CALAVO GROWERS INC
Form 10-Q
June 08, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended April 30, 2009

OR

o **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 þ No o

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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 o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

Registrant s number of shares of common stock outstanding as of April 30, 2009 was 14,422,833

CAUTIONARY STATEMENT

This Quarterly Report on Form 10-Q contains statements relating to our future results (including certain projections and business trends) that are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and are subject to the safe harbor created by those sections. Forward-looking statements frequently are identifiable by the use of words such as believe, anticipate, expect, intend, will, and other similar expressions. Our actual results may d materially from those projected as a result of certain risks and uncertainties. These risks and uncertainties include, but are not limited to: increased competition, conducting substantial amounts of business internationally, pricing pressures on agricultural products, adverse weather and growing conditions confronting avocado growers, new governmental regulations, as well as other risks and uncertainties, including but not limited to those set forth in Part I., Item 1A, *Risk Factors*, in our Annual Report on Form 10-K for the fiscal year ended October 31, 2008, and those detailed from time to time in our other filings with the Securities and Exchange Commission. These forward-looking statements are made only as of the date hereof, and we undertake no obligation to update or revise the forward-looking statements, whether as a result of new information, future events, or otherwise.

CALAVO GROWERS, INC.
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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

CALAVO GROWERS, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS (UNAUDITED)
(All amounts in thousands, except per share amounts)

	April 30, 2009	October 31, 2008
Assets		
Current assets:		
Cash and cash equivalents	$ 4,975	$ 1,509
Accounts receivable, net of allowances of $2,331 (2009) and $2,213 (2008)	36,712	27,717
Inventories, net	15,616	14,889
Prepaid expenses and other current assets	6,038	5,155
Advances to suppliers	11,349	2,927
Income tax receivable		992
Deferred income taxes	1,826	1,826
Total current assets	76,516	55,015
Property, plant, and equipment, net	38,223	37,709
Investment in Limoneira Company	22,817	29,904
Investment in Maui Fresh, LLC	907	682
Goodwill	3,591	3,591
Other assets	7,543	7,785
	$ 149,597	$ 134,686
Liabilities and shareholders equity		
Current liabilities:		
Payable to growers	$ 6,219	$ 2,392
Trade accounts payable	7,545	4,567
Accrued expenses	28,949	16,104
Income tax payable	1,887	
Short-term borrowings	6,720	10,130
Dividend payable		5,047
Current portion of long-term obligations	1,365	1,362
Total current liabilities	52,685	39,602
Long-term liabilities:		
Long-term obligations, less current portion	25,362	25,351
Deferred income taxes	1,458	4,216
Total long-term liabilities	26,820	29,567
Commitments and contingencies		
Shareholders equity:		
Common stock, $0.001 par value; 100,000 shares authorized; 14,423 (2009) and 14,419 (2008) issued and outstanding	14	14
Additional paid-in capital	38,689	38,626

Accumulated other comprehensive income (loss)	(387)	3,943
Retained earnings	31,776	22,934
Total shareholders equity	70,092	65,517
	$ 149,597	$ 134,686

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

CALAVO GROWERS, INC.
CONSOLIDATED CONDENSED STATEMENTS OF INCOME (UNAUDITED)
(All amounts in thousands, except per share amounts)

	Three months ended April 30,		Six months ended April 30,	
	2009	**2008**	**2009**	**2008**
Net sales	$ 86,829	$ 98,777	$ 157,476	$ 171,018
Cost of sales	73,890	91,483	132,078	157,695
Gross margin	12,939	7,294	25,398	13,323
Selling, general and administrative	5,535	4,701	10,835	9,451
Operating income	7,404	2,593	14,563	3,872
Interest expense	(291)	(346)	(617)	(694)
Other income, net	366	398	621	659
Income before provision for income taxes	7,479	2,645	14,567	3,837
Provision for income taxes	3,017	1,033	5,725	1,493
Net income	$ 4,462	$ 1,612	$ 8,842	$ 2,344
Net income per share:				
Basic	$ 0.31	$ 0.11	$ 0.61	$ 0.16
Diluted	$ 0.31	$ 0.11	$ 0.61	$ 0.16
Number of shares used in per share computation:				
Basic	14,423	14,403	14,421	14,389
Diluted	14,508	14,514	14,495	14,504

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

CALAVO GROWERS, INC.
CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)
(All amounts in thousands)

	Three months ended April 30,		Six months ended April 30,	
	2009	**2008**	**2009**	**2008**
Net income	$ 4,462	$ 1,612	$ 8,842	$ 2,344
Other comprehensive income (loss), before tax:				
Unrealized holding gains (losses) arising during period	(4,840)	5,186	(7,087)	(5,748)
Income tax benefit (expense) related to items of other comprehensive income (loss)	1,888	(2,235)	2,757	2,218
Other comprehensive income (loss), net of tax	(2,952)	2,951	(4,330)	(3,530)
Comprehensive income (loss)	$ 1,510	$ 4,563	$ 4,512	$ (1,186)

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

CALAVO GROWERS, INC.
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Six months ended April 30, 2009	2008
Cash Flows from Operating Activities:		
Net income	$ 8,842	$ 2,344
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,489	1,120
Provision for losses on accounts receivable	79	
Income from Maui Fresh LLC	(225)	(137)
Interest on deferred consideration	91	
Stock compensation expense	20	4
Effect on cash of changes in operating assets and liabilities:		
Accounts receivable	(9,074)	(10,601)
Inventories, net	(727)	(6,574)
Prepaid expenses and other current assets	(883)	(1,016)
Advances to suppliers	(8,422)	(8,881)
Income taxes receivable	999	1,364
Other assets	(19)	91
Payable to growers	3,827	7,189
Trade accounts payable and accrued expenses	15,776	16,379
Income taxes payable	1,887	
Net cash provided by operating activities	13,660	1,282
Cash Flows from Investing Activities:		
Loan to Agricola Belher		(450)
Acquisitions of and deposits on property, plant, and equipment	(1,742)	(990)
Net cash used in investing activities	(1,742)	(1,440)
Cash Flows from Financing Activities:		
Payment of dividend to shareholders	(5,047)	(5,032)
Proceeds from (payments on) revolving credit facilities, net	(3,410)	6,620
Exercise of stock options	36	275
Payments on long-term obligations	(31)	(14)
Net cash provided by (used in) financing activities	(8,452)	1,849
Net increase in cash and cash equivalents	3,466	1,691
Cash and cash equivalents, beginning of period	1,509	967
Cash and cash equivalents, end of period	$ 4,975	$ 2,658
Noncash Investing and Financing Activities:		
Tax benefit related to stock option exercise	$ 7	$ 118
Capital lease obligations	$	$ 1,125

Unrealized investment holding losses	$ (7,087)	$ (5,748)

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

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) procures and markets avocados and other perishable commodities and prepares and distributes processed avocado products. We deliver a wide array of fresh and processed 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 operating facilities in southern California, Texas, New Jersey, Arizona, and Mexico, we sort, pack, and/or ripen avocados for distribution both domestically and internationally. Additionally, we also distribute other perishable foods, such as tomatoes, pineapples, and Hawaiian grown papayas, and prepare processed avocado products. We report our operations in two different business segments: fresh products and processed products.

The accompanying unaudited condensed consolidated 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 condensed consolidated 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, 2008.

Recently Adopted Accounting Pronouncements

In March 2008, we adopted Statement of Financial Accounting Standard (SFAS) No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (SFAS 161). SFAS 161 requires expanded disclosures regarding the location and amount of derivative instruments in an entity s financial statements, how derivative instruments and related hedged items are accounted for under SFAS 133 and how derivative instruments and related hedged items affect an entity s financial position, operating results and cash flows. The adoption of SFAS No. 161 did not have an impact on our condensed consolidated financial statements and related disclosures.

In November 2008, we adopted SFAS No. 157, *Fair Value Measurements* (SFAS No. 157), for our financial assets and liabilities. Our adoption of SFAS No. 157 did not have a material impact on our financial position, results of operations or liquidity.

SFAS No. 157 provides a framework for measuring fair value and requires expanded disclosures regarding fair value measurements.

SFAS No. 157 defines fair value as the price that would be received for an asset or the exit price that would be paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. SFAS No. 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs, where available. The following summarizes the three levels of inputs required by the standard that we use to measure fair value:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the related assets or liabilities

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

SFAS No. 157 requires the use of observable market inputs (quoted market prices) when measuring fair value and requires a Level 1 quoted price to be used to measure fair value whenever possible.

In accordance with FASB Staff Position (FSP) No. FAS 157-2, *Effective Date of FASB Statement No. 157* (FSP FAS 157-2), we elected to defer, until November 2009, the adoption of SFAS No. 157 for all nonfinancial assets and liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis. The adoption of SFAS No. 157 for those assets and liabilities within the scope of FSP FAS 157-2 is not expected to have a material impact on our financial position, results of operations, or liquidity.

Under the SFAS 157 hierarchy, an entity is required to maximize the use of quoted market prices and minimize the use of unobservable inputs. The following table sets forth our financial assets (there are no liabilities requiring disclosure) as of April 30, 2009 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]	$ 22,817			$ 22,817
Total assets at fair value	$ 22,817	$	$	$ 22,817

(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 April 30, 2009 and October 31, 2008, equaled $132.00 per share and $173.00 per share.

Unrealized gain and losses are recognized through other comprehensive income. Unrealized pre-tax investment holding losses arising during the three and six month period ended April 30, 2009 was $4.8 million and $7.1 million.

In November 2008, we adopted SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115* (SFAS No. 159), which permits entities to choose to measure many financial instruments and certain other items at fair value. We already record our marketable securities at fair value in accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. The adoption of SFAS No. 159 did not have an impact on our condensed consolidated financial statements, as management did not elect the fair value option for any other financial instruments or certain other assets and liabilities.

Recently Issued Accounting Standards

In May 2008, the FASB issued FASB Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS No. 162), which identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP. SFAS No. 162 is effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*. We do not expect the adoption of SFAS No. 162 to have an impact on our consolidated financial position, results of operations or cash flows.

In April 2008, the FASB issued FSP FAS 142-3, *Determination of the Useful Life of Intangible Assets* (FSP 142-3). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142. This change is intended to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141R and other generally accepted account principles (GAAP). The requirement for determining useful lives must be applied prospectively to intangible assets acquired after the effective date and the disclosure requirements must be applied prospectively to all intangible assets recognized as of, and subsequent to, the effective date. FSP 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years, which will require us to adopt these provisions in our first quarter of fiscal 2010. We are currently evaluating the impact of adopting FSP 142-3 on our consolidated financial statements.

In December 2008, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB 51*, which changes the accounting and reporting for minority interests. Minority interests will be re-characterized as noncontrolling interests and will be reported as a component of equity separate from the parent s equity, and purchases or sales of equity interests that do not result in a change in control will be accounted for as equity transactions. In addition, net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement and, upon a loss of control, the interest sold, as well as any interest retained, will be recorded at fair value with any gain or loss recognized in earnings. We will adopt SFAS No. 160 no later than the first quarter of fiscal 2010. We are currently assessing the potential impact that adoption of SFAS No. 160 would have on our financial position and results of operations.

In December 2008, the FASB issued SFAS No. 141 (revised 2008), *Business Combinations* (SFAS No. 141R), which replaces SFAS No 141. The statement retains the purchase method of accounting for acquisitions, but requires a number of changes, including changes in the way assets and liabilities are recognized in the purchase accounting. It also changes the recognition of assets acquired and liabilities assumed arising from contingencies, requires the capitalization of in-process research and development at fair value, and requires the expensing of acquisition-related costs as incurred. We will adopt SFAS No. 141R no later than the first quarter of fiscal 2010 and it will apply prospectively to business combinations completed on or after that date.

2. Information regarding our operations in different segments

We report our operations in two different business segments: (1) fresh products and (2) processed products. These two business segments are presented based on how information is used by our president to measure performance and allocate resources. The fresh products segment includes all operations that involve the distribution of avocados grown both inside and outside of California, as well as the distribution of other non-processed, perishable food products. The processed products segment represents all operations related to the purchase, manufacturing, and distribution of processed avocado products. Additionally, selling, general and administrative expenses, as well as other non-operating income/expense items, are evaluated by our president 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):

	Six months ended April 30, 2009			Six months ended April 30, 2008		
	Fresh products	**Processed products**	**Total**	**Fresh products**	**Processed products**	**Total**
Third-party sales:						
Avocados	$ 91,899	$	$ 91,899	$ 106,020	$	$ 106,020
Tomatoes	12,536		12,536	17,005		17,005
Pineapples	6,729		6,729	7,854		7,854
Papayas	4,246		4,246	3,795		3,795
Diversified products	2,245		2,245	691		691
Processed food service		17,141	17,141		18,719	18,719
Processed retail and club		7,455	7,455		5,868	5,868
Total fruit and product sales to third-parties	117,655	24,596	142,251	135,365	24,587	159,952
Freight and other charges	18,586	528	19,114	14,736	577	15,313
Total third-party sales	136,241	25,124	161,365	150,101	25,164	175,265
Less sales incentives	(42)	(3,847)	(3,889)	(18)	(4,229)	(4,247)
Total net sales to third-parties	136,199	21,277	157,476	150,083	20,935	171,018
Intercompany sales	8,171	3,803	11,974	8,104	4,806	12,910
Net sales before eliminations	$ 144,369	$ 25,081	169,450	$ 158,187	$ 25,741	183,928
Intercompany sales eliminations			(11,974)			(12,910)
Consolidated net sales			$ 157,476			$ 171,018

	Three months ended April 30, 2009			Three months ended April 30, 2008		
	Fresh products	**Processed products**	**Total**	**Fresh products**	**Processed products**	**Total**
Third-party sales:						
Avocados	$ 52,201	$	$ 52,201	$ 62,217	$	$ 62,217
Tomatoes	8,531		8,531	10,895		10,895
Pineapples	3,202		3,202	4,781		4,781
Papayas	2,039		2,039	2,033		2,033
Diversified products	697		697	305		305
Processed food service		9,104	9,104		9,357	9,357
Processed retail and club		3,429	3,429		2,843	2,843
Total fruit and product sales to third-parties	66,670	12,533	79,203	80,231	12,200	92,431
Freight and other charges	9,389	243	9,632	8,109	337	