Calavo

CALAVO GROWERS, INC.

1141 CUMMINGS ROAD,
SANTA PAULA, CALIFORNIA 93060

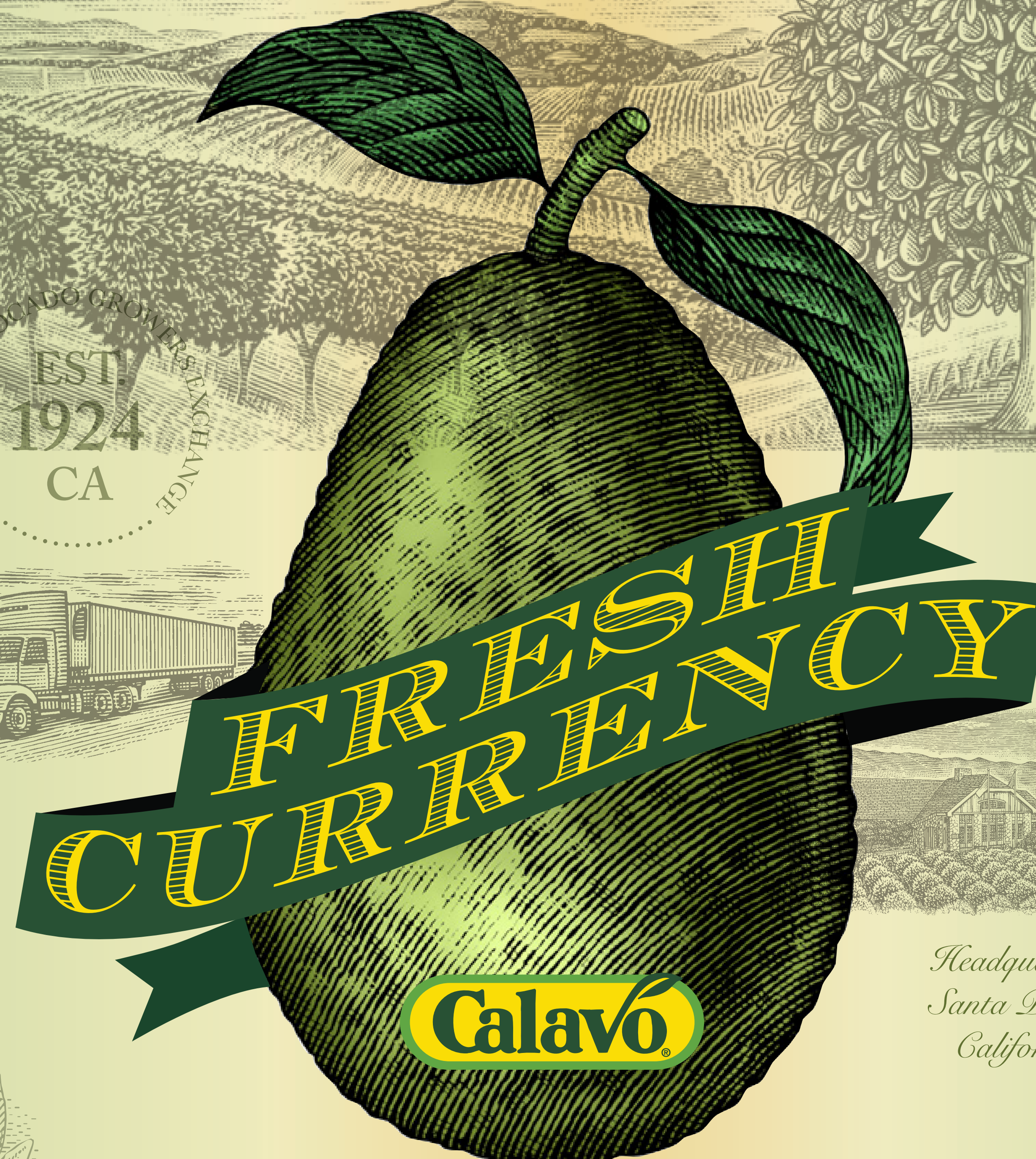
WWW.CALAVO.COM

CG 805 525 1245

BILLION DOLLAR COMPANY

CG 192402017 C

CALIFORNIA AVOCADO GROWERS EXCHANGE
EST.
1924
CA



Headquarters
Santa Paula,
California

2017
ANNUAL REPORT

Calavo Growers, Inc.
CORPORATION

MILESTONES 2017

FINANCIAL HIGHLIGHTS

The prior year was one of exceptional accomplishment. Revenues and gross margin rose to new all-time highs. Net income and per-share results nearly equaled the record levels set in fiscal 2016. These financial results squarely position Calavo for future growth across all three business segments.

REVENUES SURPASS $1 Billion FOR THE FIRST TIME

MARKET VALUE EQUALED $1.3 Billion AT FISCAL-YEAR-END

OPERATING HIGHLIGHTS

Calavo's newest fresh avocado packinghouse came online in Jalisco, Mexico. Renaissance Food Group scaled up operations in Florida, Texas and Southern California to achieve greater customer penetration and seamless, just-in-time national distribution. These additional production facilities crown an intensive four years of capital investment.

NEW PLANTS

Through this multi-year expansion effort, RFG grows its footprint with new facilities in Jacksonville, Fla. and Riverside, Calif., and enlarged capacity in Houston, Texas, to put us closer to our growing customer base.

NEW PRODUCTS

With these new facilities, RFG is speeding its rate of product development. A lineup of value-added fresh meal kits is driving growth—well-received by consumers who increasingly crave healthy choices and require convenient cooking options.

NEW DEMAND

Fresh avocado demand continues to surge both domestically and around the globe. Our sourcing, production and sales management—Calavo strengths—are linchpins of company initiatives to keep pace with and meet growing consumption.

10
A decade of vision

TAKING THE LONG VIEW—OUR PATH TO $1 BILLION

A FOCUSED STRATEGY...

Calavo's multi-platform model—three business segments that have driven our consistent, upward revenue and earnings trend lines—are at the center of the company's strategic agenda. These highly complementary segments—Fresh, Renaissance Food Group (RFG), and Calavo Foods—are part of our decade-long concentration to leverage: our core strength in an expanding avocado industry; the growing consumer preference for healthy fresh fruits and vegetables; and the company's unrivaled distribution expertise. The three segments benefit, as well, from synergies in sourcing and a shared refrigerated distribution infrastructure.

...TO SEIZE MARKET OPPORTUNITIES

Our avocado industry leadership, including broad, deep resources in sales and production management, will enable Calavo's further penetration in a category where fresh fruit consumption continues to rise at near-double-digit annual rates. RFG's rapid growth—25 consecutive quarters of double-digit, year-over-year sales gains through fiscal 2017—underscores demographic shifts and consumer demand for fresh, refrigerated fruits and vegetables, as health and convenience are sought more than ever before. We have built an infrastructure that is the envy of the industry: one of the most complete food distribution networks with 15 facilities seamlessly covering the country and with capacity for future growth.

Fresh Avocados

2.2 BILLION POUNDS

2017 Domestic Consumption

GLOBAL CURRENCY

RISING CONSUMER DEMAND DRIVES...

The fresh avocado industry—which Calavo created and remains at the forefront of—continues its brisk expansion. Domestic consumption has more than doubled within the last decade, reaching 2.2 billion pounds in fiscal 2017. That translates to near-double-digit annual growth over that period—to about seven pounds per capita consumption, up from three pounds in 2009. And expansion is expected to continue accelerating: early industry outlook calls for an all-source supply that should rise more than 20 percent again in 2018. Demographic shifts, avocados' healthful properties, and strong industry marketing are catalysts for domestic growth.

...THE AVOCADO GROWTH TRAJECTORY

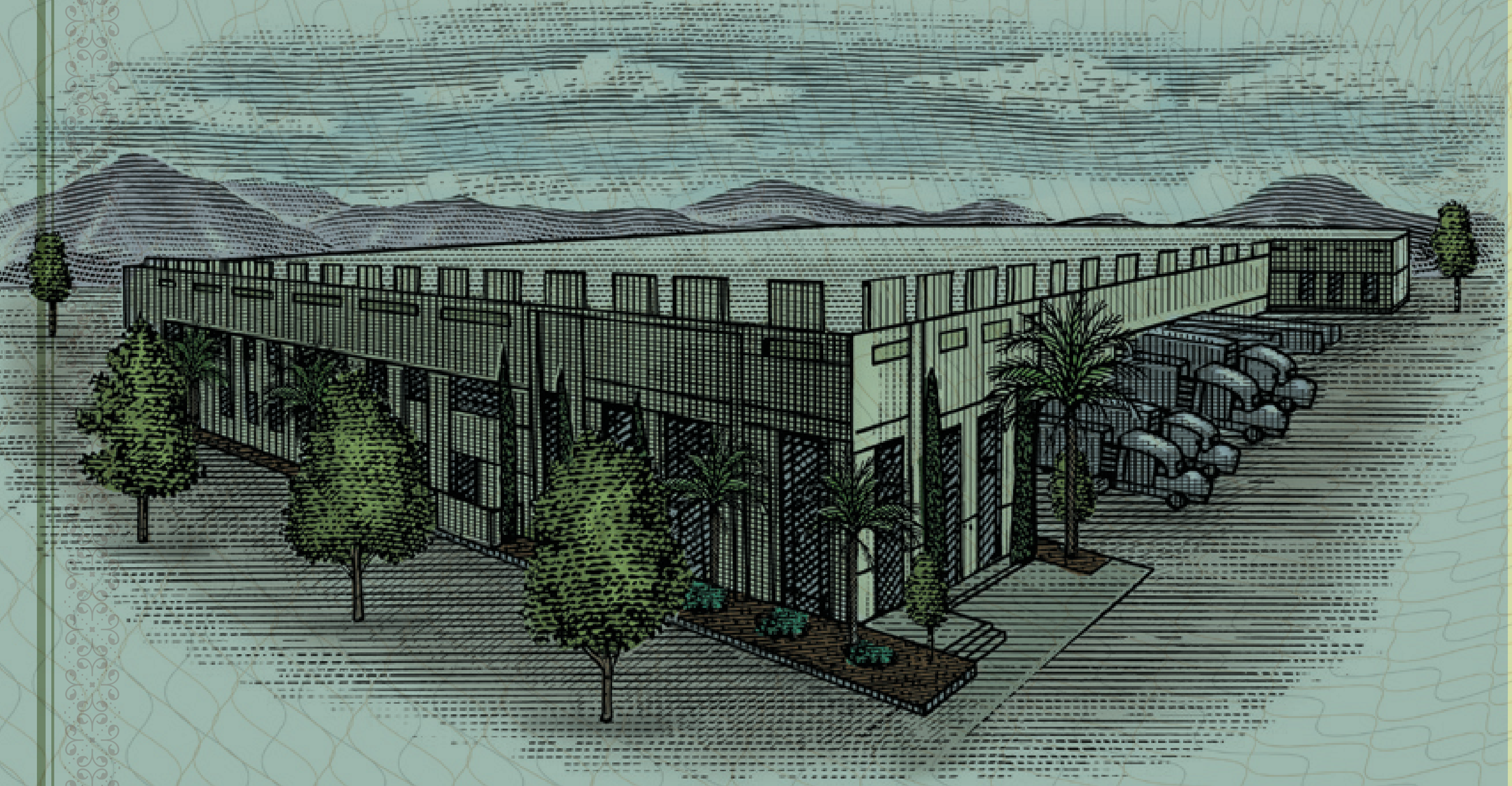
Calavo resides in the avocado "sweet spot." We possess sourcing, sales and production-management leadership that enable our success even in challenging market conditions such as the industry encountered last year when demand outstripped available supply. Significant capital investment—most notably, Calavo's Jalisco, Mexico packinghouse which began operations in fiscal 2017—expand our fresh avocado packing capacity to meet growing demand in markets including Asia, Canada and Europe. The avocado-consumption growth trajectory—both domestically and internationally—is headed in one direction: upward.

Jalisco, Mexico

Renaissance Food Group

7 PRODUCTION FACILITIES NATIONWIDE

PLACING US CLOSER THAN EVER TO CUSTOMERS



THE CURRENCY OF DISTRIBUTION

SEAMLESS DISTRIBUTION COVERAGE...

RFG's rapid expansion took further root in fiscal 2017, continuing its ascent as a leader in fresh-cut fruits and vegetables, as well as refrigerated prepared foods. These value-added categories are among the fastest-growing segments of the retail grocery industry. A series of capital investments over the past four years has added new production facilities in Jacksonville, Florida and Riverside, California, along with the substantial enlargement of its plant in Houston, Texas, positioning the RFG segment for deeper penetration to customers in new geographic markets.

...ENSURES JUST-IN-TIME DELIVERY

Indicative of this success, RFG posted sales growth above 25 percent last year and marked its 25th consecutive year-over-year quarter of double-digit top-line gains. This impressive growth rate is attributable to RFG's capabilities for partnering with its customers for complete fresh-food solutions on exacting time tables. Expanding upon Calavo's success in refrigerated food distribution, seven strategically located facilities nationwide provide RFG the platform for the most wholesome made-to-order products delivered just-in-time to grocers nationwide.

Sacramento, CA
Riverside, CA
Portland, OR
Houston, TX
Indianapolis, IN
Jacksonville, FL
Rosenhayn, NJ

Healthy, Convenient Options

INSIDE THE PRODUCT VAULT

A GROWING TREASURE TROVE OF FRESH FOODS

A RANGE OF FULL-SCALE PREPARED FOOD SOLUTIONS...

Behind our respected family of brands—Calavo, Chef Essentials, Garden Highway, Salsa Lisa and even products sold under grocers' own store labels—is a relentless commitment to quality. At the core is a dynamic product-development capability—an RFG hallmark and key differentiator—where the rapidly expanding portfolio meets the shifting consumer preference for fresh, healthy, convenient and on-the-go eating alternatives.

...TO CAPTURE RAPIDLY SHIFTING CONSUMER PREFERENCE

RFG is on the leading edge of the trend by offering exciting choices and a budding lineup of fresh prepared meal-kit components and ready-to-heat options to meet rising demand. The products are genuine game-changers—both for their convenience to consumers and their farm-fresh great taste—and they're driving RFG's rapid growth. We are able to deliver fruit bursting with flavor and the crispest vegetables through just-in-time distribution, ensuring our products reach customers optimally fresh.

As revenue drivers, value-added fresh fruits and vegetables, along with prepared foods, are among the fastest-growing segments of the grocery industry. Calavo Foods' popular fresh guacamole, salsas and dips—with an expanding array of offerings and packaging configurations—also occupy a category that is developing at a quick rate and deepen the company's retail brand presence.

RFG CALAVO FOODS

Expanding Product Lineup

Retail Grocers and Food Distributors Nationwide

Investment & Return of Capital

BUILDING VALUE FOR OUR OWNERS

3 PILLARS

CVGW
CALAVO GROWERS, INC.

SHAREHOLDER RETURN

Calavo remains committed to the dual objectives of returning the highest possible amounts to its shareholders through the annual cash dividend on its common stock while retaining ample capital for reinvestment into the growth of its various business segments. The company's consistent, steadily growing profitability has enabled it to balance these goals. Once again last year, Calavo returned more than $16.7 million, or 95 cents per common share, to its stock owners via the dividend, which increased for the fifth consecutive year and has risen at a compounded average rate of nearly 8 percent over that period.

WEALTH CREATION

Our strong operating results over the past five years—during which revenues, gross profit and net income have climbed at double-digit rates annually—have fueled strong appreciation of CVGW shares. At October 31, 2017, Calavo's market capitalization stood at nearly $1.3 billion. How does this translate to our shareholders? Consider that $10,000 invested in Calavo stock on November 1, 2002, along with reinvested dividends, would have grown nearly $147,000 at the most recent fiscal-year end.

INVESTMENT AND REINVESTMENT

Over the past four years, Calavo has made more than $95 million in capital expenditures to build, strengthen and diversify its businesses, investing in facilities, people, equipment and product development. Similarly, strategic investments in unconsolidated subsidiaries—Limoneira, FreshRealm and Agricola Don Memo—are prospective growth catalysts for our company and, by extension, its shareholders.

Calavo Growers, Inc.
CORPORATION

To Our Shareholders

LEE E. COLE
CHAIRMAN, PRESIDENT AND CEO

FISCAL 2017 WAS A MONUMENTAL YEAR FOR CALAVO GROWERS, INC., AS WE ONCE AGAIN ADVANCED OUR STRATEGIC AGENDA WITH GREAT SUCCESS. AMONG THE COMPANY'S NOTABLE ACCOMPLISHMENTS WERE:

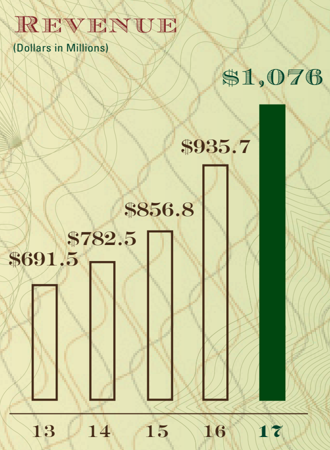
- **Posting record revenues as our top line increased by double-digit percentages and surpassed the $1 billion-in-sales threshold;**
- **Expanding fresh avocado production capacity measurably to satisfy rising demand with the opening of our newest packinghouse in Jalisco, Mexico;**
- **Completing a multi-year series of initiatives—adding plants and products—in the Renaissance Food Group (RFG) business segment to pace our leadership in the value-added fresh fruit, vegetable, and prepared foods category; and,**
- **Delivering higher shareholder return through an increased annual cash dividend on Calavo's common stock, even while making the aforementioned investments to drive our growth.**

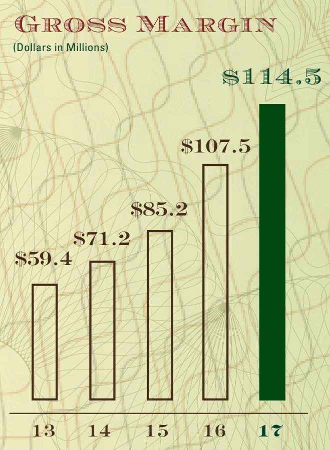
Reflecting on these achievements, what occurred to me is that underlying the growth and considerable value creation into which it translates for shareholders, Calavo avocados and family of fresh foods are themselves a formidable currency—specifically, ***Fresh Currency***, the theme of this year's annual report.

Let me recap operating results for the fiscal-year-ended October 31, 2017. Net income registered $37.3 million, equal to $2.13 per diluted share, virtually equal to $38.0 million, or $2.18 per diluted share—the all-time high recorded in fiscal 2016. Revenues climbed 15 percent to a record $1.08 billion from $935.7 million the prior year. Gross margin rose by $7 million in the most-recent year to reach a new historic level of $114.5 million from $107.5 million in fiscal 2016.

In recognition of our outstanding financial performance, Calavo's Board of Directors declared a 95 cent per share annual cash dividend on our common stock, returning more than $16.7 million to owners. This year's award was nearly a six percent increase from fiscal 2016. During the past five years, the dividend has increased at a compound average growth rate of almost eight percent. Our ability to deliver these returns and create value for shareholders—Calavo's market capitalization standing at nearly $1.3 billion at fiscal-year end—are sources of immense pride.

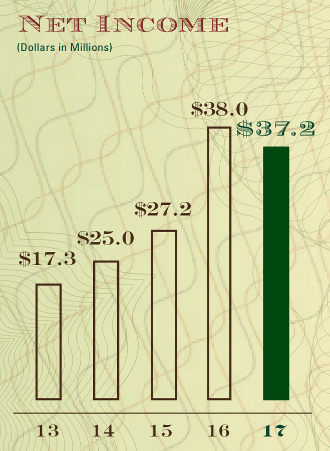
~ 2017 ~
FINANCIAL RESULTS





The pace of Calavo's progress continues to quicken. To place in context just how far our company has come, consider revenues have doubled in the past five years from just over $550 million in fiscal 2012, compounding at an annual growth rate exceeding 12 percent. Gross margin dollars, too, have virtually doubled in the past five years—again, a mid-teen growth rate. Revenue and margin growth have lifted Calavo's bottom line, as adjusted per-share results registered an almost two-fold increase during this same five-year period.

To what do we attribute this success? A deep focus on our three principal business segments and disciplined implementation of the company's strategic plan. These complementary units are the principal factor in our consistent, sustained revenue and earnings growth. As avocados have surged in popularity, we have built on our historic leadership to ride the crest of this growth. Our capabilities—end-to-end strength in sourcing, sales, marketing, distribution and production management—are the envy of the industry. In concert with surging domestic and global demand, Calavo has expanded fresh avocado infrastructure to capitalize on these opportunities. We remain on the forward edge of avocado-industry growth fueled by demographic change, health and outstanding marketing. While comprising a smaller portion of our Fresh business than avocados, our tomato and papaya operations provide solid incremental sales and margin contribution to round out the segment.

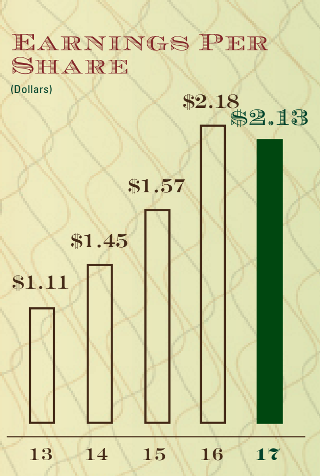


The second prong of this strategy is RFG. This business segment's rapid advancement is compelling validation of Calavo's decision to invest significantly to build a best-in-category, value-added fresh fruit, vegetable and prepared foods business. As we predicted, the rising groundswell of consumer preference for healthy and convenient food choices put RFG in the "sweet spot:" one of the fastest-growing segments in the retail grocery channel. Specifically, RFG's ascent in the fresh meal-kits and ready-to-eat foods are game changers. RFG's outstanding product-development capabilities, in concert with Calavo's deep expertise in assembling a seamless, nationwide food-distribution infrastructure, have propelled the segment.

Together, our Calavo Foods business segment of guacamole, salsas and dips, along with RFG, make available a great family of products and strengthen the presence of our sterling brands—Calavo, Garden Highway, Chef Essentials and Salsa Lisa—at the retail grocery level. Strategic focus and disciplined implementation aside, I have long maintained there is no substitute in our business for great-tasting, high-quality products. That is the axiom essential to success—and a strength underlying our family of fresh brands. We source only the best. We possess innovative product development and state-of-the-art manufacturing to create new offerings. And we have put in place the distribution apparatus to ensure that they reach customers and consumers fresh and bursting with flavor.

Calavo has not been reluctant to deploy its considerable financial resources to execute our strategy. In the past four years alone, our company made capital investments totaling more than $95 million in the "Three Ps:" plants, products and people. Among them are the Jalisco, Mexico fresh avocado packinghouse and, in the RFG segment, new production facilities in Riverside, California and Jacksonville, Florida, and expansion of an existing plant in Houston, Texas.

As internal growth quickens, we remain focused on our core businesses, each segment offering the platform for "bolt-on" acquisitions if opportunities present themselves. Our success integrating and building RFG is case-in-point. We are vigilant, have the financial resources at our disposal, and routinely evaluate prospective transactions. However, any deal will have to be complementary to our current segments and immediately accretive to earnings.



Similarly, Calavo's judicious investments in unconsolidated subsidiaries hold excellent potential: Nasdaq-listed Limoneira Co., whose substantial avocado crop we also pack and market; tomato-growing partner Agricola Don Memo; and FreshRealm, a food technology and distribution platform for fresh prepared products.

Calavo's future has never been more exciting. With the framework in place, I expect further acceleration of growth. Domestic avocado demand—increasing at double-digit rates—will remain on its extended upward arc. Global consumption—particularly emerging Asian markets but also Canada and Europe—will also increase at an equally brisk, if not faster, rate. RFG is well positioned—with plants, products and people squarely in place—for continued customer and geographic penetration.

As we move forward into this ever-brighter future, I conclude, as always, with thanks—in fact, **a billion of 'em!**—to our Board for stewardship and sound judgment, Calavo's management team and employees for their tireless dedication, and to our customers and their customers, as well, for their support. To you, my fellow shareholders, I extend immense gratitude for your loyalty which we work day-in and day-out to maintain and reward.

Sincerely,

Lee E. Cole

LEE E. COLE
CHAIRMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER
MARCH 4, 2018

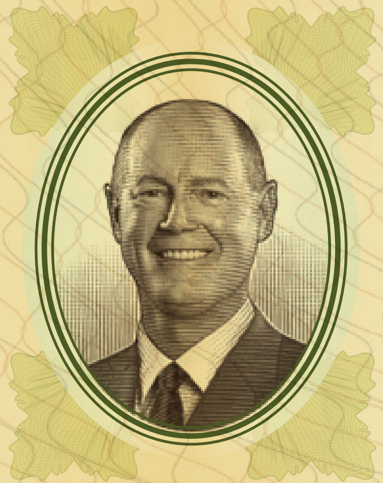
LECIL E. COLE
Chairman, President and CEO
Calavo Growers, Inc.
Santa Paula, California

J. LINK LEAVENS
First Vice Chairman, General Manager
Leavens Ranches, Ventura, California

SCOTT N. VAN DER KAR
Second Vice Chairman, General Manager, Van Der Kar Family Farms, Carpinteria, California

DORCAS H. THILLE
Owner and Operator, J.K. Thille Ranches
Santa Paula, California

HAROLD S. EDWARDS
President and CEO, Limoneria Company
Santa Paula, California



STEVEN W. HOLLISTER
Managing Member, Rocking Spade, LLC
Arroyo Grande, California

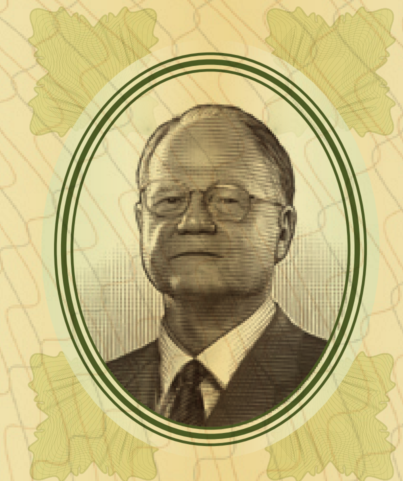
MARC L. BROWN
Attorney/Partner, Troy Gould PC
Los Angeles, California

BOARD OF DIRECTORS

13 Directors

CORPORATE HEADQUARTERS
Santa Paula, California

JOHN M. HUNT
Manager, Embarcadero Ranch
Goleta, California

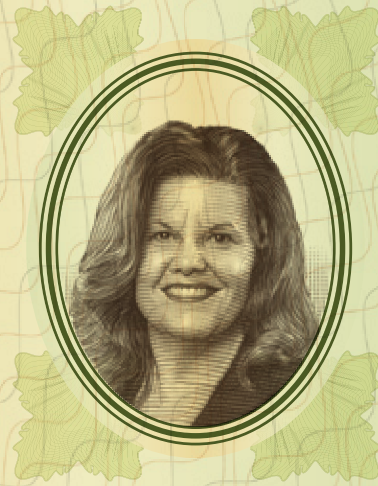


DONALD "MIKE" SANDERS
President, S&S Grove Management
Escondido, California

EGIDIO "GENE" CARBONE, JR.
Retired CFO, Calavo Growers, Inc.
Santa Paula, California

JAMES D. HELIN
President, CEO, JDH Associates
Los Angeles, California

MICHAEL A. "MIKE" DIGREGORIO
Board & Strategic Advisory Services
Westlake Village, California



KATHLEEN HOLMGREN
Management Consultant
Ventura, California

Financial Section

Selected Consolidated Financial Data

The following summary of consolidated financial data (other than pounds information) for each of the years in the five-year period ended October 31, 2017, are derived from the audited consolidated financial statements of Calavo Growers, Inc.

Historical results are not necessarily indicative of results that may be expected in any future period. The following data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and notes thereto that are included elsewhere in this Annual Report.

FISCAL YEAR ENDED OCTOBER 31, (In thousands, except per share data)	2017	2016	2015	2014	2013
INCOME STATEMENT DATA:(1)(2)(5)(6)					
Net sales	**$ 1,075,565**	$ 935,679	$ 856,824	$ 782,510	$ 691,451
Gross profit	**114,544**	107,534	85,227	71,228	59,448
Selling, general and administrative	**56,651**	46,440	41,558	36,605	33,485
Net income attributable to Calavo Growers, Inc.	**37,270**	38,022	27,199	97	(1,795)
Basic net income per share	**$ 2.14**	$ 2.19	$ 1.57	$ 0.01	$ (0.12)
Diluted net income per share	**$ 2.13**	$ 2.18	$ 1.57	$ 0.01	$ (0.12)
BALANCE SHEET DATA AS OF END OF PERIOD:					
Working capital	**$ 3,661**	$ 25,612	$ 18,964	$ 22,047	$ (3,252)
Total assets	**364,117**	327,933	284,945	283,464	239,810
Accrued expenses	**39,946**	31,095	21,311	25,303	36,541
Current portion of long-term obligations	**129**	138	2,206	5,099	5,258
Long-term obligations, less current portion	**439**	445	586	2,791	7,792
Shareholders' equity	**244,122**	215,069	185,982	179,406	119,093
CASH FLOWS PROVIDED BY (USED IN):					
Operations	**$ 62,140**	$ 61,968	$ 37,283	$ 24,547	$ 13,712
Investing(2)(3)(4)	**(53,668)**	(21,731)	(21,054)	(21,753)	(7,746)
Financing(4)	**(15,689)**	(33,566)	(15,802)	(4,069)	(5,050)
OTHER DATA:					
Cash dividends declared per share	**$ 0.95**	$ 0.90	$ 0.80	$ 0.75	$ 0.70
Net book value per share	**$ 13.92**	$ 12.33	$ 10.70	$ 10.37	$ 7.58
Pounds of California avocados sold	**53,875**	109,545	75,538	74,438	141,400
Pounds of non-California avocados sold	**245,463**	278,200	312,710	258,940	218,244
Pounds of processed avocados products sold	**29,911**	26,773	27,182	26,451	21,636

(1) In July 2013, we entered into an Amended and Restated Limited Liability Company Agreement of FreshRealm. When we deconsolidated FreshRealm (see below), principal operations had not yet commenced. As a result, FreshRealm had no sales or cost of sales. FreshRealm had incurred $1.0 million and $1.9 million of expenses related to its development as of October 31, 2014 and 2013, which are included in selling, general and administrative expenses.

(2) In May 2014, we deconsolidated FreshRealm (see above). We recorded a gain on the deconsolidation of FreshRealm of $12.6 million, which has been recorded on the face of the income statement as other income. For fiscal 2017 and 2016, we contributed $7.5 million and $3.2 million as investments in FreshRealm. Our total investment of $28.4 million and $21.0 million in FreshRealm as of October 31, 2017 and 2016, has been recorded as investment in unconsolidated subsidiaries on our balance sheet.

(3) In July 2015, Calavo Growers de Mexico entered into a Shareholder Agreement with Belo, a Mexican Company owned by Agricola Belher, and Don Memo. Don Memo, a Mexican corporation created in July 2013, is engaged in the business of owning and improving land in Jalisco, Mexico for the growing of tomatoes and other produce and the sale and distribution of tomatoes and other produce. In fiscal 2017, 2016, 2015, and 2013, we contributed $0.5 million, $2.3 million, $1.0 million, and $1.0 million as investments in Don Memo. In fiscal 2015 and 2014, we advanced $0.8 million and $3.2 million. These monies totaling $4.0 million, effectively a bridge loan, were repaid in the first quarter of fiscal 2016. We had recorded such loans in prepaids and other current assets.

(4) Cost of Sales for fiscal 2014 and 2013 include non-cash compensation expenses related to the acquisition of RFG totaling $1.8 million, and $0.7 million. These non-cash expenses will not continue in the future.

(5) Selling, General, and Administrative expenses for fiscal 2014 and 2013 include non-cash compensation expenses related to the acquisition of RFG totaling $0.7 million, and $0.3 million. These non-cash expenses will not continue in the future.

(6) Included in accrued liabilities as of October 31, 2013 is a non-cash, contingent consideration liability totaling $15.6 million related to the acquisition of RFG. This liability resolved during fiscal 2014 and will not continue in the future.

Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion and analysis of our financial condition and results of operations together with "Selected Consolidated Financial Data" and our consolidated financial statements and notes thereto that appear elsewhere in this Annual Report. This discussion and analysis contains forward-looking statements that involve risks, uncertainties, and assumptions. Actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including, but not limited to, those presented under "Risks related to our business" included in our Annual Report on Form 10-K.

Overview

We are a leader in the distribution of avocados, prepared avocado products, and other perishable food products throughout the United States. 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) 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 report our operations in three different business segments: Fresh products, Calavo Foods and RFG. See Note 11 to our consolidated financial statements for further discussion.

Our Fresh products business grades, sizes, packs, cools, and ripens (if desired) avocados for delivery to our customers. During fiscal 2017, we operated two packinghouses and four operating and distributing facilities that handle avocados across the United States. We believe that our continued success in marketing avocados is largely dependent upon securing a reliable, high-quality supply of avocados at reasonable prices, and keeping the handling costs low as we ship avocados to our packinghouses and distribution centers. We believe our diversified avocado sources help provide a level of relative supply stability that may, over time, serve to increase the availability and demand for avocados among consumers in the United States and elsewhere in the world. Significant fluctuations in the volume of avocados delivered have an impact on the per pound packing costs of avocados we handle. Generally, larger crops will result in a lower per pound handling cost. As a result of our investment in packinghouse equipment, distribution centers with value-added ripening and packing capabilities, and personnel, we believe that our cost structure is geared to optimally handle larger avocado volume. We believe our efforts in distributing our other various perishable foods, such as tomatoes and papayas, complement our offerings of avocados. From time to time, we continue to explore the distribution of other crops that provide reasonable returns to our business.

Our Calavo Foods business procures avocados, processes avocados into a wide variety of guacamole products, and distributes the processed product to our customers. All of our prepared avocado products shipped to North America are "cold pasteurized" and include both frozen and fresh guacamole. Due to the freshness of our refrigerated guacamole and relatively longer shelf-life of our frozen guacamole, we believe that we are well positioned to address the diverse taste and needs of today's foodservice and retail customers. Additionally, we also prepare various fresh salsa products. Our Calavo Foods segment maintains relationships with foodservice companies and food retailers. We continue to seek to expand our relationships with major foodservice companies and food retailers and develop alliances that will allow our products to reach a larger percentage of the marketplace.

Net sales of frozen products represented approximately 47% and 50% of total processed segment sales for the years ended October 31, 2017 and 2016. Net sales of our refrigerated products represented approximately 53% and 50% of total processed segment sales for the years ended October 31, 2017 and 2016.

Our RFG business produces, markets and distributes nationally a portfolio of healthy, high quality fresh packaged food products for consumers sold through the retail channel. RFG products include fresh-cut fruit and vegetables, fresh prepared entrée salads, wraps, sandwiches and fresh snacking products, as well as ready-to-heat entrees and other hot bar and various deli items, meals kits and salad kits. RFG products are marketed under the Garden Highway Fresh Cut, Garden Highway, and Garden Highway Chef Essentials brands, as well as store-brand and private label programs.

The operating results of all of our businesses have been, and will continue to be, affected by quarterly and annual fluctuations and market downturns due to a number of factors, including but not limited to pests and disease, weather patterns, changes in demand by consumers, the timing of the receipt, reduction, or cancellation of significant customer orders, the gain or loss of significant customers, market acceptance of our products, our ability to develop, introduce, and market new products on a timely basis, availability and cost of avocados and supplies from growers and vendors, new product introductions by our competitors, the utilization of production capacity at our various plant locations, change in the mix of avocados and Calavo Foods and RFG products we sell, and general economic conditions. We believe, however, that we are currently positioned to address these risks and deliver favorable operating results for the foreseeable future.

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Recent Developments

Dividend Payment

On October 4, 2017, the Company declared a $0.95 per share cash dividend to shareholders of record on November 17, 2017. On December 8, 2017, the Company paid this cash dividend which totaled $16.7 million.

Riverside facility

On November 1, 2016, we acquired certain real property, consisting of land, a refrigerated building and select production and office equipment located at 1730 Eastridge Avenue, Riverside, California from Fresh Foods, LLC for total consideration of approximately $19.4 million. We intend to operate the refrigerated facility as part of our network of USDA and organic certified fresh food facilities.

The Thomas fire

We have multiple facilities located in Santa Paula, California, most notably our corporate headquarters. None of our facilities sustained damage from the Thomas fire in California and disruption to our operations was minimal. We do not expect the fires in Ventura County to have a significant impact on our avocado volumes or earnings. We expect to manage through any shortfall in the Ventura County avocado supply through our diversified avocado sourcing.

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.

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 within the following five months. If the MFM's final assessment does not differ materially from their preliminary observations, then we will resolve the matter through 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 observations 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. 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.

Critical Accounting Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an ongoing basis, we re-evaluate all of our estimates, including those related to the areas of customer and grower receivables, inventories, useful lives of property, plant and equipment, promotional allowances, equity income/losses from unconsolidated entities, income taxes, retirement benefits, and commitments and contingencies. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Additionally, we frequently engage third party valuation experts to assist us with estimates described below. Actual results may materially differ from these estimates under different assumptions or conditions as additional information becomes available in future periods.

Management has discussed the development and selection of critical accounting estimates with the Audit Committee of the Board of Directors and the Audit Committee has reviewed our disclosure relating to critical accounting estimates in this Annual Report.

We believe the following are the more significant judgments and estimates used in the preparation of our consolidated financial statements.

Promotional allowances

We provide for promotional allowances at the time of sale, based on our historical experience. Our estimates are generally based on evaluating the relationship between promotional allowances and gross sales. The derived percentage is then applied to the current period's sales revenues in order to arrive at the appropriate debit to sales allowances for the period. The offsetting credit is made to accrued liabilities. When certain amounts of specific customer accounts are subsequently identified as promotional, they are written off against this allowance. Actual amounts may differ from these estimates and such differences are recognized as an adjustment to net sales in the period they are identified. We estimate that a one percent (100 basis point) change in the derived percentage for the entire year would impact results of operations by approximately $0.9 million.

Income taxes

We account for deferred tax liabilities and assets for the future consequences of events that have been recognized in our consolidated financial statements or tax returns. Measurement of the deferred items is based on enacted tax laws. In the event the future consequences of differences between financial reporting bases and tax bases of our assets and liabilities result in a deferred tax asset, we perform an evaluation of the probability of being able to realize the future benefits indicated by such asset. A valuation allowance related to a deferred tax asset is recorded when it is more likely than not that some portion or all of the deferred tax asset will not be realized.

As a multinational corporation, we are subject to taxation in many jurisdictions, and the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in various taxing jurisdictions. If we ultimately determine that the payment of these liabilities will be unnecessary, the liability will be reversed and we will recognize a tax benefit during the period in which it is determined the liability no longer applies. Conversely, we record additional tax charges in a period in which it is determined that a recorded tax liability is less than the ultimate assessment is expected to be.

The application of tax laws and regulations is subject to legal and factual interpretation, judgment and uncertainty. Tax laws and regulations themselves are subject to change as a result of changes in fiscal policy, changes in legislation, the evolution of regulations and court rulings. Therefore, the actual liability for U.S. or foreign taxes may be materially different from management's estimates, which could result in the need to record additional tax liabilities or potentially reverse previously recorded tax liabilities.

Goodwill and acquired intangible assets

Goodwill, defined as unidentified asset(s) acquired in conjunction with a business acquisition, is tested for impairment on an annual basis and between annual tests whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill is tested at the reporting unit level, which is defined as an operating segment or one level below the operating segment. We can use a qualitative test, known as "Step 0," or a two-step quantitative method to determine whether impairment has occurred. In Step 0, we elect to perform an optional qualitative analysis and based on the results skip the two step analysis. In fiscal 2017, 2016 and 2015, we elected to implement Step 0 and were not required to conduct the remaining two step analysis. Goodwill impairment testing requires significant judgment and management estimates, including, but not limited to, the determination of (i) the number of reporting units, (ii) the goodwill and other assets and liabilities to be allocated to the reporting units and (iii) the fair values of the reporting units. The estimates and assumptions described above, along with other factors such as discount rates, will significantly affect the outcome of the impairment tests and the amounts of any resulting impairment losses. The results of our Step 0 assessments indicated that it was more likely than not that the fair value of its reporting unit exceeded its carrying value and therefore we concluded that there were no impairments for the years ended October 31, 2017, 2016 or 2015.

Allowance for accounts receivable

We provide an allowance for estimated uncollectible accounts receivable balances based on historical experience and the aging of the related accounts receivable. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

RESULTS OF OPERATIONS

The following table sets forth certain items from our consolidated statements of income, expressed as percentages of our total net sales, for the periods indicated:

YEAR ENDED OCTOBER 31,	2017	2016	2015
Net sales	**100%**	100%	100%
Gross profit	**10.6%**	11.5%	9.9%
Selling, general and administrative	**5.3%**	5.0%	4.9%
Operating income	**5.4%**	6.5%	5.1%
Interest income	**0.0%**	0.0%	0.0%
Interest expense	**(0.1)%**	(0.1)%	(0.1)%
Other income, net	**0.0%**	0.0%	0.0%
Net income	**3.5%**	4.1%	3.2%

NET SALES

We believe that the fundamentals for our products continue to be favorable. Firstly, United States (U.S.) avocado demand continues to grow, with per capita use in 2016/17 reaching 7.1 pounds per person, up 2 percent from the previous year, and approximately double the estimate from a decade ago. We believe that the healthy eating trend that has been developing in the United States contributes to such growth, as avocados, which are cholesterol and sodium free, dense in fiber, vitamin B6, antioxidants, potassium, folate, and contain unsaturated fat, which help lower cholesterol. Also, a growing number of research studies seem to suggest that phytonutrients, which avocados are rich in, help fight chronic illnesses, such as heart disease and cancer.

Additionally, we believe that the demographic changes in the U.S. will impact the consumption of avocados and avocado-based products. The Hispanic community currently accounts for approximately 18% of the U.S. population and the total number of Hispanics is estimated to double by the year 2050. Avocados are considered a staple item purchased by Hispanic consumers, as the per-capita avocado consumption in Mexico is significantly higher than that of the U.S.

We anticipate avocado products will further penetrate the United States marketplace driven by year-round availability of fresh avocados due to imports, a rapidly growing Hispanic population, and the promotion of the health benefits of avocados. As one of the largest marketers of avocado products in the United States, we believe that we are well positioned to leverage this trend and to grow our Fresh products and Calavo Foods segments of our business. Additionally, we also believe that avocados and avocado based products will further penetrate other marketplaces that we currently operate in as interest in avocados continues to expand.

In October 2002, the USDA announced the creation of a Hass Avocado Board to promote the sale of Hass variety avocados in the U.S. marketplace. This board provides a basis for a unified funding of promotional activities based on an assessment on all avocados sold in the U.S. marketplace. The California Avocado Commission, which receives its funding from California avocado growers, has historically shouldered the promotional and advertising costs supporting avocado sales. We believe that the incremental funding of promotional and advertising programs in the U.S. will, in the long term, positively impact average selling prices and will favorably impact our avocado businesses. During fiscal 2017, 2016 and 2015, on behalf of avocado growers, we remitted approximately $1.7 million, $2.4 million and $1.7 million to the California Avocado Commission. During fiscal 2017, 2016 and 2015, we remitted approximately $5.8 million, $8.2 million and $8.3 million to the Hass Avocado Board related to avocados.

We also believe that our other fresh products, primarily tomatoes, are positioned for future growth.

The tomato is the fourth most popular fresh-market vegetable (though a fruit scientifically speaking, tomatoes are more commonly considered a vegetable) behind potatoes, lettuce, and onions in the United States. Although stabilizing in the first decade of the 2000s, annual average fresh-market tomato consumption remains well above that of the previous decade. Over the past few decades, per capita use of tomatoes has been on the rise due to the enduring popularity of salads, salad bars, and submarine sandwiches. Perhaps of greater importance has been the introduction of improved and new tomato varieties, the increased development of hot-house grown tomatoes (such as those grown by our ADM affiliate), heightened consumer interest in a wider range of tomatoes, a surge of new immigrants who eat vegetable-intensive diets, and expanding national emphasis on health and nutrition.

Papayas have become more popular as the consumption in the United States has more than doubled in the past decade. Papayas have high nutritional benefits. They are rich in anti-oxidants, the B vitamins, folate and pantothenic acid, potassium and magnesium; and fiber.

Additionally, through the acquisition of RFG, we substantially expanded and accelerated the Company's presence in the fast-growing refrigerated fresh packaged foods category through an array of retail product lines for produce, deli, and foodservice departments. RFG products include fresh-cut fruit and vegetables, fresh prepared entrée salads, wraps, sandwiches and fresh snacking products as well as ready-to-heat entrees and other hot bar and various deli items, meals kits and salad kits. RFG products are marketed under the Garden Highway Fresh Cut, Garden Highway, and Garden Highway Chef Essentials brands, as well as store-brand, private label programs.

The following tables set forth sales by product category and sales incentives, by segment (dollars in thousands):

	Year Ended October 31, 2017				Year Ended October 31, 2016			
	Fresh Products	Calavo Foods	RFG	Total	Fresh Products	Calavo Foods	RFG	Total
Third-Party Sales:								
Avocados	$ 546,433	$ —	$ —	**$ 546,433**	$ 493,440	$ —	$ —	$ 493,440
Tomatoes	29,199	—	—	**29,199**	36,286	—	—	36,286
Papayas	9,402	—	—	**9,402**	9,514	—	—	9,514
Other fresh products	445	—	—	**445**	5,600	—	—	5,600
Prepared avocado products	—	85,204	—	**85,204**	—	73,009	—	73,009
Salsa	—	3,951	—	**3,951**	—	3,617	—	3,617
Fresh-cut fruit & vegetables and prepared foods	—	—	419,973	**419,973**	—	—	336,989	336,989
Total gross sales	585,479	89,155	419,973	**1,094,607**	544,840	76,626	336,989	958,455
Less sales incentives	(1,503)	(11,576)	(1,465)	**(14,544)**	(1,844)	(10,438)	(3,491)	(15,773)
Less inter-company eliminations	(1,314)	(3,184)	—	**(4,498)**	(4,309)	(2,694)	—	(7,003)
Net sales	$ 582,662	$ 74,395	$ 418,508	**$ 1,075,565**	$ 538,687	$ 63,494	$ 333,498	$ 935,679

	Year Ended October 31, 2016				Year Ended October 31, 2015			
	Fresh Products	Calavo Foods	RFG	Total	Fresh Products	Calavo Foods	RFG	Total
Third-Party Sales:								
Avocados	$ 493,440	$ —	$ —	$ 493,440	$ 471,178	$ —	$ —	$ 471,178
Tomatoes	36,286	—	—	36,286	18,681	—	—	18,681
Papayas	9,514	—	—	9,514	9,485	—	—	9,485
Other fresh products	5,600	—	—	5,600	4,336	—	—	4,336
Prepared avocado products	—	73,009	—	73,009	—	51,135	—	51,135
Salsa	—	3,617	—	3,617	—	22,736	—	22,736
Fresh-cut fruit & vegetables and prepared foods	—	—	336,989	336,989	—	—	296,697	296,697
Total gross sales	544,840	76,626	336,989	958,455	503,680	73,871	296,697	874,248
Less sales incentives	(1,844)	(10,438)	(3,491)	(15,773)	(1,472)	(9,792)	(2,740)	(14,004)
Less inter-company eliminations	(4,309)	(2,694)	—	(7,003)	(1,497)	(1,923)	—	(3,420)
Net sales	$ 538,687	$ 63,494	$ 333,498	$ 935,679	$ 500,711	$ 62,156	$ 293,957	$ 856,824

Net sales to third parties by segment exclude inter-segment Net sales to third parties by segment exclude inter-segment sales and cost of sales. For fiscal year 2017, 2016 and 2015, inter-segment sales and cost of sales of $1.3 million, $4.3 million and $1.5 million between Fresh products and RFG were eliminated. For fiscal year 2017, 2016 and 2015, inter-segment sales and cost of sales of $3.2 million, $2.7 million and $1.9 million between Calavo Foods and RFG were eliminated.

The following table summarizes our net sales by business segment:

(Dollars in thousands)	2017	Change	2016	Change	2015
Net Sales:					
Fresh products	**$ 582,662**	8.2%	$ 538,687	7.6%	$ 500,711
Calavo Foods	**74,395**	17.2%	63,494	2.2%	62,156
RFG	**418,508**	25.5%	333,498	13.5%	293,957
Total net sales	**$ 1,075,565**	15.0%	$ 935,679	9.2%	$ 856,824
As a Percentage of Net Sales:					
Fresh products	**54.2%**		57.6%		58.4%
Calavo Foods	**6.9%**		6.8%		7.3%
RFG	**38.9%**		35.6%		34.3%
	100%		100%		100%

Summary

Net sales for the year ended October 31, 2017, as compared to 2016, increased by $139.9 million, or 15.0%. The increase in sales, when compared to the same corresponding prior year periods, is related to growth from all segments.

For fiscal year 2017, our largest percentage increase in sales was RFG, followed by Calavo Foods and our Fresh products segment, as shown above. Our increase in RFG sales was due primarily to increased sales from fresh prepared food products and fresh-cut fruit and vegetable products. We experienced an increase in our Calavo Foods segment during fiscal year 2017, which was due primarily to an increase in the sales of our prepared avocado products. Our increase in Fresh product sales was due primarily to increased sales of avocados, which was partially offset by decreased sales of tomatoes. See discussion below for further details.

All three segments of our business are subject to seasonal trends, which can impact the volume and/or quality of fruit sourced in any particular quarter.

Net sales to third parties by segment exclude value-added services billed by our Uruapan packinghouse and our Uruapan processing plant to the parent company. Additionally, net sales to third parties by segment exclude sales between Avocados de Jalisco and the parent company. All intercompany sales are eliminated in our consolidated results of operations.

Fresh products

Fiscal 2017 vs. Fiscal 2016:

Net sales delivered by the Fresh products business increased by approximately $44.0 million, or 8.2%, for the year ended October 31, 2017, when compared to fiscal 2016. As discussed above, this increase in Fresh product sales during fiscal 2017 was primarily related to increased sales of avocados, which was partially offset by decreased sales of tomatoes.

Sales of avocados increased $53.4 million, or 10.9%, for the year ended October 31, 2017, when compared to the same prior year period. The increase in avocado sales was primarily due to an increase in the sales price per carton of 46.0%, compared to fiscal 2016. The increase in sales price per carton was partially offset by a decrease in volume of avocados sold of 88.4 million pounds, or 23%. We attribute much of the change in price to market conditions during the year, in which consumer demand continued to exceed available industry supply.

Sales of tomatoes decreased to $27.9 million for the year ended October 31, 2017, compared to $36.0 million for the same period for fiscal 2016. The decrease in sales of tomatoes is due to a decrease in the sales price per carton of approximately 23.5% due primarily to a change in weather patterns which resulted in wider availability of tomatoes in the market.

We anticipate that sales volume of avocados will increase in fiscal 2018, due to larger expected avocado crops, when compared to the same prior year period. We do not expect the fires in Ventura County to have a significant impact on our avocado volumes or earnings. We expect to manage through any shortfall in the Ventura County avocado supply through our diversified avocado sourcing.

Fiscal 2016 vs. Fiscal 2015:

Net sales delivered by the Fresh products business increased by approximately $38.0 million, or 7.6%, for the year ended October 31, 2016, when compared to fiscal 2015. The increase in Fresh product sales during fiscal 2016 was primarily related to increased sales of avocados and tomatoes. See details below.

Sales of avocados increased $21.9 million, or 4.7%, for the year ended October 31, 2016, when compared to the same prior year period. The increase in avocados was primarily due to an increase of pounds sold of $1.4 million, or 0.4%. We attribute most of this increase in volume to the larger California avocado crop in fiscal 2016, compared to the same prior year period. Partially offsetting the California avocado crop increase was a decrease in Mexican sourced avocados, due to supply disruptions in July and October which stalled the harvesting of avocados for the entire industry. In addition to the overall increase in pounds sold, is an increase in the sales price per carton. The sales price per carton for avocados increased by approximately 3.4%. We attribute much of this change in price to a lower overall supply of avocados in the market during the fourth quarter of fiscal 2016.

Sales of tomatoes increased to $36.0 million for the year ended October 31, 2016, compared to $18.7 million for the same period for fiscal 2015. The increase in sales of tomatoes is due to an increase in cartons sold of approximately 1.1 million cartons or 62.9%. In addition, tomatoes experienced an increase in the sales price per carton of approximately 18.2%, most notable during our fiscal first quarter, primarily resulting from a change in weather patterns.

Calavo Foods

Fiscal 2017 vs. Fiscal 2016:

Sales for Calavo Foods for the year ended October 31, 2017, when compared to the same period for fiscal 2016, increased $10.9 million, or 17.2%. This increase is primarily due to an increase in sales of prepared avocado products of approximately $10.8 million, or 18.0%, for the year ended October 31, 2017, when compared to the same prior year period. The increase in sales of prepared avocado products was related to an increase in overall pounds sold and the price per pound.

Fiscal 2016 vs. Fiscal 2015:

Sales for Calavo Foods for the year ended October 31, 2016, when compared to the same period for fiscal 2015, increased $1.3 million, or 2.2%. This increase is primarily due to an increase in sales of salsa products of approximately $1.4 million, or 66.8%, for the year ended October 31, 2016, when compared to the same prior year period. The increase in sales of salsa was primarily related to an increase in overall pounds sold.

RFG

Fiscal 2017 vs. Fiscal 2016:

Sales for RFG for the year ended October 31, 2017, when compared to the same period for fiscal 2016, increased $85.0 million, or 25.5%. This increase is due primarily to increased sales from prepared foods, fresh-cut fruit and vegetable products. The overall increase in sales is primarily due to an increase in sales volume, which we believe results from our ability to develop new retail relationships and expand current retail partnerships into additional geographies and product categories as we continue to build out our national manufacturing capabilities.

Fiscal 2016 vs. Fiscal 2015:

Sales for RFG for the year ended October 31, 2016, when compared to the same period for fiscal 2015, increased $39.5 million, or 13.5%. This increase is due primarily to increased sales from fresh prepared food and fresh-cut fruit and vegetable products. The overall increase in sales is primarily due to an increase in sales volume, which we believe results from an increase in demand for the variety of innovative and convenient products that we offer, as well as our ability to expand retail relationships by providing high-quality, fresh foods solutions from our growing national production footprint.

GROSS PROFIT

The following table summarizes our gross profit and gross profit percentages by business segment:

(Dollars in thousands)	2017	CHANGE	2016	CHANGE	2015
GROSS PROFIT:					
Fresh products	$ **72,376**	24.8%	$ 57,997	56.5%	$ 37,064
Calavo Foods	**13,353**	(40.5)%	22,448	9.4%	20,511
RFG	**28,815**	6.4%	27,089	(2.0)%	27,652
Total gross profit	$ **114,544**	6.5%	$ 107,534	26.2%	$ 85,227
GROSS PROFIT PERCENTAGES:					
Fresh products	**12.4%**		10.8%		7.4%
Calavo Foods	**17.9%**		35.4%		33.0%
RFG	**6.9%**		8.1%		9.4%
Consolidated	**10.6%**		11.5%		9.9%

Summary

Our cost of goods sold consists predominantly of ingredient costs (primarily fruit and other whole foods), packing materials, freight and handling, labor and overhead (including depreciation) associated with preparing food products and other direct expenses pertaining to products sold. Gross profit increased by approximately $7.0 million, or 6.5%, for the year ended October 31, 2017, when compared to the same period for fiscal 2016. The increase was attributable to gross profit increases across the Fresh products and RFG segments, partially offset by a decrease in our Calavo Foods segment.

Fresh products

Fiscal 2017 vs. Fiscal 2016:

During fiscal 2017, as compared to the same prior year period, the increase in our Fresh products segment gross profit percentage was the result of increased profit for avocados, partially offset by a decreased profit for tomatoes. For the year ended October 31, 2017, compared to the same prior year period, the gross profit percentage for avocados increased from 10.9% in 2016 to a gross profit percentage of 12.7% in 2017. The profit improvement during fiscal 2017, was primarily the result of management's focus and execution on continuous improvement across the operation which helped to complement the current market conditions, in which consumer demand continued to exceed available industry supply. In addition, U.S. Dollar to Mexican Peso exchange rate was stronger in fiscal 2017, when compared to fiscal 2016. Note that any significant fluctuations in the exchange rate between the U.S. Dollar and the Mexican Peso may have a material impact on future gross margins for our Fresh products segment.

For the year ended October 31, 2017 we generated gross profit of $2.7 million from tomato sales, down 36.3% from $4.2 million in the corresponding prior year period. The decline in tomato gross profit is due primarily to a decrease in the sales price per carton of approximately 23.5%. The majority of our tomato sales are done on a consignment basis, in which the gross profit we earn is generally based on a commission agreed to with each party, which usually is a percent of the overall selling price; however, we also purchase some tomatoes on the spot market to meet specific customer requests and have certain fixed overhead costs associated with our tomato operations which impact the overall gross profit realized from tomato sales. The gross profit percentage for consignment sales are dependent on the volume of fruit we handle, the average selling prices, and the competitiveness of the returns that we provide to third-party growers/packers. Although we generally do not take legal title to such consigned products prior to sale, we do assume responsibilities (principally assuming credit risk, inventory loss and delivery risk, and pricing risk) that are consistent with acting as a principal in the transaction. Accordingly, our results of operations include sales and cost of sales from the sale of products procured under consignment arrangements.

Fiscal 2016 vs. Fiscal 2015:

During fiscal 2016, as compared to the same prior year period, the increase in our Fresh products segment gross profit percentage was the result of increased profit for avocados and tomatoes. For the year ended October 31, 2016, compared to the same prior year period, the gross profit percentage for avocados increased from 7.3% in 2015 to a gross profit percentage of 10.9% in 2016. For fiscal 2016, we were able to effectively manage our fruit costs during select periods within the year and better leverage our fixed handling costs. In addition, the U.S. Dollar to Mexican Peso exchange rate continued to strengthen in fiscal 2016. Note that any significant fluctuations in the exchange rate between the U.S. Dollar and the Mexican Peso may have a material impact on future gross profit for our Fresh products segment.

For the year ended October 31, 2016 we generated gross profit of $4.2 million from consigned tomato sales, up 107% from $2.0 million in the corresponding prior year period. This improvement in tomato gross profit, is due to an overall increase in tomato sales, which increased $17.3 million for the year ended October 31, 2016, compared to the same period for fiscal 2015. The increase in sales of tomatoes is due to an increase in cartons sold of approximately 1.1 million cartons or 62.9%. In addition, tomatoes experienced an increase in the sales price per carton of approximately 18.2%, most notable during our fiscal first quarter, primarily resulting from a change in weather patterns.

Calavo Foods

Fiscal 2017 vs. Fiscal 2016:

The Calavo Foods segment gross profit percentage during our year ended October 31, 2017 decreased to 17.9%, compared to the same prior year period gross profit percentage of 35.4%. This decrease was primarily due to an increase in fruit input costs for the year ended October 31, 2017, as compared to the same period year period. Note that any significant fluctuation in the cost of fruit used in the production process or the exchange rate between the U.S. Dollar and the Mexican Peso may have a material impact on future gross profit for our Calavo Foods segments.

Fiscal 2016 vs. Fiscal 2015:

The Calavo Foods segment gross profit percentage during our year ended October 31, 2016 increased to 35.4%, compared to the same prior year period gross profit percentage of 33.0%. This increase was primarily due to (i) lower guacamole production costs resulting from the U.S. Dollar to Mexican Peso exchange rate strengthening by approximately 18% for the year ended October 31, 2016, as compared to the same period year period and (ii) lower salsa production costs. Note that any significant fluctuation in the cost of fruit used in the production process or the exchange rate between the U.S. Dollar and the Mexican Peso may have a material impact on future gross profit for our Calavo Foods segments.

RFG

Fiscal 2017 vs. Fiscal 2016:

RFG's gross profit percentage during our fiscal year ended October 31, 2017 was 6.9%, compared 8.1% in the same prior year period. This lower gross profit percentage was primarily the result of additional costs incurred during the year associated with growth initiatives currently underway for the segment. Specifically, these costs relate to the start-up and ramping up periods at new or recently expanded RFG plants, as well as higher costs related to the development and optimization of new product categories. The gross profit of fiscal 2017 was enhanced, in part, by a change in the presentation of broker commission expenses, totaling $3.0 million in fiscal 2017, which was moved to selling, general and administrative expense, rather than shown as a reduction in net sales, as was done in prior year. Without the broker commission impact, gross profit would have decreased $1.2 million for year ended October 31, 2017 when compared to the same prior year period.

Fiscal 2016 vs. Fiscal 2015:

RFG's decreased gross profit percentage for the year ended October 31, 2016, is due in part to the lingering effects of adverse weather conditions (related to El Nino) that impacted certain fruit and vegetable growing regions and caused reduced raw material availability, increased raw material prices, and reduced processing yields in our first fiscal quarter of 2016 and to a lesser extent in our second fiscal quarter of 2016. Similar to the Calavo Foods segment, RFG often has agreed upon pricing with many of their customers. Note that any significant fluctuation in raw material availability, price and/or quality may have a material impact on future gross profit for our RFG segment.

RFG invested throughout fiscal year 2016 by expanding its production facilities and adding capabilities to meet growing customer demand. Certain expenses associated with the start-up and initial optimization of those facilities temporarily reduced gross profit percentage in the year ended October 31, 2016.

Selling, General and Administrative		2017	Change		2016	Change		2015
(Dollars in thousands)								
Selling, general and administrative	$	**56,651**	22.0%	$	46,440	11.7%	$	41,558
Percentage of net sales		**5.3%**			5.0%			4.9%

Selling, general and administrative expenses in fiscal 2017 include costs of marketing and advertising, sales expenses (including broker commissions) and other general and administrative costs. Selling, general and administrative expenses increased $10.2 million, or 22.0%, for the year ended October 31, 2017, when compared to the same prior year period. This increase was partly related to three factors that do not reflect changes in the overall cost structure of the Company, specifically a change in presentation of broker commissions (approximately $3.0 million) to include such costs in selling, general and administrative expenses, which had historically been presented as a reduction in net sales, non-recurring expenses related to the resignation and retirement of two corporate officers (approximately $1.2 million) and a $0.4 million settlement (see Note 7 for further information). In addition to these items, the increase was related to an increase in salaries and benefits (approximately $2.3 million, due in part to higher headcount), an increase in bad debt (approximately $1.2 million), and an increase in stock based compensation (approximately $1.0 million) and legal fees (approximately $0.2 million), which were partially offset by a decrease in accrued management bonuses (approximately $0.6 million).

Selling, general and administrative expenses in fiscal 2016 include costs of marketing and advertising, sales expenses and other general and administrative costs. Selling, general and administrative expenses increased $4.9 million, or 11.7%, for the year ended October 31, 2016, when compared to the same prior year period. This increase was primarily related to higher corporate costs, including, but not limited to, general and administrative costs related to salaries (approximately $2.5 million), accrued management bonuses (approximately $1.3 million), insurance (approximately $0.6 million), depreciation (approximately $0.3 million), and employee benefits (approximately $0.2 million), partially offset by decreases in administration fees (approximately $0.4 million) and legal fees (approximately $0.2 million).

Income (Loss) from Unconsolidated Entities		2017	Change		2016	Change		2015
(Dollars in thousands)								
Income (loss) from unconsolidated entities	$	**401**	(170.4)%	$	(570)	1,290.2%	$	(41)
Percentage of net sales		**— %**			(0.1)%			— %

Income (loss) from unconsolidated entities includes our proportionate share of earnings or losses from our investment in Agricola Don Memo, S.A. de C.V. (Don Memo). We use the equity method of accounting to account for this investment.

Interest Income		2017	Change		2016	Change		2015
(Dollars in thousands)								
Interest income	$	**24**	(81.8)%	$	132	71.4%	$	77
Percentage of net sales		**— %**			— %			— %

Interest income was primarily generated from our loans to growers. The decrease in interest income in fiscal 2017 as compared to 2016 is due to the borrowings by California avocado growers decreasing in the current year compared to the prior year.

The increase in interest income in fiscal 2016 as compared to 2015 is due to the borrowings by California avocado growers increasing in the current year compared to the prior year.

Interest Expense		2017	Change		2016	Change		2015
(Dollars in thousands)								
Interest expense	$	**1,023**	35.3%	$	756	(8.9)%	$	830
Percentage of net sales		**0.1%**			0.1%			0.1%

Interest expense is primarily generated from our line of credit borrowings with Farm Credit West, PCA (FCW) and Bank of America, N.A. (BoA), as well as our former term loan agreements with FCW and BofA (prior to June 2016). For fiscal 2017, as compared to fiscal 2016, the increase in interest expense was primarily related to higher average debt balance due primarily to the purchase of property in Riverside, California and other capital expenditures, as well as higher LIBOR rates which increased our interest rate. For fiscal 2016, as compared to fiscal 2015, the decrease in interest expense was primarily related to the payoff of our term loans with FCW and BoA, and the lower average outstanding balance on our non-collateralized, revolving credit facility.

Other Income, Net		2017	Change		2016	Change		2015
(Dollars in thousands)								
Other income, net	$	**479**	11.9%	$	428	2.6%	$	417
Percentage of net sales		**0.0%**			0.0%			0.0%

Other income, net includes dividend income, as well as certain other transactions that are outside of the normal course of operations. Other Income stayed relatively consistent in fiscal 2017 compared to fiscal 2016 and 2015. During fiscal 2017, 2016 and 2015, we received $0.4 million, $0.3 million and $0.3 million as dividend income from Limoneira.

Provision for Income Taxes		2017	Change		2016	Change		2015
(Dollars in thousands)								
Provision for income taxes	$	**20,450**	(6.5)%	$	21,869	35.9%	$	16,093
Effective tax rate		**35.4%**			36.3%			37.2%

For fiscal year 2017, our provision for income taxes was $20.5 million, as compared to $21.9 million recorded for the comparable prior year period. For fiscal year 2016, our provision for income taxes was $21.9 million, as compared to $16.1 million recorded for the comparable prior year period.

Any change in the U.S. tax law has the potential to materially impact our consolidated financial statements.

Net income attributable to noncontrolling interest	2017	Change	2016	Change	2015
(Dollars in thousands)					
Net income attributable to noncontrolling interest	$ (54)	(87.6)%	$ (437)	NM%	$ —
Percentage of net sales	0.0%		0.0%		0.0%

For fiscal 2016, the noncontrolling interest for Salsa Lisa is recorded at the greater of the noncontrolling interest balance adjusted for the attribution of loss or the amount redeemable pursuant to the buyout process contained in the amended and restated limited liability company agreement of Calavo Salsa Lisa LLC. For fiscal 2016, we recorded an adjustment of $486,000 to increase the noncontrolling interest balance to the currently expected redeemable amount of $771,000. This adjustment has been included in net loss attributed to noncontrolling interest. See Note 2 in our consolidated financial statements for further information.

Quarterly Results of Operations

The following table presents our operating results for each of the eight fiscal quarters in the period ended October 31, 2017. The information for each of these quarters is derived from our unaudited interim financial statements and should be read in conjunction with our audited consolidated financial statements included in this Annual Report. In our opinion, all necessary adjustments, which consist only of normal and recurring accruals, have been included to fairly present our unaudited quarterly results. Historically, we receive and sell a substantially smaller volume of California avocados in our first fiscal quarter.

	Three months ended							
	Oct. 31, 2017	July 31, 2017	Apr. 30, 2017	Jan. 31, 2017	Oct. 31, 2016	July 31, 2016	Apr. 30, 2016	Jan. 31, 2016
(in thousands, except per share amounts)								
Statement of Income Data								
Net sales	$ 277,204	$ 301,645	$ 270,162	$ 226,554	$ 247,655	$ 263,146	$ 220,303	$ 204,575
Cost of sales	245,689	276,793	233,909	204,630	220,570	230,502	193,496	183,577
Gross profit	31,515	24,852	36,253	21,924	27,085	32,644	26,807	20,998
Selling, general and administrative	14,701	12,698	15,426	13,826	11,574	12,287	11,658	10,921
Operating income	16,814	12,154	20,827	8,098	15,511	20,357	15,149	10,077
Other income (expense), net	126	361	(290)	(316)	(553)	(325)	88	24
Income before provision for income taxes	16,940	12,515	20,537	7,782	14,958	20,032	15,237	10,101
Provision for income taxes	6,567	3,719	7,603	2,561	5,260	7,323	5,561	3,725
Net income	10,373	8,796	12,934	5,221	9,698	12,709	9,676	6,376
Add: Net (income) loss – noncontrolling interest	(107)	14	11	28	(459)	36	13	(27)
Net income – Calavo Growers, Inc	$ 10,266	$ 8,810	$ 12,945	$ 5,249	$ 9,239	$ 12,745	$ 9,689	$ 6,349
Basic	$ 0.59	$ 0.51	$ 0.74	$ 0.30	$ 0.53	$ 0.73	$ 0.56	$ 0.37
Diluted	$ 0.59	$ 0.50	$ 0.74	$ 0.30	$ 0.53	$ 0.73	$ 0.56	$ 0.37
Number of shares used in per share computation:								
Basic	17,429	17,428	17,426	17,374	17,355	17,351	17,348	17,322
Diluted	17,544	17,544	17,539	17,430	17,447	17,447	17,445	17,386

Liquidity and Capital Resources

Operating activities for fiscal 2017, 2016 and 2015 provided cash flows of $62.1 million, $62.0 million and $37.3 million. Fiscal year 2017 operating cash flows reflect our net income of $37.3 million, net increase of noncash charges (depreciation and amortization, income from unconsolidated entities, provision for losses on accounts receivable, interest on deferred compensation, deferred income taxes, and stock compensation expense) of $18.6 million and a net increase from changes in the non-cash components of our working capital accounts of approximately $6.2 million.

Fiscal year 2017 increases in operating cash flows, caused by working capital changes, includes an increase in trade accounts payable, accrued expenses, and other long-term liabilities of $14.7 million, a decrease in inventory of $1.0 million, an increase in deferred rent of $0.4 million, and a decrease in advances to suppliers of $0.1 million, partially offset by, a decrease in payable to growers of $4.2 million, an increase in other assets of $2.4 million, an increase in prepaid expenses and other current assets of $1.4 million, and an increase in accounts receivable of $0.9 million.

The increase in accounts payable and accrued expenses is primarily related to an increase in our payables related to RFG. The decrease in our inventory balance is primarily related to a decrease in fruit cost included in Mexican avocado inventory on hand at October 31, 2017 as compared to the same prior year period. The decrease in payable to our growers primarily reflects a decrease in our Mexican avocado grower payable due to lower avocado prices in October 2017 compared to October 2016. The increase in other assets is due to an increase in Mexican IVA tax receivable (see Note 16 to our consolidated condensed financial statements). The increase in our accounts receivable, as of October 31, 2017 when compared to October 31, 2016, primarily reflects higher sales recorded in the month of October 2017, as compared to October 2016.

Cash used in investing activities was $53.7 million, $21.7 million and $21.1 million for fiscal years 2017, 2016, and 2015. Fiscal year 2017 cash flows used in investing activities include capital expenditures of $44.5 million of property, plant and equipment items for expansion projects in the RFG segment (including more than $19 million for purchase of the new Riverside plant which was financed under our existing credit facilities as noted below) and Fresh products segments. It also includes additional investment in FreshRealm of $9.1 million, and additional investment in Agricola Don Memo of $0.5 million, partially offset by proceeds received from the repayment of the loans to San Rafael of $0.4 million.

Cash used in financing activities was $15.7 million, $33.6 million and $15.8 million for fiscal years 2017, 2016 and 2015. Cash used during fiscal year 2017 primarily related to receipts on our credit facilities totaling $1.0 million, partially offset by the payment of our $15.7 million dividend and the purchase of the noncontrolling interest of Salsa Lisa for $1.0 million.

Our principal sources of liquidity are our existing cash reserves, cash generated from operations and amounts available for borrowing under our existing credit facilities. Cash and cash equivalents as of October 31, 2017 and 2016 totaled $6.6 million and $13.8 million. Our working capital at October 31, 2017 was $3.7 million, compared to $25.6 million at October 31, 2016.

We believe that cash flows from operations and the available Credit Facility will be sufficient to satisfy our future capital expenditures, grower recruitment efforts, working capital and other financing requirements for the next twelve months. We will continue to evaluate grower recruitment opportunities, expanded relationships with retail and club customers, and exclusivity arrangements with food service companies to fuel growth in each of our business segments. We have a revolving credit facility with Bank of America as administrative agent and Merrill Lynch, Pierce, Fenner & Smith Inc. as joint lead arranger and sole bookrunner, and Farm Credit West, as joint lead arranger. Under the terms of this agreement, we are advanced funds for both working capital and long-term productive asset purchases. Total credit available under this agreement is $80 million, and will expire in June 2021. Upon notice to Bank of America, we may from time to time, request an increase in the Credit Facility by an amount not exceeding $50 million. For our current and past line of credit agreements the weighted-average interest rate was 2.2% and 1.9% at October 31, 2017 and 2016. Under these credit facilities, we had $20.0 million and $19.0 million outstanding as October 31, 2017 and 2016.

This new Credit Facility contains customary affirmative and negative covenants for agreements of this type, including the following financial covenants applicable to the Company and its subsidiaries on a consolidated basis: (a) a quarterly consolidated leverage ratio of not more than 2.50 to 1.00 and (b) a quarterly consolidated fixed charge coverage ratio of not less than 1.15 to 1.00. We were in compliance with all such covenants at October 31, 2017.

The following table summarizes contractual obligations pursuant to which we are required to make cash payments. The information is presented as of our fiscal year ended October 31, 2017:

Contractual obligations	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
(in thousands)					
Long-term debt obligations (including interest)	$ 594	$ 153	$ 269	$ 172	$ —
Revolving credit facilities	20,000	20,000	—	—	—
Defined benefit plan	176	38	76	62	—
Operating lease commitments	53,067	5,360	9,860	8,246	29,601
Total	$ 73,837	$ 25,551	$ 10,205	$ 8,480	$ 29,601

The California avocado industry is subject to a state marketing order whereby handlers are required to collect assessments from the growers and remit such assessments to the California Avocado Commission (CAC). The assessments are primarily for advertising and promotions. The amount of the assessment is based on the dollars paid to the growers for their fruit, and, as a result, is not determinable until the value of the payments to the growers has been calculated.

With similar precision, amounts remitted to the Hass Avocado Board (HAB) in connection with their assessment program are likewise not determinable until the fruit is actually delivered to us. HAB assessments are primarily used to fund marketing and promotion efforts.

Recently Adopted Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update ("ASU"), *Improvements to Employee Share-Based Payment Accounting*, which simplified several areas of accounting for share-based compensation arrangements, including the income tax impact, classification on the statement of cash flows and forfeitures. The new standard requires excess tax benefits or deficiencies for share-based payments to be recognized as income tax benefit or expense, rather than within additional paid-in capital, when the awards vest or are settled. Furthermore, cash flows related to excess tax benefits are required to be classified as operating activities in the statement of cash flows rather than financing activities. We have elected to account for forfeitures of stock-based awards as they occur. The Company's early adoption of the amendments resulted in an income tax benefit of approximately $0.3 million on the Company's net earnings in the first quarter of fiscal year 2017.

In July 2015, the FASB issued an ASU for measuring inventory. The core principal of the guidance is that an entity should measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The Company adopted this new standard beginning in the three months ended January 31, 2017. The adoption of the amendment did not have a material impact on the Company's consolidated financial statements.

Recently Issued Accounting Standards

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. This ASU will be effective for us beginning the first day of our 2018 fiscal year. We do not anticipate a significant impact on our financial condition, results of operations or cash flows upon adoption.

In March 2017, the FASB issued an ASU, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. This ASU requires that the service cost component of net periodic benefit costs from defined benefit and other postretirement benefit plans be included in the same Statement of Earnings captions as other compensation costs arising from services rendered by the covered employees during the period. The other components of net benefit cost will be presented in the Statement of Earnings separately from service costs. Following adoption, only service costs will be eligible for capitalization into manufactured inventories, which should reduce diversity in practice. This ASU will be effective for us beginning the first day of our 2019 fiscal year. We do not anticipate a significant impact on our financial condition, results of operations or cash flows upon adoption.

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 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. 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 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. 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 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. We are evaluating the impact of adoption of this ASU on our financial condition, result of operations and cash flows.

In May 2014, the FASB amended the existing accounting standards for revenue recognition. The amendments are based on the principle that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. We are required to adopt the amendments in the first quarter of fiscal 2019. Early adoption is not permitted. The amendments may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. We are evaluating the impact of the adoption of this amended accounting standard on our financial condition, result of operations and cash flows.

Quantitative and Qualitative Disclosures About Market Risk

Our financial instruments include cash and cash equivalents, accounts receivable, payable to growers, accounts payable, current and long-term borrowings pursuant to our credit facilities with financial institutions, and long-term, fixed-rate obligations. All of our financial instruments are entered into during the normal course of operations and have not been acquired for trading purposes. The table below summarizes interest rate sensitive financial instruments and presents principal cash flows in U.S. dollars, which is our reporting currency, and weighted-average interest rates by expected maturity dates, as of October 31, 2017.

	Expected Maturity Date October 31,							
	2018	2019	2020	2021	2022	Thereafter	Total	Fair Value
(All amounts in thousands)								
ASSETS								
Cash and cash equivalents(1)	$ 6,625	$ —	$ —	$ —	$ —	$ —	$ 6,625	$ 6,625
Accounts receivable(1)	69,750	—	—	—	—	—	69,750	69,750
LIABILITIES								
Payable to growers(1)	$ 16,524	$ —	$ —	$ —	$ —	$ —	$ 16,524	$ 16,524
Accounts payable(1)	22,911	—	—	—	—	—	22,911	22,911
Current borrowings pursuant to credit facilities(1)	20,000	—	—	—	—	—	20,000	20,000
Fixed-rate long-term obligations(2)	129	134	128	112	65	—	568	591

(1) We believe the carrying amounts of cash and cash equivalents, accounts receivable, advances to suppliers, payable to growers, accounts payable, and current borrowings pursuant to credit facilities approximate their fair value due to the short maturity of these financial instruments.

(2) Fixed-rate long-term obligations bear interest rates ranging from 3.5% to 4.3% with a weighted-average interest rate of 4.2%. We project the impact of an increase or decrease in interest rates of 100 basis points would result in a change of fair value of approximately $14,000.

We were not a party to any derivative instruments during the fiscal year. It is currently our intent not to use derivative instruments for speculative or trading purposes. Additionally, we do not use any hedging or forward contracts to offset market volatility.

Our Mexican-based operations transact a significant portion of business in Mexican pesos. Funds are transferred by our corporate office to Mexico on a weekly basis to satisfy domestic cash needs. We do not currently use derivative instruments to hedge fluctuations in the Mexican peso to U.S. dollar exchange rates. Management does, however, evaluate this opportunity from time to time. Total foreign currency translation losses for fiscal years 2017, 2016, and 2015, net of gains, were $0.3 million, $1.1 million and $1.8 million.

Consolidated Balance Sheets

October 31, (in thousands)	2017	2016
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 6,625	$ 13,842
Accounts receivable, net of allowances of $2,490 (2017) $2,063 (2016)	69,750	70,101
Inventories, net	30,858	31,849
Prepaid expenses and other current assets	6,872	14,402
Advances to suppliers	4,346	4,425
Income taxes receivable	1,377	334
Total current assets	119,828	134,953
Property, plant, and equipment, net	120,072	87,837
Investment in Limoneira Company	40,362	34,036
Investment in unconsolidated entities	33,019	24,652
Deferred income taxes	9,783	14,944
Goodwill	18,262	18,262
Other assets	22,791	13,249
	$ 364,117	$ 327,933
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Payable to growers	$ 16,524	$ 20,965
Trade accounts payable	22,911	22,447
Accrued expenses	39,946	31,095
Short-term borrowings	20,000	19,000
Dividend payable	16,657	15,696
Current portion of long-term obligations	129	138
Total current liabilities	116,167	109,341
Long-term Liabilities:		
Long-term obligations, less current portion	439	445
Deferred rent	2,732	2,307
Other long-term liabilities	657	—
Total long-term liabilities	3,828	2,752
Commitments and contingencies		
Noncontrolling interest, Calavo Salsa Lisa	—	771
Shareholders' Equity:		
Common stock ($0.001 par value, 100,000 shares authorized; 17,533 (2017) and 17,440 (2016) shares issued and outstanding)	18	17
Additional paid-in capital	154,243	149,748
Accumulated other comprehensive income	10,434	6,544
Noncontrolling interest	1,016	962
Retained earnings	78,411	57,798
Total shareholders' equity	244,122	215,069
	$ 364,117	$ 327,933

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Income

Year ended October 31, (in thousands, except per share amounts)	2017	2016	2015
Net sales	$ 1,075,565	$ 935,679	$ 856,824
Cost of sales	961,021	828,145	771,597
Gross profit	114,544	107,534	85,227
Selling, general and administrative	56,651	46,440	41,558
Operating income	57,893	61,094	43,669
Income (loss) from unconsolidated entities	401	(570)	(41)
Interest income	24	132	77
Interest expense	(1,023)	(756)	(830)
Other income, net	479	428	417
Income before provision for income taxes	57,774	60,328	43,292
Provision for income taxes	20,450	21,869	16,093
Net income	37,324	38,459	27,199
Less: Net income attributable to noncontrolling interest	(54)	(437)	—
Net income attributable to Calavo Growers, Inc.	$ 37,270	$ 38,022	$ 27,199
CALAVO GROWERS, INC.'S NET INCOME PER SHARE:			
Basic	$ 2.14	$ 2.19	$ 1.57
Diluted	$ 2.13	$ 2.18	$ 1.57
NUMBER OF SHARES USED IN PER SHARE COMPUTATION:			
Basic	17,416	17,347	17,295
Diluted	17,514	17,431	17,363

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

YEAR ENDED OCTOBER 31, (in thousands)	2017	2016	2015
Net income	**$ 37,324**	$ 38,459	$ 27,199
Other comprehensive income, before tax:			
Unrealized investment gains (losses)	**6,327**	6,621	(16,940)
Income tax benefit (expense) related to items of other comprehensive income	**(2,437)**	(2,496)	6,646
Other comprehensive income (loss), net of tax	**3,890**	4,125	(10,294)
Comprehensive income	**41,214**	42,584	16,905
Less: Net income attributable to noncontrolling interest	**(54)**	(437)	—
Comprehensive income – Calavo Growers, Inc.	**$ 41,160**	$ 42,147	$ 16,905

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

(in thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Retained Earnings	Non-controlling Interest	Total
Balance, October 31, 2014	17,295	17	144,496	12,713	22,180	—	179,406
Exercise of stock options and income tax benefit	13	—	360	—	—	—	360
Stock compensation expense	—	—	2,108	—	—	—	2,108
Restricted stock issued	76	—	99	—	—	—	99
Unrealized loss on Limoneira investment, net	—	—	—	(10,294)	—	—	(10,294)
Dividend declared to shareholders	—	—	—	—	(13,907)	—	(13,907)
Avocados de Jalisco noncontrolling interest contribution	—	—	—	—	—	1,011	1,011
Net income attributable to Calavo Growers, Inc	—	—	—	—	27,199	—	27,199
Balance, October 31, 2015	17,384	17	147,063	2,419	35,472	1,011	185,982
Exercise of stock options and income tax benefit	5	—	551	—	—	—	551
Stock compensation expense	—	—	2,134	—	—	—	2,134
Restricted stock issued	51	—	—	—	—	—	—
Unrealized gain on Limoneira investment, net	—	—	—	4,125	—	—	4,125
Dividend declared to shareholders	—	—	—	—	(15,696)	—	(15,696)
Avocados de Jalisco noncontrolling interest contribution	—	—	—	—	—	(49)	(49)
Net income attributable to Calavo Growers, Inc.	—	—	—	—	38,022	—	38,022
Balance, October 31, 2016	17,440	17	149,748	6,544	57,798	962	215,069
Exercise of stock options and income tax benefit	2	—	404	—	—	—	404
Stock compensation expense	—	—	3,148	—	—	—	3,148
Restricted stock issued	91	1	1,172	—	—	—	1,173
Unrealized gain on Limoneira investment, net	—	—	—	3,890	—	—	3,890
Dividend declared to shareholders	—	—	—	—	(16,657)	—	(16,657)
Salsa Lisa contingent consideration adjustment	—	—	(229)	—	—	—	(229)
Avocados de Jalisco noncontrolling interest contribution	—	—	—	—	—	54	54
Net income attributable to Calavo Growers, Inc.	—	—	—	—	37,270	—	37,270
Balance, October 31, 2017	17,533	$ 18	$ 154,243	$ 10,434	$ 78,411	$ 1,016	$ 244,122

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

YEAR ENDED OCTOBER 31, (in thousands)	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 37,324	$ 38,459	$ 27,199
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	10,691	8,812	8,038
Provision for losses on accounts receivable	1,230	47	75
Loss (income) from unconsolidated entities	(401)	570	109
Contingent consideration related to acquisition of Salsa Lisa	—	—	15
Stock compensation expense	4,320	2,134	2,108
Loss on disposal of property, plant, and equipment	74	248	147
Excess tax benefit from stock-based compensation	—	(447)	—
Deferred income taxes	2,725	1,603	3,183
Effect on cash of changes in operating assets and liabilities:			
Accounts receivable	(879)	(11,542)	(2,063)
Inventories, net	991	(5,498)	4,713
Prepaid expenses and other current assets	(1,447)	(5,097)	(1,780)
Advances to suppliers	79	(1,605)	438
Income taxes receivable/payable	(1,043)	6,224	(3,465)
Other assets	(2,362)	683	441
Payable to growers	(4,239)	18,084	(1,889)
Deferred rent	425	1,697	—
Trade accounts payable, accrued expenses and other long-term liabilities	14,652	7,596	14
Net cash provided by operating activities	62,140	61,968	37,283
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisitions of and deposits on property, plant, and equipment	(44,510)	(21,859)	(18,099)
Investment in unconsolidated entities	(9,067)	(3,900)	(1,800)
Proceeds received for repayment of San Rafael note	409	28	386
Purchase of noncontrolling interest of Salsa Lisa	—	—	262
Infrastructure advance to Agricola Belher	—	—	(1,000)
Loan to Agricola Don Memo	—	—	(803)
Proceeds received for repayment of loan to Agricola Don Memo	—	4,000	—
Investment in Agricola Don Memo	(500)	—	—
Net cash used in investing activities	(53,668)	(21,731)	(21,054)

See accompanying notes to consolidated financial statements.

YEAR ENDED OCTOBER 31, (in thousands)	2017	2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES:			
Payment of dividend to shareholders	(15,696)	(13,907)	(12,971)
Proceeds from revolving credit facility	163,500	217,230	255,350
Payments on revolving credit facility	(162,500)	(235,140)	(254,340)
Purchase of noncontrolling interest of Salsa Lisa	(1,000)	(91)	—
Payments on long-term obligations	(58)	(2,209)	(5,098)
Proceeds from stock option exercises	65	104	249
Proceeds from issuance of noncontrolling interest stock	—	—	817
Excess tax benefit from stock-based compensation	—	447	191
Net cash used in financing activities	(15,689)	(33,566)	(15,802)
Net increase (decrease) in cash and cash equivalents	(7,217)	6,671	427
Cash and cash equivalents, beginning of period	13,842	7,171	6,744
Cash and cash equivalents, end of period	$ 6,625	$ 13,842	$ 7,171
SUPPLEMENTAL INFORMATION:			
Cash paid during the year for:			
Interest	$ 1,094	$ 741	$ 843
Income taxes	$ 17,011	$ 14,425	$ 15,495
NONCASH INVESTING AND FINANCING ACTIVITIES:			
Declared dividends payable	$ 16,657	$ 15,696	$ 13,907
Record IVA as a long term asset	$ 8,368	$ —	$ —
Investment in FreshRealm included in accrued expenses	$ —	$ 1,600	$ —
Property, plant, and equipment included in trade accounts payable and accrued expenses	$ 1,833	$ 4,574	$ 529
Noncash assets received for issuance of noncontrolling interest	$ —	$ —	$ 194
Collection for Agricola Belher Infrastructure Advance	$ 200	$ 1,045	$ 845
Unrealized holding gains (losses)	$ 6,326	$ 6,621	$ (16,940)

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

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 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).

2. Basis of Presentation and Significant Accounting Policies

The accompanying consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States.

Our consolidated financial statements include the accounts of Calavo Growers, Inc. and our wholly owned subsidiaries, Calavo de Mexico S.A. de C.V., Calavo Foods de Mexico S.A. de C.V., Calavo Growers de Mexico, S. de R.L. de C.V. (Calavo Growers de Mexico), Maui Fresh International, Inc. (Maui), Hawaiian Sweet, Inc. (HS), Hawaiian Pride, LLC (HP), Calavo Salsa Lisa, LLC (CSL), Avocados de Jalisco, S.A.P.I. de C.V. (Avocados de Jalisco), in which we have a 80 percent ownership interest, and RFG. All intercompany accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

We consider all highly liquid financial instruments purchased with an original maturity date of three months or less to be cash equivalents. The carrying amounts of cash and cash equivalents approximate their fair values.

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist primarily of non-trade receivables, infrastructure advances and prepaid expenses. Non-trade receivables were $4.7 million and $11.6 million at October 31, 2017 and 2016. Included in non-trade receivables are $1.4 million and $8.4 million related to the current portion of Mexican IVA (i.e. value-added) taxes at October 31, 2017 and 2016 (See Note 16). Infrastructure advances are discussed below. Prepaid expenses totaling $2.9 million and $2.8 million at October 31, 2017 and 2016, are primarily for insurance, rent and other items.

Inventories

Inventories are stated at the lower of cost or market. Cost is computed on a monthly weighted-average basis, which approximates the first-in, first-out method; market is based upon estimated replacement costs. Costs included in inventory primarily include the following: fruit, picking and hauling, overhead, labor, materials and freight.

Property, Plant, and Equipment

Property, plant, and equipment are stated at cost and depreciated over their estimated useful lives using the straight-line method. Leasehold improvements are stated at cost and amortized over the lesser of their estimated useful lives or the term of the lease, using the straight-line method. Useful lives are as follows: buildings and improvements – 7 to 50 years; leasehold improvements – the lesser of the term of the lease or 7 years; equipment – 7 to 25 years; information systems hardware and software – 3 to 10 years. Significant repairs and maintenance that increase the value or extend the useful life of our fixed asset are capitalized. On-going maintenance and repairs are charged to expense.

In August of 2017, the Company has implemented a new financial accounting system in one of our three business segments. We capitalize software development costs for internal use beginning in the application development stage and ending when the asset is placed into service. Costs capitalized include coding and testing activities and various implementation costs. These costs are limited to (1) external direct costs of materials and services consumed in developing or obtaining internal-use computer software; (2) payroll and payroll-related costs for employees who are directly associated with and who devote time to the internal-use computer software project to the extent of the time spent directly on the project; and (3) interest cost incurred while developing internal-use computer software.

Goodwill and Acquired Intangible Assets

Goodwill, defined as unidentified asset(s) acquired in conjunction with a business acquisition, is tested for impairment on an annual basis and between annual tests whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill is tested at the reporting unit level, which is defined as an operating segment or one level below the operating segment. We can use a qualitative test, known as "Step 0," or a two-step quantitative method to determine whether impairment has occurred. In Step 0, we elect to perform an optional qualitative analysis and based on the results skip the two step analysis. In fiscal 2017, 2016 and 2015, we elected to implement Step 0 and were not required to conduct the remaining two step analysis. Goodwill impairment testing requires significant judgment and management estimates, including, but not limited to, the determination of (i) the number of reporting units, (ii) the goodwill and other assets and liabilities to be allocated to the reporting units and (iii) the fair values of the reporting units. The estimates and assumptions described above, along with other factors such as discount rates, will significantly affect the outcome of the impairment tests and the amounts of any resulting impairment losses. The results of our Step 0 assessments indicated that it was more likely than not that the fair value of our reporting unit exceeded its carrying value and therefore we concluded that there were no impairments for the years ended October 31, 2017, 2016 or 2015.

Long-lived Assets

Long-lived assets, including fixed assets and intangible assets (other than goodwill), are continually monitored and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of any such asset may not be recoverable. The determination of recoverability is based on an estimate of undiscounted cash flows expected to result from the use of an asset and its eventual disposition. The estimate of undiscounted cash flows is based upon, among other things, certain assumptions about future operating performance, growth rates and other factors. Estimates of undiscounted cash flows may differ from actual cash flows due to, among other things, technological changes, economic conditions, changes to the business model or changes in operating performance. If the sum of the undiscounted cash flows (excluding interest) is less than the carrying value, an impairment loss will be recognized, measured as the amount by which the carrying value exceeds the fair value of the asset. For fiscal years 2017 and 2016, we performed our annual assessment of long-lived assets and determined that no impairment indicators existed as of October 31, 2017 and 2016.

Investments

We account for non-marketable investments using the equity method of accounting if the investment gives us the ability to exercise significant influence over, but not control, an investee. Significant influence generally exists when we have an ownership interest representing between 20% and 50% of the voting stock of the investee. Under the equity method of accounting, investments are stated at initial cost and are adjusted for subsequent additional investments and our proportionate share of earnings or losses and distributions.

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 Agricola Don Memo, S.A. de C.V. (Don Memo). Don Memo, a Mexican corporation formed in July 2013, is engaged in the business of owning and improving land in Jalisco, Mexico for the growing of tomatoes and other produce and the sale and distribution of tomatoes and other produce. 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, shall have day-to-day power and authority to manage the operations. In fiscal 2017 and 2016, we contributed $0.5 million and $2.3 million as investments in Don Memo. These investment contributions represent Calavo Sub's 50% ownership in Don Memo, which is included in investment in unconsolidated entities on our balance sheet. We use the equity method to account for this investment.

Effective May 2014, we closed our Second Amended and Restated Limited Liability Company Agreement by and among FreshRealm and the ownership members of FreshRealm. Pursuant to this agreement, Impermanence, LLC (Impermanence) was admitted as an ownership member of FreshRealm. Impermanence contributed $10.0 million to FreshRealm for 28.6% ownership. In the third and fourth quarter of fiscal 2015, FreshRealm issued additional units to various parties, which reduced our ownership percentage to approximately 49% at October 31, 2015. In the fourth quarter of fiscal 2016, FreshRealm completed another round of financing in which Calavo invested $3.2 million. In April 2017, in another round of financing, we committed to invest an additional $8.3 million into FreshRealm if and when certain terms and conditions are met. During fiscal 2017, Calavo invested $7.5 million in FreshRealm. In October 2017, our Chief Executive Officer invested $7.0 million into FreshRealm, as a result of which our ownership percentage as of October 31, 2017 decreased to approximately 43%.

We estimated the fair value of our noncontrolling interest in FreshRealm by performing a fair value measurement. This analysis was conducted with the consultation from a third party consulting firm. Our investment of $28.4 million in FreshRealm million has been recorded as investment in unconsolidated subsidiaries on our balance sheet.

Marketable Securities

Our marketable securities consist of our investment in Limoneira Company (Limoneira) stock. We currently own approximately 12% of Limoneira's outstanding common stock. These securities are considered available for sale securities based on management's intent with respect to such securities and are carried at fair value as determined from quoted market prices. The estimated fair value, cost, and gross unrealized gain related to such investment was $40.4 million, $23.5 million and $16.9 million as of October 31, 2017. The estimated fair value, cost, and gross unrealized gain related to such investment was $34.0 million, $23.5 million and $10.5 million as of October 31, 2016.

Advances to Suppliers

We advance funds to third-party growers primarily in Mexico for various farming needs. Typically, we obtain collateral (i.e. fruit, fixed assets, etc.) that approximates the value at risk, prior to making such advances. We continuously evaluate the ability of these growers to repay advances in order to evaluate the possible need to record an allowance. We recorded an allowance of $0.4 million at October 31, 2017. No such allowance was required at October 31, 2016.

Pursuant to our distribution agreement, which was amended in fiscal 2011, with Agricola Belher (Belher) of Mexico, a producer of fresh vegetables, primarily tomatoes, for export to the U.S. market, Belher agreed, at their sole cost and expense, to harvest, pack, export, ship, and deliver tomatoes exclusively to our company, primarily our Arizona facility. In exchange, we agreed to sell and distribute such tomatoes, make advances to Belher for operating purposes, provide additional advances as shipments are made during the season (subject to limitations, as defined), and return the proceeds from such tomato sales to Belher, net of our commission and aforementioned advances. Pursuant to such amended agreement with Belher, we advanced Belher a total of $3.0 million, up from $2.0 million in the original agreement, during fiscal 2011. Additionally, the amended agreement calls for us to continue to advance $3.0 million per annum for operating purposes through 2019. These advances will be collected through settlements by the end of each year. For fiscal 2017, we agreed to advance an additional $4.0 million for preseason advances. As of October 31, 2017 and 2016, we have total advances of $4.0 million and $4.4 million to Belher pursuant to this agreement, which is recorded in advances to suppliers.

Similar to Belher, we make advances to Don Memo for operating purposes, provide additional advances as shipments are made during the season, and return the proceeds from such tomato sales to Don Memo, net of our commission and aforementioned advances. As of October 31, 2017 and 2016, we have total advances of $1.6 million and $0.9 million to Don Memo, which is recorded in advances to suppliers.

Infrastructure Advances

Pursuant to our infrastructure agreement, we make advances to be used solely for the acquisition, construction, and installation of improvements to and on certain land owned/controlled by Belher, as well as packing line equipment. Advances incur interest at 4.7% at October 31, 2017 and 2016. As of October 31, 2017, we have advanced a total of $0.6 million ($0.2 million included in prepaid expenses and other current assets and $0.4 million included in other long-term assets). As of October 31, 2016, we have advanced a total of $0.8 million ($0.2 million included in prepaid expenses and other current assets and $0.6 million included in other long-term assets). Belher is to annually repay these advances in no less than 20% increments through June 2020. Interest is to be paid monthly or annually, as defined. Belher may prepay, without penalty, all or any portion of the advances at any time. In order to secure their obligations pursuant to both agreements discussed above, Belher granted us a first-priority security interest in certain assets, including cash, inventory and fixed assets, as defined.

Accrued Expenses

Included in accrued expenses at October 31, 2017 and 2016 are liabilities related to the receipt of goods and/or services for which an invoice has not yet been received. These totaled approximately $24.8 million and $12.4 million for the year ended October 31, 2017 and 2016.

Revenue Recognition

Sales of products and related costs of products sold are recognized when (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred, (iii) the price is fixed or determinable and (iv) collectability is reasonably assured. These terms are typically met upon delivery of product to the customer. Service revenue, including freight, ripening, storage, bagging and palletization charges, is recorded when services are performed and sales of the related products are delivered.

Shipping and Handling

We include shipping and handling fees billed to customers in net revenues. Amounts incurred by us for freight are included in cost of goods sold.

Promotional Allowances

We provide for promotional allowances at the time of sale, based on our historical experience. Our estimates are generally based on evaluating the historical relationship between promotional allowances and gross sales. The derived percentage is then applied to the current period's sales revenues in order to arrive at the appropriate debit to sales allowances for the period. The offsetting credit is made to accrued expenses. When certain amounts of specific customer accounts are subsequently identified as promotional, they are written off against this allowance. Actual amounts may differ from these estimates and such differences are recognized as an adjustment to net sales in the period they are identified.

Allowance for Accounts Receivable

We provide an allowance for estimated uncollectible accounts receivable balances based on historical experience and the aging of the related accounts receivable.

Consignment Arrangements

We frequently enter into consignment arrangements with pineapple and tomato growers and packers located outside of the United States and growers of certain perishable products in the United States. Although we generally do not take legal title to these avocados and perishable products, we do assume responsibilities (principally assuming credit risk, inventory loss and delivery risk, and pricing risk) that are consistent with acting as a principal in the transaction. Accordingly, the accompanying financial statements include sales and cost of sales from the sale of avocados and perishable products procured under consignment arrangements. Amounts recorded for each of the fiscal years ended October 31, 2017, 2016 and 2015 in the financial statements pursuant to consignment arrangements are as follows (in thousands):

	2017	2016	2015
Sales	**$ 25,891**	$ 34,919	$ 28,139
Cost of Sales	**22,784**	30,729	25,177
Gross Profit	**$ 3,107**	$ 4,190	$ 2,962

Advertising Expense

Advertising costs are expensed when incurred and are generally included as a component of selling, general and administrative expense. Such costs were approximately $0.1 million, $0.2 million and $0.2 million for fiscal years 2017, 2016, and 2015.

Research and Development

Research and development costs are expensed as incurred and are generally included as a component of selling, general and administrative expense. Total research and development costs for fiscal years 2017, 2016 and 2015 were less than $0.1 million.

Other Income, Net

Included in other income, net is dividend income totaling $0.5 million for fiscal year 2017. Dividend income totaled $0.6 million and $0.5 million for fiscal years 2016 and 2015. See Note 9 for related party disclosure related to other income.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Among the significant estimates affecting the financial statements are those related to valuation allowances for accounts receivable, goodwill, grower advances, inventories, long-lived assets, valuation of and estimated useful lives of identifiable intangible assets, stock-based compensation, promotional allowances and income taxes. On an ongoing basis, management reviews its estimates based upon currently available information. Actual results could differ materially from those estimates.

Income Taxes

We account for deferred tax liabilities and assets for the future consequences of events that have been recognized in our consolidated financial statements or tax returns. Measurement of the deferred items is based on enacted tax laws. In the event the future consequences of differences between financial reporting bases and tax bases of our assets and liabilities result in a deferred tax asset, we perform an evaluation of the probability of being able to realize the future benefits indicated by such asset. A valuation allowance related to a deferred tax asset is recorded when it is more likely than not that some portion or all of the deferred tax asset will not be realized.

We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

As a multinational corporation, we are subject to taxation in many jurisdictions, and the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in various taxing jurisdictions. If we ultimately determine that the payment of these liabilities will be unnecessary, the liability will be reversed and we will recognize a tax benefit during the period in which it is determined the liability no longer applies. Conversely, we record additional tax charges in a period in which it is determined that a recorded tax liability is less than the ultimate assessment is expected to be.

The application of tax laws and regulations is subject to legal and factual interpretation, judgment and uncertainty. Tax laws and regulations themselves are subject to change as a result of changes in fiscal policy, changes in legislation, the evolution of regulations and court rulings. Therefore, the actual liability for U.S. or foreign taxes may be materially different from management's estimates, which could result in the need to record additional tax liabilities or potentially reverse previously recorded tax liabilities.

Basic and Diluted Net Income per Share

Basic earnings per share is calculated using the weighted-average number of common shares outstanding during the period without consideration of the dilutive effect of stock options and contingent consideration. Diluted earnings per common share is calculated using the weighted-average number of common shares outstanding during the period after consideration of the dilutive effect of stock options and the effect of contingent consideration shares.

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

Year ended October 31,	2017	2016	2015
Numerator:			
Net Income attributable to Calavo Growers, Inc.	**$ 37,270**	$ 38,022	$ 27,199
Denominator:			
Weighted average shares – Basic	**17,416**	17,347	17,295
Effect on dilutive securities – Restricted stock/options	**98**	84	68
Weighted average shares – Diluted	**17,514**	17,431	17,363
Net income per share attributable to Calavo Growers, Inc:			
Basic	**$ 2.14**	$ 2.19	$ 1.57
Diluted	**$ 2.13**	$ 2.18	$ 1.57

STOCK-BASED COMPENSATION

We account for awards of equity instruments issued to employees under the fair value method of accounting and recognize such amounts in our statements of income. 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 income over the service period that the awards are expected to vest.

For the years ended October 31, 2017, 2016 and 2015, we recognized compensation expense of $4.3 million, $2.1 million, and $2.1 million related to non-acquisition stock-based compensation (See Note 13). The value of the stock-based compensation was determined from quoted market prices at the date of the grant.

FOREIGN CURRENCY TRANSLATION AND REMEASUREMENT

Our foreign operations are subject to exchange rate fluctuations and foreign currency transaction costs. The functional currency of our foreign subsidiaries is the United States dollar. As a result, monetary assets and liabilities are translated into U.S. dollars at exchange rates as of the balance sheet date and non-monetary assets, liabilities and equity are translated at historical rates. Sales and expenses are translated using a weighted-average exchange rate for the period. Gains and losses resulting from those remeasurements are included in income. Gains and losses resulting from foreign currency transactions are also recognized currently in income. Total foreign currency losses for fiscal 2017, 2016 and 2015, net of gains, were $0.3 million, $1.1 million, and $1.8 million.

FAIR VALUE OF FINANCIAL INSTRUMENTS

We believe that the carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, and short-term borrowings approximates fair value based on either their short-term nature or on terms currently available to the Company in financial markets. Due to current market rates, we believe that our fixed-rate long-term obligations have the same fair value and carrying value of approximately $0.6 million as of October 31, 2017.

DEFERRED RENT

As part of certain lease agreements, we receive construction allowances from our landlords. The construction allowances are deferred and amortized on a straight-line basis over the life of the lease as a reduction to rent expense.

DERIVATIVE FINANCIAL INSTRUMENTS

We were not a party to any material derivative instruments during the fiscal year. It is currently our intent not to use derivative instruments for speculative or trading purposes. Additionally, we do not use any hedging or forward contracts to offset market volatility.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

In March 2016, the Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update ("ASU"), *Improvements to Employee Share-Based Payment Accounting*, which simplified several areas of accounting for share-based compensation arrangements, including the income tax impact, classification on the statement of cash flows and forfeitures. The new standard requires excess tax benefits or deficiencies for share-based payments to be recognized as income tax benefit or expense, rather than within additional paid-in capital, when the awards vest or are settled. Furthermore, cash flows related to excess tax benefits are required to be classified as operating activities in the statement of cash flows rather than financing activities. We have elected to account for forfeitures of stock-based awards as they occur. The Company's early adoption of the amendments resulted in an income tax benefit of approximately $0.3 million on the Company's net earnings in the first quarter of fiscal year 2017.

In July 2015, the FASB issued an ASU for measuring inventory. The core principal of the guidance is that an entity should measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The Company adopted this new standard beginning in the three months ended January 31, 2017. The adoption of the amendment did not have a material impact on the Company's consolidated financial statements.

RECENTLY ISSUED ACCOUNTING STANDARDS

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. This ASU will be effective for us beginning the first day of our 2018 fiscal year. We do not anticipate a significant impact on our financial condition, results of operations or cash flows upon adoption.

In March 2017, the FASB issued an ASU, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. This ASU requires that the service cost component of net periodic benefit costs from defined benefit and other postretirement benefit plans be included in the same Statement of Earnings captions as other compensation costs arising from services rendered by the covered employees during the period. The other components of net benefit cost will be presented in the Statement of Earnings separately from service costs. Following adoption, only service costs will be eligible for capitalization into manufactured inventories, which should reduce diversity in practice. This ASU will be effective for us beginning the first day of our 2019 fiscal year. We do not anticipate a significant impact on our financial condition, results of operations or cash flows upon adoption.

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 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. 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 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. 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 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. We are evaluating the impact of adoption of this ASU on our financial condition, result of operations and cash flows.

In May 2014, the FASB amended the existing accounting standards for revenue recognition. The amendments are based on the principle that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. We are required to adopt the amendments in the first quarter of fiscal 2019. Early adoption is not permitted. The amendments may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. We are evaluating the impact of the adoption of this amended accounting standard on our financial condition, result of operations and cash flows.

COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) is defined as all changes in a company's net assets, except changes resulting from transactions with shareholders. For the fiscal year ended October 31, 2017, other comprehensive income includes the unrealized gain on our Limoneira investment totaling $3.9 million, net of income taxes. Limoneira's stock price at October 31, 2017 equaled $23.35 per share. For the fiscal year ended October 31, 2016, other comprehensive income includes the unrealized gain on our Limoneira investment totaling $4.1 million, net of income taxes. Limoneira's stock price at October 31, 2016 equaled $19.69 per share. For the fiscal year ended October 31, 2015, other comprehensive income includes the unrealized loss on our Limoneira investment totaling $10.3 million, net of income taxes. Limoneira's stock price at October 31, 2015 equaled $15.86 per share.

NONCONTROLLING INTEREST

The following tables reconcile shareholders' equity attributable to noncontrolling interest related to the Salsa Lisa acquisition, and Avocados de Jalisco (in thousands).

SALSA LISA NONCONTROLLING INTEREST	YEAR ENDED OCTOBER 31, 2017	YEAR ENDED OCTOBER 31, 2016
Noncontrolling interest, beginning	$ 771	$ 285
Purchase of noncontrolling interest of Salsa Lisa	(771)	486
Noncontrolling interest, ending	$ —	$ 771

In March 2017, pursuant to the Amended and Restated Limited Liability Company Agreement dated February 8, 2010 entered into by Calavo Growers, Inc., Calavo Salsa Lisa LLC, Lisa's Salsa Company, Elizabeth Nicholson and Eric Nicholson, we purchased the 35 percent ownership of Calavo Salsa Lisa not held by us for $1.0 million.

AVOCADOS DE JALISCO NONCONTROLLING INTEREST	YEAR ENDED OCTOBER 31, 2017	YEAR ENDED OCTOBER 31, 2016
Noncontrolling interest, beginning	$ 962	$ 1,011
Net income (loss) attributable to noncontrolling interest of Avocados de Jalisco	54	(49)
Noncontrolling interest, ending	$ 1,016	$ 962

3. Inventories

Inventories consist of the following (in thousands):

OCTOBER 31,	2017	2016
Fresh fruit	$ 14,566	$ 17,126
Packing supplies and ingredients	9,755	7,605
Finished prepared foods	6,537	7,118
	$ 30,858	$ 31,849

We assess the recoverability of inventories through an ongoing review of inventory levels in relation to sales and forecasts and product marketing plans. When the inventory on hand, at the time of the review, exceeds the foreseeable demand, the value of inventory that is not expected to be sold is written down. The amount of the write-down is the excess of historical cost over estimated realizable value. Once established, these write-downs are considered permanent adjustments to the cost basis of the excess inventory.

The assessment of the recoverability of inventories and the amounts of any write-downs are based on currently available information and assumptions about future demand and market conditions. Demand for processed avocado products may fluctuate significantly over time, and actual demand and market conditions may be more or less favorable than our projections. In the event that actual demand is lower than originally projected, additional inventory write-downs may be required.

We recorded an adjustment of $0.4 million and $1.1 million to adjust our fresh fruit inventory to the net realizable value as of October 31, 2017 and 2016.

4. Property, Plant, and Equipment

Property, plant, and equipment consist of the following (in thousands):

OCTOBER 31,	2017	2016
Land	$ 11,569	$ 7,023
Buildings and improvements	44,338	22,480
Leasehold improvements	25,030	8,918
Equipment	79,023	66,109
Information systems – hardware and software	10,264	8,089
Construction in progress	7,487	25,456
	177,711	138,075
Less accumulated depreciation and amortization	(57,639)	(50,238)
	$ 120,072	$ 87,837

Depreciation expense was $9.5 million, $7.3 million and $6.4 million for fiscal years 2017, 2016, and 2015, of which $0.5 million was related to depreciation on capital leases for fiscal year 2017, 2016, and 2015.

Property, plant, and equipment include various capital leases which total $3.4 million and $3.2 million, less accumulated depreciation of $3.0 million and $2.5 million as of October 31, 2017 and 2016.

The decrease in construction in progress from $25.5 million as of October 31, 2016, to $7.5 million as of October 31, 2017, is due to the Avocados de Jalisco packinghouse beginning operations in June 2017, leasehold improvements to the facility in Jacksonville, Florida, and leasehold improvements to the facility in Houston, Texas.

5. Other Assets

Other assets consist of the following (in thousands):

OCTOBER 31,	2017	2016
Intangibles, net	$ 2,226	$ 3,365
Mexican IVA (i.e. value-added) taxes receivable	18,174	6,962
Grower advances	—	49
Infrastructure advance to Agricola Belher	400	600
Loan to FreshRealm members	315	318
Notes receivable from San Rafael	493	928
Other	1,183	1,027
	$ 22,791	$ 13,249

The intangible assets consist of the following (in thousands):

		OCTOBER 31, 2017			OCTOBER 31, 2016		
	WEIGHTED-AVERAGE USEFUL LIFE	GROSS CARRYING VALUE	ACCUMULATED AMORTIZATION	NET BOOK VALUE	GROSS CARRYING VALUE	ACCUMULATED AMORTIZATION	NET BOOK VALUE
Customer list/relationships	8.0 years	$ 7,640	$ (6,181)	$ 1,459	$ 7,640	$ (5,241)	$ 2,399
Trade names	8.2 years	2,760	(2,529)	231	2,760	(2,380)	380
Trade secrets/recipes	9.3 years	630	(369)	261	630	(319)	311
Brand name intangibles	indefinite	275	—	275	275	—	275
Non-competition agreements	5.0 years	267	(267)	—	267	(267)	—
Intangibles, net		$ 11,572	$ (9,346)	$ 2,226	$ 11,572	$ (8,207)	$ 3,365

We recorded amortization expense of approximately $1.2 million, $1.5 million, and $1.6 million for fiscal years 2017, 2016, and 2015. We anticipate recording amortization expense of approximately $1.1 million, $0.7 million, $0.1 million, and $0.1 million for fiscal years 2018 through 2021. The remainder of approximately $0.1 million will be amortized over fiscal years 2021 through 2023.

6. Revolving Credit Facilities

In June 2016, we entered into a new Credit Agreement with Bank of America, N.A. ("Bank of America") as administrative agent and Merrill Lynch, Pierce, Fenner & Smith Inc. as joint lead arranger and sole bookrunner, and Farm Credit West ("FCW"), as joint lead arranger. The Credit Agreement provides for a five-year, $80 million syndicated senior unsecured revolving credit facility maturing on June 14, 2021 (the"Credit Facility"), which replaces the Company's prior revolving credit facilities, which were scheduled to expire on July 1, 2016.

Provided there exists no default, upon notice to Bank of America, the Company may from time to time, request an increase in the Credit Facility by an amount not exceeding $50 million (the "Accordion"). Any future exercises of the Accordion would require additional commitments from existing or new lenders.

Borrowings under the Credit Facility will be at the Company's discretion either at a Eurodollar Rate ("LIBOR") loan plus applicable margin or a base rate loan plus applicable margin. The applicable margin will be based on the Company's Consolidated Leverage Ratio and can range from 1.00% to 1.50% for LIBOR loans and 0.00% to 0.50% for Base Rate Loans. The Credit Facility also includes a commitment fee on the unused commitment amount at a rate per annum of 0.15%.

The Credit Facility contains customary affirmative and negative covenants for agreements of this type, including the following financial covenants applicable to the Company and its subsidiaries on a consolidated basis: (a) a quarterly consolidated leverage ratio of not more than 2.50 to 1.00 and (b) a quarterly consolidated fixed charge coverage ratio of not less than 1.15 to 1.00. We were in compliance with all such covenants at October 31, 2017.

The Credit Facility also contains customary events of default. If any event of default occurs and is continuing, Bank of America may take the following actions: (a) declare the commitment of each lender to make loans and any obligation of the Issuer to make credit extensions to be terminated; (b) declare the unpaid principal amount of all outstanding loans, all interest, and all other amounts to be immediately due and payable; (c) require that Calavo cash collateralize the obligations; and (d) exercise on behalf of itself, the lenders and the Issuer all rights and remedies available to it.

7. Employee Benefit Plans

We sponsor five defined contribution retirement plans for salaried and hourly employees. Expenses for these plans approximated $1.2 million in fiscal 2017 and $1.0 million for fiscal years 2016 and 2015, which are included in selling, general and administrative expenses in the accompanying financial statements.

We also sponsor a non-qualified defined benefit plan for two retired executives. Pension expenses, including actuarial losses, were insignificant for the years ended October 31, 2017, 2016, and 2015. These amounts are included in selling, general and administrative expenses in the accompanying financial statements.

Components of the change in projected benefit obligation for fiscal year ends consist of the following (in thousands):

	2017	2016
CHANGE IN PROJECTED BENEFIT OBLIGATION:		
Projected benefit obligation at beginning of year	$ 195	$ 215
Interest cost	7	8
Actuarial loss	12	9
Benefits paid	(38)	(37)
Projected benefit obligation at end of year (unfunded)	$ 176	$ 195

The following is a reconciliation of the unfunded status of the plans at fiscal year ends included in accrued expenses (in thousands):

	2017	2016
Projected benefit obligation	$ 176	$ 195
Unrecognized net (gain) loss	—	—
Recorded pension liabilities	$ 176	$ 195

Significant assumptions used in the determination of pension expense consist of the following:

	2017	2016
Discount rate on projected benefit obligation	3.7%	3.7%

8. COMMITMENTS AND CONTINGENCIES

COMMITMENTS AND GUARANTEES

We lease facilities and certain equipment under non-cancelable operating leases expiring at various dates through 2031. We are committed to make minimum cash payments under these agreements as of October 31, 2017, as follows (in thousands):

2018	$ 5,360
2019	5,188
2020	4,672
2021	4,276
2022	3,970
Thereafter	29,601
	$ 53,067

Total rent expense amounted to approximately $6.0 million, $5.8 million and $4.4 million for the years ended October 31, 2017, 2016, and 2015. Rent to Limoneira, for our corporate office, amounted to approximately $0.3 million for fiscal years 2017, 2016, and 2015. In fiscal 2014, we renewed our lease with Limoneira for our corporate facility through fiscal 2020 at an annual rental of $0.3 million per annum (subject to annual CPI increases, as defined).

In fiscal 2016, we renewed the lease of our facility in Houston, Texas through fiscal 2021 at an annual rental of $0.7 million per annum (subject to annual CPI increases, as defined).

In July 2015, we entered into a Lease Agreement with Green Cove, LLC to lease an operating facility in Jacksonville, Florida. The facility is approximately 200,000 square feet and is expected to be a value-added distribution center for all operating segments. We took possession of the property in August 2015 and are in the process of making improvements to this facility. The lease began in November 2015 and is scheduled to terminate in October 2031.

Effective January 28, 2016, Calavo Growers, Inc. and Bank of America, N.A. ("BoA"), entered into a Continuing and Unconditional Guaranty agreement (the "Guaranty"). Under the terms of the Guaranty, the Company unconditionally guarantees and promises to pay BoA any and all Indebtedness, as defined therein, of our unconsolidated subsidiary Agricola Don Memo, S.A. de C.V. to BoA. Grupo Belo del Pacifico, S.A. de C.V. has also entered into a similar guarantee with BoA. These guarantees relate to a new loan in the amount of $4.5 million loan from BoA to Don Memo that closed on January 28, 2016. On January 29, 2016, Don Memo, used the proceeds from the new BoA loan to repay $4.0 million due the Company.

We indemnify our directors and have the power to indemnify each of our officers, employees and other agents, to the maximum extent permitted by applicable law. The maximum amount of potential future payments under such indemnifications is not determinable. No amounts have been accrued in the accompanying financial statements related to these indemnifications.

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.

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 within the following five months. If the MFM's final assessment does not differ materially from their preliminary observations, then we will resolve the matter through 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 observations 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. 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.

9. 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 years ended October 31, 2017, 2016, and 2015, the aggregate amount of avocados procured from entities owned or controlled by members of our Board of Directors was $19.8 million, $25.5 million and $16.4 million. We did not have any amounts due to Board members as of October 31, 2017 and 2016.

During fiscal years 2017, 2016, and 2015, we received $0.4 million, $0.3 million and $0.3 million as dividend income from Limoneira. In addition, we lease office space from Limoneira for our corporate office. Rent to Limoneira amounted to approximately $0.3 million for fiscal years 2017, 2016, and 2015. 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 the years ended October 31, 2017, 2016, and 2015, Calavo Growers, Inc. paid fees totaling approximately $0.2 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. Belo and Calavo Sub have an equal one-half ownership interest in Don Memo in exchange for $2 million each. 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.

We loaned a total of $4.0 million to Don Memo since its formation. These monies, effectively a bridge loan, were replaced with a new loan to Don Memo from Bank of America, N.A. (BoA) during our first fiscal quarter of 2016 and our bridge loan was repaid from the proceeds of the new loan. 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. These guarantees were entered into in connection with the new loan in the amount of $4.5 million from BoA to Don Memo that closed in January 2016.

During the year ended October 31, 2017, 2016 and 2015, we have an investment of $4.6 million, $3.7 million and $2.0 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 October 31, 2017, 2016 and 2015, we had outstanding advances of $1.6 million, $0.9 million and $1.8 million to Don Memo. During the year ended October 31, 2017, 2016 and 2015 we recorded $8.9 million, $4.8 million and $2.3 million of expenses to Don Memo pursuant to our consignment agreement.

We had grower advances due from Belher of $4.0 million, $4.4 million and $3.0 million as of October 31, 2017, 2016 and 2015. In addition, we had infrastructure advances due from Belher of $0.6 million, $0.8 million and $1.8 million as of October 31, 2017, 2016 and 2015. Of these infrastructure advances $0.2 million was recorded as receivable in prepaid and other current assets and $0.4 million is included in other assets. During the year ended October 31, 2017, 2016 and 2015, we purchased $13.9 million, $26.0 million, and $14.2 million of tomatoes from Belher pursuant to our consignment agreement.

In August 2015, we entered into Shareholder's Agreement with various partners which created Avocados de Jalisco, S.A.P.I. de C.V. Avocados de Jalisco is a Mexican corporation created to engage in procuring, packing and selling avocados. This entity is approximately 80% owned by Calavo and is consolidated in our financial statements. Avocados de Jalisco has built a packinghouse located in Jalisco, Mexico and such packinghouse began operations in June of 2017. As of October 31, 2017, 2016 and 2015, we have made preseason advances of approximately $0.1 million to various partners of Avocados de Jalisco. During the year ended October 31, 2017, we purchased approximately $1.9 million of avocados from the partners of Avocados de Jalisco.

We have an approximate 43% ownership interest in FreshRealm, LLC (FreshRealm). Two officers, two members of our board of directors and key employees have made investments into FreshRealm. In addition, as of October 31, 2017 and 2016, we have a loan to FreshRealm members of approximately $0.3 million. In February 2017, we loaned $0.8 million to FreshRealm. In addition, two other FreshRealm members loaned approximately $0.8 million to FreshRealm. In total, this $1.5 million was considered a bridge loan, and was repaid in April 2017. In April 2017, in another round of financing, we committed to invest an additional $8.3 million into FreshRealm if and when certain terms and conditions are met. Through October of 2017, we have invested $7.5 million of the total $8.3 million. In October 2017, our Chief Executive Officer invested $7.0 million into FreshRealm, and as a result our ownership percentage as of October 31, 2017 decreased from 46% to approximately 43%.

We provide storage services to FreshRealm from our New Jersey Value-Added Depot and from our new RFG Riverside location. We have received $0.1 million in storage services revenue from FreshRealm during fiscal 2017.

In March 2017, pursuant to the Amended and Restated Limited Liability Company Agreement dated February 8, 2010 entered into by Calavo Growers, Inc., Calavo Salsa Lisa LLC, Lisa's Salsa Company, Elizabeth Nicholson and Eric Nicholson, we purchased the 35 percent ownership of Calavo Salsa Lisa not held by us for $1.0 million.

The previous owners and current managers of RFG have a majority ownership of certain entities that provide various services to RFG, specifically LIG Partners, LLC and THNC, LLC. RFG's California operating facility 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 and balances for fiscal year 2017 and 2016:

YEAR ENDED OCTOBER 31, (in thousands)	2017	2016
Rent paid to LIG	$ 546	$ 529
Rent paid to THNC, LLC	$ 659	$ 342

10. INCOME TAXES

The income tax provision consists of the following for the years ended October 31, (in thousands):

	2017	2016	2015
CURRENT:			
Federal	$ 14,875	$ 17,244	$ 10,150
State	2,561	2,040	1,650
Foreign	290	982	1,110
Total current	17,726	20,266	12,910
DEFERRED:			
Federal	2,567	1,863	3,314
State	335	533	98
Foreign	(178)	(793)	(229)
Total deferred	2,724	1,603	3,183
Total income tax provision	$ 20,450	$ 21,869	$ 16,093

At October 31, 2017 and 2016, gross deferred tax assets totaled approximately $31.9 million and $33.9 million, while gross deferred tax liabilities totaled approximately $22.1 million and $18.9 million. Deferred income taxes reflect the net of temporary differences between the carrying amount of assets and liabilities for financial reporting and income tax purposes.

Significant components of our deferred taxes assets (liabilities) as of October 31, are as follows (in thousands):

	2017	2016
Property, plant, and equipment	$ (7,861)	$ (6,901)
Intangible assets	24,647	27,686
Unrealized gain, Limoneira investment	(6,485)	(4,048)
Investment in FreshRealm	(6,808)	(6,902)
Stock-based compensation	1,154	952
State taxes	(805)	(931)
Credits and incentives	2,253	2,070
Allowance for accounts receivable	1,239	875
Inventories	322	395
Accrued liabilities	2,245	1,912
Other	(118)	(164)
Long-term deferred income taxes	$ 9,783	$ 14,944

A reconciliation of the significant differences between the federal statutory income tax rate and the effective income tax rate on pretax income for the years ended October 31, is as follows:

	2017	2016	2015
Federal statutory tax rate	35.0%	35.0%	35.0%
State taxes, net of federal effects	2.9	2.9	3.0
Foreign income taxes greater than U.S.	0.1	0.7	0.7
Section 199 deduction	(2.2)	(1.7)	(0.8)
State rate change	0.3	—	—
Other	(0.7)	(0.6)	(0.7)
	35.4%	36.3%	37.2%

We intend to reinvest our accumulated foreign earnings, which approximated $15.6 million at October 31, 2017, indefinitely. As a result, we have not provided any deferred income taxes on such unremitted earnings.

For fiscal years 2017, 2016 and 2015, income before income taxes related to domestic operations was approximately $57.5 million, $61.0 million, and $41.5 million. For fiscal years 2017, 2016 and 2015, income (loss) before income taxes related to foreign operations was approximately $0.2 million, $(0.6) million and $1.8 million.

As of October 31, 2017 and 2016, we had liability of $0.7 million and $0.4 million for unrecognized tax benefits related to various foreign income tax matters.

We are subject to U.S. federal income tax as well as income of multiple state tax and foreign tax jurisdictions. We are no longer subject to U.S. income tax examinations for the fiscal years prior to October 31, 2014, and are no longer subject to state income tax examinations for fiscal years prior to October 31, 2013.

Any change in the U.S. tax law has the potential to materially impact our consolidated financial statements.

11. SEGMENT INFORMATION

As discussed in Note 1, 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 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.

Notes to Consolidated Financial Statements

The following table sets forth sales by product category, by segment (in thousands):

(All amounts are presented in thousands)	Fresh Products	Calavo Foods	RFG	Total
Year ended October 31, 2017				
Net sales (before eliminations)	$ 583,976	$ 77,579	$ 418,508	$ 1,080,063
Intercompany eliminations	(1,314)	(3,184)	—	(4,498)
Net sales	582,662	74,395	418,508	1,075,565
Cost of sales (before eliminations)	511,410	63,751	390,358	965,519
Intercompany eliminations	(1,124)	(2,709)	(665)	(4,498)
Cost of sales	510,286	61,042	389,693	961,021
Gross profit	$ 72,376	$ 13,353	$ 28,815	$ 114,544
Year ended October 31, 2016				
Net sales (before eliminations)	$ 542,996	$ 66,188	$ 333,498	$ 942,682
Intercompany eliminations	(4,309)	(2,694)	—	(7,003)
Net sales	538,687	63,494	333,498	935,679
Cost of sales (before eliminations)	484,982	42,829	307,337	835,148
Intercompany eliminations	(4,292)	(1,783)	(928)	(7,003)
Cost of sales	480,690	41,046	306,409	828,145
Gross profit	$ 57,997	$ 22,448	$ 27,089	$ 107,534
Year ended October 31, 2015				
Net sales (before eliminations)	$ 502,208	$ 64,079	$ 293,957	$ 860,244
Intercompany eliminations	(1,497)	(1,923)	—	(3,420)
Net sales	500,711	62,156	293,957	856,824
Cost of sales (before eliminations)	465,123	43,382	266,512	775,017
Intercompany eliminations	(1,476)	(1,737)	(207)	(3,420)
Cost of sales	463,647	41,645	266,305	771,597
Gross profit	$ 37,064	$ 20,511	$ 27,652	$ 85,227

For fiscal year 2017, 2016 and 2015, inter-segment sales and cost of sales of $1.3 million, $4.3 million and $1.5 million between Fresh products and RFG were eliminated. For fiscal year 2017, 2016 and 2015, inter-segment sales and cost of sales of $3.2 million, $2.7 million and $1.9 million between Calavo Foods and RFG were eliminated.

The following table sets forth sales by product category, by segment (in thousands):

	Year ended October 31, 2017				Year ended October 31, 2016			
	Fresh Products	Calavo Foods	RFG	Total	Fresh Products	Calavo Foods	RFG	Total
Third-party sales:								
Avocados	$ 546,433	$ —	$ —	**$ 546,433**	$ 493,440	$ —	$ —	$ 493,440
Tomatoes	29,199	—	—	**29,199**	36,286	—	—	36,286
Papayas	9,402	—	—	**9,402**	9,514	—	—	9,514
Other fresh products	445	—	—	**445**	5,600	—	—	5,600
Prepared avocado products	—	85,204	—	**85,204**	—	73,009	—	73,009
Salsa	—	3,951	—	**3,951**	—	3,617	—	3,617
Fresh-cut fruit & vegetables and prepared foods	—	—	419,973	**419,973**	—	—	336,989	336,989
Total gross sales	585,479	89,155	419,973	**1,094,607**	544,840	76,626	336,989	958,455
Less sales incentives	(1,503)	(11,576)	(1,465)	**(14,544)**	(1,844)	(10,438)	(3,491)	(15,773)
Less inter-company eliminations	(1,314)	(3,184)	—	**(4,498)**	(4,309)	(2,694)	—	(7,003)
Net sales	$ 582,662	$ 74,395	$ 418,508	**$ 1,075,565**	$ 538,687	$ 63,494	$ 333,498	$ 935,679

	Year ended October 31, 2016				Year ended October 31, 2015			
	Fresh Products	Calavo Foods	RFG	Total	Fresh Products	Calavo Foods	RFG	Total
Third-party sales:								
Avocados	$ 493,440	$ —	$ —	$ 493,440	$ 471,178	$ —	$ —	$ 471,178
Tomatoes	36,286	—	—	36,286	18,681	—	—	18,681
Papayas	9,514	—	—	9,514	9,485	—	—	9,485
Other fresh products	5,600	—	—	5,600	4,336	—	—	4,336
Prepared avocado products	—	73,009	—	73,009	—	51,135	—	51,135
Salsa	—	3,617	—	3,617	—	22,736	—	22,736
Fresh-cut fruit & vegetables and prepared foods	—	—	336,989	336,989	—	—	296,697	296,697
Total gross sales	544,840	76,626	336,989	958,455	503,680	73,871	296,697	874,248
Less sales incentives	(1,844)	(10,438)	(3,491)	(15,773)	(1,472)	(9,792)	(2,740)	(14,004)
Less inter-company eliminations	(4,309)	(2,694)	—	(7,003)	(1,497)	(1,923)	—	(3,420)
Net sales	$ 538,687	$ 63,494	$ 333,498	$ 935,679	$ 500,711	$ 62,156	$ 293,957	$ 856,824

Sales to customers outside the United States were approximately $29.8 million, $25.4 million and $26.7 million for fiscal years 2017, 2016, and 2015.

RFG segment sales included sales to one customer who represented more than 10% of total consolidated revenues for fiscal 2017 and 2016.

Our goodwill balance of $18.2 million is attributed by segment to Fresh products for $3.9 million and RFG for $14.3 million as of October 31, 2017.

Long-lived assets attributed to geographic areas as of October 31, are as follows (in thousands):

	UNITED STATES	MEXICO	CONSOLIDATED
2017	**$ 88,078**	**$ 31,994**	**$ 120,072**
2016	$ 55,715	$ 32,122	$ 87,837

12. LONG-TERM OBLIGATIONS

Long-term obligations at fiscal year ends consist of the following (in thousands):

	2017	2016
Capital leases	**$ 568**	$ 583
Less current portion	**(129)**	(138)
	$ 439	$ 445

The Company and FCW entered into a Term Loan Agreement (Term Agreement) in connection with the RFG acquisition, effective May 31, 2011. Under the terms of the Term Agreement, we were advanced $15 million for the purchase of RFG. Pursuant to this agreement, we were required to make 60 monthly principal and interest payments, from July 1, 2011 to June 1, 2016. In fiscal 2016, this term loan was repaid in full.

Effective September 30, 2011, the Company and BoA, entered into an agreement, Amendment No. 4 to Loan Agreement (the Agreement), which amended our existing credit facility with BoA. This agreement included a variable rate term loan in the amount of approximately $7.1 million. These proceeds were used to retire approximately 50% of the outstanding balance (as of September 30, 2011) of the term loan owed to FCW related to the purchase of RFG (see above). In fiscal 2016, this term loan was repaid in full.

Effective January 28, 2016, Calavo Growers, Inc. and BoA, entered into a Continuing and Unconditional Guaranty agreement (the "Guaranty"). Under the terms of the Guaranty, the Company unconditionally guarantees and promises to pay BoA any and all Indebtedness, as defined therein, of our unconsolidated subsidiary Agricola Don Memo, S.A. de C.V. to BoA. Grupo Belo del Pacifico, S.A. de C.V. has also entered into a similar guarantee with BoA. These guarantees relate to a new loan in the amount of $4.5 million from BoA to Don Memo that closed on January 28, 2016. On January 29, 2016, Don Memo, used the proceeds from the new BoA loan to repay $4.0 million due the Company.

At October 31, 2017, capital lease payments are scheduled as follows (in thousands):

YEAR ENDING OCTOBER 31:	TOTAL
2018	$ 153
2019	140
2020	129
2021	108
2022	64
Thereafter	—
Minimum lease payments	594
Less interest	(26)
Present value of future minimum lease payments	$ 568

13. STOCK-BASED COMPENSATION

The 2005 Stock Incentive Plan

The 2005 Stock Incentive Plan, was a stock-based compensation plan, under which employees and directors could be granted options to purchase shares of our common stock. In June 2012, this plan was terminated without affecting the outstanding stock options related to this plan.

Stock options were granted with exercise prices of not less than the fair market value at grant date, generally vested over one to five years and generally expired two to five years after the grant date. We settle stock option exercises with newly issued shares of common stock.

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

A summary of stock option activity is as follows (in thousands, except for per share amounts):

	NUMBER OF SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	AGGREGATE INTRINSIC VALUE
Outstanding at October 31, 2016	8	$ 18.05	
Exercised	(1)	$ 14.58	
Outstanding at October 31, 2017	7	$ 18.54	$ 506
Exercisable at October 31, 2017	7	$ 18.54	$ 506

The weighted average remaining life of such outstanding options is 1.6 years and the total intrinsic value of options exercised during fiscal 2017 was $0.1 million. The weighted average remaining life of such exercisable options is 1.6 years. The fair value of shares vested during the year ended October 31, 2017, 2016, and 2015 was approximately $0.5 million.

The 2011 Management Incentive Plan

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.

In January 2015, all 12 of our non-employee directors were granted 1,750 restricted shares each (total of 21,000 shares). These shares have full voting rights and participate in dividends as if unrestricted. The closing price of our stock on such date was $40.39. On January 1, 2016, as long as the directors are still serving on the board, these shares lose their restriction and become non-forfeitable and transferable. The total recognized stock-based compensation expense for these grants was $0.7 million for fiscal 2015.

On February 6, 2015, our executive officers were granted a total of 55,394 restricted shares. These shares have full voting rights and participate in dividends as if unrestricted. The closing price of our stock on such date was $40.17. These shares vest in one-third increments, on an annual basis, beginning January 8, 2016. These shares were granted pursuant to our 2011 Management Incentive Plan. The total recognized stock-based compensation expense for these grants was $0.5 million for fiscal 2015. On June 15, 2015, our Chief Operating Officer/ Chief Financial Officer retired from Calavo. His unvested portion of restricted stock of 12,322 shares issued in February of 2015 and January of 2014 was forfeited. As part of his retirement on June 1st 2015, he was granted 12,322 shares of unrestricted stock. The closing price of our stock on such date was $49.95. We recorded for this grant $0.6 million of stock-based compensation expense for fiscal years 2016 and 2015.

On January 4, 2016, 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 $48.46. On January 3, 2017, as long as the directors are still serving on the board, these shares lose their restriction and become non-forfeitable and transferable. These shares were granted pursuant to our 2011 Management Incentive Plan. The total recognized stock-based compensation expense for these grants was $0.8 million for the year ended October 31, 2016.

On January 8, 2016, our executive officers were granted a total of 24,582 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 $48.68. These shares vest in one-third increments, on an annual basis, beginning January 8, 2017. These shares were granted pursuant to our 2011 Management Incentive Plan. The total recognized stock-based compensation expense for these grants was $0.3 million for the year ended October 31, 2016.

On December 19, 2016, our executive officers were granted a total of 70,327 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 $56.20. These shares vest in one-third increments, on an annual basis, beginning December 19, 2017. These shares were granted pursuant to our 2011 Plan. The total recognized stock-based compensation expense for these grants was $0.9 million for the year ended October 31, 2017.

On January 4, 2017, 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 $62.65. On January 3, 2018, 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 $1.1 million for the year ended October 31, 2017.

On January 6, 2017, our Chief Operating Officer resigned from Calavo. His unvested portion of restricted stock of 12,800 shares issued in December of 2016 and January of 2016 was forfeited. On January 25, 2017, as part of his resignation he was granted 12,800 shares of unrestricted stock, which immediately vested. The closing price of our stock on such date was $58.05. We recorded for this grant $0.7 million of stock-based compensation expense in our fiscal first quarter of 2017.

On February 2, 2017, our Vice President of the Foods Division retired from Calavo for medical reasons. In January 2017, the board of directors agreed that his unvested portion of restricted stock of 13,040 shares shall be vested due to the medical reasons provision in the restricted stock agreements. As a result, we recorded $0.5 million of stock-based compensation expense in our fiscal first quarter of 2017.

In January 2017, our Board of Directors approved the issuance of options to acquire a total of 10,000 shares of our common stock to one member of our Board of Directors. Such grant vests in equal increments over a five-year period and has an exercise price of $56.65 per share. Vested options have an exercise period of five years from the vesting date. The market price of our common stock at the grant date was $56.65. The estimated fair market value of such option grant was approximately $0.2 million. The total compensation cost not yet recognized as of October 31, 2017 was approximately $0.2 million, which will be recognized over the remaining service period of 60 months.

The value of each option award is estimated using a lattice-based option valuation model. We primarily consider the following assumptions when using these models: (1) expected volatility, (2) expected dividends, (3) expected life and (4) risk-free interest rate. Such models also consider the intrinsic value in the estimation of fair value of the option award.

Prior to November 1, 2016, stock-based compensation expense was recorded net of estimated forfeitures our consolidated statements of income and, accordingly, was recorded for only those stock-based awards that the we expected to vest. We estimated the forfeiture rate based on historical forfeitures of equity awards and adjusted the rate to reflect changes in facts and circumstances, if any. We revised our estimated forfeiture rate if actual forfeitures differed from its initial estimates.

Effective as of November 1, 2016, we adopted a change in accounting policy in accordance with ASU 2016-09, "Compensation—Stock Compensation (Topic 718)" to account for forfeitures as they occur. The change was applied on a modified retrospective basis, and no prior periods were restated as a result of this change in accounting policy.

We measure the fair value of our stock option awards on the date of grant. The following assumptions were used in the estimated grant date fair value calculations for stock options issued for fiscal 2017:

Risk-free interest rate	1.84%
Expected volatility	42.09%
Dividend yield	1.59%
Expected life (years)	5.0

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, 2016	84	$ 44.76	
Vested	(71)	$ 52.29	
Forfeited	(13)	$ 53.66	
Granted	103	$ 57.62	
Outstanding at October 31, 2017	103	$ 54.64	$ 7,488

The total recognized stock-based compensation expense for restricted stock was $4.3 million for the year ended October 31, 2017.

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, 2016	11	$ 23.33	
Granted	10	$ 56.65	
Exercised	(1)	$ 21.80	
Outstanding at October 31, 2017	20	$ 40.07	$ 645
Exercisable at October 31, 2017	8	$ 23.48	$ 391

The weighted average remaining life of such outstanding options is 5.2 years. The weighted average remaining life of such exercisable options is 2.7 years. The fair value of shares vested during the year ended October 31, 2017, was $0.4 million.

14. DIVIDENDS

On October 4, 2017, the Company declared a $0.95 per share cash dividend to shareholders of record on November 17, 2017. On December 8, 2017, the Company paid this cash dividend which totaled $16.7 million. On December 8, 2016, the Company paid a $0.90 per share dividend in the aggregate amount of $15.7 million to shareholders of record on November 17, 2016.

15. 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 October 31, 2017 that are measured on a recurring basis during the period, segregated by level within the fair value hierarchy:

Assets at Fair Value:	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
(All amounts are presented in thousands)				
Investment in Limoneira Company[(1)]	$ 40,362	—	—	$ 40,362
Total assets at fair value	$ 40,362	—	—	$ 40,362

(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 October 31, 2017 and October 31, 2016 equaled $23.35 per share and $19.69 per share. Unrealized gains and losses are recognized through other comprehensive income. Unrealized investment holding gains arising during the years ended October 31, 2017 and 2016 were $6.3 million and $6.6 million. Unrealized investment holding losses arising during the year ended October 31, 2015 was $16.9 million.

16. MEXICAN IVA TAXES RECEIVABLE

Included in other assets are tax receivables due from the Mexican government for value-added taxes (IVA) paid in advance. CDM is charged IVA by vendors on certain expenditures in Mexico, which, insofar as they relate to the exportation of goods, translate into IVA amounts receivable from the Mexican government.

As of October 31, 2017 and 2016, IVA receivables totaled $19.5 million and $15.4 million. Historically, CDM received IVA refund payments from the Mexican tax authorities on a timely basis. Beginning in fiscal 2014 and continuing into fiscal 2017, however, the tax authorities began carrying out more detailed reviews of our refund requests and our supporting documentation. Additionally, they are also questioning the refunds requested attributable to IVA paid to certain suppliers that allegedly did not fulfill their own tax obligations. We believe these factors and others have contributed to delays in the processing of IVA claims by the Mexican tax authorities. Currently, we are in the process of collecting such balances through regular administrative processes, but certain amounts may ultimately need to be recovered via legal means. We believe that our operations in Mexico are properly documented and that the Mexican tax authorities will ultimately authorize the refund of the corresponding IVA amounts. We will continue to monitor the collection of these receivables with our outside consultants.

During the first quarter of fiscal 2017, tax authorities informed us that their internal opinion, based on the information provided by local SAT office in Uruapan, considers that CDM is not properly documented relative to its declared tax structure and therefore CDM cannot claim the refundable IVA balance. CDM has strong arguments and supporting documentation to sustain its declared tax structure for IVA and income tax purposes. CDM decided to start an administrative appeal for the IVA related to the request of the months of July, August and September of 2015 in order to assert its argument that CDM is properly documented and to therefore change the SAT's internal assessment. CDM expected to have a resolution to this matter in fiscal 2018; however, it should be noted that our timing expectations are predicated on a timely response from the tax authorities, according to the most recent communications with tax authorities it is likely to have a resolution during fiscal 2018. Based on the information mentioned above, in the first quarter of fiscal 2017, we reclassified the total CDM IVA balance from prepaid and other current assets to other assets. As of October 31, 2017 and October 31, 2016, $18.2 million and $7.0 million of CDM IVA receivables were recorded in other assets. As of October 31, 2016, $8.4 million of CDM IVA were recorded in prepaids and other current assets.

Report of Independent Registered Public Accounting Firm

THE BOARD OF DIRECTORS AND SHAREHOLDERS OF CALAVO GROWERS, INC.
SANTA PAULA, CALIFORNIA

We have audited the accompanying consolidated balance sheets of Calavo Growers, Inc. and subsidiaries (the Company) as of October 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended October 31, 2017. Our audits also included the financial statement schedule listed in the index at Item 15 (a). These consolidated financial statements and financial statements schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Calavo Growers, Inc. and subsidiaries at October 31, 2017 and 2016, and the consolidated results of its operations and its cash flows for each of the three years in the period ended October 31, 2017, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Calavo Growers Inc.'s internal control over financial reporting as of October 31, 2017, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated December 22, 2017 expressed an unqualified opinion on the Company's internal control over financial reporting.

Deloitte & Touche LLP

Costa Mesa, California
December 22, 2017

CG 192402017 C

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of the end of the period covered by this report based on the framework set forth in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework).

Based on our evaluation under the framework set forth in *Internal Control — Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of October 31, 2017. Our internal control over financial reporting as of October 31, 2017 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report which is included herein.

Lecil E. Cole
Chairman of the Board of Directors,
President and Chief Executive Officer

B. John Lindeman
Chief Financial Officer and
Corporate Secretary

Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

In March 2002, our common stock began trading on the OTC Bulletin Board under the symbol "CVGW." In July 2002, our common stock began trading on the Nasdaq National Market under the symbol "CVGW" and currently trades on the Nasdaq Global Select Market.

The following tables set forth, for the periods indicated, the high and low sales prices per share of our common stock as reported on the Nasdaq Global Select Market.

FISCAL 2017	HIGH	LOW
First Quarter	$ 66.35	$ 53.65
Second Quarter	$ 66.60	$ 51.20
Third Quarter	$ 76.15	$ 64.43
Fourth Quarter	$ 74.80	$ 66.35

FISCAL 2016	HIGH	LOW
First Quarter	$ 56.58	$ 48.12
Second Quarter	$ 57.54	$ 47.64
Third Quarter	$ 67.43	$ 55.10
Fourth Quarter	$ 69.78	$ 58.78

As of November 30, 2017, there were approximately 810 stockholders of record of our common stock, which includes shareholders whose shares were held in brokerage firms, depositories and other institutional firms in "street name".

DIVIDEND POLICY

Our dividend policy is to provide for an annual dividend payment, as determined by the Board of Directors. We anticipate paying dividends in the first quarter of our fiscal year.

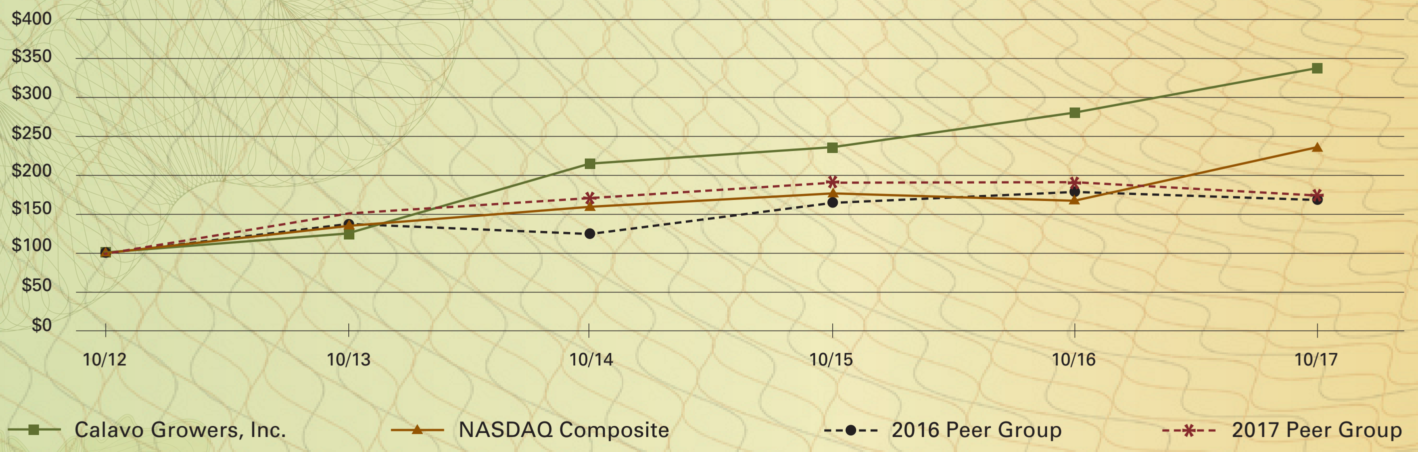
On December 8, 2017, we paid a $0.95 per share dividend in the aggregate amount of $16.7 million to shareholders of record on November 17, 2017. On December 8, 2016, we paid a $0.90 per share dividend in the aggregate amount of $15.7 million to shareholders of record on November 17, 2016.

Shareowner Return Performance Graph

The following graph compares the performance of our common stock with the performance of the Nasdaq Market Index and a Peer Group of major diversified companies in our same industry for approximately the 60-month period beginning on October 31, 2012 and ending October 31, 2017. In making this comparison, we have assumed an investment of $100 in Calavo Growers, Inc. common stock, the Nasdaq Market Index, a new 2017 Peer Group Index and the 2016 Peer Group Index as of October 31, 2012. We have also assumed the reinvestment of all dividends.

COMPARISON OF 5-YEAR CUMULATIVE TOTAL RETURN

Among Calavo Growers, Inc., The NASDAQ Composite Index, 2016 Peer Group and 2017 Peer Group



*$100 invested on 10/31/12 in stock or index, including reinvestment of dividends. Fiscal year ending October 31.

Corporate Information

OFFICERS

Lecil E. Cole
Chairman of the Board, President and Chief Executive Officer

B. John Lindeman
Chief Financial Officer and Corporate Secretary

Rob Wedin
Vice President
Fresh Sales and Marketing

Mike Browne
Vice President
Fresh Operations

Ron Araiza
Vice President
Foods Division Sales and Operations

James E. Gibson
President
Renaissance Food Group

James E. Snyder
Corporate Controller
Chief Accounting Officer

OFFICER—CALAVO DE MEXICO

Dionisio Ortiz
Director of Operations
Calavo de Mexico

PRINCIPAL BOARD COMMITTEES EXECUTIVE COMMITTEE

Lecil E. Cole
Chairman

J. Link Leavens
First Vice Chairman

Scott N. Van Der Kar
Second Vice Chairman

Dorcas H. Thille

Donald "Mike" Sanders

Harold S. Edwards

AUDIT COMMITTEE

Egidio "Gene" Carbone, Jr.
Chairman

Steven W. Hollister

Michael A. "Mike" DiGregorio

Kathleen M. Holmgren

NOMINATING & GOVERNANCE COMMITTEE

Egidio "Gene" Carbone, Jr.
Chairman

Michael A. "Mike" DiGregorio

James D. Helin

COMPENSATION COMMITTEE

Steven W. Hollister
Chairman

Michael A. "Mike" DiGregorio

Kathleen M. Holmgren

OPERATING DIRECTORS & MANAGERS

Michael D. Hause
Director, Purchasing and Risk Management

John Agapin
Director, Systems Analysis and Planning

Patricia D. Vorhies
Director, Human Resources

Gary M. Gunther
Director, Fresh Operations
Special Projects

Marc Fallini
Director, California Avocado Operations

Joseph Malagone
Packinghouse Manager, Santa Paula

Francisco Orozco
Packinghouse Manager, Jalisco Mexico

HEADQUARTERS

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Telephone 805.525.1245
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www.calavo.com

GENERAL COUNSEL

Troy Gould PC
Los Angeles, California

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Deloitte & Touche LLP
Costa Mesa, California

INVESTOR & CORPORATE RELATIONS COUNSEL

Michael Lippold
Director, Strategic Development

FoleyFreisleben LLC
Los Angeles, California

FORM 10-K

A copy of the company's annual report as filed upon Form 10-K is available upon request to the Corporate Controller or online from the Securities and Exchange Commission at www.sec.gov.

TRANSFER AGENT & REGISTRAR

Computershare Trust Company, N.A.
College Station, Texas

COMMON STOCK LISTING

Shares of the company's common stock are listed on the Nasdaq Global Select Market under the symbol **CVGW.**

Calavo Growers, Inc.

Calavo Growers, Inc. is a global avocado industry leader and expanding provider of value-added fresh food. The company serves retail grocery, food service, club stores, mass merchandisers, food distributors and wholesalers worldwide through its three principal operating segments: Fresh, Renaissance Food Group, LLC (RFG) and Calavo Foods.

The Fresh segment procures and markets fresh avocados and other fresh produce (tomatoes and papayas). Calavo packs, markets and distributes approximately 20 percent of the total available all-source fresh avocado supply to North America. This includes selling to the United States and Canada approximately 28 percent of all fresh avocados grown in California and about 18 percent of the annual crop sourced from Mexico. The company procures avocados from California, Mexico, Chile and Peru to satisfy year-round domestic demand, for export beyond North America to Asia and Europe, as well as for use in Calavo Foods' prepared products.

The RFG segment creates, markets and distributes a portfolio of healthy, fresh foods including fresh-cut fruit and vegetables and an extensive array of prepared items sold through the retail grocery channel.

The Calavo Foods business segment manufactures and distributes prepared items including fresh refrigerated guacamole and other avocado products, as well as guacamole hummus. Under the Calavo Salsa Lisa brand, the company produces and sells six varieties of wholesome refrigerated fresh salsa made with all-natural ingredients.

Calavo products are sold under the company's own respected brand name, as well as Garden Highway, Chef Essentials and a variety of private label and store brands.

Founded in 1924 as a grower-owned cooperative, Calavo today is publicly traded on the Nasdaq Global Select Market under the ticker symbol CVGW. Employing more than 2,000 people, the company is headquartered in Santa Paula, California, and operates packing, production and distribution facilities nationwide and in Mexico, providing Calavo with one of the nation's largest, most complete fresh-food infrastructure networks. These include:

- Three fresh avocado packinghouses (in Santa Paula, Michoacán, Mexico, and Jalisco, Mexico);
- One fresh papaya packinghouse (in Hawaii);
- Seven RFG production and distribution facilities (in Northern and Southern California, Oregon, Texas, Indiana, Florida and New Jersey);
- Two Calavo Foods production facilities (in Michoacán, Mexico and Minnesota); and,
- Three Value-Added Depots housing ProRipeVIP® ripening technology, distribution and sales (in Santa Paula, Texas and New Jersey).

SENIOR MANAGEMENT 5

Senior Managers

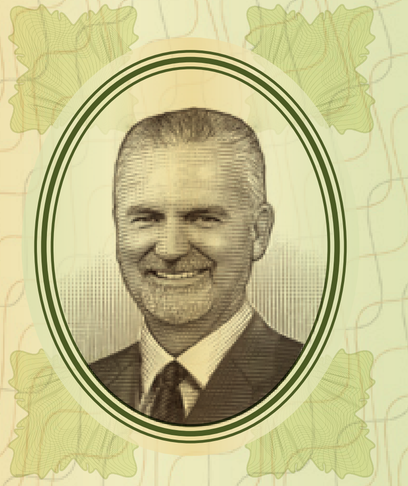
CORPORATE HEADQUARTERS
Santa Paula, California

ROB WEDIN
Vice President
Fresh Sales and Marketing

MIKE BROWNE
Vice President
Fresh Operations

B. JOHN LINDEMAN
Chief Financial Officer
and Corporate Secretary

RON ARAIZA
Vice President, Foods Division Sales
and Operations



JAMES E. GIBSON
President, Renaissance
Food Group

Creative Direction: Dan McNulty *Designed:* MC BrandStudios www.mc-brandstudios.com *Concept/Editorial:* FoleyFreisleben, LLC. www.folfry.com *Illustration:* Steve Nobel www.stevennoble.com
Printing: Jano Graphics www.janographics.com