

CALAVO GROWERS INC
Form 10-Q
June 09, 2015
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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 April 30, 2015

OR

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

Commission file number: 000-33385

CALAVO GROWERS, INC.

(Exact name of registrant as specified in its charter)

California
(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 April 30, 2015 was 17,383,295

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CAUTIONARY STATEMENT

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

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	April 30, 2015	October 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 9,269	\$ 6,744
Accounts receivable, net of allowances of \$3,411 (2015) and \$3,248 (2014)	80,493	56,618
Inventories, net	31,045	30,975
Prepaid expenses and other current assets	20,909	19,528
Advances to suppliers	76	3,258
Income taxes receivable	2,460	2,627
Deferred income taxes	3,294	3,294
Total current assets	147,546	123,044
Property, plant, and equipment, net	60,855	57,352
Investment in Limoneira Company	39,653	44,355
Investment in unconsolidated entities	18,360	18,380
Deferred income taxes	13,932	12,287
Goodwill	18,262	18,262
Other assets	8,954	9,784
	\$ 307,562	\$ 283,464
Liabilities and shareholders equity		
Current liabilities:		
Payable to growers	\$ 25,078	\$ 6,660
Trade accounts payable	19,125	15,065
Accrued expenses	20,605	25,303
Short-term borrowings	45,150	35,900
Dividend payable		12,970
Current portion of long-term obligations	4,635	5,099
Total current liabilities	114,593	100,997
Long-term liabilities:		
Long-term obligations, less current portion	1,168	2,791
Total long-term liabilities	1,168	2,791

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Commitments and contingencies		
Noncontrolling interest, Calavo Salsa Lisa	270	270
Shareholders' equity:		
Common stock, \$0.001 par value, 100,000 shares authorized; 17,383 (2015) and 17,295 (2014) shares issued and outstanding	17	17
Additional paid-in capital	145,906	144,496
Accumulated other comprehensive income	9,657	12,713
Retained earnings	35,951	22,180
Total shareholders' equity	191,531	179,406
	\$ 307,562	\$ 283,464

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

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CALAVO GROWERS, INC.

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS (UNAUDITED)

(in thousands, except per share amounts)

	Three months ended		Six months ended	
	April 30,		April 30,	
	2015	2014	2015	2014
Net sales	\$ 221,589	\$ 194,894	\$ 416,380	\$ 363,059
Cost of sales	198,614	176,002	375,600	330,526
Gross margin	22,975	18,892	40,780	32,533
Selling, general and administrative	9,986	9,145	19,496	17,437
Contingent consideration related to RFG acquisition		7,036		16,254
Operating income (loss)	12,989	2,711	21,284	(1,158)
Interest expense	(236)	(292)	(459)	(548)
Other income, net	309	270	426	405
Income (loss) before income taxes	13,062	2,689	21,251	(1,301)
Provision (benefit) for income taxes	4,590	1,433	7,480	(643)
Net income (loss)	8,472	1,256	13,771	(658)
Add: Net loss attributable to noncontrolling interest		298		446
Net income (loss) attributable to Calavo Growers, Inc	\$ 8,472	\$ 1,554	\$ 13,771	\$ (212)
Calavo Growers, Inc. s net income (loss) per share:				
Basic	\$ 0.49	\$ 0.10	\$ 0.80	\$ (0.01)
Diluted	\$ 0.49	\$ 0.09	\$ 0.79	\$ (0.01)
Number of shares used in per share computation:				
Basic	17,300	15,755	17,298	15,755
Diluted	17,382	17,176	17,343	15,755

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

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CALAVO GROWERS, INC.

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

(in thousands)

	Three months ended		Six months ended	
	April 30, 2015	April 30, 2014	April 30, 2015	April 30, 2014
Net income (loss)	\$ 8,472	\$ 1,256	\$ 13,771	\$ (658)
Other comprehensive income (loss), before tax:				
Unrealized holding income (loss) on available for sales investments arising during period	3,699	3,803	(4,702)	(5,825)
Income tax benefit (expense) related to items of other comprehensive income (loss)	(1,295)	(1,483)	1,646	2,272
Other comprehensive income (loss), net of tax	2,404	2,320	(3,056)	(3,553)
Comprehensive income (loss)	10,876	3,576	10,715	(4,211)
Add: Net loss noncontrolling interest		298		446
Comprehensive income (loss) Calavo Growers, Inc.	\$ 10,876	\$ 3,874	\$ 10,715	\$ (3,765)

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)

	Six months ended April 30,	
	2015	2014
Cash Flows from Operating Activities:		
Net income (loss)	\$ 13,771	\$ (658)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	3,965	3,378
Provision for losses on accounts receivable	30	
Loss from unconsolidated entities	20	12
Interest on contingent consideration		18
Contingent consideration and non-cash compensation related to the acquisition of RFG		16,442
Stock-based compensation expense	719	303
Deferred income taxes		(6,518)
Effect on cash of changes in operating assets and liabilities:		
Accounts receivable	(23,905)	(9,033)
Inventories, net	(70)	(3,588)
Prepaid expenses and other current assets	(1,381)	(2,771)
Advances to suppliers	3,182	3,174
Income taxes receivable	623	2,036
Other assets	25	78
Payable to growers	18,419	4,628
Trade accounts payable and accrued expenses	(638)	5,762
Net cash provided by operating activities	14,760	13,263
Cash Flows from Investing Activities:		
Acquisitions of property, plant, and equipment	(6,663)	(5,464)
Investment in unconsolidated entity		(125)
Net cash used in investing activities	(6,663)	(5,589)
Cash Flows from Financing Activities:		
Payment of dividend to shareholders	(12,970)	(11,005)
Proceeds on revolving credit facilities, net	9,250	7,040
Payments on long-term obligations	(2,087)	(1,928)
Exercise of stock options	235	114
Net cash used in financing activities	(5,572)	(5,779)
Net increase in cash and cash equivalents	2,525	1,895
Cash and cash equivalents, beginning of period	6,744	8,019

Cash and cash equivalents, end of period	\$ 9,269	\$ 9,914
Noncash Investing and Financing Activities:		
Tax benefit related to stock based compensation	\$ 456	\$ 175
Unrealized investment holding losses	\$ (4,702)	\$ (5,825)

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

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CALAVO GROWERS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(UNAUDITED)

1. Description of the business

Business

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

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

Recently Adopted Accounting Pronouncements

In July 2013, the FASB issued a new accounting standard requiring the presentation of certain unrecognized tax benefits as reductions to deferred tax assets rather than as liabilities in the Consolidated Balance Sheets when a net operating loss carryforward, a similar tax loss or a tax credit carryforward exists. The adoption of this standard had no impact on our financial statements.

Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board (FASB) amended the existing accounting standards for revenue recognition. The amendments are based on the principle that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. We are required to adopt the amendments in the first quarter of fiscal 2018. Early adoption is not permitted. The amendments may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. We do not expect the adoption of these amendments to have a material impact on our financial statements.

In April 2014, the FASB issued guidance which changes the criteria for identifying a discontinued operation. The guidance limits the definition of a discontinued operation to the disposal of a component or group of components that is disposed of or is classified as held for sale and represents a strategic shift that has, or will have, a major effect on an entity's operations and financial results. We are required to adopt the guidance in the first quarter of fiscal 2016, with early adoption permitted for transactions that have not been reported in financial statements previously issued. We do not expect the adoption of this guidance to have a material impact on our financial statements

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

	Three months ended April 30, 2015				Three months ended April 30, 2014			
	Fresh products	Calavo Foods	RFG	Total	Fresh products	Calavo Foods	RFG	Total
Third-party sales:								
Avocados	\$ 125,744	\$	\$	\$ 125,744	\$ 106,713	\$	\$	\$ 106,713
Tomatoes	9,606			9,606	12,590			12,590
Papayas	1,898			1,898	3,139			3,139
Pineapples	635			635	1,858			1,858
Other fresh products	107			107	80			80
Food service		12,126		12,126		12,674		12,674
Retail and club		5,458	69,468	74,926		5,533	56,339	61,872
Total gross sales	137,990	17,584	69,468	225,042	124,380	18,207	56,339	198,926
Less sales incentives	(137)	(2,691)	(625)	(3,453)	(428)	(3,090)	(514)	(4,032)
Net sales	\$ 137,853	\$ 14,893	\$ 68,843	\$ 221,589	\$ 123,952	\$ 15,117	\$ 55,825	\$ 194,894

	Six months ended April 30, 2015				Six months ended April 30, 2014			
	Fresh products	Calavo Foods	RFG	Total	Fresh products	Calavo Foods	RFG	Total
Third-party sales:								
Avocados	\$ 228,169	\$	\$	\$ 228,169	\$ 196,077	\$	\$	\$ 196,077
Tomatoes	15,659			15,659	19,096			19,096
Papayas	4,418			4,418	6,424			6,424
Pineapples	1,630			1,630	2,755			2,755
Other fresh products	334			334	144			144
Food service		23,648		23,648		22,645		22,645
Retail and club		11,120	138,620	149,740		11,055	112,872	123,927
Total gross sales	250,210	34,768	138,620	423,598	224,496	33,700	112,872	371,068
Less sales incentives	(708)	(5,252)	(1,258)	(7,218)	(822)	(5,727)	(1,460)	(8,009)
Net sales	\$ 249,502	\$ 29,516	\$ 137,362	\$ 416,380	\$ 223,674	\$ 27,973	\$ 111,412	\$ 363,059

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	Fresh products	Calavo Foods	RFG	Total
Three months ended April 30, 2015				
Net sales	\$ 137,853	\$ 14,893	\$ 68,843	\$ 221,589
Cost of sales	126,954	9,280	62,380	198,614
Gross margin	\$ 10,899	\$ 5,613	\$ 6,463	\$ 22,975
Three months ended April 30, 2014				
Net sales	\$ 123,952	\$ 15,117	\$ 55,825	\$ 194,894
Cost of sales	114,269	11,294	50,439	176,002
Gross margin	\$ 9,683	\$ 3,823	\$ 5,386	\$ 18,892

For the three months ended April 30, 2015 and 2014, inter-segment sales and cost of sales for Fresh products totaling \$9.3 million and \$8.6 million were eliminated. For the three months ended April 30, 2015 and 2014, inter-segment sales and cost of sales for Calavo Foods totaling \$3.8 million and \$3.9 million were eliminated.

	Fresh products	Calavo Foods	RFG	Total
Six months ended April 30, 2015				
Net sales	\$ 249,502	\$ 29,516	\$ 137,362	\$ 416,380
Cost of sales	229,886	20,310	125,404	375,600
Gross margin	\$ 19,616	\$ 9,206	\$ 11,958	\$ 40,780
Six months ended April 30, 2014				
Net sales	\$ 223,674	\$ 27,973	\$ 111,412	\$ 363,059
Cost of sales	207,783	21,558	101,185	330,526
Gross margin	\$ 15,891	\$ 6,415	\$ 10,227	\$ 32,533

For the six months ended April 30, 2015 and 2014, inter-segment sales and cost of sales for Fresh products totaling \$19.1 million and \$17.6 million were eliminated. For the six months ended April 30, 2015 and 2014, inter-segment sales and cost of sales for Calavo Foods totaling \$7.5 million and \$7.6 million were eliminated.

3. Inventories

Inventories consist of the following (in thousands):

	April 30, 2015	October 31, 2014
Fresh fruit	\$ 17,087	\$ 15,640

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Packing supplies and ingredients	6,570	6,324
Finished prepared foods	7,388	9,011
	\$ 31,045	\$ 30,975

During the three and six-month periods ended April 30, 2015, we were not required to and did not record any provisions to reduce our inventories to the lower of cost or market. During the three and six-month periods ended April 30, 2014, we recorded \$0.3 million in provisions to reduce our inventories to the lower of cost or market.

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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 April 30, 2015 and 2014, the aggregate amount of avocados procured from entities owned or controlled by members of our Board of Directors was \$5.7 million and \$0.8 million. During the six months ended April 30, 2015 and 2014, the aggregate amount of avocados procured from entities owned or controlled by members of our Board of Directors was \$6.3 million and \$1.2 million. Amounts payable to these board members were \$3.2 million and \$0.6 million as of April 30, 2015 and October 31, 2014.

During the three and six months ended April 30, 2015 and 2014, we received \$0.1 million as dividend income from Limoneira Company (Limoneira). In addition, we lease office space from Limoneira and paid rental expenses of \$0.1 million for the three and six months ended April 30, 2015 and 2014. Harold Edwards, who is a member of our Board of Directors, is the Chief Executive Officer of Limoneira.

In the third quarter of 2015, we expect to finalize a joint venture agreement with Agricola Belher (Belher). Such joint venture will operate under the name of Agricola Don Memo. As of April 30, 2015, we have advanced \$5.8 million for construction of greenhouses (bridge loan). In fiscal 2015, the bridge loan will be replaced with a loan from an institutional lender and the bridge loan will be immediately repaid. The advance of \$5.8 million has been recorded as a receivable in prepaid and other current assets. During the three months ended April 30, 2015 and 2014, we had tomato sales of \$9.6 million and \$12.6 million. During the six ended April 30, 2015 and 2014, we had tomato sales of \$15.7 million and \$19.1 million. Amounts payable to Belher was \$2.1 million as of April 30, 2015. We had grower advances due from Belher of \$3.0 million as of October 31, 2014. We had infrastructure advances due from Belher of \$1.7 million and \$2.5 million as of April 30, 2015 and October 31, 2014. Of these infrastructure advances \$0.8 million was recorded as receivable in prepaid and other current assets. The remaining portion of these infrastructure advances are recorded in other assets.

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 April 30, 2015 and 2014, total rent paid to LIG was \$0.1 million. For the six months ended April 30, 2015 and 2014, total rent paid to LIG was \$0.3 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 April 30, 2015 and 2014, total rent paid to THNC was \$0.1 million. For the six months ended April 30, 2015 and 2014, total rent paid to THNC was \$0.2 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 April 30, 2015 and 2014, total sales made to Third Coast were \$0.1 million and \$0.3 million. For the six months ended April 30, 2015 and 2014, total sales made to Third Coast were \$0.2 million and \$0.5 million. For the three months April 30, 2015 and 2014, total purchases made from Third Coast were less than \$0.1 million. For the six months April 30, 2015 and 2014, total purchases made from Third Coast were \$0.1 million. Amounts due from Third Coast were \$0.3 million and \$0.4 million at April 30, 2015 and October 31, 2014. Amounts due to Third Coast were less than \$0.1 million at April 30, 2015 and October 31, 2014.

5. Other assets

Other assets consist of the following (in thousands):

	April 30, 2015	October 31, 2014
Intangibles, net	\$ 5,270	\$ 5,925
Grower advances	494	642
Loan to Agricola Belher	845	845
Loan to FreshRealm members	301	296
Notes receivable from San Rafael	1,273	1,343
Other	771	733
	\$ 8,954	\$ 9,784

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Intangible assets consist of the following (in thousands):

	Weighted-Average Useful Life	April 30, 2015			October 31, 2014		
		Gross Carrying Value	Accum. Amortization	Net Book Value	Gross Carrying Value	Accum. Amortization	Net Book Value
Customer list/relationships	8.0 years	\$ 7,640	\$ (3,802)	\$ 3,838	\$ 7,640	\$ (3,323)	\$ 4,317
Trade names	8.4 years	2,760	(2,032)	728	2,760	(1,900)	860
Trade secrets/recipes	13.0 years	630	(245)	385	630	(220)	410
Brand name intangibles	indefinite	275		275	275		275
Non-competition agreements	5.0 years	267	(223)	44	267	(204)	63
Intangibles, net		\$ 11,572	\$ (6,302)	\$ 5,270	\$ 11,572	\$ (5,647)	\$ 5,925

We have recorded \$0.3 million of amortization expense for the second quarter of 2015. We have recorded \$0.7 million of amortization expense for the six months ended of fiscal 2015. We anticipate recording amortization expense of approximately \$0.7 million for the remainder of fiscal 2015, with \$1.2 million of amortization expense for fiscal year 2016. We anticipate recording amortization expense of approximately \$1.1 million for each of fiscal years 2017 through 2018. We anticipate recording amortization expense of approximately \$0.7 million for fiscal year 2019. We anticipate recording the total remaining amortization expense of approximately \$0.2 million for fiscal year 2020 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 February 6, 2015, our executive officers were granted a total of 55,394 restricted shares. These shares have full voting rights and participate in dividends as if unrestricted. The closing price of our stock on such date was \$40.17. These shares vest in one-third increments, on an annual basis, beginning January 8, 2016. These shares were granted pursuant to our 2011 Management Incentive Plan. The total recognized stock-based compensation expense for these grants was \$0.2 million for the three and six months ended April 30, 2015.

On January 20, 2015, all 12 of our non-employee directors were granted 1,750 restricted shares each (total of 21,000 shares). These shares have full voting rights and participate in dividends as if unrestricted. The closing price of our stock on such date was \$40.39. On January 1, 2016, as long as the directors are still serving on the board, these shares lose their restriction and become non-forfeitable and transferable. These shares were granted pursuant to our 2011 Management Incentive Plan. The total recognized stock-based compensation expense for these grants was \$0.3 million for the three and six months ended April 30, 2015.

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

newly issued shares of common stock.

We measure compensation cost for all stock-based awards at fair value on the date of grant and recognize compensation expense in our consolidated statements of operations over the service period that the awards are expected to vest. We measure the fair value of our stock based compensation awards on the date of grant.

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

	Number of Shares	Weighted-Average Exercise Price	Aggregate Intrinsic Value
Outstanding at October 31, 2014	17	\$ 17.22	
Exercised	(6)	\$ 16.00	
Outstanding at April 30, 2015	11	\$ 17.94	\$ 559
Exercisable at April 30, 2015	9	\$ 19.28	\$ 457

At April 30, 2015, outstanding stock options had a weighted-average remaining contractual term of 3.5 years. At April 30, 2015, exercisable stock options had a weighted-average remaining contractual term of 3.1 years. The total recognized stock-based compensation expense was insignificant for the three months ended April 30, 2015.

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

	Number of Shares	Weighted-Average Exercise Price	Aggregate Intrinsic Value
Outstanding at October 31, 2014	20	\$ 22.64	
Exercised	(6)	\$ 21.80	
Outstanding at April 30, 2015	14	\$ 23.00	\$ 389
Exercisable at April 30, 2015	4	\$ 23.48	\$ 109

At April 30, 2015, outstanding stock options had a weighted-average remaining contractual term of 5.8 years. At April 30, 2015, exercisable stock options had a weighted-average remaining contractual term of 4.2 years. The total recognized stock-based compensation expense was \$0.1 million for the three and six months ended April 30, 2015.

7. Other events*Dividend payment*

On December 8, 2014, we paid a \$0.75 per share dividend in the aggregate amount of \$13.0 million to shareholders of record on November 17, 2014.

Contingencies

In January 2015, various class action lawsuits, which have been consolidated into a single lawsuit during our second fiscal quarter, were initiated against the company related to the restatement of previously-issued Financial Statements.

8. Fair value measurements

A fair value measurement is determined based on the assumptions that a market participant would use in pricing an asset or liability. A three-tiered hierarchy draws distinctions between market participant assumptions based on (i) observable inputs such as quoted prices in active markets (Level 1), (ii) inputs other than quoted prices in active markets that are observable either directly or indirectly (Level 2) and (iii) unobservable inputs that require the Company to use present value and other valuation techniques in the determination of fair value (Level 3).

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The following table sets forth our financial assets and liabilities as of April 30, 2015 that are measured on a recurring basis during the period, segregated by level within the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
	(All amounts are presented in thousands)			
Assets at Fair Value:				
Investment in Limoneira Company ⁽¹⁾	\$ 39,653	\$	\$	\$ 39,653
Total assets at fair value	\$ 39,653	\$	\$	\$ 39,653

- (1) The investment in Limoneira Company consists of marketable securities in the Limoneira Company stock. We currently own approximately 12% of Limoneira's outstanding common stock. These securities are measured at fair value by quoted market prices. Limoneira's stock price at April 30, 2015 and October 31, 2014 equaled \$22.94 per share and \$25.66 per share. Unrealized gains and losses are recognized through other comprehensive income. Unrealized investment holding income arising during the three months ended April 30, 2015 and 2014 was \$3.7 million and \$3.8 million. Unrealized investment holding losses arising during the six months ended April 30, 2015 and 2014 was \$4.7 million and \$5.8 million.

The following table sets forth our financial assets as of April 30, 2015 that are measured on a non-recurring basis during the period, segregated by level within the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
	(All amounts are presented in thousands)			
Assets at Fair Value:				
Investment in FreshRealm ⁽²⁾	\$	\$	\$ 16,962	\$ 16,962
Total assets at fair value	\$	\$	\$ 16,962	\$ 16,962

- (2) We estimated the fair value of our noncontrolling interest in FreshRealm by performing a forecast projection analysis when FreshRealm was deconsolidated in fiscal 2014. This analysis was conducted with the consultation from a third party consulting firm. Increases or decreases in the fair value calculation can result from changes in assumed discount periods and rates, changes in the assumed timing and amount of revenue and expense estimates. Significant judgment is employed in determining the appropriateness of these assumptions. Our investment in FreshRealm has been recorded as investment in unconsolidated subsidiaries on our balance sheet. The following is a reconciliation of the beginning and ending amounts of the contingent consideration for RFG:

Interest

	Balance at October 31, 2013		Revalue Adjustment	Balance April 30, 2014
	(All amounts are presented in thousands)			
RFG contingent consideration	\$ 15,602	\$	\$ 16,442	\$ 32,044
Total	\$ 15,602			