

CALAVO GROWERS INC
Form 10-Q
September 15, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended July 31, 2014

OR

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

Commission file number: 000-33385

CALAVO GROWERS, INC.

(Exact name of registrant as specified in its charter)

California
(State of incorporation)

33-0945304
(I.R.S. Employer

Identification No.)

1141-A Cummings Road

Santa Paula, California 93060

(Address of principal executive offices) (Zip code)

(805) 525-1245

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller Reporting Company

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

Registrant's number of shares of common stock outstanding as of July 31, 2014 was 15,762,405

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CAUTIONARY STATEMENT

This Quarterly Report on Form 10-Q, including Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 2, contains forward-looking statements that involve risks, uncertainties and assumptions. If the risks or uncertainties ever materialize or the assumptions prove incorrect, the results of Calavo Growers, Inc. and its consolidated subsidiaries (Calavo, the Company, we, us or our) may differ materially from those expressed or implied by such forward-looking statements and assumptions. All statements, other than statements of historical fact, are statements that could be deemed forward-looking statements, including, but not limited to, any projections of revenue, margins, expenses, earnings, earnings per share, tax provisions, cash flows, currency exchange rates, the impact of acquisitions or other financial items; any statements of the plans, strategies and objectives of management for future operations, including execution of restructuring and integration plans; any statements regarding current or future macroeconomic trends or events and the impact of those trends and events on Calavo and its financial performance; any statements regarding pending investigations, claims or disputes; any statements of expectation or belief; and any statements of assumptions underlying any of the foregoing. Risks, uncertainties and assumptions include the impact of macroeconomic trends and events; the competitive pressures faced by Calavo's businesses; the development and transition of new products and services (and the enhancement of existing products and services) to meet customer needs; integration and other risks associated with business combinations; the hiring and retention of key employees; the resolution of pending investigations, claims and disputes; and other risks that are described herein, including, but not limited to, the items discussed in Item 1A, *Risk Factors*, in our Annual Report on Form 10-K for the fiscal year ended October 31, 2013, and those detailed from time to time in our other filings with the Securities and Exchange Commission. Calavo assumes no obligation and does not intend to update these forward-looking statements.

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

| | July 31, 2014 | October 31, 2013 |
|---|--------------------------|-----------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 9,436 | \$ 8,019 |
| Accounts receivable, net of allowances of \$3,127 (2014) and \$1,697 (2013) | 63,731 | 55,060 |
| Inventories, net | 33,035 | 28,673 |
| Prepaid expenses and other current assets | 13,992 | 10,757 |
| Advances to suppliers | 1,385 | 3,213 |
| Income taxes receivable | | 2,013 |
| Deferred income taxes | 1,995 | 1,995 |
| Total current assets | 123,574 | 109,730 |
| Property, plant, and equipment, net | 54,335 | 52,649 |
| Investment in Limoneira Company | 38,115 | 45,531 |
| Investment in unconsolidated entities | 20,112 | 1,420 |
| Goodwill | 18,262 | 18,262 |
| Other assets | 10,114 | 12,347 |
| | \$ 264,512 | \$ 239,939 |
| Liabilities and Shareholders equity | | |
| Current liabilities: | | |
| Payable to growers | \$ 20,920 | \$ 14,490 |
| Trade accounts payable | 16,061 | 11,699 |
| Accrued expenses | 26,236 | 20,939 |
| Short-term borrowings | 28,740 | 33,990 |
| Income tax payable | 3,680 | |
| Dividend payable | | 11,004 |
| Current portion of long-term obligations | 5,231 | 5,258 |
| Total current liabilities | 100,868 | 97,380 |
| Long-term liabilities: | | |
| Long-term obligations, less current portion | 3,629 | 7,792 |
| Deferred income taxes | 3,302 | 6,194 |

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| | | |
|---|------------|------------|
| Total long-term liabilities | 6,931 | 13,986 |
| Commitments and contingencies | | |
| Noncontrolling interest, Calavo Salsa Lisa | (146) | 121 |
| Shareholders' equity: | | |
| Common stock, \$0.001 par value, 100,000 shares authorized; 15,762 (2014) and 15,720 (2013) shares issued and outstanding | 15 | 15 |
| Additional paid-in capital | 65,584 | 59,376 |
| Accumulated other comprehensive income | 8,891 | 13,414 |
| Noncontrolling interest, FreshRealm | | (6) |
| Retained earnings | 82,369 | 55,653 |
| Total shareholders' equity | 156,859 | 128,452 |
| | \$ 264,512 | \$ 239,939 |

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 | | Nine months ended | |
|---|--------------------|------------|-------------------|------------|
| | July 31, 2014 | 2013 | July 31, 2014 | 2013 |
| Net sales | \$ 218,702 | \$ 194,943 | \$ 581,761 | \$ 500,778 |
| Cost of sales | 197,757 | 176,865 | 528,149 | 458,040 |
| Gross margin | 20,945 | 18,078 | 53,612 | 42,738 |
| Selling, general and administrative | 9,431 | 8,706 | 26,814 | 25,717 |
| Operating income | 11,514 | 9,372 | 26,798 | 17,021 |
| Interest expense | (220) | (293) | (768) | (862) |
| Gain on deconsolidation of FreshRealm | 12,622 | | 12,622 | |
| Other income, net | 120 | 209 | 525 | 582 |
| Income before provision for income taxes | 24,036 | 9,288 | 39,177 | 16,741 |
| Provision for income taxes | 8,064 | 3,163 | 13,318 | 5,742 |
| Net income | 15,972 | 6,125 | 25,859 | 10,999 |
| Add: Net loss attributable to noncontrolling interest | 60 | 274 | 858 | 320 |
| Net income attributable to Calavo Growers, Inc. | \$ 16,032 | \$ 6,399 | \$ 26,717 | \$ 11,319 |
| Calavo Growers, Inc. s net income per share: | | | | |
| Basic | \$ 1.02 | \$ 0.43 | \$ 1.70 | \$ 0.77 |
| Diluted | \$ 1.02 | \$ 0.43 | \$ 1.70 | \$ 0.76 |
| Number of shares used in per share computation: | | | | |
| Basic | 15,760 | 14,848 | 15,748 | 14,786 |
| Diluted | 15,769 | 14,870 | 15,756 | 14,807 |

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

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

(in thousands)

| | Three months ended | | Nine months ended | |
|--|-----------------------|-----------|-------------------|-----------|
| | July 31, 2014 | 2013 | July 31, 2014 | 2013 |
| Net income | \$ 15,972 | \$ 6,125 | \$ 25,859 | \$ 10,999 |
| Other comprehensive income (loss), before tax: | | | | |
| Unrealized holding gains (losses) arising during period | (1,590) | 6,586 | (7,416) | (52) |
| Income tax benefit (expense) related to items of other comprehensive income (loss) | 620 | (2,568) | 2,893 | 20 |
| Other comprehensive income (loss), net of tax | (970) | 4,018 | (4,523) | (32) |
| Comprehensive income | 15,002 | 10,143 | 21,336 | 10,967 |
| Add: Net loss noncontrolling interest | 60 | 274 | 858 | 320 |
| Comprehensive income Calavo Growers, Inc. | \$ 15,062 | \$ 10,417 | \$ 22,194 | \$ 11,287 |

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)

| | Nine months ended July 31, | |
|---|----------------------------|-----------|
| | 2014 | 2013 |
| Cash Flows from Operating Activities: | | |
| Net income | \$ 25,859 | \$ 10,999 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 5,113 | 5,011 |
| Provision for losses on accounts receivable | 88 | |
| Income from unconsolidated entities | 13 | |
| Interest on contingent consideration | 28 | 133 |
| Gain on deconsolidation of FreshRealm | (12,622) | |
| Revalue adjustment on contingent consideration | | 1,801 |
| Stock-based compensation expense | 517 | 288 |
| Effect on cash of changes in operating assets and liabilities: | | |
| Accounts receivable | (8,759) | (21,594) |
| Inventories, net | (4,362) | (8,642) |
| Prepaid expenses and other current assets | (3,280) | (1,594) |
| Advances to suppliers | 1,828 | 406 |
| Income taxes receivable/payable | 5,884 | 2,891 |
| Other assets | 135 | 62 |
| Payable to growers | 7,274 | 21,264 |
| Trade accounts payable and accrued expenses | 9,769 | 4,599 |
| Net cash provided by operating activities | 27,485 | 15,624 |
| Cash Flows from Investing Activities: | | |
| Acquisitions of and deposits on property, plant, and equipment | (7,085) | (4,943) |
| Investment in unconsolidated entity | (125) | |
| Investment in Agricola Don Memo | (1,730) | |
| Decrease in cash due to deconsolidation of FreshRealm | (6,813) | |
| Net cash used in investing activities | (15,753) | (4,943) |
| Cash Flows from Financing Activities: | | |
| Payment of dividend to shareholders | (11,005) | (9,646) |
| Payments on revolving credit facilities, net | (5,250) | 5,810 |
| Payments on long-term obligations | (4,190) | (3,933) |
| Proceeds from issuance of FreshRealm units | 10,000 | |
| Retirement of common stock | | (4,788) |
| Exercise of stock options | 130 | 700 |
| Net cash used in financing activities | (10,315) | (11,857) |

| | | |
|--|----------|----------|
| Net increase (decrease) in cash and cash equivalents | 1,417 | (1,176) |
| Cash and cash equivalents, beginning of period | 8,019 | 7,103 |
| Cash and cash equivalents, end of period | \$ 9,436 | \$ 5,927 |

Noncash Investing and Financing Activities:

| | | |
|---|------------|----------|
| Tax benefit related to stock option exercise | \$ 191 | \$ 208 |
| Reclassification of RFG cash contingent consideration to additional paid in capital | \$ | \$ 4,220 |
| Collection for Beltran Infrastructure Advance | \$ 845 | \$ 1,690 |
| Unrealized investment holding losses | \$ (7,416) | \$ (52) |

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

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1. Description of the business

Business

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

The accompanying unaudited consolidated condensed financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, the accompanying unaudited consolidated condensed financial statements contain all adjustments, consisting of adjustments of a normal recurring nature necessary to present fairly the Company's financial position, results of operations and cash flows. The results of operations for interim periods are not necessarily indicative of the results that may be expected for a full year. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended October 31, 2013.

Correction of Immaterial Errors Within Previously Issued Consolidated Condensed Financial Statements

In connection with the preparation of our accompanying Consolidated Condensed Financial Statements, we identified an immaterial error in our Consolidated Condensed Balance Sheet as of April 30, 2014, included within our Form 10-Q for the quarter ended April 30, 2014, as a result of the incorrect recognition of cash as of April 30, 2014 for a wire transfer initiated on April 30, 2014, but not received until May 1, 2014. Accordingly, there was a \$10.0 million overstatement within Cash and cash equivalents, a \$5.4 million overstatement of Additional paid-in capital and a \$4.6 million overstatement of Noncontrolling interest, FreshRealm. Additionally, our Consolidated Condensed Statement of Cash Flows presented an overstatement of \$10.0 million within Cash Flows from Financing Activities, under the line item Proceeds from issuance of FreshRealm stock. Our management evaluated the materiality of these errors both qualitatively and quantitatively in accordance with Staff Accounting Bulletin No. 99, Materiality, and determined that these errors were not material to our previously reported quarterly financial statements as of and for the three and six months ended April 30, 2014. The aforementioned errors have no impact on this Quarterly Report on Form 10-Q, nor any future periodic filings, except that the Consolidated Condensed Statement of Cash Flows for the six months ended April 30, 2014 will be corrected to properly reflect this immaterial error in our Form 10-Q for the quarter ended April 30, 2015.

The effect of recording this immaterial error correction in our consolidated condensed balance sheet as of April 30, 2014 and the related consolidated condensed statement of cash flows for the six months ended April 30, 2014 is as follows:

| | April 30, 2014 As previously reported | April 30, 2014 As corrected |
|-------------------------------------|--|--|
| Balance Sheet (in thousands) | | |
| Cash and cash equivalents | \$ 19,914 | \$ 9,914 |
| Total assets | \$ 259,107 | \$ 249,107 |
| Additional paid-in capital | \$ 65,358 | \$ 59,968 |
| Noncontrolling interest, FreshRealm | \$ 4,301 | \$ (309) |
| Shareholders equity | \$ 145,602 | \$ 135,602 |

| | April 30, 2014 As previously reported | April 30, 2014 As corrected |
|---|--|--|
| Statement of cash flows (in thousands) | | |
| Cash flows from operating activities | \$ 13,263 | \$ 13,263 |
| Cash flows used in investing activities | \$ (5,589) | \$ (5,589) |
| Proceeds from issuance of FreshRealm stock | \$ 10,000 | \$ |
| Proceeds from financing activities | \$ 4,221 | \$ (5,779) |
| Cash and cash equivalents, end of period | \$ 19,914 | \$ 9,914 |

The correction of this immaterial error on the consolidated condensed statements of income for the three and six months ended April 30, 2014 was inconsequential and corrected in the three months ended July 31, 2014.

Recently Adopted Accounting Pronouncements

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

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

Recently Issued Accounting Standards

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

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

Table of Contents**2. Information regarding our operations in different segments**

We report our operations in three different business segments: (1) Fresh products, (2) Calavo Foods, and (3) RFG. These three business segments are presented based on how information is used by our Chief Executive Officer to measure performance and allocate resources. The Fresh products segment includes all operations that involve the distribution of avocados and other fresh produce products. The Calavo Foods segment represents all operations related to the purchase, manufacturing, and distribution of prepared products, including guacamole and salsa. The RFG segment represents all operations related to the manufacturing and distribution of fresh-cut fruit, ready-to-eat vegetables, recipe-ready vegetables and deli meat products. 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 July 31, 2014 | | | | Three months ended July 31, 2013 | | | |
|-----------------------|----------------------------------|--------------|-----------|------------|----------------------------------|--------------|-----------|------------|
| | Fresh products | Calavo Foods | RFG | Total | Fresh products | Calavo Foods | RFG | Total |
| Third-party sales: | | | | | | | | |
| Avocados | \$ 124,429 | \$ | \$ | \$ 124,429 | \$ 117,450 | \$ | \$ | \$ 117,450 |
| Tomatoes | 610 | | | 610 | 3,334 | | | 3,334 |
| Papayas | 3,369 | | | 3,369 | 3,179 | | | 3,179 |
| Pineapples | 1,658 | | | 1,658 | 1,799 | | | 1,799 |
| Other fresh products | 265 | | | 265 | 184 | | | 184 |
| Food service | | 13,748 | | 13,748 | | 11,762 | | 11,762 |
| Retail and club | | 6,082 | 72,477 | 78,559 | | 5,466 | 55,970 | 61,436 |
| Total gross sales | 130,331 | 19,830 | 72,477 | 222,638 | 125,946 | 17,228 | 55,970 | 199,144 |
| Less sales incentives | (499) | (2,737) | (700) | (3,936) | (312) | (2,685) | (1,204) | (4,201) |
| Net sales | \$ 129,832 | \$ 17,093 | \$ 71,777 | \$ 218,702 | \$ 125,634 | \$ 14,543 | \$ 54,766 | \$ 194,943 |

| | Nine months ended July 31, 2014 | | | | Nine months ended July 31, 2013 | | | |
|-----------------------|---------------------------------|--------------|---------|------------|---------------------------------|--------------|---------|------------|
| | Fresh products | Calavo Foods | RFG | Total | Fresh products | Calavo Foods | RFG | Total |
| Third-party sales: | | | | | | | | |
| Avocados | \$ 320,506 | \$ | \$ | \$ 320,506 | \$ 286,735 | \$ | \$ | \$ 286,735 |
| Tomatoes | 19,706 | | | 19,706 | 22,670 | | | 22,670 |
| Papayas | 9,793 | | | 9,793 | 9,559 | | | 9,559 |
| Pineapples | 4,413 | | | 4,413 | 4,970 | | | 4,970 |
| Other fresh products | 409 | | | 409 | 397 | | | 397 |
| Food service | | 36,393 | | 36,393 | | 32,264 | | 32,264 |
| Retail and club | | 17,137 | 185,349 | 202,486 | | 14,437 | 141,636 | 156,073 |
| Total gross sales | 354,827 | 53,530 | 185,349 | 593,706 | 324,331 | 46,701 | 141,636 | 512,668 |
| Less sales incentives | (1,321) | (8,464) | (2,160) | (11,945) | (1,142) | (8,024) | (2,724) | (11,890) |

| | | | | | | | | |
|-----------|------------|-----------|------------|------------|------------|-----------|------------|------------|
| Net sales | \$ 353,506 | \$ 45,066 | \$ 183,189 | \$ 581,761 | \$ 323,189 | \$ 38,677 | \$ 138,912 | \$ 500,778 |
|-----------|------------|-----------|------------|------------|------------|-----------|------------|------------|

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| | Fresh products | Calavo Foods | RFG | Total |
|---|---------------------------|-------------------------|------------|--------------|
| (All amounts are presented in thousands) | | | | |
| Three months ended July 31, 2014 | | | | |
| Net sales | \$ 129,832 | \$ 17,093 | \$ 71,777 | \$ 218,702 |
| Cost of sales | 120,318 | 13,253 | 64,186 | 197,757 |
| Gross margin | \$ 9,514 | \$ 3,840 | \$ 7,591 | \$ 20,945 |
| Three months ended July 31, 2013 | | | | |
| Net sales | \$ 125,634 | \$ 14,543 | \$ 54,766 | \$ 194,943 |
| Cost of sales | 116,363 | 9,860 | 50,642 | 176,865 |
| Gross margin | \$ 9,271 | \$ 4,683 | \$ 4,124 | \$ 18,078 |

For the three months ended July 31, 2014 and 2013, inter-segment sales and cost of sales for Fresh products totaling \$6.9 million and \$5.5 million were eliminated. For the three months ended July 31, 2014 and 2013, inter-segment sales and cost of sales for Calavo Foods totaling \$4.4 million and \$4.1 million were eliminated.

| | Fresh products | Calavo Foods | RFG | Total |
|---|---------------------------|-------------------------|------------|--------------|
| (All amounts are presented in thousands) | | | | |
| Nine months ended July 31, 2014 | | | | |
| Net sales | \$ 353,506 | \$ 45,066 | \$ 183,189 | \$ 581,761 |
| Cost of sales | 328,101 | 34,811 | 165,237 | 528,149 |
| Gross margin | \$ 25,405 | \$ 10,255 | \$ 17,952 | \$ 53,612 |
| Nine months ended July 31, 2013 | | | | |
| Net sales | \$ 323,189 | \$ 38,677 | \$ 138,912 | \$ 500,778 |
| Cost of sales | 303,083 | 26,603 | 128,354 | 458,040 |
| Gross margin | \$ 20,106 | \$ 12,074 | \$ 10,558 | \$ 42,738 |

For the nine months ended July 31, 2014 and 2013, inter-segment sales and cost of sales for Fresh products totaling \$24.5 million and \$24.1 million were eliminated. For the nine months ended July 31, 2014 and 2013, inter-segment sales and cost of sales for Calavo Foods totaling \$12.0 million and \$10.5 million were eliminated.

3. Inventories

Inventories consist of the following (in thousands):

| | July 31, 2014 | October 31, 2013 |
|----------------------------------|--------------------------|-----------------------------|
| Fresh fruit | \$ 18,170 | \$ 13,928 |
| Packing supplies and ingredients | 6,097 | 5,511 |
| Finished prepared foods | 8,768 | 9,234 |
| | \$ 33,035 | \$ 28,673 |

Inventories are stated at the lower of cost or market. We periodically review the value of items in inventory and record any necessary reserves of inventory based on our assessment of market conditions. No inventory reserve was considered necessary as of July 31, 2014 and October 31, 2013.

Table of Contents**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 July 31, 2014 and 2013, the aggregate amount of avocados procured from entities owned or controlled by members of our Board of Directors was \$8.0 million and \$11.0 million. During the nine months ended July 31, 2014 and 2013, the aggregate amount of avocados procured from entities owned or controlled by members of our Board of Directors was \$9.2 million and \$15.6 million. Amounts payable to these board members were \$3.0 million and \$3.3 million as of July 31, 2014 and October 31, 2013.

During the three months ended July 31, 2014 and 2013, we received \$0.1 million as dividend income from Limoneira Company. During the nine months ended July 31, 2014 and 2013, we received \$0.2 million as dividend income from Limoneira Company. Harold Edwards, who is a member of our Board of Directors, is the Chief Executive Officer of Limoneira Company.

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 three executives of RFG. For the three months ended July 31, 2014 and 2013, total rent paid to LIG was \$0.1 million. For the nine months ended July 31, 2014 and 2013, total rent paid to LIG was \$0.4 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 three executives of RFG. For the three months ended July 31, 2014, total rent paid to THNC was \$0.1 million. For the nine months ended July 31, 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 three executives of RFG. For the three months ended July 31, 2014 and 2013, total sales made to Third Coast were \$0.3 million. For the nine months ended July 31, 2014 and 2013, total sales made to Third Coast were \$0.8 million and \$1.9 million. For the three months July 31, 2014 and 2013, total purchases made from Third Coast were \$0.2 million. For the nine months July 31, 2014 and 2013, total purchases made from Third Coast were \$0.3 million and \$1.0 million. Amounts due from Third Coast were \$0.4 million and \$1.0 million at July 31, 2014 and October 31, 2013. Amounts due to Third Coast were \$0.1 million at July 31, 2014 and October 31, 2013.

5. Other assets

Other assets consist of the following (in thousands):

| | July 31, 2014 | October 31, 2013 |
|---------------------------------|--------------------------|-----------------------------|
| Intangibles, net | \$ 6,245 | \$ 7,272 |
| Grower advances | 716 | 938 |
| Loan to Agricola Belher | 845 | 1,690 |
| Loan to FreshRealm members | 293 | 283 |
| Note receivable from San Rafael | 1,392 | 1,594 |
| Other | 623 | 570 |

\$ 10,114 \$ 12,347

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Intangible assets consist of the following (in thousands):

| | Weighted-Average Useful Life | July 31, 2014 | | | October 31, 2013 | | |
|-----------------------------|------------------------------|----------------------|---------------------|----------------|----------------------|---------------------|----------------|
| | | Gross Carrying Value | Accum. Amortization | Net Book Value | Gross Carrying Value | Accum. Amortization | Net Book Value |
| Customer list/relationships | 8.0 years | \$ 7,640 | \$ (3,093) | \$ 4,547 | \$ 7,640 | \$ (2,364) | \$ 5,276 |
| Trade names | 8.3 years | 2,760 | (1,834) | 926 | 2,760 | (1,636) | 1,124 |
| Trade secrets/recipes | 13.0 years | 630 | (207) | 423 | 630 | (137) | 493 |
| Brand name intangibles | indefinite | 275 | | 275 | 275 | | 275 |
| Non-competition agreements | 5.0 years | 267 | (193) | 74 | 267 | (163) | 104 |
| Intangibles, net | | \$ 11,572 | \$ (5,327) | \$ 6,245 | \$ 11,572 | \$ (4,300) | \$ 7,272 |

We anticipate recording amortization expense of approximately \$0.3 million for the remainder of fiscal 2014, with \$1.3 million of amortization expense for fiscal year 2015, \$1.2 million for fiscal year 2016, \$1.1 million for each of the fiscal years 2017 and 2018, and \$0.8 million for years thereafter, through fiscal year 2023.

6. Stock-Based Compensation

In April 2011, our shareholders approved the Calavo Growers, Inc. 2011 Management Incentive Plan (the 2011 Plan). All directors, officers, employees and consultants (including prospective directors, officers, employees and consultants) of Calavo and its subsidiaries are eligible to receive awards under the 2011 Plan. Up to 1,500,000 shares of common stock may be issued by Calavo under the 2011 Plan.

On January 9, 2014, all 12 of our non-employee directors were granted 1,750 restricted shares each (total of 21,000 shares). These shares have full voting rights and participate in dividends as if unrestricted. The closing price of our stock on such date was \$32.49. On January 1, 2015, as long as the directors are still serving on the board, these shares lose their restriction and become non-forfeitable and transferable. These shares were granted pursuant to our 2011 Management Incentive Plan.

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

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, 2013 | 27 | \$ 15.79 | |
| Exercised | (10) | \$ 13.25 | |