UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended January 31, 2018

OR

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

Commission file number: 000-33385

CALAVO GROWERS, INC.

(Exact name of registrant as specified in its charter)

California	33-0945304
(State of incorporation)	(I.R.S. Employer Identification No.)

1141-A Cummings Road

Santa Paula, California 93060

(Address of principal executive offices) (Zip code)

(805) 525-1245

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes 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, a smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer”, “smaller reporting company” and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Emerging Growth Company			
Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller Reporting Company
Emerging growth company	(Do not check if a smaller reporting company)		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act.

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, 2018 was 17,543,428

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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, gross profit, 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 (including information technology systems 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, legal claims or tax 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, legal claims and tax 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, 2017, 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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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CALAVO GROWERS, INC.

CONSOLIDATED CONDENSED BALANCE SHEETS (UNAUDITED)

(in thousands, except per share amounts)

	January 31, 2018	October 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 2,942	$ 6,625
Accounts receivable, net of allowances of $3,638 (2018) $2,490 (2017)	72,655	69,750
Inventories, net	31,184	30,858
Prepaid expenses and other current assets	7,680	6,872
Advances to suppliers	1,892	4,346
Income taxes receivable	—	1,377
Total current assets	116,353	119,828
Property, plant, and equipment, net	121,766	120,072
Investment in Limoneira Company	37,251	40,362
Investment in unconsolidated entities	33,622	33,019
Deferred income taxes	9,419	9,783
Goodwill	18,262	18,262
Other assets	23,975	22,791
	$ 360,648	$ 364,117
Liabilities and shareholders' equity		
Current liabilities:		
Payable to growers	$ 17,304	$ 16,524
Trade accounts payable	20,676	22,911
Accrued expenses	35,575	39,946
Income taxes payable	1,368	—
Short-term borrowings	31,500	20,000
Dividend payable	—	16,657
Current portion of long-term obligations	123	129
Total current liabilities	106,546	116,167
Long-term liabilities:		
Long-term obligations, less current portion	409	439
Deferred rent	2,719	2,732

Other long-term liabilities	—	657
Total long-term liabilities	3,128	3,828
Commitments and contingencies		
Shareholders' equity:		
Common stock ($0.001 par value, 100,000 shares authorized; 17,543 (2018) and 17,533 (2017) shares issued and outstanding)	18	18
Additional paid-in capital	155,127	154,243
Accumulated other comprehensive income	8,412	10,434
Noncontrolling interest	1,867	1,016
Retained earnings	85,550	78,411
Total shareholders' equity	250,974	244,122
	$ 360,648	$ 364,117

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

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CALAVO GROWERS, INC.

CONSOLIDATED CONDENSED STATEMENTS OF INCOME (UNAUDITED)

(in thousands, except per share amounts)

	Three months ended January 31, 2018	2017
Net sales	$ 247,928	$ 226,554
Cost of sales	221,618	204,630
Gross profit	26,310	21,924
Selling, general and administrative	15,517	13,826
Operating income	10,793	8,098
Interest expense	(231)	(247)
Other income (expense), net	729	(69)
Income before provision for income taxes	11,291	7,782
Provision for income taxes	4,302	2,561
Net income	6,989	5,221
Less: Net loss attributable to noncontrolling interest	150	28
Net income attributable to Calavo Growers, Inc.	$ 7,139	$ 5,249
Calavo Growers, Inc.'s net income per share:		
Basic	$ 0.41	$ 0.30
Diluted	$ 0.41	$ 0.30
Number of shares used in per share computation:		
Basic	17,446	17,374
Diluted	17,525	17,430

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

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CALAVO GROWERS, INC.

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(in thousands)

	Three months ended January 31,	
	2018	2017
Net income	$ 6,989	$ 5,221
Other comprehensive income, before tax:		
Unrealized investment losses	(3,111)	(4,650)
Income tax benefit related to items of other comprehensive income	1,089	1,697
Other comprehensive loss, net of tax	(2,022)	(2,953)
Comprehensive income	4,967	2,268
Less: Net loss attributable to noncontrolling interest	150	28
Comprehensive income – Calavo Growers, Inc.	$ 5,117	$ 2,296

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)

	Three months ended	
	January 31,	
	2018	2017
Cash Flows from Operating Activities:		
Net income	$ 6,989	$ 5,221
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,211	2,293
Loss (income) from unconsolidated entities	(603)	166
Stock compensation expense	1,832	1,827
Deferred income taxes	1,453	—
Effect on cash of changes in operating assets and liabilities:		
Accounts receivable, net	(2,905)	(6,277)
Inventories, net	(326)	7,440
Prepaid expenses and other current assets	(920)	370
Advances to suppliers	2,454	(1,750)
Income taxes receivable/payable	2,745	(2,341)
Other assets	(1,465)	388
Payable to growers	780	(4,480)
Deferred rent	(13)	(9)
Trade accounts payable, accrued expenses and other long-term liabilities	(5,335)	(1,159)
Net cash provided by operating activities	7,897	1,689
Cash Flows from Investing Activities:		
Acquisitions of and deposits on property, plant, and equipment	(5,394)	(31,223)
Proceeds received for repayment of San Rafael note	112	108
Investment in FreshRealm	—	(1,600)
Net cash used in investing activities	(5,282)	(32,715)
Cash Flows from Financing Activities:		
Payment of dividend to shareholders	(16,657)	(15,696)
Proceeds from revolving credit facility	58,000	64,500
Payments on revolving credit facility	(46,500)	(24,000)
Payment of minimum withholding taxes on net share settlement of equity awards	(1,158)	—
Payments on long-term obligations	(36)	(34)
Proceeds from stock option exercises	53	—
Net cash provided by (used in) financing activities	(6,298)	24,770
Net decrease in cash and cash equivalents	(3,683)	(6,256)
Cash and cash equivalents, beginning of period	6,625	13,842
Cash and cash equivalents, end of period	$ 2,942	$ 7,586
Noncash Investing and Financing Activities:		

Property, plant, and equipment included in trade accounts payable and accrued expenses	$ 1,063	$ 2,049
Noncash transfer of noncontrolling interest	$ 1,001	$ —
Unrealized holding losses	$ (3,111)	$ (4,650)

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 retail grocery, foodservice, club stores, mass merchandisers, food distributors and wholesalers on a worldwide basis. We procure avocados from California, Mexico and other growing regions around the world. Through our various operating facilities, we (i) sort, pack, and/or ripen avocados, tomatoes and/or Hawaiian grown papayas, (ii) create, process and package a portfolio of healthy fresh foods including fresh-cut fruit, fresh-cut vegetables, and prepared foods and (iii) process and package guacamole and salsa. We distribute our products both domestically and internationally and report our operations in three different business segments: Fresh products, Calavo Foods and Renaissance Food Group (RFG).

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, 2017.

Recently Adopted Accounting Pronouncements

In May 2017, the FASB issued an ASU, Stock Compensation (Topic 718), Scope of Modification Accounting. This ASU clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. The guidance clarifies that modification accounting will be applied if the value, vesting conditions or classification of the award changes. The Company adopted this new standard beginning in the three months ended January 31, 2018. The adoption of the amendment did not have a material impact on the Company's consolidated financial statements.

Recently Issued Accounting Standards

In January 2017, the FASB issued an ASU, Business Combinations: Clarifying the Definition of a Business, which adds guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. This ASU will be effective for us beginning the first day of our 2019 fiscal year. Early adoption is permitted. We do not expect this ASU to have an impact until an applicable transaction takes place.

In October 2016, the FASB issued an ASU, Intra-Entity Transfers of Assets Other Than Inventory, which will require companies to recognize the income tax effects of intra-entity sales and transfers of assets other than inventory, particularly those asset transfers involving intellectual property, in the period in which the transfer occurs. The ASU will be effective for us beginning the first day of our 2019 fiscal year and is not expected to have a significant impact upon adoption.

In January 2017, the FASB issued an ASU, Simplifying the Test for Goodwill Impairment, which removes the requirement to compare the implied fair value of goodwill with its carrying amount as part of step 2 of the goodwill

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impairment test. The ASU permits an entity to perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and to recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. This ASU will be effective for us beginning the first day of our 2021 fiscal year and is not expected to have a significant impact upon adoption.

In February 2016, the FASB issued an ASU, Leases, which requires a dual approach for lessee accounting under which a lessee would account for leases as finance leases or operating leases. Both finance leases and operating leases will result in the lessee recognizing a right-of use asset and a corresponding lease liability. For finance leases, the lessee would recognize interest expense and amortization of the right-of-use asset, and for operating leases, the lessee would recognize a straight-line total lease expense. The guidance also requires qualitative and specific quantitative disclosures to supplement the amounts recorded in the financial statements so that users can understand more about the nature of an entity's leasing activities, including significant judgments and changes in judgments. This ASU will be effective for us beginning the first day of our 2020 fiscal year. Early adoption is permitted. Although we are in the process of evaluating the impact of adoption of ASU 2016-02 on its consolidated financial statements, we currently expect the most significant changes will be related to the recognition of new right-of-use assets and lease liabilities on our consolidated balance sheet.

In January 2016, the FASB issued an ASU, which requires equity investments (except those accounted for under the equity method of accounting) to be measured at fair value with changes in fair value recognized in net income. The guidance is effective for interim and annual periods beginning after December 15, 2017. Early adoption is permitted. The impact of the adoption of this ASU on our consolidated statements of income depends on the net unrealized gain or loss on our equity investment. As of January 31, 2018 and 2017, the net unrealized loss on our equity investment was $3.1 million and $4.7 million.

In May 2014, the FASB issued a comprehensive new revenue recognition standard which will supersede previous existing revenue recognition guidance. The standard is intended to clarify the principles of recognizing revenue and create common revenue recognition guidance between U.S. GAAP and International Financial Reporting Standards. The standard also requires expanded disclosures surrounding revenue recognition. During fiscal 2017, the FASB issued additional clarification guidance on the new revenue recognition standard which also included certain scope improvements and practical expedients. The standard (including clarification guidance issued) is effective for fiscal periods beginning after December 15, 2017, which will be our first quarter of fiscal 2019. We will adopt the new standard using the modified retrospective transition method, under which the cumulative effect of initially applying the new guidance is recognized as an adjustment to the opening balance of retained earnings on the first day of our 2019 fiscal year.

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, fresh-cut vegetables, vegetables and prepared foods. Selling, general and administrative expenses, as well as other non-operating income/expense items,

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are evaluated by our Chief Executive Officer in the aggregate. We do not allocate assets, or specifically identify them to, our operating segments. Data in the following tables is presented in thousands:

	Three months ended January 31, 2018				Three months ended January 31, 2017			
	Fresh products	Calavo Foods	RFG	Total	Fresh products	Calavo Foods	RFG	Total
Third-party sales:								
Avocados	$ 108,929	$ —	$ —	$ 108,929	$ 104,716	$ —	$ —	$ 104,716
Tomatoes	12,084	—	—	12,084	5,270	—	—	5,270
Papayas	2,805	—	—	2,805	2,364	—	—	2,364
Other fresh products	34	—	—	34	111	—	—	111
Prepared avocado products	—	21,803	—	21,803	—	19,250	—	19,250
Salsa	—	865	—	865	—	1,098	—	1,098
Fresh-cut fruit & vegetables and prepared foods	—	—	106,776	106,776	—	—	98,047	98,047
Total gross sales	123,852	22,668	106,776	253,296	112,461	20,348	98,047	230,856
Less sales incentives	(652)	(2,778)	(670)	(4,100)	(276)	(2,701)	(340)	(3,317)
Less inter-company eliminations	(415)	(853)	—	(1,268)	(126)	(859)	—	(985)
Net sales	$ 122,785	$ 19,037	$ 106,106	$ 247,928	$ 112,059	$ 16,788	$ 97,707	$ 226,554

	Fresh products	Calavo Foods	RFG	Total
Three months ended January 31, 2018				
Net sales before intercompany eliminations	$ 123,200	$ 19,890	$ 106,106	$ 249,196
Intercompany eliminations	(415)	(853)	—	(1,268)
Net sales	122,785	19,037	106,106	247,928
Cost of sales before intercompany eliminations	108,905	13,620	100,361	222,886
Intercompany eliminations	(377)	(558)	(333)	(1,268)
Cost of sales	108,528	13,062	100,028	221,618
Gross profit	$ 14,257	$ 5,975	$ 6,078	$ 26,310

Three months ended January 31, 2017				
Net sales before intercompany eliminations	$ 112,185	$ 17,647	$ 97,707	$ 227,539
Intercompany eliminations	(126)	(859)	—	(985)
Net sales	112,059	16,788	97,707	226,554
Cost of sales before intercompany eliminations	104,308	12,291	89,016	205,615
Intercompany eliminations	(100)	(594)	(291)	(985)
Cost of sales	104,208	11,697	88,725	204,630
Gross profit	$ 7,851	$ 5,091	$ 8,982	$ 21,924

For the three months ended January 31, 2018 and 2017, inter-segment sales and cost of sales of $0.4 million and $0.1 million between Fresh products and RFG were eliminated. For the three months ended January 31, 2018 and 2017, inter-segment sales and cost of sales of $0.9 million between Calavo Foods and RFG were eliminated. For the three months ended January 31, 2018, inter-segment sales and cost of sales of $0.1 million between Fresh products and Calavo Foods were eliminated.

3.Inventories

Inventories consist of the following (in thousands):

	January 31, 2018	October 31, 2017
Fresh fruit	$ 13,484	$ 14,566
Packing supplies and ingredients	10,220	9,755
Finished prepared foods	7,480	6,537
	$ 31,184	$ 30,858

Inventories are stated at the lower of cost or net realizable value. We periodically review the value of items in inventory and record any necessary write downs of inventory based on our assessment of market conditions. We recorded a write down of $0.2 million to adjust our finished prepared foods inventory to the lower of cost or net realizable value as of January 31, 2018. We recorded a write down of $0.4 million to adjust our fresh fruit inventory to the lower of cost or net realizable value as of October 31, 2017.

4.Related party transactions

Certain members of our Board of Directors market California 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, 2018 and 2017, the aggregate amount of avocados procured from entities owned or controlled by members of our Board of Directors was $0.1 million and $0.5 million. Amounts payable to these Board members were $0.1 million as of January 31, 2018. We did not have any amounts payable to these Board members as of October 31, 2017.

During the three months ended January 31, 2018 and 2017, 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 each of the three months ended January 31, 2018 and 2017. Harold Edwards, who is a member of our Board of Directors, is the Chief Executive Officer of Limoneira Company. We have a 12% ownership interest in Limoneira. Additionally, our Chief Executive Officer is a member of the Limoneira Board of Directors.

We currently have a member of our Board of Directors who also serves as a partner in the law firm of TroyGould PC, which frequently represents Calavo as legal counsel. During each of the three months ended January 31, 2018 and

2017, Calavo Growers, Inc. paid fees totaling less than $0.1 million and $0.1 million to TroyGould PC.

In December 2014, Calavo formed a wholly owned subsidiary Calavo Growers De Mexico, S. de R.L. de C.V. (Calavo Sub). In July 2015, Calavo Sub entered into a Shareholder Agreement with Grupo Belo del Pacifico, S.A. de C.V., (Belo) a Mexican Company owned by Agricola Belher, and formed Agricola Don Memo, S.A. de C.V. (Don Memo). Belo and Calavo Sub have an equal one-half ownership interest in Don Memo. Pursuant to a management service agreement, Belo, through its officers and employees, has day-to-day power and authority to manage the operations. Belo is entitled to a management fee, as defined, which is payable annually in July of each year. Additionally, Calavo Sub is entitled to commission, for the sale of produce in the Mexican National Market, United States, Canada, and any other overseas market.

In January 2016, our unconsolidated subsidiary, Don Memo entered into a loan agreement in the amount of $4.5 million with Bank of America, N.A. (BoA) proceeds of which were used by Don Memo to repay debt owed to Calavo. Also in January 2016, Calavo and BoA, entered into a Continuing and Unconditional Guaranty Agreement (the Guaranty). Under the terms of the Guaranty, Calavo unconditionally guarantees and promises to pay BoA any and all Indebtedness, as defined therein, of our unconsolidated subsidiary Don Memo to BoA. Belo has also entered into a similar guarantee with BoA.

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As of January 31, 2018 and October 31, 2017, we have an investment of $5.2 million and $4.6 million, representing Calavo Sub's 50% ownership in Don Memo, which is included as an investment in unconsolidated entities on our balance sheet. We make advances to Don Memo for operating purposes, provide additional advances as shipments are made during the season, and return the proceeds from tomato sales under our marketing program to Don Memo, net of our commission and aforementioned advances. As of January 31, 2018 and October 31, 2017, we had outstanding advances of $1.0 million and $1.6 million to Don Memo. During the three months ended January 31, 2018 and 2017, we recorded $3.7 million and $0.7 million of expenses to Don Memo pursuant to our consignment agreement.

We had grower advances due from Belher of $4.0 million as of January 31, 2018 and October 31, 2017, which are netted against the grower payable. In addition, we had infrastructure advances due from Belher of $0.6 million as of January 31, 2018 and October 31, 2017. Of these infrastructure advances $0.2 million was recorded as receivable in prepaid and other current assets. The remaining $0.4 million of these infrastructure advances are recorded in other assets. During the three months ended January 31, 2018 and 2017, we recorded $5.9 million and $3.8 million of expenses to Belher pursuant to our consignment agreement.

In August 2015, we entered into Shareholder's Agreement with various partners and created Avocados de Jalisco, S.A.P.I. de C.V. ("Avocados de Jalisco"). Avocados de Jalisco is a Mexican corporation created to engage in procuring, packing and selling avocados. This entity is approximately 83% owned by Calavo and is consolidated in our financial statements. Avocados de Jalisco has built a packinghouse located in Jalisco, Mexico and such packinghouse has begun operations in June of 2017. As of January 31, 2018 and October 31, 2017, we have made preseason advances of approximately $0.1 million to various partners of Avocados de Jalisco. During the three months ended January 31, 2018, we purchased approximately $0.2 million of avocados from the partners of Avocados de Jalisco. In January 2018, we transferred $1.0 million of interest to the Avocados de Jalisco noncontrolling members.

As of January 31, 2018, we have an approximate 40% ownership interest in FreshRealm, LLC (FreshRealm). Three officers and five members of our board of directors have investments in FreshRealm. In addition, as of January 31, 2018 and October 31, 2017, we have a loan to FreshRealm members of approximately $0.3 million. In April 2017, FreshRealm initiated another round of financing. From April 2017 to January 2018, we have invested $7.5 million in FreshRealm. In October and December 2017, our Chairman and Chief Executive Officer invested $7.0 million and $1.5 million into FreshRealm. In January 2018, one of our non-executive directors invested $1.8 million into FreshRealm.

We provide storage services to FreshRealm from our New Jersey Value-Added Depot, and our RFG Riverside facility. We have received less than $0.1 million in storage services revenue from FreshRealm in the three months ended January 31, 2018. In addition, during the three months ended January 31, 2018 and 2017, RFG has sold $1.5 million and $1.1 million of products to FreshRealm.

The previous owners of RFG, one of which is currently an officer of Calavo, have a majority ownership of certain entities that provide various services to RFG, specifically LIG Partners, LLC and THNC, LLC. One of RFG's

California operating facilities leases a building from LIG Partners, LLC (LIG) pursuant to an operating lease. RFG's Texas operating facility leases a building from THNC, LLC (THNC) pursuant to an operating lease. See the following tables for the related party activity for the three and nine months ended January 31, 2018 and 2017:

	Three months ended January 31,	
(in thousands)	2018	2017
Rent paid to LIG	$ 139	$ 135
Rent paid to THNC, LLC	$ 199	$ 76

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5.Other assets

Other assets consist of the following (in thousands):

	January 31, 2018	October 31, 2017
Intangibles, net	$ 1,945	$ 2,226
Mexican IVA (i.e. value-added) taxes receivable	19,750	18,174
Infrastructure advance to Agricola Belher	400	400
Loan to FreshRealm members	318	315
Notes receivable from San Rafael	381	493
Other	1,181	1,183
	$ 23,975	$ 22,791

Intangible assets consist of the following (in thousands):

		January 31, 2018			October 31, 2017		
	Weighted-Average Useful Life	Gross Carrying Value	Accum. Amortization	Net Book Value	Gross Carrying Value	Accum. Amortization	Net Book Value
Customer list/relationships	8.0 years	$ 7,640	$ (6,412)	$ 1,228	$ 7,640	$ (6,181)	$ 1,459
Trade names	8.3 years	2,760	(2,567)	193	2,760	(2,529)	231
Trade secrets/recipes	9.3 years	630	(381)	249	630	(369)	261
Brand name intangibles	indefinite	275	—	275	275	—	275
Intangibles, net		$ 11,572	$ (9,627)	$ 1,945	$ 11,572	$ (9,346)	$ 2,226

We anticipate recording amortization expense of approximately $0.8 million for the remainder of fiscal 2018, $0.7 million for fiscal year 2019, $0.1 million for fiscal year 2020, $0.1 million for fiscal year 2021, and $0.1 million for thereafter, through fiscal year 2023.

See Note 11 for additional information related to Mexican IVA taxes.

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 2, 2018, 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 $85.90. On January 2, 2019, 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 Plan. The total recognized stock-based compensation expense for these grants was $0.2 million for the three months ended January 31, 2018.

On December 18, 2017, our executive officers were granted a total of 25,241 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 $75.45. These shares vest in one-third increments, on an annual basis, beginning December 18, 2018. These shares were granted pursuant to our 2011 Plan. The total recognized stock-based compensation expense for these grants was $0.1 million for the three months ended January 31, 2018.

On October 31, 2017, a member of the management team at RFG resigned. His unvested portion of restricted stock issued in December of 2016 and January of 2016 were forfeited. On January 25, 2018, in consideration of and in exchange for his forfeiture of restricted shares upon his resignation, the board of directors granted 10,788 shares of unrestricted stock, which immediately vested. The closing price of our stock on such date was $87.10. We recorded for this grant $0.8 million of stock-based compensation expense in our fiscal first quarter of 2018.

On February 2, 2017, our Vice President of the Foods Division retired from Calavo for medical reasons. In January 2018, per the terms of our 2011 Plan and the respective employee award, the board of directors awarded the portion of the fiscal 2017 management bonus for the percentage of the year worked. As a result, he was granted 867 shares of unrestricted stock, which immediately vested. As a result, we recorded $0.1 million of stock-based compensation expense in our fiscal first quarter of 2018.

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

	Number of Shares	Weighted-Average Grant Price	Aggregate Intrinsic Value
Outstanding at October 31, 2017	103	$ 54.64	
Vested	(56)	$ 54.27	
Forfeited	(7)	$ 52.69	
Granted	47	$ 80.20	
Outstanding at January 31, 2018	87	$ 68.08	$ 7,569

The total recognized stock-based compensation expense for restricted stock was $1.8 million for the three months ended January 31, 2018 and 2017. Total unrecognized stock-based compensation expense totaled $5.7 million and $3.0 million as of January 31, 2018 and October 31, 2017, and will be amortized through fiscal year 2020.

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, 2017	7	$ 18.54	
Exercised	(3)	$ 17.66	
Outstanding at January 31, 2018	4	$ 19.20	$ 348
Exercisable at January 31, 2018	4	$ 19.20	$ 348

At January 31, 2018, outstanding and exercisable stock options had a weighted-average remaining contractual term of 2.1 years. The total recognized and unrecognized stock-based compensation expense was insignificant for the three months ended January 31, 2018.

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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, 2017	20	$ 40.07	
Outstanding at January 31, 2018	20	$ 40.07	$ 938
Exercisable at January 31, 2018	12	$ 29.01	$ 695

At January 31, 2018, outstanding and exercisable stock options had a weighted-average remaining contractual term of 5.0 years. The total recognized and unrecognized stock-based compensation expense was insignificant for the three months ended January 31, 2018.

7.Other events

Dividend payment

On December 8, 2017, we paid a $0.95 per share dividend in the aggregate amount of $16.7 million to shareholders of record on November 17, 2017.

Litigation

We are currently a named defendant in two class action lawsuits filed in Superior state courts in California alleging violations of California wage-and-hour laws, failure to pay overtime, failure to pay for missed meal and rest periods, failure to provide accurate itemized wage statements, failure to pay all wages due at the time of termination or resignation, as well as statutory penalties for violation of the California Labor Code and Minimum Wage Order-2014.

In August 2017, the parties reached a tentative settlement of the case, whereby we agreed to pay $0.4 million to resolve the allegations and avoid further distraction that would result if the litigation continued. The settlement is subject to court approval. The Company recorded $0.4 million as a selling, general and administrative expense in the third quarter of fiscal 2017. Though we are still awaiting court approval of the aforementioned settlement agreement, we believe this process will conclude in fiscal 2018, with no significant change in expense.

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

Mexico tax audits

We conduct business internationally and, as a result, one or more of our subsidiaries files income tax returns in U.S. federal, U.S. state and certain foreign jurisdictions. Accordingly, in the normal course of business, we are subject to examination by taxing authorities, primarily in Mexico and the United States. During our third quarter of fiscal 2016, our wholly-owned subsidiary, Calavo de Mexico ("CDM"), received a written communication from the Ministry of Finance and Administration of the government of the State of Michoacan, Mexico ("MFM") containing preliminary observations related to a fiscal 2011 tax audit of such subsidiary. MFM's preliminary observations outline certain proposed adjustments primarily related to intercompany funding, deductions for services from certain vendors/suppliers and Value Added Tax ("VAT"). During our fourth fiscal quarter of 2016, we provided a written rebuttal to MFM's preliminary observations and requested the adoption of a conclusive agreement before the PRODECON (Local Tax Ombudsman) so that a full discussion of the case between us, the MFM and the PRODECON, as appropriate, can lead to a reconsideration of the MFM findings. During our third and fourth fiscal quarters of 2017, several meetings between MFM, PRODECON and us took place and on November 28, 2017, the PRODECON process concluded. As a result, the MFM is expected to issue its final assessment during or before the end of our 2018 fiscal third quarter. If the MFM's final assessment does not differ materially from their preliminary observations, then we will resolve the matter through

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legal means. We believe we have the legal arguments and documentation to sustain the positions challenged by tax authorities.

Additionally, we also received notice from Mexico's Federal Tax Administration Service, Servicio de Administracion Tributaria (SAT), that our wholly-owned Mexican subsidiary, Calavo de Mexico, is currently under examination related to fiscal year 2013. In January 2017, we received preliminary observations from SAT outlining certain proposed adjustments primarily related to intercompany funding deductions for services from certain vendors/suppliers and VAT. We provided a written rebuttal to these preliminary observation during our second fiscal quarter of 2017, which the SAT is in process of analyzing. During our third fiscal quarter of 2017, we requested the adoption of a conclusive agreement before the PRODECON (Local Tax Ombudsman), so that a full discussion of the case between us, the SAT and the PRODECON, as appropriate, can lead to a reconsideration of the SATs findings. During our first fiscal quarter of 2018, we had an initial meeting with officials from the SAT and the PRODECON, which led to a further exchange of supporting information and documentation. We expect that several formal meetings between us, the SAT and the PRODECON will be required before the SAT will reach a conclusion. Note that during the meeting and discussion process, the fiscal year 2013 final assessment (previously expected no later September 2017) has been suspended.

We believe that the ultimate resolution of these matters is unlikely to have a material effect on our consolidated financial position, results of operations and cash flows.

8.Fair value measurements

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

The following table sets forth our financial assets and liabilities as of January 31, 2018 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)	$ 37,251	-	-	$ 37,251
Total assets at fair value	$ 37,251	-	-	$ 37,251

(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 January 31, 2018 and October 31, 2017 equaled $21.55 per share and $23.35 per share. Unrealized gains and losses are recognized through other comprehensive income. Unrealized investment holding losses arising during the three months ended January 31, 2018 and 2017 was $3.1 million and $4.7 million.

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9.Noncontrolling interest

The following table reconciles shareholders’ equity attributable to noncontrolling interest related to Avocados de Jalisco (in thousands).

Avocados de Jalisco noncontrolling interest	Three months January 31, 2018	Three months January 31, 2017
Noncontrolling interest, beginning	$ 1,016	$ 962
Noncash transfer of noncontrolling interest	1,001	—
Net loss attributable to noncontrolling interest of Avocados de Jalisco	(150)	(28)
Noncontrolling interest, ending	$ 1,867	$ 934

10.Earnings per share

Basic and diluted net income per share is calculated as follows (data in thousands, except per share data):