# Calamco

A PARTNERSHIP WITH GROWERS

2013 ANNUAL REPORT

# FINANCIAL HIGHLIGHTS OF THE YEAR



| | | 2013 | | 2012 |
|---|---|---|---|---|
| Total Revenue | $ | 134,902,847 | $ | 136,976,555 |
| Cash Patronage Allocated to Participating Shareholders | $ | 9,501,956 | $ | 12,446,873 |
| Cash Patronage Dividend per Ton of Ammonia | $ | 38.40 | $ | 48.09 |
| Net Working Capital | $ | 14,614,922 | $ | 12,727,003 |
| Property, Plant and Equipment, Net | $ | 7,640,717 | $ | 8,234,950 |
| Long Term Debt | $ | 0 | $ | 0 |
| Shareholders' Equity | $ | 22,227,547 | $ | 21,236,951 |
| Number of Shareholders | | 1,147 | | 1,152 |
| Shares Outstanding at Year-End | | 2,070,367 | | 2,071,949 |

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# Alan Freese

## DIRECTOR DISTRICT 1
## NORTHERN CALIFORNIA

Alan lives in Rio Vista in the home built by his grandfather. Together with his son, they farm in the Rio Vista and Dixon areas of Solano County as fourth and fifth generation farmers. Key crops include wheat, alfalfa, sunflower, corn, sudan, and other field crops. Prior to farming, Alan worked in the wholesale fertilizer industry for eight years. Those years provided a great background in the supply and distribution of ammonia and related fertilizer products.

# MESSAGE TO SHAREHOLDERS

## THE YEAR IN REVIEW

**Throughout the history of CALAMCO, we have faced the need to adapt to changes within our industry. This ability to change and adapt is why we have not only survived, but prospered.**

CALAMCO was formed in 1957 as a partnership between industry (Best Fertilizers) and a group of California farmers. Construction of the anhydrous ammonia facility in Lathrop began in 1958 and was completed by the end of that year. At one time, there were eight ammonia production facilities located throughout California, and CALAMCO owned two of them.

During the1970's, the cost of natural gas and power required to produce anhydrous ammonia had increased nearly five-fold in a five year period. Once again, the vision and foresight that had been the foundation of CALAMCO was evident. The management and board of directors determined that we could purchase ammonia on the world market cheaper than we could produce it. In 1978, the financing of an ammonia terminal at the Port of Stockton was approved and construction of the first tank began.

By the end of 1981, CALAMCO had expanded to two 20,000 ton storage tanks and had established ourselves as a major terminal operation in the Western United States by importing ammonia from worldwide sources. Ammonia production throughout California eventually ceased as it became economically prohibitive to produce, and CALAMCO emerged as one of only two ammonia terminals in California.

Over the years, the United States has become a net importer of nitrogen, relying on countries with lower natural gas cost and plentiful supply to meet our growing demand. However, we are once again experiencing a shift in production opportunities for this precious commodity. While the cost of natural gas has risen in other producing countries, we have discovered new sources of natural gas supply throughout parts of the United States.

The U.S. now has some of the lowest natural gas prices in the world. Lower cost, along with increased supply has prompted a rejuvenation of previously idled plants, as well as interest in building new production facilities. This is once again putting domestic nitrogen production at a growing cost advantage.

On average, we receive approximately fifteen vessels of anhydrous ammonia into the Port of Stockton each year. Since 2006, Koch Nitrogen has been supplying product to CALAMCO under two to three year supply contracts. Our latest contract with Koch Nitrogen was in place through the end of 2013. Under this contract, we had the ability to purchase a limited amount of product on a spot basis during the 2nd half of the year.

We have not typically purchased product outside of our contract as it was not advantageous to do so. With the outlook for nitrogen production set to increase in the United States, we have adjusted our options in order to take advantage of lower priced domestic material. CALAMCO is continuing to adapt to the changing markets in order to keep growers in California competitive with the rest of the United States.

# Case Van Steyn

## DIRECTOR DISTRICT 2
## CENTRAL SAN JOAQUIN VALLEY

Case currently serves as Chairman of the Board. He and his brother Paul own and operate a dairy farm in Elk Grove and in Galt, along with his son Russell. They currently milk 1100 cows and are engaged in raising corn, alfalfa and dairy cattle, as well as custom harvesting which he has been doing since 1964.

# OPERATIONS

## THE YEAR IN REVIEW

CALAMCO was the proud recipient of the 2013 PG&E Green Award for our recent efforts in energy efficiency, demand response and self-generation. We were recognized by PG&E for being very active in energy efficiency with projects saving 90 KW of load and approximately a million kwh, earning incentives totaling $90,000. In mid-2012, we repowered our cogeneration unit which has produced 3.5 million kwh; greatly reducing our demand on the utility grid.

The Green Award is presented to companies demonstrating innovation and environmental stewardship by taking advantage of the programs PG&E offers to become more efficient, reduce energy usage, lower peak demand when energy needs are greatest, reduce greenhouse gas emissions, and do all of this while saving money.

CALAMCO also participates in PG&E's demand response programs in which we agree to reduce our energy usage when demand on the grid is highest. Some notable energy efficient projects include: Variable Frequency Drives installed on pumps and chillers, new efficient LED lighting fixtures for all outdoor lighting, and new efficient fluorescent lighting installed in all offices. PG&E sites CALAMCO's efforts resulting in savings equivalent to 861,000 pounds of avoided $CO_2$ emissions, which equates to removing 82 cars from the road annually and enough energy savings to power 196 homes for a year.

# SAFETY

In early 2013, CALAMCO was selected for the 2012 Terra Safety Award. Terra is the name of the insurance captive of which we are members; a group of over twenty-four other companies connected to agriculture. We were selected for our continued focus on safety, evident by completing 2012 without a recordable accident or injury.

**CALAMCO Recognized by Union Pacific Railroad for Transportation Safety**

CALAMCO is the proud recipient of this year's Pinnacle Award, in recognition for our consistent focus on the safe handling and transportation of anhydrous ammonia through our facility in Stockton.

Union Pacific Railroad named 63 companies as annual Pinnacle Award recipients for chemical transportation safety. The award recognizes Union Pacific customers that implemented successful prevention and corrective plans and achieved a rate of zero non-accident releases (NARs) for regulated hazardous materials shipments.

This is the third time that we have received the Pinnacle Award from UP. The Pinnacle Award program, which began in 1996, is open to all Union Pacific hazardous material shippers, including chemical and petrochemical customers. Criteria include safe-loading techniques, securement of shipments and zero NARs. A non-accident release is an unintentional release of hazardous material during transportation not caused by an accident or train derailment. NARs consist of leaks, splashes and other releases from improperly secured or defective valves, fittings, safety relief devices and tank shells.

# Doug DeVaney

## DIRECTOR DISTRICT 3
## SOUTHERN SAN JOAQUIN VALLEY

Doug is a third generation farmer from the Southern San Joaquin Valley. His farming experiences include multiple crops in vegetables as well as cotton, alfalfa, safflower and small grains. This work has been performed on large scale farms as well as international farming ventures in Central America. Doug serves as a District Manager for the J.G. Boswell Company in Corcoran, California, managing a 20,000 acre district.

# MARKETING

## THE YEAR IN REVIEW

Though we entered our 2013 fiscal year facing the reality of drought conditions, we were fortunate to have a fairly normal water supply for agricultural use throughout most of California, with a portion of that water supplemented by private wells.

Unlike 2012, where we had a significant amount of rain in April, this year was unusually dry and warm, which translated into an extremely busy season much earlier than it has been in previous years. Warm weather allowed growers to start working ground significantly earlier than normal, and by the second half of March, we were already starting to move product.

We did experience a slight decline in the cost of anhydrous ammonia on the world market early in our 2013 fiscal year; however prices during the Spring season were still substantially higher than they were during the previous year. As we approached the end of our 2013 fiscal year, prices continued to decline, in part, due to the increase in domestic nitrogen production.

CALAMCO took advantage of our ability to purchase ammonia on a spot basis during the second half of the year by bringing in product by rail; something that we had not done previously.

Rebate checks were mailed to participating members in mid-January for our 2013 fiscal year. It turned out to be another good year for your cooperative, with a dividend of $38.40 per ton of ammonia equivalent. That equates to a 29% return on investment for those members that purchased their stock at $20 per share this past year.

# David Martella

## DIRECTOR DISTRICT 4
## COAST/IMPERIAL VALLEY

David lives and farms in the Salinas Valley. He is the President of Martella Farming Company Inc. and currently farms 2100 acres. His family started in the dairy business in the Salinas Valley in 1880, but switched to farming in 1920. Key crops include iceberg lettuce, romaine lettuce, broccoli, cauliflower, celery, brussel sprouts, artichokes, and spinach.

# FINANCIAL

## THE YEAR IN REVIEW

CALAMCO revenues for 2013 were $134.9 million compared to $137.0 million for 2012. Total cost of materials and expenses were $123.9 million compared to $124.4 million for 2012, leaving a net margin for 2013 of $10.5 million compared to $12.4 million for 2012. The Board of Directors declared a distribution of patronage income of $9.5 which was paid out to members based on 242,370 tons of qualifying ammonia equivalent, compared to 257,817 tons in 2012.

Shareholder equity of $22.2 million reflects an increase of $1.0 million from our 2012 fiscal year. The company's long-term debt capacity of $5,596,676 and an available line of credit of $5 million at year end had no outstanding balance.

CALAMCO's on-going financial strength is reflected in the following financial statements.

Robert C Brown

ROBERT C. BROWN
President, Chief Executive Officer

CASE VAN STEYN
Chairman of the Board

*Lee Gardiner, V.P. Operations (left)*
*Robert Brown, President & CEO (right)*

*Class B Directors representing the J.R. Simplot Company*
*(left to right) Joel Barker, Brad Baltzer & Jeff Roesler*

# BALANCE SHEETS

## ASSETS

| | OCTOBER 31, 2013 | 2012 |
|---|---|---|
| **CURRENT ASSETS** | | |
| Cash and cash equivalents | $ 13,801,571 | $ 8,936,636 |
| Accounts receivable (net of allowance for doubtful accounts of $287,234 and $291,241 in 2013 and 2012, respectively) | 4,431,790 | 8,359,022 |
| Inventories | 7,826,567 | 7,676,039 |
| Prepaid expenses and other | 898,338 | 803,623 |
| Prepaid income taxes | 175,900 | 46,320 |
| Deferred tax asset | - | 28,775 |
| Total current assets | 27,134,166 | 25,850,415 |
| **PROPERTY, PLANT, AND EQUIPMENT**, net | 7,640,717 | 8,234,950 |
| **INVESTMENT** | 577,041 | 622,133 |
| | $ 35,351,924 | $ 34,707,498 |

## LIABILITIES AND SHAREHOLDERS' EQUITY

| | 2013 | 2012 |
|---|---|---|
| **CURRENT LIABILITIES** | | |
| Accounts payable and accrued expenses | $ 6,818,671 | $ 5,291,857 |
| Patronage dividend due shareholders | 5,700,573 | 7,831,555 |
| Total current liabilities | 12,519,244 | 13,123,412 |
| **DEFERRED TAX LIABILITY** | 92,813 | 17,055 |
| **DEFERRED REVENUE** | 512,320 | 330,080 |
| **COMMITMENTS AND CONTINGENCIES** (Note 9) | | |
| **SHAREHOLDERS' EQUITY** | | |
| Common stock | 5,175,375 | 5,179,331 |
| Additional paid-in capital | 10,890,016 | 10,890,537 |
| Retained earnings | 6,579,679 | 5,609,686 |
| Common stock subscriptions | (417,523) | (442,603) |
| Total shareholders' equity | 22,227,547 | 21,236,951 |
| | $ 35,351,924 | $ 34,707,498 |



*See accompanying notes*

# STATEMENTS OF NET MARGIN AND DISTRIBUTION

| | YEARS ENDED OCTOBER 31, | |
|---|---|---|
| | 2013 | 2012 |
| **REVENUES** | | |
| Sales | $ 129,243,931 | $ 131,577,962 |
| Cold storage, trucking, and terminaling | 5,623,984 | 5,259,796 |
| Interest income and other | 34,932 | 138,797 |
| | 134,902,847 | 136,976,555 |
| **COSTS AND EXPENSES** | | |
| Cost of materials, operations, and distribution | 121,202,265 | 120,590,065 |
| Selling, general, and administrative expenses | 2,589,104 | 2,413,304 |
| Interest expense and other | 59,575 | 1,387,666 |
| | 123,850,944 | 124,391,035 |
| Net margin before taxes | 11,051,903 | 12,585,520 |
| Income tax expense | 549,954 | 138,647 |
| Net margin | $ 10,501,949 | $ 12,446,873 |
| **DISTRIBUTION OF NET MARGIN** | | |
| Net margin from member business | $ 9,531,956 | $ 12,620,851 |
| Net margin (loss) from non-member business | 969,993 | (173,978) |
| Net margin | $ 10,501,949 | $ 12,446,873 |

*See accompanying notes*

# STATEMENT OF SHAREHOLDERS' EQUITY

## TWO YEARS ENDED OCTOBER 31, 2013

| | Common Stock | | | | | |
|---|---|---|---|---|---|---|
| | Shares | Amount | Additional Paid-in Capital | Retained Earnings | Common Stock Subscriptions | Total |
| Balance, October 31, 2011 | 2,030,136 | $ 5,074,924 | $ 10,144,636 | $ 5,783,664 | $ (451,242) | $ 20,551,982 |
| Issuance of common stock | 49,287 | 123,218 | 862,523 | - | (140,717) | 845,024 |
| Retirement of common stock | (7,524) | (18,811) | (116,622) | - | - | (135,433) |
| Payments on common stock subscriptions | - | - | - | - | 149,356 | 149,356 |
| Distributions declared | - | - | - | (12,620,851) | - | (12,620,851) |
| Net margin | - | - | - | 12,446,873 | - | 12,446,873 |
| Balance, October 31, 2012 | 2,071,899 | $ 5,179,331 | $ 10,890,537 | $ 5,609,686 | $ (442,603) | $ 21,236,951 |
| Balance, November 1, 2012 | 2,071,899 | $ 5,179,331 | $ 10,890,537 | $ 5,609,686 | $ (442,603) | $ 21,236,951 |
| Issuance of common stock | 12,000 | 30,000 | 210,000 | - | (60,630) | 179,370 |
| Retirement of common stock | (13,532) | (33,956) | (210,521) | - | - | (244,477) |
| Payments on common stock subscriptions | - | - | - | - | 85,710 | 85,710 |
| Distributions declared | - | - | - | (9,531,956) | - | (9,531,956) |
| Net margin | - | - | - | 10,501,949 | - | 10,501,949 |
| Balance, October 31, 2013 | 2,070,367 | $ 5,175,375 | $ 10,890,016 | $ 6,579,679 | $ (417,523) | $ 22,227,547 |



*See accompanying notes*

# STATEMENTS OF CASH FLOWS

| | YEARS ENDED OCTOBER 31, 2013 | 2012 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Net margin | $ 10,501,949 | $ 12,446,873 |
| Adjustments to reconcile net margin to net cash from operating activities – | | |
| Depreciation | 1,443,472 | 1,400,395 |
| Impairment loss | - | 1,339,471 |
| Earnings from equity method investment | - | (111,137) |
| Deferred revenue | 182,240 | 330,080 |
| Deferred taxes | 104,533 | (326,033) |
| Effect of changes in: | | |
| Accounts receivable | 3,927,232 | (2,395,218) |
| Inventories | (150,528) | 3,906,645 |
| Prepaid expenses and other | (94,715) | (128,747) |
| Prepaid income taxes and income tax payable | (129,580) | (46,320) |
| Accounts payable and accrued expenses | 1,526,814 | (1,338,732) |
| Net cash from operating activities | 17,311,417 | 15,077,277 |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | |
| Purchases of property, plant, and equipment | (849,239) | (2,242,423) |
| Distribution from equity method investment | 45,092 | 44,455 |
| Net cash from investing activities | (804,147) | (2,197,968) |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | |
| Proceeds from issuance of common stock | 179,370 | 845,024 |
| Retirement of common stock | (244,477) | (135,433) |
| Payments received on common stock subscriptions | 85,710 | 149,356 |
| Distributions to members | (11,662,938) | (14,032,862) |
| Net cash from financing activities | (11,642,335) | (13,173,915) |
| Net change in cash and cash equivalents | 4,864,935 | (294,606) |
| **CASH AND CASH EQUIVALENTS,** beginning of year | 8,936,636 | 9,231,242 |
| **CASH AND CASH EQUIVALENTS,** end of year | $ 13,801,571 | $ 8,936,636 |
| **NON-CASH TRANSACTIONS:** | | |
| Common stock subscriptions issued | $ 60,630 | $ 140,717 |
| Accrual of patronage dividend due to shareholders | $ 5,700,573 | $ 7,831,555 |
| **SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:** | | |
| Cash paid for interest | $ 59,575 | $ 47,650 |
| Cash paid for taxes | $ 575,000 | $ 511,000 |

*See accompanying notes*

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CALAMCO (the Company), located in Stockton, California, is a non-exempt agricultural cooperative that sells and transports anhydrous ammonia and related fertilizer products to its members. The Company also provides terminaling services for outside companies. These operations are considered non-member business. Patronage retains are levied and remitted to members at the discretion of the Board of Directors. Significant accounting policies are as follows:

### a. Cash and Cash Equivalents

The Company classifies all highly liquid deposits with maturities of three months or less as cash and cash equivalents.

### b. Inventories

Inventories, which consist primarily of anhydrous ammonia and aqua ammonia, are carried at the lower of cost (first-in, first-out method) or market.

### c. Exchanged Inventory

The Company has agreements with other ammonia suppliers whereby product is loaned be-tween the Company and the other suppliers. These loans are denominated in ammonia and are utilized to minimize shipping costs for both parties. The net payable was valued at $1,850,973 and $276,617 at October 31, 2013 and 2012, respectively. The net payable and the accompanying offsetting inventory are recorded net in the accompanying financial statements.

### d. Property, Plant, and Equipment

Property, plant, and equipment is stated at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of assets, which range from 3 to 50 years.

Periodically, the Company assesses the recoverability of its long-lived assets to determine if assets have been impaired. The impairment loss represents the excess of the carrying amounts of assets over their fair value.

### e. Insurance Program

The Company became a member of a multiprovider captive insurance company (captive) for general liability, auto, and workers' compensation insurance in 2006. The Company's investment for the membership interest is included in investments and accounted for on the equity method.

The captive agreement provides for specific deductibles, a risk sharing pool, and layers of indemnity coverage. The Company amortizes the premiums paid to the captive over the policy year. At October 31, 2013 and 2012, the Company has a $315,039 letter of credit available for possible claims. Management estimates any contingent liabilities under the captive agreement are not material.

### f. Income Taxes

Under the federal tax code, the Company is a non-exempt cooperative association. Non-exempt cooperatives accrue income taxes on net non-patronage proceeds. No provision for taxes is made for net patronage proceeds paid or allocated to members as qualified notices of allocation.

Deferred tax assets and liabilities are calculated by applying applicable tax rates to the non-patronage differences between the financial statement basis and tax basis of assets and liabilities currently recognized in the financial statements.

The accounting standard for uncertain tax positions prescribes a recognition threshold and measurement process for accounting and also provides guidance on various related matters such as derecognition, interest, penalties, and disclosures required. The Company does not have any entity level uncertain tax positions.

It is the Company's policy to include interest and penalties related to unrecognized tax benefits within the provision for income taxes on the statement of net margin. No amounts were recognized for interest and penalties related to unrecorded tax benefits during fiscal years 2013 or 2012.

### g. Patronage Retains

Net margin may be retained or distributed to members at the option of the Board of Directors. The Board annually determines whether additional retains are needed. No amounts were retained in fiscal years 2013 or 2012.

### h. Member Distributions

Net margins from member business are distributed on the basis of patronage, not to exceed a calculation based on the number of shares of common stock owned by the individual member.

### i. Revenue Recognition

Product revenue and trucking income is recognized as product is shipped. Terminaling income is recognized as product is shipped from the terminal.

### j. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### k. Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date, but before financial statements are available to be issued. The Company recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Company's financial statements do not recognize sub-sequent events that provide evidence about conditions that did not exist at the date of the balance sheet, but arose after the balance sheet date and before financial statements are available to be issued.

The Company has evaluated subsequent events through December 20, 2013, which is the date the financial statements are available to be issued.

## 2. PROPERTY, PLANT, AND EQUIPMENT, NET

Property, plant, and equipment consist of:

| | OCTOBER 31, 2013 | OCTOBER 31, 2012 |
|---|---|---|
| Land | $ 70,000 | $ 70,000 |
| Plant and equipment | 29,066,091 | 28,188,724 |
| Construction in progress | 1,483 | 29,608 |
| | 29,137,574 | 28,288,332 |
| Accumulated depreciation | (21,496,857) | (20,053,382) |
| | $ 7,640,717 | $ 8,234,950 |

During 2011, the cold storage facility was deemed to be impaired and written down to the property's fair value. In 2012, the cold storage facility was deemed to be fully impaired. An impairment loss in the amount of $1,000,000 and $1,339,000, included in other expenses, has been charged to operations in 2011 and 2012, respectively. Accumulated depreciation relating to this asset was reclassified against cost.

## 3. INCOME TAXES

The Company pays federal and state taxes on member margins not allocated to members and on non-member net margin.

The components of the provision for income taxes are as follows:

| | YEARS ENDED OCTOBER 31, | |
|---|---|---|
| | 2013 | 2012 |
| Federal: | | |
| Current tax expense | $ 352,350 | $ 378,097 |
| Deferred tax benefit | 96,810 | (261,018) |
| | 449,160 | 117,079 |
| State: | | |
| Current tax expense | 93,071 | 86,583 |
| Deferred tax benefit | 7,723 | (65,015) |
| | 100,794 | 21,568 |
| | $ 549,954 | $ 138,647 |

The Company has total deferred tax assets of $0 and $28,775 and liabilities of $92,813 and $17,055 at October 31, 2013 and 2012, respectively. Deferred taxes relate primarily to financial statement and tax return basis differences in depreciation and impairment, federal net operating loss carryforwards, and certain accrued expenses.

## 4. BANK FINANCING

The Company has a line of credit with a bank, of which $5,000,000 was available at October 31, 2013 and 2012. No balance was outstanding at either date. The line of credit is limited to the lesser of combined totals of 65% of inventories and 80% of eligible accounts receivable or a fixed amount as defined in the line of credit agreement, which was $5,000,000 at October 31, 2013 and 2012.

The line of credit accrues interest at LIBOR Daily Floating Rate plus 1.75% (1.92% at October 31, 2013) and expires on July 1, 2014.

The Company has available letters of credit that may not exceed $1,000,000. The letter of credit in the amount of $315,039 was outstanding at October 31, 2013 and 2012. The letter of credit matures on July 1, 2014.

The Company has a secured term loan with a bank of which there was $5,596,676 available at October 31, 2013 and $6,326,672 available at October 31, 2012. No balance was outstanding at either date. The availability of this loan is reduced monthly by $60,833 until it expires on July 31, 2016. This loan accrues interest at LIBOR plus 1.75% (1.92% at October 31, 2013).

The Company's bank financing is collateralized by substantially all the Company's accounts receivable, inventory, and equipment.

## 5. NON-CANCELLABLE OPERATING LEASES

The Company leases administrative offices, rail-cars, and certain other equipment under operating lease agreements. Port terminal space is also leased under an agreement that expires, following a 20-year extension, in December 2041. All ammonia is delivered through this port.

Future minimum lease payments for non-cancellable operating leases with terms in excess of one year as of October 31, 2013 are as follows:

| Years ending October 31, | Amount |
|---|---|
| 2014 | 551,393 |
| 2015 | 554,933 |
| 2016 | 512,441 |
| 2017 | 475,611 |
| 2018 | 479,152 |
| Thereafter | 5,431,213 |
| | $ 8,004,743 |

The port lease agreement also entitles the Company to receive a wharfage credit against the lease expense based on a tonnage delivered to the port. The lease agreement provides that the Company may be required to remove improvements to the property at its cost at the conclusion of the lease. The Company estimates that the present value of any removal costs is not material. Rental expense incurred under operating leases (including month-to-month rentals) was $558,413 and $572,093 for the years ended October 31, 2013 and 2012, respectively.

## 6. COMMON STOCK

Common stock consists of the following:

| | October 31, | |
|---|---|---|
| | 2013 | 2012 |
| Class A, par value $2.50 per share, 1,200,000 shares authorized; 1,110,023 and 1,111,482 shares issued and outstanding at October 31, 2013 and 2012, respectively | $ 2,769,319 | $ 2,773,275 |
| Class B, par value $2.50 per share, 1,250,000 shares authorized; 961,926 and 958,885 shares issued and outstanding at October 31, 2013 and 2012, respectively | 2,406,056 | 2,406,056 |
| | $ 5,175,375 | $ 5,179,331 |

Class A shareholders are entitled to elect at least a simple majority of directors. Class B share-holders are entitled to elect at least one director. 79% of the Class B common stock is owned by Cal Ida Chemical Co. (Cal Ida), a wholly-owned subsidiary of J.R. Simplot Co. (see Note 10).

## 7. EMPLOYEE RETIREMENT PLAN

The Company has a defined contribution retirement plan covering The Company has a defined contribution retirement plan covering employees meeting eligibility requirements. Employees are eligible to participate on the first day of the plan year in which they complete 12 months of employment, provided that they have worked at least 1,000 hours during that period. Minimum annual contributions to the plan are based upon 6% of annual compensation. Additional amounts may be contributed at the discretion of the Company's Board of Directors. The plan has an indefinite expiration date. Contributions to the plan were $340,407 and $327,023 for the years ended October 31, 2013 and 2012, respectively.

## 8. SAVINGS PLAN

The Company has a 401(k) savings plan. Employees are eligible upon date of hire. Matching contributions are made at the discretion of the Board of Directors. All other contributions are made at the discretion of the Board of Directors. All contributions vest immediately. The Company contributed $91,474 and $99,978 for the years ended October 31, 2013 and 2012, respectively.

## 9. COMMITMENTS AND CONTINGENCIES

The Company entered into a long-term agreement in which it will purchase ammonia exclusively from a vendor during January through June and 70% of their ammonia requirements during July through December with an option to reduce their purchase requirement to 40% during July through December 31, 2013. The Company purchases primarily all of its ammonia from this vendor. Management believes that alternate vendors are available, if necessary.

During 2005, the Company entered into an agreement with a third party whereby the third party constructed a power generation facility on the premises of the Company and sells generated power and hot water to the Company. The agreement included minimum annual payments of $360,000. The Company had accounted for this agreement as an arrangement containing a lease. The Company had capitalized $1,375,000 as the leased asset value and recorded a corresponding lease obligation. In 2012, the Company amended the agreement with the third party, removing the annual minimum payment requirement. Based on the amended terms, the Company is no longer accounting for this agreement as a capital lease, and removed the asset and obligation. There was no gain or loss from the derecognition of the lease.

### 10. RELATED PARTY

The Company has an agreement with J.R. Simplot Co. and affiliates (collectively Simplot), a 37% shareholder, under which Simplot has agreed to purchase all of their anhydrous ammonia manufacturing needs in California from the Company. Under this agreement, the Company's price for anhydrous ammonia to Simplot is the Company's best dealer price less discounts (as defined in the agreement). Simplot receives an estimated patronage refund at the time of purchase. However, this amount is adjusted to actual monthly and Simplot pays interest on the amount of any patronage refund received in advance.

During 2011, the Company entered into an agreement with Simplot, under which the Company agreed to supply Simplot with a minimum of 3,000 short tons of R-Grade ammonia each year and to provide Simplot with exclusive sales and marketing rights to all CALAMCO generated R-Grade ammonia. As a result of the agreement, the Company increased their capacity to store R-Grade ammonia.

In 2002, the Company completed construction and placed into service a new storage tank dedicated to terminaling Urea Ammonium Nitrate (UN32). The Company has entered into an agreement with Simplot to terminal UN32. The Company does not take possession of or sell the product on behalf of Simplot, but merely stores the product for Simplot and charges a related terminaling fee.

In 2012, the Company completed construction and placed into service a new storage tank dedicated to terminaling Nitrogen Fertilizer (UN32). The Company has entered into an agreement with Simplot to terminal UN32. The Company does not take possession of or sell the product on behalf of Simplot, but merely stores the product for Simplot and charges a related terminaling fee. The agreement has a five-year term with Simplot having the right to exercise seven consecutive five-year options to extend the term.

The Company estimates earnings over the life of the agreement to be $2,020,000, due within the first five years of the agreement. Management has deferred revenue over a ten-year term under the assumption that Simplot will exercise its first option to extend for an additional five-year term.

The following amounts relate to transactions with Simplot:

| | YEARS ENDED OCTOBER 31, | | | |
|---|---|---|---|---|
| | 2013 | | 2012 | |
| | Amount | % of Total | Amount | % of Total |
| Sales | $ 53,306,928 | 41% | $ 52,666,581 | 40% |
| Accounts receivable | $ 1,030,704 | 23% | $ 2,610,300 | 31% |
| Processing costs incurred through Simplot | $ 2,491,126 | | $ 3,253,440 | |
| UN32 terminaling income | $ 1,606,520 | | $ 1,586,692 | |
| UN32 deferred income | $ 512,320 | | $ 330,080 | |

### 11. CONCENTRATION OF CREDIT RISK AND UNCERTAINTIES

Financial instruments that potentially subject the Company to credit risk are funds held by depository institutions and customer trade accounts receivable generated in the normal course of business.

The Company maintains funds at depository institutions, including balances in short-term in-vestment accounts, that periodically exceed the FDIC insurance limits, or in the case of the short-term investments, are not insured. The Company has not experienced any credit losses on these funds held at depository institutions.

As discussed in Note 1, the Company sells an-hydrous ammonia and related fertilizer products primarily to agricultural distributors and retailers located throughout California and the western United States; therefore, a portion of its customers' ability to service their obligations is de-pendent on the agribusiness sector of the economy. While management believes that its security as a creditor is adequate and that the allowance for doubtful accounts is sufficient to pro-vide for potential uncollectible receivables, it is possible that future write-offs could exceed the current allowance. Historical losses and current aging trends have been and are within management's expectations. Management determines the allowance for doubtful accounts based on the evaluation of individual accounts and historical write-offs. The Company does not have a policy for placing trade receivables on non-accrual status and does charge 1% interest on past due balances over 30 days.

Trade receivables are written off against the allowance account when deemed uncollectible by management.

December 20, 2013

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders

## CALAMCO

We have audited the accompanying financial statements of CALAMCO (the Company), which comprise the balance sheets as of October 31, 2013 and 2012, and the related statements of net margin, shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CALAMCO as of October 31, 2013 and 2012, and the results of its operations and its cash flows for the years then end

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