded in the month of January 2014, as compared to October 2013. The increase in accounts payable and accrued expenses is primarily related to an increase in our payables related to tomatoes and Mexican avocados. The decrease in inventory is primarily related to a decrease of inventory on hand at January 31, 2014 compared to October 31, 2013.

Cash used in investing activities was \$1.8 million for the three months ended January 31, 2014 and related principally to the purchase of property, plant and equipment items.

Cash provided by financing activities was \$6.7 million for the three months ended January 31, 2014, which related principally to borrowings on our credit facilities totaling \$18.7 million, partially offset by the payment of our \$11.0 million dividend and payments on long-term obligations of \$1.0 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 January 31, 2014 and October 31, 2013 totaled \$6.3 million and \$8.0 million. Our working capital at January 31, 2014 was \$14.9 million, compared to \$12.4 million at October 31, 2013.

We believe that cash flows from operations and available credit facilities will be sufficient to satisfy our future capital expenditures, grower recruitment efforts, working capital and other financing requirements. We will continue to evaluate grower recruitment opportunities and exclusivity arrangements with food service companies to fuel growth in each of our business segments. 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 1.7% at January 31, 2014 and October 31, 2013. Under these credit facilities, we had \$52.7 million and \$34.0 million outstanding as January 31, 2014 and October 31, 2013. These credit facilities contain various financial covenants, the most significant relating to Tangible Net Worth (as defined), Current Ratio (as defined), and Fixed Charge Coverage Ratio (as defined). We were in compliance with all such covenants at January 31, 2014.





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**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, 2013. For a summary of the contractual commitments at October 31, 2013, see Part II, Item 7, in our 2013 Annual Report on Form 10-K.

**Impact of Recently Issued Accounting Pronouncements**

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

**Table of Contents****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 January 31, 2014.

(All amounts in thousands)	Expected maturity date January 31,						Total	Fair Value
	2014	2015	2016	2017	2018	Thereafter		
<b>Assets</b>								
Cash and cash equivalents (1)	\$ 6,346	\$	\$	\$	\$	\$	\$ 6,346	\$ 6,346
Accounts receivable (1)	60,060						60,060	60,060
Advances to suppliers (1)	3,419						3,419	3,419
<b>Liabilities</b>								
Payable to growers (1)	\$ 4,720	\$	\$	\$	\$	\$	\$ 4,720	\$ 4,720
Accounts payable (1)	12,330						12,330	12,330
Current borrowings pursuant to credit facilities (1)	52,690						52,690	52,690
Fixed-rate long-term obligations (2)	5,245	5,079	1,374	103	92	193	12,086	12,274

- (1) We believe the carrying amounts of cash and cash equivalents, accounts receivable, advances to suppliers, payable to growers, accounts payable, and current borrowings pursuant to credit facilities approximate their fair value due to the short maturity of these financial instruments.
- (2) Fixed-rate long-term obligations bear interest rates ranging from 1.7% to 5.7% with a weighted-average interest rate of 3.0%. We believe that loans with a similar risk profile would currently yield a return of 2.5%. We project the impact of an increase or decrease in interest rates of 100 basis points would result in a change of fair value of approximately \$207,000.

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

Our Mexican-based operations transact business in Mexican pesos. Funds are transferred by our corporate office to Mexico on a weekly basis to satisfy domestic cash needs. Historically, the consistency of the spot rate for the Mexican peso has led to a small-to-moderate impact on our operating results. We do not anticipate using derivative instruments to hedge fluctuations in the Mexican peso to U.S. dollar exchange rates during fiscal 2014. Total foreign currency gains for the three months ended January 31, 2014, and 2013, net of losses, was \$0.2 million and \$0.1 million.

**ITEM 4. CONTROLS AND PROCEDURES**

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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 January 31, 2014 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**

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 6. EXHIBITS**

- 10.1 Restricted Stock Award Agreement, dated January 9, 2014.
- 10.2 Restricted Stock Award Agreement, dated January 27, 2014.
- 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 January, 31, 2014, formatted in XBRL (eXtensible Business Reporting Language): (1) Consolidated Condensed Balance Sheets as of January 31, 2014 and October 31, 2013; (2) Consolidated Condensed Statements of Income for the three months ended January 31, 2014 and 2013; (3) Consolidated Condensed Statements of Comprehensive Income for the three ended January 31, 2014 and 2013; (4) Consolidated Condensed Statements of Cash Flows for the three months ended January 31, 2014 and 2013; and (5) Notes to Unaudited Condensed Financial Statements.

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**(1) 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: March 11, 2014

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

Date: March 11, 2014

By /s/ Arthur J. Bruno  
Arthur J. Bruno  
Chief Operating Officer, Chief Financial Officer and  
Corporate Secretary  
(Principal Financial Officer)

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INDEX TO EXHIBITS

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