CALAVO GROWERS INC
Form 10-Q
March 07, 2019
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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, 2019

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 every Interactive Data File required to be submitted 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.

Emerging Growth Company
Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting Company
Emerging growth 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, 2019 was 17,597,734

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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, gain/(loss) on Limoneira shares, income/(loss) from unconsolidated entities, earnings, earnings per share, tax provisions, cash flows, currency exchange rates, the impact of acquisitions or equity investments 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, whether attributable to Calavo or any of its unconsolidated entities; 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, 2018, 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, 2019	October 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	$ 4,211	$ 1,520
Accounts receivable, net of allowances of $4,528 (2019) $3,227 (2018)	73,323	66,143
Inventories, net	38,463	35,044
Prepaid expenses and other current assets	8,033	16,727
Advances to suppliers	4,332	5,555
Income taxes receivable	2,296	3,521
Total current assets	130,658	128,510
Property, plant, and equipment, net	122,522	122,143
Investment in Limoneira Company	36,951	42,609
Investment in unconsolidated entities	18,507	24,805
Deferred income taxes	4,377	4,377
Goodwill	18,262	18,262
Loans to FreshRealm	19,942	—
Other assets	29,046	27,030
	$ 380,265	$ 367,736
Liabilities and shareholders' equity		
Current liabilities:		
Payable to growers	$ 10,247	$ 14,001
Trade accounts payable	16,917	13,735
Accrued expenses	39,528	38,521
Short-term borrowings	39,000	15,000
Dividend payable	—	17,568
Current portion of long-term obligations	112	118
Total current liabilities	105,804	98,943
Long-term liabilities:		
Long-term obligations, less current portion	271	314
Deferred rent	2,895	2,678

Other long-term liabilities	842	842
Total long-term liabilities	4,008	3,834
Commitments and contingencies		
Shareholders' equity:		
Common stock ($0.001 par value, 100,000 shares authorized; 17,598 (2019) and 17,567 (2018) shares issued and outstanding)	18	18
Additional paid-in capital	158,941	157,928
Accumulated other comprehensive income	—	12,141
Noncontrolling interest	1,742	1,748
Retained earnings	109,752	93,124
Total shareholders' equity	270,453	264,959
	$ 380,265	$ 367,736

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, 2019	2018
Net sales	$ 258,032	$ 247,928
Cost of sales	227,195	221,618
Gross profit	30,837	26,310
Selling, general and administrative	14,276	15,517
Operating income	16,561	10,793
Interest expense	(254)	(231)
Other income, net	510	126
Unrealized and realized net loss on Limoneira shares	(4,505)	—
Income before provision for income taxes and income/(loss) from unconsolidated entities	12,312	10,688
Provision for income taxes	1,533	4,302
Income/(loss) from unconsolidated entities	(6,298)	603
Net income	4,481	6,989
Less: Net loss attributable to noncontrolling interest	6	150
Net income attributable to Calavo Growers, Inc.	$ 4,487	$ 7,139
Calavo Growers, Inc.’s net income per share:		
Basic	$ 0.26	$ 0.41
Diluted	$ 0.26	$ 0.41
Number of shares used in per share computation:		
Basic	17,500	17,446
Diluted	17,558	17,525

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, 2019	2018
Net income	$ 4,481	$ 6,989
Other comprehensive income, before tax:		
Unrealized investment losses	—	(3,111)
Income tax benefit related to items of other comprehensive income	—	1,089
Other comprehensive loss, net of tax	—	(2,022)
Comprehensive income	4,481	4,967
Less: Net loss attributable to noncontrolling interest	6	150
Comprehensive income – Calavo Growers, Inc.	$ 4,487	$ 5,117

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

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CALAVO GROWERS, INC.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

	Three months ended January 31,	
	2019	2018
Cash Flows from Operating Activities:		
Net income	$ 4,481	$ 6,989
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,392	3,211
Loss (income) from unconsolidated entities	6,298	(603)
Unrealized and realized net loss on Limoneira shares	4,505	—
Stock-based compensation expense	966	1,832
Deferred income taxes	—	1,453
Effect on cash of changes in operating assets and liabilities:		
Accounts receivable, net	(7,181)	(2,905)
Inventories, net	(3,419)	(326)
Prepaid expenses and other current assets	(418)	(920)
Advances to suppliers	1,223	2,454
Income taxes receivable/payable	1,225	2,745
Other assets	(2,735)	(1,465)
Payable to growers	(3,753)	780
Deferred rent	217	(13)
Trade accounts payable, accrued expenses and other long-term liabilities	5,570	(5,335)
Net cash provided by operating activities	10,371	7,897
Cash Flows from Investing Activities:		
Acquisitions of and deposits on property, plant, and equipment	(3,867)	(5,394)
Proceeds received for repayment of San Rafael note	112	112
Proceeds received from Limoneira stock sales	1,153	—
Loan to FreshRealm	(10,500)	—
Net cash used in investing activities	(13,102)	(5,282)
Cash Flows from Financing Activities:		
Payment of dividend to shareholders	(17,568)	(16,657)
Proceeds from revolving credit facility	89,500	58,000
Payments on revolving credit facility	(65,500)	(46,500)
Payment of minimum withholding taxes on net share settlement of equity awards	(1,008)	(1,158)
Payments on long-term obligations	(49)	(36)
Proceeds from stock option exercises	47	53
Net cash provided by (used in) financing activities	5,422	(6,298)
Net increase (decrease) in cash and cash equivalents	2,691	(3,683)
Cash and cash equivalents, beginning of period	1,520	6,625
Cash and cash equivalents, end of period	$ 4,211	$ 2,942

Noncash Investing and Financing Activities:		
Property, plant, and equipment included in trade accounts payable and accrued expenses	$ 573	$ 1,063
Noncash transfer of noncontrolling interest	$ —	$ 1,001
Unrealized investment gain	$ —	$ (3,111)

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 a 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 and 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, 2018.

Recently Adopted Accounting Pronouncements

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 fiscal years and interim period within those fiscal years beginning after December 15, 2017. The Company adopted this new standard at the beginning of fiscal 2019. With the adoption of this new standard, we reclassed unrealized gains of $12.1 million in accumulated other comprehensive income to retained earnings as of November 1, 2018. Additionally, for the three months ended January 31, 2019, we sold 51,271 shares of Limoneira stock and recorded a loss of $0.1 million in our consolidated statements of income. Limoneira's stock price at January 31, 2019 and October 31, 2018 equaled $22.03 per share and $24.65 per share. Our remaining shares of Limoneira stock, totaling 1,677,299 at January 31, 2019, were revalued to $22.03 per share and, as a result, we recorded a loss of $4.4 million in our consolidated statements of income.

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 Company adopted this new standard at the beginning of fiscal 2019 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. The adoption of the amendment did not have an impact on the Company's consolidated financial statements. See Note 14 for further information.

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Recently Issued Accounting Standards

In June 2018, the FASB issued an ASU, Improvements to Nonemployee Share-Based Payment Accounting. The FASB issued this update to simplify the accounting for share-based payments to nonemployees by aligning it with the accounting for share-based payments to employees, with certain exceptions. This ASU will be effective for us beginning the first day of our 2020 fiscal year. We are evaluating the impact of the update of this ASU on our financial condition, results of operations and cash flows, and, as such, we are not able to estimate the effect the adoption of the new standard will have on our financial statements.

In February 2018, the FASB issued an ASU, Reclassification of Certain Tax Effects From Accumulated Other Comprehensive Income, which amends Accounting Standards Codification ("ASC") 220, Income Statement — Reporting Comprehensive Income, to allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act, (the "Act"). In addition, under the ASU, an entity will be required to provide certain disclosures regarding stranded tax effects. This ASU is effective for us the first day of our 2020 fiscal year. Early adoption is permitted. We are evaluating the impact of adoption of this ASU on our financial condition, results of operations and cash flows, and, as such, we are not able to estimate the effect the adoption of the new standard will have on our financial statements.

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 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 our consolidated financial statements, we currently expect the most significant changes will be related to the recognition of material new long-term right-of-use assets and lease liabilities on our consolidated balance sheet.

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 avocado 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, 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:

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	Three months ended January 31, 2019				Three months ended January 31, 2018			
	Fresh products	Calavo Foods	RFG	Total	Fresh products	Calavo Foods	RFG	Total
Avocados	$ 103,995	$ —	$ —	$ 103,995	$ 108,929	$ —	$ —	$ 108,929
Tomatoes	11,392	—	—	11,392	12,084	—	—	12,084
Papayas	2,939	—	—	2,939	2,805	—	—	2,805
Other fresh products	80	—	—	80	34	—	—	34
Prepared avocado products	—	24,252	—	24,252	—	21,803	—	21,803
Salsa	—	853	—	853	—	865	—	865
Fresh-cut fruit & vegetables and prepared foods	—	—	119,541	119,541	—	—	106,776	106,776
Total gross sales	118,406	25,105	119,541	263,052	123,852	22,668	106,776	253,296
Less sales incentives	(957)	(2,034)	(477)	(3,468)	(652)	(2,778)	(670)	(4,100)
Less inter-company eliminations	(595)	(957)	—	(1,552)	(415)	(853)	—	(1,268)
Net sales	$ 116,854	$ 22,114	$ 119,064	$ 258,032	$ 122,785	$ 19,037	$ 106,106	$ 247,928

	Fresh products	Calavo Foods	RFG	Total
Three months ended January 31, 2019				
Net sales before intercompany eliminations	$ 117,449	$ 23,071	$ 119,064	$ 259,584
Intercompany eliminations	(595)	(957)	—	(1,552)
Net sales	116,854	22,114	119,064	258,032
Cost of sales before intercompany eliminations	96,591	16,327	115,829	228,747
Intercompany eliminations	(527)	(645)	(380)	(1,552)
Cost of sales	96,064	15,682	115,449	227,195
Gross profit	$ 20,790	$ 6,432	$ 3,615	$ 30,837

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

For the three months ended January 31, 2019 and 2018, inter-segment sales and cost of sales of $0.5 million and $0.4 million between Fresh products and RFG were eliminated. For the three months ended January 31, 2019 and 2018, inter-segment sales and cost of sales of $1.0 million and $0.9 million between Calavo Foods and RFG were eliminated. For the three months ended January 31, 2019 and 2018, inter-segment sales and cost of sales of $0.1 million between Fresh products and Calavo Foods were eliminated.

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3.Inventories

Inventories consist of the following (in thousands):

	January 31, 2019	October 31, 2018
Fresh fruit	$ 14,921	$ 12,902
Packing supplies and ingredients	11,871	10,889
Finished prepared foods	11,671	11,253
	$ 38,463	$ 35,044

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. No additional inventory reserve was considered necessary as of January 31, 2019 and October 31, 2018.

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. For the three months ended January 31, 2019, we did not procure any avocados from entities owned or controlled by members of our Board of Directors. During the three months ended January 31, 2018, the aggregate amount of avocados procured from entities owned or controlled by members of our Board of Directors was $0.1 million. We did not have any amounts payable to these Board members as of January 31, 2019 and October 31, 2018.

During the three months ended January 31, 2019 and 2018, we received $0.1 million as dividend income from Limoneira Company (Limoneira). In addition, we lease office space from Limoneira for our corporate office. We paid to rent expense to Limoneira totaling $0.1 million for the three months ended January 31, 2019 and 2018. Harold Edwards, who is a member of our Board of Directors, is the Chief Executive Officer of Limoneira Company. As of January 31, 2019, we own less than 10% ownership interest in Limoneira. Effective December 2018, our Chief Executive Officer retired from Limoneira's 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, 2019 and 2018, Calavo Growers, Inc. paid fees totaling less than $0.1 million to TroyGould PC.

In January 2016, our unconsolidated subsidiary, Agricola Don Memo, S.A. de C.V. (Don Memo), entered into a loan agreement totaling $4.5 million with Bank of America, N.A. (BoA). This entity is accounted for using the equity method. These proceeds 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 guaranteed and promised to pay BoA any and all Indebtedness, as defined, of our unconsolidated subsidiary Don Memo to BoA. Belo also entered into a similar guarantee with BoA. In December 2018, Don Memo received third party financing and repaid its loan to BoA, and as a result, we were able to remove this guarantee to BoA.

As of January 31, 2019 and October 31, 2018, we had an investment of $5.4 million and $5.2 million, representing Calavo Sub's 50% ownership in Don Memo, which was 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, 2019 and October 31, 2018, we had outstanding advances of $2.0 million and $2.5 million to Don Memo. During the three months ended January 31, 2019 and 2018, we recorded $5.7 million and $3.7 million of cost of sales to Don Memo pursuant to our consignment agreement.

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We make advances to Belher 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 Belher, net of our commission and aforementioned advances. We had grower advances due from Belher totaling $4.0 million as of January 31, 2019 and October 31, 2018, which are netted against the grower payable. In addition, we had infrastructure advances due from Belher of $3.4 million as of January 31, 2019 and October 31, 2018. $0.8 million of these infrastructure advances were recorded as a receivable in prepaid and other current assets. The remaining $2.6 million of these infrastructure advances were recorded in other assets. During the three months ended January 31, 2019 and 2018, we recorded $5.3 million and $5.9 million of cost of sales 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. As of January 31, 2019, this entity was approximately 83% owned by Calavo and was consolidated in our financial statements. Avocados de Jalisco built a packinghouse located in Jalisco, Mexico, which began operations in June of 2017. As of January 31, 2019 and October 31, 2018, we have made preseason advances of approximately $0.1 million to various partners of Avocados de Jalisco. During the three months ended January 31, 2019 and 2018, we purchased approximately $1.0 million and $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, 2019 and October 31, 2018, we had an investment of $13.1 million and $19.9 million in FreshRealm, LLC ("FreshRealm"). We record the amount of our investment in FreshRealm in "Investment in unconsolidated entities" on our Consolidated Condensed Balance Sheets and recognize losses in FreshRealm in "Income/ (loss) in unconsolidated entities" in our Consolidated Condensed Statement of Income. See Note 13 for additional information.

Effective July 31, 2018, we entered into a Note and Membership Unit Purchase Agreement ("NMUPA") with FreshRealm, pursuant to which we agreed to provide additional financing, subject to certain terms and conditions. Pursuant to such NMUPA, we entered into a Subscription Agreement, whereby we purchased $3.5 million of equity units in FreshRealm, on July 31, 2018. FreshRealm concurrently entered into subscription agreements with certain third-party investors for an additional $3.5 million of equity investments. As of January 31, 2019, our ownership percentage in FreshRealm was approximately 37%.

Additionally, pursuant to the NMUPA, we entered into a $12 million Senior Promissory Note and corresponding Security Agreement (collectively, the "Agreements") with FreshRealm, effective August 10, 2018. We funded $9 million of this loan commitment during the fourth quarter of fiscal 2018 and funded the remaining loan commitment amount of $3 million during the first quarter of fiscal 2019. During our second quarter of fiscal 2019, we amended this note, due October 31, 2019, and, among other things, included a provision whereby we have the option to extend repayment of this note to November 1, 2020.

We also loaned FreshRealm an additional $7.5 million, in several unsecured notes during our first quarter of fiscal 2019. During our second fiscal quarter of 2019, we consolidated those notes into one $7.5 million note receivable balance due from FreshRealm, due October 31, 2019. Similar to the amended note described above, we included a provision whereby we have the option to extend repayment of this note to November 1, 2020. Also, during our fiscal second quarter, we lent an additional $1.5 million on an unsecured basis to FreshRealm. As of January 31, 2019 and October 31, 2018, we have note receivables from FreshRealm totaling $19.9 million and $9.0 million. See Note 13 for further information.

Three officers and five members of our board of directors have investments in FreshRealm. In addition, as of January 31, 2019 and October 31, 2018, we have a loan to FreshRealm members of approximately $0.2 million and $0.3 million. 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. In the second quarter of fiscal 2018, two of our non-executive directors invested $1.2 million into FreshRealm.

In the first quarter of fiscal 2019, FreshRealm entered into a supply contract with a large multi-national, multi-channel retailer. Calavo co-signed an addendum to this agreement to provide assurance to the customer that Calavo will

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assume responsibility for performance, in the event that FreshRealm cannot perform, provided that the customer must work in good faith to make reasonable adjustments to logistical elements in the contract, if requested by Calavo.

We provide storage services to FreshRealm from our New Jersey and Texas Value-Added Depots, and our RFG Riverside facility. We have received $0.1 million in storage services revenue from FreshRealm in the three months ended January 31, 2019 and 2018. For the three months ended January 31, 2019 and 2018, RFG has sold $1.6 million and $1.5 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 months ended January 31, 2019 and 2018:

	Three months ended January 31,	
(in thousands)	2019	2018
Rent paid to LIG	$ 139	$ 139
Rent paid to THNC, LLC	$ 198	$ 199

5.Other assets

Other assets consist of the following (in thousands):

	January 31, 2019	October 31, 2018
Intangibles, net	$ 833	$ 1,109
Mexican IVA (i.e. value-added) taxes receivable (see note 11)	24,042	21,859

Infrastructure advance to Agricola Belher	2,600	2,600
Notes receivable from San Rafael	—	39
Other	1,571	1,423
	$ 29,046	$ 27,030

Intangible assets consist of the following (in thousands):

		January 31, 2019			October 31, 2018		
	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	$ (7,336)	$ 304	$ 7,640	$ (7,106)	$ 534
Trade names	8.6 years	2,760	(2,705)	55	2,760	(2,672)	88
Trade secrets/recipes	9.3 years	630	(431)	199	630	(418)	212
Brand name intangibles	indefinite	275	—	275	275	—	275
Intangibles, net		$ 11,305	$ (10,472)	$ 833	$ 11,305	$ (10,196)	$ 1,109

We anticipate recording amortization expense of approximately $0.4 million for the remainder of fiscal 2019, $0.1 million for fiscal year 2020, $0.1 million for fiscal year 2021, $0.1 million for fiscal year 2022, and less than $0.1 million for thereafter, through fiscal year 2023.

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

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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, 2019, 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 $71.56. On January 2, 2020, 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, 2019.

On December 14, 2018, our executive officers were granted a total of 14,522 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 $85.67. These shares vest in one-third increments, on an annual basis, beginning December 14, 2019. 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, 2019.

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, 2018	85	$ 68.82	
Vested	(51)	$ 70.48	
Granted	35	$ 77.33	
Outstanding at January 31, 2019	69	$ 71.74	$ 5,321

The total recognized stock-based compensation expense for restricted stock was $1.0 million and $1.8 million for the three months ended January 31, 2019 and 2018. Total unrecognized stock-based compensation expense totaled $4.7 million as of January 31, 2019, and will be amortized through fiscal year 2021.

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.