Calavo Growers, Inc.

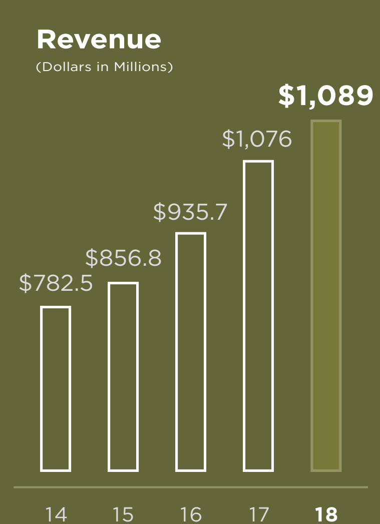
1141 Cummings Road

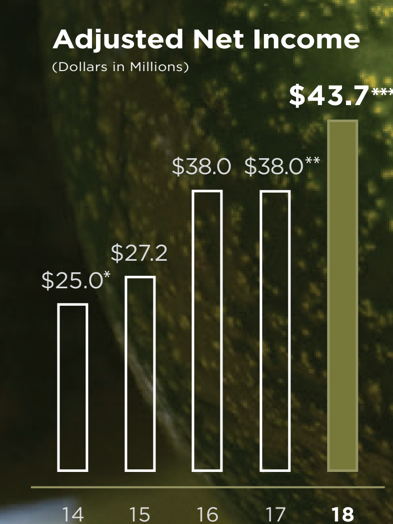
Santa Paula, California 93060

www.calavo.com

Last year, indicative of the underlying strength of our three principal business segments—Fresh, Renaissance Food Group and Calavo Foods—we once again posted record revenues, record adjusted net income and record adjusted per-share results. With new all-time highs in these key metrics, the theme of this year's annual report—in recognition of our record operating performance and agribusiness roots—is Super Green.

Super Growth





(*) Adjusted Annual Net Income before RFG non-cash contingent consideration expense of $33.2 million and including gain of $8.3 from deconsolidation of FreshRealm. After amounts, net income totaled $0.1 million.

(**) Adjusted Annual Net Income before certain management transition expenses ($1.2 million) and tax impact of adjustments ($0.4 million). After amounts, net income totaled $37.3 million.

(***) Adjusted Annual Net Income before non-cash losses recognized from FreshRealm ($12.0 million), one-time, non-cash tax charges from Tax Cut & Jobs Act ($1.7 million), certain management transition expenses ($0.9 million), and tax impact of adjustments ($3.2 million). After amounts, net income totaled $32.3 million.

(†) After RFG non-cash contingent consideration, and including the gain on deconsolidation of FreshRealm, diluted EPS totaled $0.01.

(††) After management transition expenses and tax impact of adjustments described above, diluted EPS totaled $2.13.

(†††) After non-cash losses recognized from FreshRealm, one-time, non-cash tax charges from Tax Cut & Jobs Act, management transition expenses and tax impact of adjustments described above, diluted EPS totaled $1.84.

The admired Calavo brand—and its widespread recognition and affinity with our customers—is no flash in the pan. Instead, this respected reputation is a result of a 95-year company tradition of delivering the finest, highest quality and most flavorful avocados, fresh fruits, vegetables and other products worthy of carrying our name.

Focused execution year-in, year-out delivering on this brand promise translates to nothing short of ***super visibility*** among customers and consumers. Calavo's brand equity is one of our most valuable intangible assets.

Reciprocally, from a company standpoint, ***visibility*** has an altogether different meaning: a clear, unimpeded industry perspective that powers our market leadership. Calavo's core strengths in sourcing, production management, sales and distribution are built upon our senior management team's decades-long industry experience. It provides us the vision, know-how and breadth of grower and customer relationships—among numerous other factors—that represent true strategic differentiators and competitive advantages.

Super Visibility

"...I have the wind at my back. The sun is rising over the foothills ahead of me as I push ahead on my trail run. Strength training yesterday and eight miles on the open road today. Digging deep, my mind wanders to what's waiting for me at home: a bowl of wholesome, fresh Calavo avocados. I'll cool down and recharge with a breakfast of hearty, flavorful avocado toast. There's no better way to replenish. Avocados—and there are none fresher or better tasting than Calavo's—are higher in potassium than bananas to replace critical electrolytes that keep me hydrated after workouts...

"...It's no surprise that health experts consider avocados a superfood. This *super fruit* is *super healthy*: mineral-and nutrient-rich, dense in fiber, high in heart-healthy monounsaturated fat and anti-oxidants thought to prevent cancer. These benefits are one of the reasons why avocado demand is surging. The fact that avocados are so healthy is a value-added. The main reason I have eaten them for as long as I can remember, though, is because they taste so darn good..."

Super Fruit

2.6 BILLION **POUNDS***

ALL-SOURCE avocado INDUSTRY VOLUME

2 0 1 8

3.5oz avocado serving size*

PACKS 27% OF THE RECOMMENDED DAILY ALLOWANCE of fiber

Super Healthy

“...The alarm blares at 5:30 a.m. Oh, how I want to hit that ‘snooze’ button for another 10 minutes. But it’s up and at ‘em. The busy day—is there any other kind?—awaits. Make breakfast for the family—check. Wake the kids and get them moving—check. Pack school lunches—check. And then it’s out the door to drive carpool and on to my office for that 8:30 a.m. client call. In the afternoons and evenings, it’s homework help, soccer practice and piano lessons. But I need to get dinner on the table...

“...Harried lifestyles demand *super convenient* options. Who has time to chop and prep? But I never sacrifice on health and nutrition when it comes to my family. Thank goodness that with Calavo’s Garden Highway products, we get the best of both. Fresh-cut fruits bursting with juicy, flavorful goodness. Ready-to-eat sandwiches, wraps and snacks for the kids’ lunches. Prepped ingredients—pre-made salads and meal-kit components—for home-cooked dinners. Not to mention, trays and platters that make any party a snap. They are adding more and more products every time I look. And, knowing that Garden Highway from RFG is part of Calavo, a brand we know and trust, I can breathe easy that the products will be of the highest quality and farm-fresh because my family deserves the very best...”

Super Expansion

28% ANNUAL growth rate* in THE MEAL-KIT CATEGORY IN 2018

(*)DMA Solutions

Super Convenient

9% ANNUAL GROWTH RATE IN VALUE-ADDED fresh-cut fruit AND VEGETABLES fastest-growing SEGMENT OF GROCERY BIZ*

(*)Nielsen

“…I couldn’t stop eating the guacamole at the Super Bowl party; it was the best I had ever tasted—chunks of fresh avocado and just the right blend of spices. I complimented George, the party’s host, and asked if he would share his ‘secret guacamole recipe.’ He said, ‘Sure, I’d be happy to,’ broke into a sly smile and led me to his refrigerator.Reaching in, he pulled out a package of Calavo fresh prepared guacamole. ‘A-ha,’ I thought. I should have known anything that *super tasty* had to be Calavo. After all, they are the First Name in Avocados™ for a reason…”

“…I have been buying Calavo fresh avocados for years and know it’s a brand I can always trust for flavorful goodness and the highest quality. And when I found out that RFG’s Garden Highway—with its fresh refrigerated packaged foods, cut fruits and veggies, prepared salads and meal kits—was part of the Calavo family, I was not in the least surprised. The Garden Highway lineup of products have become *super popular*. But while convenience and availability led me to try them, it’s the great taste that keeps me coming back…”

Super Tasty

50 MILLION
POUNDS*
AMOUNT OF
guacamole
CONSUMED ANNUALLY
at Chipotle
RESTAURANTS
= TO 450,000
avocados
EVERY DAY

(*)Chipotle Mexican Grill

Super Popular

$25 BILLION
NIELSEN-ESTIMATED
annual sales*
in the fresh
PREPARED FOODS
CATEGORY

(*)Nielsen

Super Performance

We packed and sold 19 percent more fresh avocados.

Reflective of an industry that continues its extended, long-term growth arc, Calavo packed and sold more than 14 million cartons—nearly 360 million pounds—of fresh avocados in fiscal 2018, an increase of more than 19 percent from the prior year. Our sourcing, production management, sales and distribution expertise enable us to successfully navigate and manage through complex industry cross-currents that arise in the high-growth avocado industry. Operationally, our company has positioned itself well for expansion, adding ample production capacity to keep pace with rapidly increasing domestic and global fresh avocado consumption.

We are building efficiencies at our newest facilities.

From 2015 through 2017, Calavo invested more than $45 million in capital expenditures to expand the production and distribution footprint of its RFG fresh refrigerated packaged goods business segment. We are working painstakingly to optimize those new facilities. Building arguably the most comprehensive, seamless national distribution network in the fresh produce industry enables us to penetrate new markets and customers, service the needs of our largest retail grocery accounts and achieve economies of scale that will drive profitability.

We posted record revenues.

For the eighth consecutive year, Calavo's revenues climbed to a new all-time high. The most-recent year caps a decade during which the company's compound annual growth rate in net sales equaled a robust 12 percent. Revenue growth in fiscal 2018 was powered by a nearly 20 percent sales increase in the Calavo Foods business segment, as well as solid top-line gains in our RFG unit.

We delivered higher shareholder returns.

Calavo's board of directors boosted the annual cash dividend on its common stock by 5.3 percent to $1.00 per share last year. The increased payout represents the seventh consecutive increase and the 17th straight annual cash dividend dating back to the company becoming publicly traded in 2002. Since that time, Calavo's dividend has increased 400 percent.

Calavo is well-positioned—both now and for the future—with multiple revenue and profit engines that will propel our growth. We remain focused on the disciplined implementation of our strategic agenda and are optimistic about the potential of the company's three fast-growth, complementary business segments—each occupying a unique category and possessing distinctive competitive advantages. Our deep reserve of resources—operating, financial and human capital—will support Calavo in this mission as we continue to build a larger, broader based agribusiness and fresh-food enterprise.

To Our Shareholders

Lee E. Cole
Chairman, President and CEO

Calavo Growers, Inc. posted record revenue of $1.1 billion in fiscal 2018—the eighth consecutive year in which our top line registered a new all-time high. Your company also surpassed previous bests for adjusted net income and adjusted earnings per share, while posting gross profit virtually equal to the record set in fiscal 2017. It was, in short, another very successful year.

Let me drill down on these operating results. Adjusted net income for the fiscal year ended October 31, 2018, which excludes certain items impacting comparability, increased by 15 percent to $43.7 million, equal to $2.49 per diluted share, which compares with adjusted net income of $38.0 million, or $2.17 per diluted share, in the prior year. (Net income for the most recent year totaled $32.3 million, or $1.84 per diluted share, which compares with $37.3 million, or $2.13 per diluted share, last year.)

Revenues for the most-recent year slightly edged the company's top line in fiscal 2017. Gross profit totaled $113.6 million, or 10.4 percent of revenues, versus $114.5 million, equal to 10.6 percent of revenues, in the prior year. Operating income measured $56.5 million as compared with $57.9 million in fiscal 2017.

In recognition of our sustained profitability, our board of directors declared a $1.00 per share annual cash dividend on Calavo's common stock, the 17th consecutive payout since becoming publicly traded in 2002. The most-recent award was a 5.3 percent increase from one year earlier and reflects a steady, consistent 400 percent climb since our listing on the Nasdaq Market. Nothing underscores Calavo's commitment to delivering the highest possible shareholder returns than the upward trendline of the company dividend.

Consider another significant aspect of value creation for our owners. During the past decade alone, Calavo's stock price has appreciated at a compound annual growth rate of 25 percent—directly reflective of our success building a larger, more profitable enterprise. In dollars and cents, $10,000 of company shares at the time Calavo began trading on Nasdaq, along with reinvested cash dividends, would have risen to $195,000 at October 31, 2018.

Last year did present a series of transitory operating challenges in each of Calavo's three principal business segments. All were comparatively short-lived market or industry conditions. Nothing makes me prouder than to write that despite these unique circumstances, we continued to execute well across our businesses to deliver strong operating results. Our success in navigating through turbulent cross currents is attributable, above all else, to one factor: experience. Calavo's senior management team collectively possesses about 200 years of know-how in the agribusiness and fresh food sectors.

Calavo's stock price has appreciated at a compound annual growth rate of 25 percent over the past decade. A $10,000 investment in Calavo shares when we began trading on Nasdaq, along with reinvested cash dividends, would have risen in value to $195,000 at October 31, 2018.

The incalculable value of experience, especially in last year's operating environment, cannot be overstated.

We bring to bear that same breadth and depth of management experience in the disciplined and focused execution of Calavo's strategic agenda. Our core expertise and category leadership in the fresh avocado industry has provided the springboard into higher margin, faster growth categories—specifically, our Calavo Foods and RFG business segments—that have each become outstanding contributors to overall revenue and profit. In sum, these three segments also contribute to consistency in our operating performance, "smoothing out" overall results and offsetting macro industry and market conditions that can invariably arise in any of our segments.

How else have we applied this experience? Consider our deeply rooted understanding of complex distribution and logistics amassed from decades-long experience shipping perishable produce. That expertise was born out of necessity: the requirement to move hundreds of millions of pounds of fresh avocados and other commodity goods from our packinghouses and value-added depots so it reaches our customers fresh and equal to our quality standards and, just as importantly, theirs. The same know-how has been invaluable in RFG's rapid expansion under Calavo ownership. Not only have we injected Calavo financial resources to speed RFG's growth, but also our operating experience.

The result is a seamless national network of seven strategically placed RFG production facilities across the U.S. with the capabilities to fulfill retail-grocery customers' orders on a just-in-time basis—as quickly as the next day. The distribution footprint we have cast is arguably unrivaled in the fresh refrigerated produce industry.

We enter fiscal 2019 in a very strong position. The fresh avocado industry continues its extended consumption-growth curve. Last year, all-source fresh avocado volume in the U.S. grew by 21 percent from the prior year to reach 2.6 billion pounds. These numbers are predicted to rise again in fiscal 2019. As an early indication of further growth, in January 2019 all-source fruit volume reached a new high, surpassing 70 million pounds in a single week. As an industry leader, Calavo is well positioned in both sourcing and customer relationships—as well as through hallmarks such as production management and distribution—to be a prime beneficiary of this ascending consumption trend line.

We have put in place the packing capacity for long-term growth—selling domestically and abroad. The company sees rapidly expanding potential in emerging avocado markets such as China and Korea where our fresh fruit sales increased by double digits last year.

RFG is primed to re-accelerate sales and gross profit growth this year as we attain improved capacity utilization and gain operating efficiencies at our newer and expanded production facilities. Last year, the industry confronted a series of food-safety events, including recalls of romaine lettuce, melon and sweet corn. While RFG was not responsible for any of these recalls, they impacted its sales and gross profit. Nonetheless sales rose by more than seven percent last year; since being acquired by Calavo in 2011, RFG revenues have quadrupled.

The fresh refrigerated packaged goods category is the fastest-growing segment of the retail grocery business, with the cut fruit and vegetable product segment alone growing eight to nine percent annually and presently totaling $12 billion in industry sales, according to research data. It's no surprise then that we are continuing to invest in RFG's future growth to keep pace. With its outstanding and expanding line-up of products, as well as the addition of some of the nation's leading food retailers as customers, RFG is exceedingly well situated. This year, we will add a new production facility in Portland, Oregon, which will also include a Calavo value-added depot for fresh avocados, to deepen our penetration into the Pacific Northwest. Previously serving the region through co-packing arrangements, RFG's new facility will bring operations under direct company control and facilitate more rapid expansion.

Calavo Foods will remain a solid incremental contributor to overall company results. This proven, high-margin business accounted for eight percent of total revenues last year but added a significant 23 percent of the company's overall gross profit. In the current year, we once again expect Calavo Foods segment sales to grow by double digits as its top line closes in on $100 million, while gross profit dollars should rise by a mid-teen rate.

With so much to build upon, the year ahead looks exceedingly promising. Our strong, largely unlevered balance sheet provides us flexibility to reinvest cash to grow our businesses. We routinely evaluate possible acquisition opportunities, but judiciously maintain our rigorous criteria that any deal fit within our core businesses and must be accretive to operating results.

Let me conclude by expressing gratitude to our senior management team and employees across the company for their dedication. I extend thanks to our board of directors for sound counsel. I offer appreciation to our customers for choosing to partner with us. And to you, my fellow shareholders, your loyalty is greatly valued and we will work tirelessly to justify your continued confidence.

Sincerely,

Lee E. Cole
Chairman, President and Chief Executive Officer
March 4, 2019

Our Board of Directors

(from left to right)

Kathleen Holmgren Management Consultant, Ventura, California ◊ **Lecil E. Cole** Chairman, President and CEO, Calavo Growers, Inc., Santa Paula, 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 ◊ **James D. Helin** President, CEO, JDH Associates, Los Angeles, California ◊ **J. Link Leavens** First Vice Chairman, General Manager, Leavens Ranches, Ventura, California ◊ **Michael A. "Mike" diGregorio** Board & Strategic Advisory Services, Westlake Village, California

(from left to right)

John M. Hunt Manager, Embarcadero Ranch, Goleta, 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 ◊ **Donald "Mike" Sanders** President, S&S Grove Management, Escondido, California ◊ **Egidio "Gene" Carbone, Jr.** Retired CFO, Calavo Growers, Inc., Santa Paula, California

Selected Consolidated Financial Data

The following summary of consolidated financial data (other than information regarding the volume of products sold) for each of the years in the five-year period ended October 31, 2018, 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,	2018	2017	2016	2015	2014
(In thousands, except per share data)					
INCOME STATEMENT DATA: [1][2][4]					
Net sales	$ 1,088,758	$ 1,075,565	$ 935,679	$ 856,824	$ 782,510
Gross profit	113,616	114,544	107,534	85,227	71,228
Selling, general and administrative	57,081	56,651	46,440	41,558	36,605
Net income attributable to Calavo Growers, Inc.	32,281	37,270	38,022	27,199	97
Basic net income per share	$ 1.85	$ 2.14	$ 2.19	$ 1.57	$ 0.01
Diluted net income per share	$ 1.84	$ 2.13	$ 2.18	$ 1.57	$ 0.01
BALANCE SHEET DATA AS OF END OF PERIOD:					
Working capital	$ 29,567	$ 3,661	$ 25,612	$ 18,964	$ 22,047
Total assets	367,736	364,117	327,933	284,945	283,464
Accrued expenses	38,521	39,946	31,095	21,311	25,303
Current portion of long-term obligations	118	129	138	2,206	5,099
Long-term obligations, less current portion	314	439	445	586	2,791
Shareholders' equity	264,959	244,122	215,069	185,982	179,406
CASH FLOWS PROVIDED BY (USED IN):					
Operations	$ 48,426	$ 62,140	$ 61,968	$ 37,283	$ 24,547
Investing activities[2][3]	(30,204)	(53,668)	(21,731)	(21,054)	(21,753)
Financing activities[3]	(23,327)	(15,689)	(33,566)	(15,802)	(4,069)
OTHER DATA:					
Cash dividends declared per share	$ 1.00	$ 0.95	$ 0.90	$ 0.80	$ 0.75
Net book value per share	$ 15.11	$ 13.92	$ 12.33	$ 10.70	$ 10.37
Pounds of California avocados sold	65,428	53,875	109,545	75,538	74,438
Pounds of non-California avocados sold	291,585	245,463	278,200	312,710	258,940
Pounds of processed avocados products sold	32,333	29,911	26,773	27,182	26,451

Financial Section

(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 of expenses related to its development as of October 31, 2014, 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 2018, we have recognized $12.0 million in losses from FreshRealm, which has been recorded as losses from unconsolidated entities. For fiscal 2018, 2017 and 2016, we contributed $3.5 million, $7.5 million and $3.2 million as investments in FreshRealm. Our total investment of $19.9 million, $28.4 million and $21.0 million in FreshRealm as of October 31, 2018, 2017 and 2016, has been recorded as investment in unconsolidated subsidiaries on our balance sheet.

(3) Cost of Sales for fiscal 2014 includes non-cash compensation expenses related to the acquisition of RFG totaling $1.8 million. These non-cash expenses will not continue in the future.

(4) Selling, General, and Administrative expenses for fiscal 2014 include non-cash compensation expenses related to the acquisition of RFG totaling $0.7 million. These non-cash expenses 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) create, process and package guacamole and salsa and (iii) create, process and package a portfolio of healthy fresh foods including fresh-cut fruit, fresh-cut vegetables, and prepared foods. We report our operations in three different business segments: Fresh products, Calavo Foods and RFG. See Note 10 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 2018, we operated four packinghouses and four operating and distributing facilities (aka value-added depots or VADs) that handle avocados that are sold across the United States and to select international markets. 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 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 high-quality, no preservative nature of our guacamole and the variety of packaging formats that we offer, 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 41% and 47% of total processed segment sales for the years ended October 31, 2018 and 2017. Net sales of our refrigerated products represented approximately 59% and 53% of total processed segment sales for the years ended October 31, 2018 and 2017.

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 kit components 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, food safety advisories impacting the fresh perishable food categories in which we currently operate, 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, the availability, quality and price of raw materials, new product introductions by our competitors, the utilization of production capacity at our various plant locations, change in the mix of products that our Fresh, Calavo Foods and RFG segments 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.

Recent Developments

U.S. Tax Reform

On December 22, 2017, the President of the United States signed and enacted comprehensive tax legislation into law H.R. 1, commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). Except for certain provisions, the Tax Act is effective for tax years beginning on or after January 1, 2018. As a fiscal year U.S. taxpayer with an October 31 fiscal year end, the majority of the new provisions, such as eliminating the domestic manufacturing deduction, creating new taxes on certain foreign sourced income and introducing new limitations on certain business deductions, will not apply until our 2019 fiscal year. For fiscal 2018, the most significant impacts include: lowering of the U.S. federal corporate income tax rate; remeasuring certain net deferred tax assets and liabilities; and requiring the transition tax on the deemed repatriation of certain foreign earnings. We recorded $1.7 million in one-time, non-cash charges related to the revaluation of our net deferred tax assets (approx. $1.4 million) and the transition tax on the deemed repatriation of foreign earnings (approx. $0.3 million).

On December 22, 2017, the SEC issued guidance under Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act ("SAB 118") allowing taxpayers to record a reasonable estimate of the impact of the U.S. legislation when it does not have the necessary information available, prepared or analyzed (including computations) in reasonable detail to complete its accounting for the change in tax law. In accordance with SAB 118, the estimated income tax charge of $2.3 million represents the Company's best estimate based on interpretation of the U.S. legislation. As a result, the actual impact on the net deferred tax liability may vary from the estimated amount due to uncertainties in the Company's preliminary review.

The Company recorded a provisional expense of approximately $0.3 million related to the one-time transition tax on the deemed repatriation of undistributed foreign earnings. The transition tax is based on the Company's estimated total post-1986 undistributed foreign earnings at a tax rate of 15.5% for foreign cash and certain other specified assets, and 8% on the remaining earnings. The actual transition tax due will be based on actual undistributed foreign earnings and cash and certain other specified assets as of the required measurement date, which could materially affect the amount of the transition tax. Accordingly, the non-current portion of the provisional expense for the transition tax of $0.3 million, net of applicable foreign tax credits the Company expects to utilize, has been recorded in Deferred income taxes and other liabilities on the Unaudited Condensed Consolidated Balance Sheets.

Prior to the enactment of the Tax Act, the Company regularly determined certain foreign earnings to be indefinitely reinvested outside the United States. Our intent is to permanently reinvest these funds outside of the United States and our current plans do not demonstrate a need to repatriate the cash to fund our U.S. operations. However, if these funds were repatriated, we would be required to accrue and pay applicable United States taxes (if any) and withholding taxes payable to foreign tax authorities.

Dividend payment

On October 2, 2018, the Company declared a $1.00 per share cash dividend to shareholders of record on November 16, 2018. On December 7, 2018, the Company paid this cash dividend, which totaled $17.6 million.

Litigation

We were 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 (pending court approval), whereby we agreed to pay $0.4 million to resolve the allegations and avoid further distraction that would result if the litigation continued. The Company recorded $0.4 million as a selling, general and administrative expense in the third quarter of fiscal 2017. In August 2018, the court approved the settlement, and we paid $0.4 million.

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.

However, the outcome of all litigation is inherently uncertain. If one or more of the lawsuits referred to in the paragraphs above is resolved against the Company in a reporting period for amounts in excess of management's expectations, our financial condition and operating results for that reporting period could be materially and adversely affected.

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 U.S. 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 initial PRODECON process concluded. In April 2018, we filed a second formal agreement before the PRODECON, so that we can continue the discussion of the case between us, the MFM and the PRODECON. During this meeting and discussion period, the statutory period that MFM has in order to issue the tax assessment has been suspended. Currently, we are waiting for the response of the MFM and the PRODECON regarding our next meeting date. 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

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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. During this meeting and discussion period, the statutory period that SAT had in order to issue the tax assessment was suspended. During our first fiscal quarter of 2018, we had an initial meeting with officials from the SAT and the PRODECON, which led to a further exchange of supporting information and documentation. Although several meetings and discussions with the PRODECON and the SAT were conducted during our fiscal third quarter, we were unable to materially resolve our case with the SAT through the PRODECON process.

As a result, on July 12, 2018, the SAT's local office in Uruapan issued to CDM a final tax assessment (the "2013 Assessment") totaling approximately $2.62 billion Mexican pesos related to Income Tax, Flat Rate Business Tax, and Value Added Tax, related to this fiscal 2013 tax audit. Additionally, the tax authorities have determined an employee's profit sharing liability totaling approximately $118 million Mexican pesos as well.

We have consulted with both an internationally recognized tax advisor, as well as a global law firm with offices throughout Mexico, and we continue to believe this tax assessment is without merit. In August 2018, we filed an administrative appeal on the 2013 Assessment. The filing of an administrative appeal in Mexico is a process in which the taxpayer appeals to a different office within the Mexican tax authorities forcing the legal office within the SAT to rule on the matter. This process preserves the taxpayer's right to litigate in tax court if the administrative appeal process ends without a favorable or just resolution. Here, CDM has appealed our case to the SAT's central legal department in Mexico City. Furthermore, in August 2018, we received a favorable ruling from the SAT's central legal department in Mexico City on another tax matter (see footnote 15 regarding VAT refunds) indicating that they believe that our legal interpretation is accurate on a matter that is also central to the 2013 Assessment. We believe this recent ruling significantly undermines the 2013 Assessment we received in July 2018.

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

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 and impairment analysis from unconsolidated entities, loans to 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 $1.2 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 2018, 2017 and 2016, 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, 2018, 2017 or 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 order to estimate the fair value of our investment in FreshRealm, we hired an independent third-party expert to provide their written opinion on the fair value of our investment. We reviewed and considered their independent expert opinion in making our determination.

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,	2018	2017	2016
Net sales	100.0%	100.0%	100.0%
Gross profit	10.4%	10.6%	11.5%
Selling, general and administrative	5.2%	5.3%	5.0%
Operating income	5.2%	5.4%	6.5%
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%
Income (loss) from unconsolidated entities	(0.1)%	0.0%	(0.0)%
Net income	3.0%	3.5%	4.1%

Net Sales

We believe that the fundamental consumption trends for our products continue to be favorable. Firstly, U.S. avocado demand continues to grow, with per capita use in 2017/18 reaching 7.5 pounds per person, up 6 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 U.S. 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 helps 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 imported fresh avocados, 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

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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 2018, 2017 and 2016, on behalf of avocado growers, we remitted approximately $1.5 million, $1.7 million and $2.4 million to the California Avocado Commission. During fiscal 2018, 2017 and 2016, we remitted approximately $6.9 million, $5.8 million and $8.2 million to the Hass Avocado Board related to avocados. Similarly, Avocados from Mexico (AFM) was formed in 2013 as the marketing arm of the Mexican Hass Avocados Importers Association (MHAIA) and the Association of Growers and Packers of Avocados From Mexico (APEAM). During fiscal 2018, 2017 and 2016, we remitted approximately $4.7 million, $3.5 million and $3.8 million to APEAM primarily related to these marketing activities for Mexican 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 U.S. 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 U.S. 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. Value-added fruits and vegetables have continued to grow faster than their broader produce categories as consumers increasingly place value on the convenient nature of those products and producers like RFG continue to develop new formulations of value-added products. RFG has also expanded the capacity to provide products for a larger portion of the Fresh Deli department, which remains one of the fastest growing aisles in retail grocery.

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

	YEAR ENDED OCTOBER 31, 2018				YEAR ENDED OCTOBER 31, 2017			
	FRESH PRODUCTS	CALAVO FOODS	RFG	TOTAL	FRESH PRODUCTS	CALAVO FOODS	RFG	TOTAL
THIRD-PARTY SALES:								
Avocados	$ 511,730	$ —	$ —	**$ 511,730**	$ 546,433	$ —	$ —	$ 546,433
Tomatoes	31,608	—	—	**31,608**	29,199	—	—	29,199
Papayas	11,699	—	—	**11,699**	9,402	—	—	9,402
Other fresh products	498	—	—	**498**	445	—	—	445
Prepared avocado products	—	99,635	—	**99,635**	—	85,204	—	85,204
Salsa	—	3,423	—	**3,423**	—	3,951	—	3,951
Fresh-cut fruit & vegetables and prepared foods	—	—	451,203	**451,203**	—	—	419,973	419,973
Total gross sales	555,535	103,058	451,203	**1,109,796**	585,479	89,155	419,973	1,094,607
Less sales incentives	(2,327)	(11,412)	(2,273)	**(16,012)**	(1,503)	(11,576)	(1,465)	(14,544)
Less inter-company eliminations	(1,554)	(3,472)	—	**(5,026)**	(1,314)	(3,184)	—	(4,498)
Net sales	$ 551,654	$ 88,174	$ 448,930	**$ 1,088,758**	$ 582,662	$ 74,395	$ 418,508	$ 1,075,565

	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

Net sales to third parties by segment exclude inter-segment sales and cost of sales. For fiscal year 2018, 2017 and 2016, inter-segment sales and cost of sales of $1.6 million, $1.3 million and $4.3 million between Fresh products and RFG were eliminated. For fiscal year 2018, 2017 and 2016, inter-segment sales and cost of sales of $3.5 million, $3.2 million and $2.7 million between Calavo Foods and RFG were eliminated.

The following table summarizes our net sales by business segment:

(Dollars in thousands)	2018	CHANGE	2017	CHANGE	2016
NET SALES:					
Fresh products	**$ 551,654**	(5.3)%	$ 582,662	8.2%	$ 538,687
Calavo Foods	**88,174**	18.5%	74,395	17.2%	63,494
RFG	**448,930**	7.3%	418,508	25.5%	333,498
Total net sales	**$ 1,088,758**	1.2%	$ 1,075,565	15.0%	$ 935,679
AS A PERCENTAGE OF NET SALES:					
Fresh products	**50.7%**		54.2%		57.6%
Calavo Foods	**8.1%**		6.9%		6.8%
RFG	**41.2%**		38.9%		35.6%
	100%		100%		100%

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Summary

Net sales for the year ended October 31, 2018, as compared to 2017, increased by $13.2 million, or 1.2%. The increase in sales, when compared to the same corresponding prior year periods, is related to growth from Calavo Foods and RFG, partially offset by a decrease in Fresh products.

For fiscal year 2018, Calavo Foods had our largest percentage increases in sales, followed by our RFG segment. Our Fresh product segment decreased, as shown above. The increase in Calavo Foods sales was due primarily to increased sales of our prepared avocado products. The increase in RFG sales was due primarily to increased sales from fresh prepared food, fresh-cut fruit and vegetable products. The decrease in Fresh products sales was due primarily to a decrease in the per unit selling price of avocados. 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 2018 vs. Fiscal 2017:

Net sales delivered by the Fresh products business decreased by approximately $31.0 million, or 5%, for the year ended October 31, 2018, when compared to the same period for fiscal 2017. This decrease in Fresh product sales during the year ended 2018 was primarily related to decreased sales of avocados, partially offset by increased sales of tomatoes.

Sales of avocados decreased $35.9 million, or 7%, for the year ended October 31, 2018, when compared to the same prior year period. Our volume of avocados sold during fiscal year 2018 increased by 57.7 million pounds, or 19%, compared to the prior year; however, this increase in sales volume was significantly offset by a 22% decrease in the average sales price per carton, when compared to the unusually high market prices experienced in fiscal 2017.

Sales of tomatoes increased to $30.5 million for the year ended October 31, 2018, compared to $27.9 million for the same period for fiscal 2017. The increase in sales for tomatoes is primarily due to an approximately 7% increase in the average sales price per carton, in addition to a 2% increase in volume of tomatoes sold during the year.

We anticipate that our sales volume of avocados will increase in fiscal 2019, due to a larger expected all-source avocado crop, when compared to the same prior year period.

Fiscal 2017 vs. Fiscal 2016:

Net sales delivered by the Fresh products business increased by approximately $44.0 million, or 8%, 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 11%, 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 was due to a decrease in the sales price per carton of approximately 24% due primarily to a change in weather patterns which resulted in wider availability of tomatoes in the market.

Calavo Foods

Fiscal 2018 vs. Fiscal 2017:

Sales for Calavo Foods for the year ended October 31, 2018, when compared to the same period for fiscal 2017, increased $13.8 million, or 19%. Sales of prepared avocado products increased by approximately $14.4 million, or 20%, for the year ended October 31, 2018, when compared to the same prior year period, resulting from increases in both the average sales price per pound and the total volume of pounds sold. Partially offsetting this gain were sales of salsa products, which decreased by approximately $0.6 million during the year.

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%. This increase was primarily due to an increase in sales of prepared avocado products of approximately $10.8 million, or 18%, 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.

RFG

Fiscal 2018 vs. Fiscal 2017:

Sales for RFG for the year ended October 31, 2018, when compared to the same period for fiscal 2017, increased $30.4 million, or 7%. The overall increase in sales is primarily due to higher sales from expanded retail partnerships in multiple geographies, most notably in a few regions in which the Company has added production capacity.

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 26%. This increase was due primarily to increased sales from prepared foods, fresh-cut fruit and vegetable products. The overall increase in sales was 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.

Gross Profit

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

(Dollars in thousands)	2018	CHANGE	2017	CHANGE	2016
GROSS PROFIT:					
Fresh products	$ 54,160	(25.2)%	$ 72,376	24.8%	$ 57,997
Calavo Foods	26,313	97.1%	13,353	(40.5)%	22,448
RFG	33,143	15.0%	28,815	6.4%	27,089
Total gross profit	$ 113,616	(0.8)%	$ 114,544	6.5%	$ 107,534
GROSS PROFIT PERCENTAGES:					
Fresh products	9.8%		12.4%		10.8%
Calavo Foods	29.8%		17.9%		35.4%
RFG	7.4%		6.9%		8.1%
Consolidated	10.4%		10.6%		11.5%

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 decreased by approximately $0.9 million, or 1%, for the year ended October 31, 2018, when compared to the same period for fiscal 2017. The decrease was primarily attributable to a gross profit decrease in our Fresh products segment, partially offset by increases in our Calavo Foods and RFG segments.

Fresh products

Fiscal 2018 vs. Fiscal 2017:

During our year ended October 31, 2018, as compared to the same prior year period, the decrease in our Fresh products segment gross profit percentage was the result of decreased profit for avocados, partially offset by an increase in tomatoes. For the year ended October 31, 2018, compared to the same prior year period, the gross profit percentage for avocados decreased to 9.7% in 2018 from 12.7% in 2017. The decrease during fiscal 2018 was primarily related to the unusual market supply conditions experienced last year in which consumer demand greatly exceeded market supply, and higher year-over-year freight costs. 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 profits for our Fresh products segment.

For the year ended October 31, 2018 we generated gross profit of $3.2 million from tomato sales, up from $2.7 million in the corresponding prior year period. The increase in tomato gross profit was due primarily to the year-over-year increase in sales described in more detail earlier. 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.

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 24%.

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Calavo Foods

Fiscal 2018 vs. Fiscal 2017:

Calavo Foods gross profit percentage increased to 29.8% of net sales, during the year ended October 31, 2018 compared to 17.9% during the same prior year period. The increase in Calavo Foods gross profit percentage was due primarily to increased gross profit of our prepared avocado products. The increase in gross profit and margin for our prepared avocado products was primarily due to higher sales, as well as fruit costs that were below last year's record-high fruit 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.

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.

RFG

Fiscal 2018 vs. Fiscal 2017:

RFG's gross profit percentage for the year ended October 31, 2018 was 7.4%, compared to 6.9% in the same prior year period. The gross profit improvement for the year ended October 31, 2018, was due primarily to higher net sales and manufacturing efficiencies generated across the segment's manufacturing footprint, as well as lower raw material costs.

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.

Selling, General and Administrative	2018	CHANGE	2017	CHANGE	2016
(Dollars in thousands)					
Selling, general and administrative	$ 57,081	0.8%	$ 56,651	22.0%	$ 46,440
Percentage of net sales	5.2%		5.3%		5.0%

Selling, general and administrative expenses of $57.1 million for the year ended October 31, 2018 include costs of marketing and advertising, sales expenses (including broker commissions) and other general and administrative costs, as well as $0.9 million of management transition related expenses. Selling, general and administrative expenses increased $0.4 million, or 1%, for the year ended October 31, 2018, when compared to the same period for fiscal 2017.

This increase was primarily related to approximately $3.3 million increase in salaries and benefits ($1.6 million of costs related to the vesting of stock grants earned by certain members of the senior management team over the past three fiscal years, as well as $1.7 million due in part to higher headcount). Partially offsetting this increase was a decrease in bad debt (approximately $1.3 million), a decrease in accrued management bonuses (approximately $0.6 million) and a decrease in legal fees (approximately $0.5 million) for year ended October 31, 2018, when compared to the same period for fiscal 2017.

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%, 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).

Income (loss) from Unconsolidated Entities	2018	CHANGE	2017	CHANGE	2016
(Dollars in thousands)					
Income (loss) from unconsolidated entities	$ (11,850)	(3055.1)%	$ 401	170.4%	$ (570)
Percentage of net sales	(1.1)%		—%		(0.1)%

Income (loss) from unconsolidated entities includes our allocation of earnings or losses from our investments in FreshRealm and Don Memo. For the year ended October 31, 2018 and 2017, we recognized $0.2 million of income and $0.4 of income related to Don Memo. For the year ended October 31, 2018, we recognized $12.0 million of losses related to FreshRealm. While we are unable to determine with certainty the future operating results of FreshRealm and future non-Calavo investments, if any, we anticipate recording additional non-cash losses from FreshRealm during fiscal 2019. See Note 16 in our consolidated financial statements for more information.

Interest Income	2018	CHANGE	2017	CHANGE	2016
(Dollars in thousands)					
Interest income	$ 318	1,225.0%	$ 24	(81.8)%	$ 132
Percentage of net sales	—%		—%		—%

The increase in interest income in fiscal 2018 as compared to 2017 is primarily due to the loans to FreshRealm in fiscal 2018. See the related party footnote in our consolidated financial statements for further information. The decrease in interest income in fiscal 2017 as compared to 2016 is due to the loans to California avocado growers decreasing in the current year compared to the prior year.

Interest expense	2018	CHANGE	2017	CHANGE	2016
(Dollars in thousands)					
Interest expense	$ 831	(18.8)%	$ 1,023	35.3%	$ 756
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. (Bank of America), as well as our former term loan agreements with FCW and Bank of America (prior to June 2016). For fiscal 2018, as compared to fiscal 2017, the decrease in interest expense was primarily related to lower average debt balance, offset by higher LIBOR interest rates. 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.

Other Income, Net	2018	CHANGE	2017	CHANGE	2016
(Dollars in thousands)					
Other income, net	$ 559	16.7%	$ 479	11.9%	$ 428
Percentage of net sales	0.1%		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. During fiscal 2018, 2017 and 2016, we received $0.4 million, $0.4 million and $0.3 million as dividend income from Limoneira.

Provision for Income Taxes	2018	CHANGE	2017	CHANGE	2016
(Dollars in thousands)					
Provision for income taxes	$ 12,719	(37.8)%	$ 20,450	(6.5)%	$ 21,869
Effective tax rate	28.4%		36.3%		37.2%

Our tax provision is determined using an estimated annual effective tax rate and adjusted for discrete taxable events that may occur during the quarter. In the first quarter of fiscal 2018, we recorded $1.7 million in one-time, non-cash charges related to the revaluation of our net deferred tax assets (approx. $1.4 million) and the transition tax on the deemed repatriation of foreign earnings (approx. $0.3 million). In addition, we recorded an income tax benefit of approximately $0.4 million and $0.3 million for the first quarters of fiscal 2018 and 2017, pursuant to ASU 2016-09, *Improvements to Employee Share-based Payment Accounting*. We recognize

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

the effects of tax legislation in the period in which the law is enacted. Our deferred tax assets and liabilities are remeasured using enacted tax rates expected to apply to taxable income in the years we estimate the related temporary differences to reverse. Based on the Tax Act and a change accelerating certain tax deductions on our 2017 federal tax return, we recorded $0.8 million of a tax benefit as a discrete item during our third fiscal quarter of 2018. Additionally, we also recorded approximately $0.2 million of tax expense related to return to provision differences upon the filing of the 2017 tax return during our third fiscal quarter of 2018.

Net loss (income) attributable to noncontrolling interest	2018	Change	2017	Change	2016
(Dollars in thousands)					
Net loss (income) attributable to noncontrolling interest	$ 269	598.1%	$ (54)	(87.6)%	$ (437)
Percentage of net sales	0.0%		0.0%		0.0%

For fiscal 2018, the net loss attributable to noncontrolling interest is due to a loss from Avocados de Jalisco. 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, 2018. 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.

	Three Months Ended							
	Oct. 31, 2018	July 31, 2018	Apr. 30, 2018	Jan. 31, 2018	Oct. 31, 2017	July 31, 2017	Apr. 30, 2017	Jan. 31, 2017
(in thousands, except per share amounts)								
STATEMENT OF INCOME DATA								
Net sales	$280,005	$296,419	$264,405	$247,928	$ 277,204	$ 301,645	$ 270,162	$ 226,554
Cost of sales	257,738	263,349	232,436	221,618	245,689	276,793	233,909	204,630
Gross profit	22,267	33,070	31,969	26,310	31,515	24,852	36,253	21,924
Selling, general and administrative	14,796	13,893	12,875	15,517	14,701	12,698	15,426	13,826
Operating income	7,471	19,177	19,094	10,793	16,814	12,154	20,827	8,098
Other income (expense), net	(131)	271	11	(105)	(185)	(131)	(54)	(150)
Income before provision for income taxes and income (loss) from unconsolidated entities	7,340	19,448	19,105	10,688	16,629	12,023	20,773	7,948
Provision for income taxes	250	3,403	4,764	4,302	6,567	3,719	7,603	2,561
Income (loss) from unconsolidated entities	(8,451)	(3,677)	(325)	603	311	492	(236)	(166)
Net income	(1,361)	12,368	14,016	6,989	10,373	8,796	12,934	5,221
Add: Net (income) loss – noncontrolling interest	31	(18)	106	150	(107)	14	11	28
Net income (loss) – Calavo Growers, Inc	$ (1,330)	$ 12,350	$ 14,122	$ 7,139	$ 10,266	$ 8,810	$ 12,945	$ 5,249
Basic	$ (0.08)	$ 0.71	$ 0.81	$ 0.41	$ 0.59	$ 0.51	$ 0.74	$ 0.30
Diluted	$ (0.08)	$ 0.70	$ 0.80	$ 0.41	$ 0.59	$ 0.50	$ 0.74	$ 0.30
Number of shares used in per share computation:								
Basic	17,482	17,481	17,481	17,446	17,429	17,428	17,426	17,374
Diluted	17,581	17,581	17,580	17,525	17,544	17,544	17,539	17,430

LIQUIDITY AND CAPITAL RESOURCES

Operating activities for fiscal 2018, 2017 and 2016 provided cash flows of $48.4 million, $62.1 million and $62.0 million. Fiscal year 2018 operating cash flows reflect our net income of $32.0 million, net increase of noncash charges (depreciation and amortization, income/(loss) from unconsolidated entities, provision for losses on accounts receivable, deferred income taxes, and stock compensation expense) of $34.5 million and a net decrease from changes in the non-cash components of our working capital accounts of approximately $18.1 million.

Fiscal year 2018 decreases in operating cash flows, caused by working capital changes, includes a decrease in trade accounts payable, accrued expenses, and other long-term liabilities of $8.0 million, an increase in inventory of $4.1 million, an increase in other assets of $3.1 million, a decrease in payable to growers of $2.5 million, an increase in income tax receivable of $2.1 million, an increase in advances to suppliers of $1.0 million, and an increase in prepaid expenses and other current assets of $0.7 million, partially offset by, a decrease in accounts receivable of $3.6 million.

The decrease in accounts payable and accrued expenses is primarily related to a decrease in our payables related to RFG. The increase in our inventory balance is primarily related to an increase of guacamole on hand at October 31, 2018 as compared to the same prior year period. The increase in other assets is due to an increase in Mexican IVA tax receivable (see Note 15 to our consolidated condensed financial statements). The decrease in payable to our growers primarily reflects a decrease in our Mexican avocado grower payable due to lower avocado prices in October 2018 compared to October 2017. The increase in advances to suppliers is mainly due to an increase in advances to our tomato growers in fiscal 2018 compared to fiscal 2017. The decrease in our accounts receivable, as of October 31, 2018 when compared to October 31, 2017, primarily reflects more receivable collections in the month of October 2018, as compared to October 2017.

Cash used in investing activities was $30.2 million, $53.7 million and $21.7 million for fiscal years 2018, 2017, and 2016. Fiscal year 2018 cash flows used in investing activities include capital expenditures of $15.0 million of property, plant and equipment. It also includes loans to FreshRealm of $11.5 million, an additional investment in FreshRealm of $3.5 million, an infrastructure loan to Agricola Belher of $3.0 million, and additional investment in Agricola Don Memo of $0.1 million, partially offset by proceeds received from the repayment of a loan to FreshRealm of $2.5 million and the repayment of loans to San Rafael of $0.4 million.

Cash used in financing activities was $23.3 million, $15.7 million and $33.6 million for fiscal years 2018, 2017 and 2016. Cash used during fiscal year 2018 primarily to the payment of our $16.7 million dividend, payments on our credit facilities totaling $5.0 million, and the payment of minimum withholding taxes on net share settlement of equity awards of $1.6 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, 2018 and 2017 totaled $1.5 million and $6.6 million. Our working capital at October 31, 2018 was $29.6 million, compared to $3.7 million at October 31, 2017.

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 line of credit the weighted-average interest rate was 3.4% and 2.2% at October 31, 2018 and 2017. Under this credit facility, we had $15.0 million and $20.0 million outstanding as of October 31, 2018 and 2017.

This 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, 2018.

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, 2018:

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)	$ 441	$ 140	$ 237	$ 64	$ —
Revolving credit facilities	15,000	15,000	—	—	—
Defined benefit plan	147	35	70	42	—
Operating lease commitments	53,588	5,455	9,374	8,349	30,410
Total	$ 69,176	$ 20,630	$ 9,681	$ 8,455	$ 30,410

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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.

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

Recently Issued Accounting Standards

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

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

In January 2017, the FASB issued an ASU, *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 and is not expected to have a significant impact upon adoption.

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

In January 2016, the FASB issued an ASU, which requires equity investments (except those accounted for under the equity method of accounting) to be measured at fair value with changes in fair value recognized in net income. The guidance is effective for fiscal years and interim period within those fiscal years beginning after December 15, 2017. Early adoption is permitted. The impact of the adoption of this ASU on our consolidated statements of income depends on the net unrealized gain or loss on our equity investment. For the year ended October 31, 2018 and 2017, the net unrealized gain on our equity investment was $2.2 million and $6.3 million which relates solely to our investment in Limoneira.

In May 2014, the FASB issued a comprehensive new revenue recognition standard which will supersede previous existing revenue recognition guidance. The standard is intended to clarify the principles of recognizing revenue and create common revenue recognition guidance between U.S. GAAP and International Financial Reporting Standards. The standard also requires expanded disclosures surrounding revenue recognition. During fiscal 2017, the FASB issued additional clarification guidance on the new revenue recognition standard which also included certain scope improvements and practical expedients. The standard (including clarification guidance issued) is effective for fiscal periods beginning after December 15, 2017, which will be our first quarter of fiscal 2019. We will adopt the new standard using the modified retrospective transition method, under which the cumulative effect of initially applying the new guidance is recognized as an adjustment to the opening balance of retained earnings on the first day of our 2019 fiscal year. This standard will not have material impact on our results of operations or financial position.

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, 2018.

	EXPECTED MATURITY DATE OCTOBER 31,							
(All amounts in thousands)	2019	2020	2021	2022	2023	THEREAFTER	TOTAL	FAIR VALUE
ASSETS								
Cash and cash equivalents[1]	$ 1,520	$ —	$ —	$ —	$ —	$ —	$ 1,520	$ 1,520
Accounts receivable[1]	66,143	—	—	—	—	—	66,143	66,143
LIABILITIES								
Payable to growers[1]	$ 14,001	$ —	$ —	$ —	$ —	$ —	$ 14,001	$ 14,001
Accounts payable[1]	13,735	—	—	—	—	—	13,735	13,735
Current borrowings pursuant to credit facilities[1]	15,000	—	—	—	—	—	15,000	15,000
Fixed-rate long-term obligations[2]	118	122	122	70	—	—	432	447

(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 $8,000.

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 2018, 2017, and 2016, net of gains, were $0.8 million, $0.3 million and $1.1 million.

Consolidated Balance Sheets

OCTOBER 31, (in thousands)	2018	2017
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 1,520	$ 6,625
Accounts receivable, net of allowances of $3,227 (2018) $2,490 (2017)	66,143	69,750
Inventories, net	35,044	30,858
Prepaid expenses and other current assets	16,727	6,872
Advances to suppliers	5,555	4,346
Income taxes receivable	3,521	1,377
Total current assets	128,510	119,828
Property, plant, and equipment, net	122,143	120,072
Investment in Limoneira Company	42,609	40,362
Investment in unconsolidated entities	24,805	33,019
Deferred income taxes	4,377	9,783
Goodwill	18,262	18,262
Other assets	27,030	22,791
	$ 367,736	$ 364,117
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Payable to growers	$ 14,001	$ 16,524
Trade accounts payable	13,735	22,911
Accrued expenses	38,521	39,946
Short-term borrowings	15,000	20,000
Dividend payable	17,568	16,657
Current portion of long-term obligations	118	129
Total current liabilities	98,943	116,167
Long-term Liabilities:		
Long-term obligations, less current portion	314	439
Deferred rent	2,678	2,732
Other long-term liabilities	842	657
Total long-term liabilities	3,834	3,828
Commitments and contingencies		
Shareholders' Equity:		
Common stock ($0.001 par value, 100,000 shares authorized; 17,567 (2018) and 17,533 (2017) shares issued and outstanding)	18	18
Additional paid-in capital	157,928	154,243
Accumulated other comprehensive income	12,141	10,434
Noncontrolling interest	1,748	1,016
Retained earnings	93,124	78,411
Total shareholders' equity	264,959	244,122
	$ 367,736	$ 364,117

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

YEAR ENDED OCTOBER 31, (in thousands, except per share amounts)	2018	2017	2016
Net sales	$1,088,758	$ 1,075,565	$ 935,679
Cost of sales	975,142	961,021	828,145
Gross profit	113,616	114,544	107,534
Selling, general and administrative	57,081	56,651	46,440
Operating income	56,535	57,893	61,094
Interest income	318	24	132
Interest expense	(831)	(1,023)	(756)
Other income, net	559	479	428
Income before provision for income taxes and income (loss) from unconsolidated entities	56,581	57,373	60,898
Provision for income taxes	12,719	20,450	21,869
Income (loss) from unconsolidated entities	(11,850)	401	(570)
Net income	32,012	37,324	38,459
Less: Net loss (income) attributable to noncontrolling interest	269	(54)	(437)
Net income attributable to Calavo Growers, Inc.	$ 32,281	$ 37,270	$ 38,022
CALAVO GROWERS, INC.'S NET INCOME PER SHARE:			
Basic	$ 1.85	$ 2.14	$ 2.19
Diluted	$ 1.84	$ 2.13	$ 2.18
NUMBER OF SHARES USED IN PER SHARE COMPUTATION:			
Basic	17,477	17,416	17,347
Diluted	17,568	17,514	17,431

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

YEAR ENDED OCTOBER 31, (in thousands)	2018	2017	2016
Net income	**$ 32,012**	$ 37,324	$ 38,459
Other comprehensive income, before tax:			
Unrealized investment gains	**2,247**	6,327	6,621
Income tax expense related to items of other comprehensive income	**(540)**	(2,437)	(2,496)
Other comprehensive income, net of tax	**1,707**	3,890	4,125
Comprehensive income	**33,719**	41,214	42,584
Less: Net loss (Income) attributable to noncontrolling interest	**269**	(54)	(437)
Comprehensive income – Calavo Growers, Inc.	**$ 33,988**	$ 41,160	$ 42,147

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, 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
Exercise of stock options and income tax benefit	3	—	53	—	—	—	53
Stock compensation expense	—	—	3,742	—	—	—	3,742
Restricted stock issued	31	—	891	—	—	—	891
Unrealized gain on Limoneira investment, net	—	—	—	1,707	—	—	1,707
Dividend declared to shareholders	—	—	—	—	(17,568)	—	(17,568)
Noncash transfer of noncontrolling interest	—	—	(1,001)	—	—	1,001	—
Avocados de Jalisco noncontrolling interest contribution	—	—	—	—	—	(269)	(269)
Net income attributable to Calavo Growers, Inc.	—	—	—	—	32,281	—	32,281
Balance, October 31, 2018	17,567	$ 18	$ 157,928	$ 12,141	$ 93,124	$ 1,748	$ 264,959

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

YEAR ENDED OCTOBER 31, (in thousands)	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 32,012	$ 37,324	$ 38,459
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	13,042	10,691	8,812
Provision for losses (recoveries) on accounts receivable	(10)	1,230	47
Loss (income) from unconsolidated entities	11,851	(401)	570
Stock compensation expense	4,633	4,320	2,134
Loss on disposal of property, plant, and equipment	121	74	248
Excess tax benefit from stock-based compensation	—	—	(447)
Deferred income taxes	4,866	2,725	1,603
Effect on cash of changes in operating assets and liabilities:			
Accounts receivable, net	3,617	(879)	(11,542)
Inventories, net	(4,186)	991	(5,498)
Prepaid expenses and other current assets	(729)	(1,447)	(5,097)
Advances to suppliers	(1,009)	79	(1,605)
Income taxes receivable/payable	(2,144)	(1,043)	6,224
Other assets	(3,118)	(2,362)	683
Payable to growers	(2,524)	(4,239)	18,084
Deferred rent	(54)	425	1,697
Trade accounts payable, accrued expenses and other long-term liabilities	(7,942)	14,652	7,596
Net cash provided by operating activities	48,426	62,140	61,968
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisitions of and deposits on property, plant, and equipment	(15,004)	(44,510)	(21,859)
Investment in unconsolidated entities	(3,500)	(9,067)	(3,900)
Proceeds received for repayment of San Rafael note	436	409	28
Infrastructure advance to Agricola Belher	(3,000)	—	—
Loan to FreshRealm	(11,500)	—	—
Proceeds received for repayment of loan to FreshRealm	2,500	—	4,000
Investment in Agricola Don Memo	(136)	(500)	—
Net cash used in investing activities	(30,204)	(53,668)	(21,731)

See accompanying notes to consolidated financial statements.

YEAR ENDED OCTOBER 31, (in thousands)	2018	2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES:			
Payment of dividend to shareholders	(16,657)	(15,696)	(13,907)
Proceeds from revolving credit facility	278,500	163,500	217,230
Payments on revolving credit facility	(283,500)	(162,500)	(235,140)
Payment of minimum withholding taxes on net share settlement of equity awards	(1,587)	—	—
Purchase of noncontrolling interest of Salsa Lisa	—	(1,000)	(91)
Payments on long-term obligations	(136)	(58)	(2,209)
Proceeds from stock option exercises	53	65	104
Excess tax benefit from stock-based compensation	—	—	447
Net cash used in financing activities	(23,327)	(15,689)	(33,566)
Net decrease in cash and cash equivalents	(5,105)	(7,217)	6,671
Cash and cash equivalents, beginning of period	6,625	13,842	7,171
Cash and cash equivalents, end of period	$ 1,520	$ 6,625	$ 13,842
SUPPLEMENTAL INFORMATION:			
Cash paid during the year for:			
Interest	$ 874	$ 1,094	$ 741
Income taxes	$ 9,262	$ 17,011	$ 14,425
NONCASH INVESTING AND FINANCING ACTIVITIES:			
Declared dividends payable	$ 17,568	$ 16,657	$ 15,696
Acquisitions of property, plant, and equipment with capital lease	$ —	$ 8,368	$ —
Investment in FreshRealm included in accrued expenses	$ —	$ —	$ 1,600
Property, plant, and equipment included in trade accounts payable and accrued expenses	$ 946	$ 1,833	$ 4,574
Collection for Agricola Belher Infrastructure Advance	$ 200	$ 200	$ 1,045
Unrealized investment gain	$ 2,247	$ 6,326	$ 6,621

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

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

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

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 de Mexico), 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 an 83 percent ownership interest, and RFG. All intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. 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.

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 $4.9 million and $4.7 million at October 31, 2018 and 2017. Included in non-trade receivables are $1.5 million and $1.4 million related to the current portion of non-CDM Mexican IVA (i.e. value-added) taxes at October 31, 2018 and 2017 (See Note 15). Infrastructure advances are discussed below. In addition, loans of $9.0 million to FreshRealm are included in prepaid expenses and other current assets (See Note 8). Prepaid expenses totaling $2.8 million and $2.9 million at October 31, 2018 and 2017, are primarily for insurance, rent and other items.

Inventories

Inventories are stated at the lower of cost and net realizable value. 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 2017, the Company implemented a new financial accounting system in one of our three business segments. In fiscal 2017, we capitalized software development costs of $1.8 million 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 2018, 2017 and 2016, 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, 2018 and 2017.

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 2018 and 2017, we performed our annual assessment of long-lived assets and determined that no impairment indicators existed as of October 31, 2018 and 2017.

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 2018 and 2017, we contributed $0.1 million and $0.5 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. As of October 31, 2018 and 2017, we have an investment of $4.9 million and $4.6 million in Don Memo.

As of October 31, 2018 and 2017, we have an investment of $19.9 million and $28.4 million in FreshRealm, LLC ("FreshRealm"). We record the amount of our investment in FreshRealm in "Investment in unconsolidated entities" on our Consolidated Balance Sheets and recognize losses in FreshRealm in "Income/(loss) in unconsolidated entities" in our Consolidated Condensed Statement of Income. See Note 16 for additional information.

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

In order to estimate the fair value of our investment in Freshrealm we hired an independent third-party expert to provide their written opinion on the fair value of our investment. We reviewed and considered their independent expert opinion in making our determination.

Marketable Securities

Our marketable securities consist of our investment in Limoneira Company (Limoneira) stock. We currently own less than 10% 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 $42.6 million, $23.5 million and $19.1 million as of October 31, 2018. 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.

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. No such allowance was required at October 31, 2018. We recorded an allowance of $0.4 million at October 31, 2017.

Notes To Consolidated Financial Statements

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 agreed 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 2018 and 2017, we agreed to advance $4.0 million for preseason advances. As of October 31, 2018 and 2017, we have total advances of $4.0 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, 2018 and 2017, we have total advances of $2.5 million and $1.6 million to Don Memo, which is recorded in advances to suppliers, offset by tomato liabilities from the sales of tomatoes per the tomato marketing agreement.

Infrastructure Advances

Pursuant to our infrastructure agreements, 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. In August 2018, we entered into an amended infrastructure agreement with Belher and advanced $3.0 million. This amount shall be paid back in annual installments of $0.6 million through June 2023, and incurs interest at Libor plus 10%. Advances prior to this amended agreement incur interest at Libor plus 3.0%. As of October 31, 2018, we have advanced a total of $3.4 million ($0.8 million included in prepaid expenses and other current assets and $2.6 million included in other long-term assets). 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). 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, 2018 and 2017 are liabilities related to the receipt of goods and/or services for which an invoice has not yet been received. These totaled approximately $20.9 million and $24.8 million for the year ended October 31, 2018 and 2017.

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.

Customers

We sell to retail grocery, foodservice, club stores, mass merchandisers, food distributors and wholesale customers. Our top ten customers accounted for approximately 59%, 59% and 52% of our consolidated net sales in fiscal years 2018, 2017 and 2016, respectively. Sales to our largest customer, Kroger (including its affiliates), represented approximately 20%, 19%, and 17% of net sales in each of fiscal years 2018, 2017, and 2016. Additionally, Wal-Mart (including its affiliates) represented approximately 10% of net sales in fiscal year 2018. No other single customer accounted for more than 10% of our net sales in any of the last three fiscal years.

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 avocado and tomato growers and packers located outside of the U.S. and growers of certain perishable products in the U.S. 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, 2018, 2017 and 2016 in the financial statements pursuant to consignment arrangements are as follows (in thousands):

	2018	2017	2016
Sales	$ 43,490	$ 25,891	$ 34,919
Cost of Sales	38,186	22,784	30,729
Gross Profit	$ 5,304	$ 3,107	$ 4,190

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 $0.2 million, $0.1 million and $0.2 million for fiscal years 2018, 2017, and 2016.

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 2018, 2017 and 2016 were less than $0.1 million.

Other Income

Included in other income is dividend income totaling $0.6 million for fiscal year 2018. Dividend income totaled $0.5 million and $0.6 million for fiscal years 2017 and 2016. See Note 8 for related party disclosure related to other income.

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,	2018	2017	2016
Numerator:			
Net Income attributable to Calavo Growers, Inc.	$ 32,281	$ 37,270	$ 38,022
Denominator:			
Weighted average shares – Basic	17,477	17,416	17,347
Effect on dilutive securities – Restricted stock/options	91	98	84
Weighted average shares – Diluted	17,568	17,514	17,431
Net income per share attributable to Calavo Growers, Inc:			
Basic	$ 1.85	$ 2.14	$ 2.19
Diluted	$ 1.84	$ 2.13	$ 2.18

Notes To Consolidated Financial Statements

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, 2018, 2017 and 2016, we recognized compensation expense of $4.6 million, $4.3 million, and $2.1 million related to stock-based compensation (See Note 12). 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 translation losses for fiscal 2018, 2017 and 2016, net of gains, were $0.8 million, $0.3 million, and $1.1 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 $0.4 million and $0.6 million as of October 31, 2018 and 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 May 2017, the FASB issued an ASU, *Stock Compensation (Topic 718), Scope of Modification Accounting.* This ASU clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. The guidance clarifies that modification accounting will be applied if the value, vesting conditions or classification of the award changes. The Company adopted this new standard at the beginning of fiscal 2018. The adoption of the amendment did not have a material impact on the Company's consolidated financial statements.

Recently Issued Accounting Standards

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

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

In January 2017, the FASB issued an ASU, *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 and is not expected to have a significant impact upon adoption.

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

In January 2016, the FASB issued an ASU, which requires equity investments (except those accounted for under the equity method of accounting) to be measured at fair value with changes in fair value recognized in net income. The guidance is effective for fiscal years and interim period within those fiscal years beginning after December 15, 2017. Early adoption is permitted. The impact of the adoption of this ASU on our consolidated statements of income depends on the net unrealized gain or loss on our equity investment. For the year ended October 31, 2018 and 2017, the net unrealized gain on our equity investment was $2.2 million and $6.3 million which relates solely to our investment in Limoneira.

In May 2014, the FASB issued a comprehensive new revenue recognition standard which will supersede previous existing revenue recognition guidance. The standard is intended to clarify the principles of recognizing revenue and create common revenue recognition guidance between U.S. GAAP and International Financial Reporting Standards. The standard also requires expanded disclosures surrounding revenue recognition. During fiscal 2017, the FASB issued additional clarification guidance on the new revenue recognition standard which also included certain scope improvements and practical expedients. The standard (including clarification guidance issued) is effective for fiscal periods beginning after December 15, 2017, which will be our first quarter of fiscal 2019. We will adopt the new standard using the modified retrospective transition method, under which the cumulative effect of initially applying the new guidance is recognized as an adjustment to the opening balance of retained earnings on the first day of our 2019 fiscal year. This standard will not have material impact on our results of operations or financial position.

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, 2018, other comprehensive income includes the unrealized gain on our Limoneira investment totaling $1.7 million, net of income taxes. Limoneira's stock price at October 31, 2018 equaled $24.65 per share. 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.

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, 2018	YEAR ENDED OCTOBER 31, 2016
Noncontrolling interest, beginning	$ —	$ 771
Purchase of noncontrolling interest of Salsa Lisa	—	(771)
Noncontrolling interest, ending	$ —	$ —

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, 2018	YEAR ENDED OCTOBER 31, 2016
Noncontrolling interest, beginning	$ 1,016	$ 962
Noncash transfer of noncontrolling interest	1,001	—
Net income (loss) attributable to noncontrolling interest of Avocados de Jalisco	(269)	54
Noncontrolling interest, ending	$ 1,748	$ 1,016

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3. INVENTORIES

Inventories consist of the following (in thousands):

OCTOBER 31,	2018	2017
Fresh fruit	$ 12,902	$ 14,566
Packing supplies and ingredients	10,889	9,755
Finished prepared foods	11,253	6,537
	$ 35,044	$ 30,858

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 to adjust our fresh fruit inventory to the net realizable value as of October 31, 2017. No adjustment was necessary as of October 31, 2018.

4. PROPERTY, PLANT, AND EQUIPMENT

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

OCTOBER 31,	2018	2017
Land	$ 11,569	$ 11,569
Buildings and improvements	44,828	44,338
Leasehold improvements	26,004	25,030
Equipment	89,451	79,023
Information systems – hardware and software	10,752	10,264
Construction in progress	5,867	7,487
	188,471	177,711
Less accumulated depreciation and amortization	(66,328)	(57,639)
	$ 122,143	$ 120,072

Depreciation expense was $11.9 million, $9.5 million and $7.3 million for fiscal years 2018, 2017, and 2016, of which $0.3 million, $0.5 million and $0.5 million was related to depreciation on capital leases for fiscal year 2018, 2017, and 2016.

Property, plant, and equipment include various capital leases which total $3.4 million and $3.4 million, less accumulated depreciation of $3.3 million and $3.0 million as of October 31, 2018 and 2017.

5. OTHER ASSETS

Other assets consist of the following (in thousands):

OCTOBER 31,	2018	2017
Intangibles, net	$ 1,109	$ 2,226
Mexican IVA (i.e. value-added) taxes receivable (see note 15)	21,859	18,174
Infrastructure advance to Agricola Belher	2,600	400
Loan to FreshRealm members	—	315
Notes receivable from San Rafael	39	493
Other	1,423	1,183
	$27,030	$ 22,791

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

		OCTOBER 31, 2018			OCTOBER 31, 2017		
	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	$ (7,106)	$ 534	$ 7,640	$ (6,181)	$ 1,459
Trade names	8.5 years	2,760	(2,672)	88	2,760	(2,529)	231
Trade secrets/recipes	9.3 years	630	(418)	212	630	(369)	261
Brand name intangibles	indefinite	275	—	275	275	—	275
Intangibles, net		$ 11,305	$ (10,196)	$ 1,109	$ 11,305	$ (9,079)	$ 2,226

We recorded amortization expense of approximately $1.1 million, $1.2 million, and $1.5 million for fiscal years 2018, 2017, and 2016. We anticipate recording amortization expense of approximately $0.7 million, $0.1 million, $0.1 million, and $0.1 million for fiscal years 2019 through 2022. The remainder which is less than $0.1 million will be amortized over fiscal years 2022 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. For our line of credit the weighted-average interest rate was 3.4% and 2.2% at October 31, 2018 and 2017. Under this credit facility, we had $15.0 million and $20.0 million outstanding as of October 31, 2018 and 2017.

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, 2018.

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. 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, 2018, as follows (in thousands):

2019	$ 5,455
2020	4,888
2021	4,486
2022	4,171
2023	4,178
Thereafter	30,410
	$ 53,588

Total rent expense amounted to approximately $6.4 million, $6.0 million and $5.8 million for the years ended October 31, 2018, 2017, and 2016. Rent to Limoneira, for our corporate office, amounted to approximately $0.3 million for fiscal years 2018, 2017, and 2016.

Effective January 28, 2016, Calavo Growers, Inc. and Bank of America, N.A., entered into a Continuing and Unconditional Guaranty agreement (the "Guaranty"). Under the terms of the Guaranty, the Company unconditionally guarantees and promises to pay Bank of America any and all Indebtedness, as defined therein, of our unconsolidated subsidiary Agricola Don Memo, S.A. de C.V. to Bank of America. Grupo Belo del Pacifico, S.A. de C.V. has

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also entered into a similar guarantee with Bank of America. These guarantees relate to a new loan in the amount of $4.5 million loan from Bank of America to Don Memo that closed on January 28, 2016. On January 29, 2016, Don Memo, used the proceeds from the new Bank of America loan to repay $4.0 million due the Company. In December 2018, Don Memo received third party financing, repaid its loan to Bank of America and therefore, it is no longer necessary for Calavo to guarantee Don Memo's indebtedness.

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 were 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 Company recorded $0.4 million as a selling, general and administrative expense in the third quarter of fiscal 2017. In August 2018, the court approved the settlement, and we paid $0.4 million.

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.

However, the outcome of all litigation is inherently uncertain. If one or more of the lawsuits referred to in this paragraph is resolved against the Company in a reporting period for amounts in excess of management's expectations, our financial condition and operating results for that reporting period could be materially and adversely affected.

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 U.S. 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 initial PRODECON process concluded. In April 2018, we filed a second formal agreement before the PRODECON, so that we can continue the discussion of the case between us, the MFM and the PRODECON. During this meeting and discussion period, the statutory period that MFM has in order to issue the tax assessment has been suspended. Currently, we are waiting for the response of the MFM and the PRODECON regarding our next meeting date. 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. During this meeting and discussion period, the statutory period that SAT had in order to issue the tax assessment was suspended. During our first fiscal quarter of 2018, we had an initial meeting with officials from the SAT and the PRODECON, which led to a further exchange of supporting information and documentation. Although several meetings and discussions with the PRODECON and the SAT were conducted during our fiscal third quarter, we were unable to materially resolve our case with the SAT through the PRODECON process.

As a result, on July 12, 2018, the SAT's local office in Uruapan issued to CDM a final tax assessment (the "2013 Assessment") totaling approximately $2.62 billion Mexican pesos related to Income Tax, Flat Rate Business Tax, and Value Added Tax, related to this fiscal 2013 tax audit. Additionally, the tax authorities have determined an employee's profit sharing liability totaling approximately $118 million Mexican pesos as well.

We have consulted with both an internationally recognized tax advisor, as well as a global law firm with offices throughout Mexico, and we continue to believe this tax assessment is without merit. In August 2018, we filed an administrative appeal on the 2013 Assessment. The filing of an administrative appeal in Mexico is a process in which the taxpayer appeals to a different office within the Mexican tax authorities forcing the legal office within the SAT to rule on the matter. This process preserves the taxpayer's right to litigate in tax court if the administrative appeal process ends without a favorable or just resolution. Here, CDM has appealed our case to the SAT's central legal department in Mexico City. Furthermore, in August 2018, we received a favorable ruling from the SAT's central legal department in Mexico City on another tax matter (see footnote 15 regarding VAT refunds) indicating that they believe that our legal interpretation is accurate on a matter that is also central to the 2013 Assessment. We believe this recent ruling significantly undermines the 2013 Assessment we received in July 2018.

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

However, the outcome of all litigation is inherently uncertain. If one or more of the lawsuits referred to in this paragraph is resolved against the Company in a reporting period for amounts in excess of management's expectations, our financial condition and operating results for that reporting period could be materially and adversely affected.

8. 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, 2018, 2017, and 2016, the aggregate amount of avocados procured from entities owned or controlled by members of our Board of Directors was $11.2 million, $19.8 million and $25.5 million. We did not have any amounts due to Board members as of October 31, 2018 and 2017.

During fiscal years 2018, 2017, and 2016, we received $0.4 million, $0.4 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 2018, 2017, and 2016. Harold Edwards, who is a member of our Board of Directors, is the Chief Executive Officer of Limoneira Company. We have less than 10% ownership interest in Limoneira. Additionally, our Chief Executive Officer is a member of the Limoneira Board of Directors. In December 2018, our Chief Executive Officer retired from Limoneira's Board of Directors.

We currently have a member of our Board of Directors who also serves as a partner in the law firm of TroyGould PC, which frequently represents Calavo as legal counsel. During the years ended October 31, 2018, 2017, and 2016, 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, U.S., Canada, and any other overseas market.

In January 2016, our unconsolidated subsidiary, Don Memo, entered into a loan agreement in the amount of $4.5 million with Bank of America, N.A. (BoA) proceeds of which were used by Don Memo to repay debt owed to Calavo. Also in January 2016, Calavo and BoA, entered into a Continuing and Unconditional Guaranty Agreement (the Guaranty). Under the terms of the Guaranty, Calavo unconditionally guarantees and promises to pay Bank of America 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. In December 2018, Don Memo received third party financing, repaid its loan to Bank of America and therefore, it is no longer necessary for Calavo to guarantee Don Memo's indebtedness.

As of October 31, 2018, 2017 and 2016, we have an investment of $4.9 million, $4.6 million and $3.7 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. In September 2018, we contributed $0.2 million, of which $0.1 million was a short-term loan, and $0.1 million was an additional investment. As of October 31, 2018, 2017 and 2016, we had outstanding advances of $2.5 million, $1.6 million and $0.9 million to Don Memo. During the year ended October 31, 2018, 2017 and 2016 we purchased $11.1 million, $8.9 million and $4.8 million of tomatoes from Don Memo pursuant to our consignment agreement.

We had grower advances due from Belher of $4.0 million, $4.0 million and $4.4 million as of October 31, 2018, 2017 and 2016. In August 2018, we entered into an amended infrastructure agreement with Belher and advanced $3.0 million. This amount shall be paid back annually at $0.6 million through June 2023, and incur interest of Libor plus 10%. We had infrastructure advances due from Belher of $3.4 million, $0.6 million and $0.8 million as of October 31, 2018, 2017 and 2016. Of these infrastructure advances $0.8 million was recorded as receivable in prepaid and other current assets and $2.6 million is included in other assets. During the year ended October 31, 2018, 2017 and 2016, we purchased $14.1 million, $13.9 million, and $26.0 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 83% owned by Calavo and is consolidated in our financial statements. Avocados de Jalisco has built a packinghouse located in Jalisco, Mexico and such packinghouse began operations in June of 2017. As of October 31, 2018, 2017 and 2016, we have made preseason advances of approximately $0.1 million to various partners of Avocados de Jalisco. During the year ended October 31, 2018 and 2017, we purchased approximately $1.8 million and $1.9 million of avocados from the partners of Avocados de Jalisco. In January 2018, we transferred $1.0 million of interest to the Avocados de Jalisco noncontrolling members.

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As of October 31, 2018 and 2017, we have an investment of $19.9 million and $28.4 million in FreshRealm, LLC ("FreshRealm"). We record the amount of our investment in FreshRealm in "Investment in unconsolidated entities" on our Consolidated Condensed Balance Sheets and recognize losses in FreshRealm in "Income/(loss) in unconsolidated entities" in our Consolidated Condensed Statement of Income. See Note 16 for additional information.

On July 3, 2018, we entered into a $2.5 million Promissory Note with FreshRealm. That note was repaid in full on July 31, 2018 in connection with the debt and equity financing described below.

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

Additionally, pursuant to such NMUPA, we entered into a $12 million Senior Promissory Note and corresponding Security Agreement (collectively, the "Agreements") with FreshRealm, effective August 10, 2018. Pursuant to the Agreements, the $12 million facility is available in two $6 million tranches. On August 10, 2018, we funded the first $6 million tranche to FreshRealm. The second $6 million tranche initially was available to FreshRealm upon its attainment of least $17 million in gross revenues over any consecutive two calendar months (i.e. in aggregate). In October 2018, we waived the sales threshold requirement and loaned FreshRealm $3.0 million. In November 2018, we again waived the sales threshold and loaned the remaining $3.0 million. See Note 16 for further information.

Three officers and five members of our board of directors have investments in FreshRealm. In addition, as of October 31, 2018 and 2017, we have a loan to FreshRealm members of approximately $0.2 million and $0.3 million. In October 2017 and December 2017, our Chairman and Chief Executive Officer invested $7.0 million and $1.5 million, respectively, into FreshRealm. In January 2018, one of our non-executive directors invested $1.8 million into FreshRealm. In the second quarter of fiscal 2018, two of our non-executive directors invested $1.2 million into FreshRealm.

We provide storage services to FreshRealm from our New Jersey and Texas Value-Added Depots, and our RFG Riverside facility. We received $0.3 million, $0.2 million and $0.1 million in storage services revenue from FreshRealm for the year ended October 31, 2018, 2017 and 2016. For the year ended October 31, 2018 and 2017, RFG sold $9.9 million and $7.3 million of products to FreshRealm. For fiscal 2016, RFG did not have sales to FreshRealm.

The previous owners of RFG, one of which is currently an officer of Calavo, have a majority ownership of certain entities that provide various services to RFG, specifically LIG Partners, LLC and THNC, LLC. One of RFG's California operating facilities leases a building from LIG Partners, LLC (LIG) pursuant to an operating lease. RFG's Texas operating facility leases a building from THNC, LLC (THNC) pursuant to an operating lease. See the following tables for the related party activity for fiscal years 2018 and 2017:

YEAR ENDED OCTOBER 31, (in thousands)	2018	2017
Rent paid to LIG	$ 603	$ 546
Rent paid to THNC, LLC	$ 819	$ 659

9. INCOME TAXES

On December 22, 2017, the President of the United States signed and enacted comprehensive tax legislation into law H.R. 1, commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). Except for certain provisions, the Tax Act is effective for tax years beginning on or after January 1, 2018. As a fiscal year U.S. taxpayer with an October 31 fiscal year end, the majority of the new provisions, such as eliminating the domestic manufacturing deduction, creating new taxes on certain foreign sourced income and introducing new limitations on certain business deductions, will not apply until our 2019 fiscal year. For fiscal 2018, the most significant impacts include: lowering of the U.S. federal corporate income tax rate; remeasuring certain net deferred tax assets and liabilities; and requiring the transition tax on the deemed repatriation of certain foreign earnings. We recorded $1.7 million in one-time, non-cash charges related to the revaluation of our net deferred tax assets (approx. $1.4 million) and the transition tax on the deemed repatriation of foreign earnings (approx. $0.3 million).

On December 22, 2017, the SEC issued guidance under Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act ("SAB 118") allowing taxpayers to record a reasonable estimate of the impact of the U.S. legislation when it does not have the necessary information available, prepared or analyzed (including computations) in reasonable detail to complete its accounting for the change in tax law. In accordance with SAB 118, the estimated income tax charge of $2.3 million represents the Company's best estimate based on interpretation of the U.S. legislation. As a result, the actual impact on the net deferred tax liability may vary from the estimated amount due to uncertainties in the Company's preliminary review.

The Company recorded a provisional expense of approximately $0.3 million related to the one-time transition tax on the deemed repatriation of undistributed foreign earnings. The transition tax is based on the Company's estimated total post-1986 undistributed foreign earnings at a tax rate of 15.5% for foreign cash and certain other specified assets, and 8% on the remaining earnings. The actual transition tax due will be based on actual undistributed foreign earnings and cash and certain other specified assets as of the required measurement date, which could materially affect the amount of the transition tax. Accordingly, the non-current portion of the provisional expense for the transition tax of $0.3 million, net of applicable foreign tax credits the Company expects to utilize, has been recorded in Deferred income taxes and other liabilities on the Unaudited Condensed Consolidated Balance Sheets.

Prior to the enactment of the Tax Act, the Company regularly determined certain foreign earnings to be indefinitely reinvested outside the United States. Our intent is to permanently reinvest these funds outside of the United States and our current plans do not demonstrate a need to repatriate the cash to fund our U.S. operations. However, if these funds were repatriated, we would be required to accrue and pay applicable United States taxes (if any) and withholding taxes payable to foreign tax authorities.

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

	2018	2017	2016
CURRENT:			
Federal	$ 7,115	$ 14,875	$ 17,244
State	1,582	2,561	2,040
Foreign	(844)	290	982
Total current	7,853	17,726	20,266
DEFERRED:			
Federal	3,328	2,567	1,863
State	690	335	533
Foreign	848	(178)	(793)
Total deferred	4,866	2,724	1,603
Total income tax provision	$ 12,719	$ 20,450	$ 21,869

At October 31, 2018 and 2017, gross deferred tax assets totaled approximately $19.1 million and $31.9 million, while gross deferred tax liabilities totaled approximately $14.8 million and $22.1 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):

	2018	2017
Property, plant, and equipment	$ (7,715)	$ (7,861)
Intangible assets	13,886	24,647
Unrealized gain, Limoneira investment	(4,777)	(6,485)
Investment in FreshRealm	(1,283)	(6,808)
Stock-based compensation	899	1,154
State taxes	(690)	(805)
Credits and incentives	1,641	2,253
Allowance for accounts receivable	825	1,239
Inventories	353	322
Accrued liabilities	1,533	2,245
Other	(295)	(118)
Long-term deferred income taxes	$ 4,377	$ 9,783

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:

	2018	2017	2016
Federal statutory tax rate	23.3%	35.0%	35.0%
State taxes, net of federal effects	3.6	2.9	2.9
Foreign income taxes greater than U.S.	0.7	0.1	0.7
Revaluation of deferred taxes	4.5	—	—
Section 199 deduction	(1.9)	(2.2)	(1.7)
Provision to return	(1.2)	—	—
Transition Tax	0.6	—	—
State rate change	0.2	0.3	—
Other	(1.4)	(0.7)	(0.6)
	28.4%	35.4%	36.3%

For fiscal years 2018, 2017 and 2016, income before income taxes related to domestic operations was approximately $45.8 million, $57.5 million, and $61.0 million. For fiscal years 2018, 2017 and 2016, income (loss) before income taxes related to foreign operations was approximately $(1.1) million, $0.2 million and $(0.6) million.

As of October 31, 2018 and 2017, we had liability of $0.1 million and $0.7 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, 2015, and are no longer subject to state income tax examinations for fiscal years prior to October 31, 2014.

Notes To Consolidated Financial Statements

10. 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, fresh-cut vegetables and prepared foods. Selling, general and administrative expenses, as well as other non-operating income/expense items, are evaluated by our Chief Executive Officer in the aggregate. We do not allocate assets, or specifically identify them to, our operating segments.

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, 2018				
Net sales (before intercompany eliminations)	$ 553,208	$ 91,646	$ 448,930	$ 1,093,784
Intercompany eliminations	(1,554)	(3,472)	—	(5,026)
Net sales	551,654	88,174	448,930	1,088,758
Cost of sales (before intercompany eliminations)	498,962	64,221	416,985	980,168
Intercompany eliminations	(1,468)	(2,360)	(1,198)	(5,026)
Cost of sales	497,494	61,861	415,787	975,142
Gross profit	$ 54,160	$ 26,313	$ 33,143	$ 113,616
YEAR ENDED OCTOBER 31, 2017				
Net sales (before intercompany 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 intercompany 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 intercompany 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 intercompany 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

For fiscal year 2018, 2017 and 2016, inter-segment sales and cost of sales of $1.6 million, $1.3 million and $4.3 million between Fresh products and RFG were eliminated. For fiscal year 2018, 2017 and 2016, inter-segment sales and cost of sales of $3.5 million, $3.2 million and $2.7 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, 2018				YEAR ENDED OCTOBER 31, 2017			
	FRESH PRODUCTS	CALAVO FOODS	RFG	TOTAL	FRESH PRODUCTS	CALAVO FOODS	RFG	TOTAL
THIRD-PARTY SALES:								
Avocados	$ 511,730	$ —	$ —	**$ 511,730**	$ 546,433	$ —	$ —	$ 546,433
Tomatoes	31,608	—	—	**31,608**	29,199	—	—	29,199
Papayas	11,699	—	—	**11,699**	9,402	—	—	9,402
Other fresh products	498	—	—	**498**	445	—	—	445
Prepared avocado products	—	99,635	—	**99,635**	—	85,204	—	85,204
Salsa	—	3,423	—	**3,423**	—	3,951	—	3,951
Fresh-cut fruit & vegetables and prepared foods	—	—	451,203	**451,203**	—	—	419,973	419,973
Total gross sales	555,535	103,058	451,203	**1,109,796**	585,479	89,155	419,973	1,094,607
Less sales incentives	(2,327)	(11,412)	(2,273)	**(16,012)**	(1,503)	(11,576)	(1,465)	(14,544)
Less inter-company eliminations	(1,554)	(3,472)	—	**(5,026)**	(1,314)	(3,184)	—	(4,498)
Net sales	$ 551,654	$ 88,174	$ 448,930	**$ 1,088,758**	$ 582,662	$ 74,395	$ 418,508	$ 1,075,565

	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

Sales to customers outside the U.S. were approximately $41.8 million, $29.8 million and $25.4 million for fiscal years 2018, 2017, and 2016.

RFG segment sales included sales to one customer who represented more than 10% of total consolidated revenues for fiscal 2018, 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, 2018 and 2017.

Notes To Consolidated Financial Statements

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

	UNITED STATES	MEXICO	CONSOLIDATED
2018	**$ 88,600**	**$ 33,543**	**$ 122,143**
2017	$ 88,078	$ 31,994	$ 120,072

11. LONG-TERM OBLIGATIONS

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

	2018	2017
Capital leases	**$ 432**	$ 568
Less current portion	**(118)**	(129)
	$ 314	$ 439

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.

At October 31, 2018, capital lease payments are scheduled as follows (in thousands):

YEAR ENDING OCTOBER 31:	TOTAL
2019	$ 140
2020	129
2021	108
2022	64
2023	—
Thereafter	—
Minimum lease payments	441
Less interest	(9)
Present value of future minimum lease payments	$ 432

12. 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, 2017	7	$ 18.54	
Exercised	(3)	$ 17.66	
Outstanding at October 31, 2018	4	$ 19.20	$ 390
Exercisable at October 31, 2018	4	$ 19.20	$ 390

The weighted average remaining life of such outstanding options is 1.6 years and the total intrinsic value of options exercised during fiscal 2018 was $0.2 million. The weighted average remaining life of such exercisable options is 1.6 years. The fair value of vested shares as of October 31, 2018, and 2017 was approximately $0.4 million and $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.

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 $0.2 million and $0.8 million for the year ended October 31, 2017 and 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 $0.2 million for the year ended October 31, 2018. The total recognized stock-based compensation expense for these grants was $0.3 million for the year ended October 31, 2017 and 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, 2018 and 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 $0.2 million and $1.1 million for the year ended October 31, 2018 and 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 2018, per the terms of our 2011 Plan and the respective employee award, the board of directors awarded the portion of the fiscal 2017 management bonus for the percentage of the year worked. As a result, he was granted 867 shares of unrestricted stock, which immediately vested. As a result, we recorded $0.1 million of stock-based compensation expense in our fiscal first quarter of 2018.

On October 31, 2017, a member of the management team at RFG resigned. His unvested portion of restricted stock issued in December of 2016 and January of 2016 was forfeited. On January 25, 2018, in consideration of and in exchange for his forfeiture of restricted shares upon his resignation, the board of directors granted 10,788 shares of unrestricted stock, which immediately vested. The closing price of our stock on such date was $87.10. We recorded for this grant $0.9 million of stock-based compensation expense in our fiscal first quarter of 2018.

On December 18, 2017, our executive officers were granted a total of 25,241 restricted shares. These shares have full voting rights and participate in dividends as if unrestricted. The closing price of our stock on such date was $75.45. These shares vest in one-third increments, on an annual basis, beginning December 18, 2018. These shares were granted pursuant to our 2011 Plan. The total recognized stock-based compensation expense for these grants was $0.6 million for the year ended October 31, 2018.

On January 2, 2018, all 12 of our non-employee directors were granted 1,750 restricted shares each (total of 21,000 shares). These shares have full voting rights and participate in dividends as if unrestricted. The closing price of our stock on such date was $85.90. On January 2, 2019, as long as the directors are still serving on the board, these shares lose their restriction and become non-forfeitable and transferable. These shares were granted pursuant to our 2011 Plan. The total recognized stock-based compensation expense for these grants was $1.5 million for the year ended October 31, 2018.

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, 2018 was approximately $0.1 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.

Notes To Consolidated Financial Statements

Prior to November 1, 2016, stock-based compensation expense was recorded net of estimated forfeitures in 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 EXERCISE PRICE	AGGREGATE INTRINSIC VALUE
Outstanding at October 31, 2017	103	$ 54.64	
Vested	(58)	$ 54.27	
Forfeited	(7)	$ 52.69	
Granted	47	$ 80.20	
Outstanding at October 31, 2018	85	$ 68.82	$ 8,251

The total recognized stock-based compensation expense for restricted stock was $4.6 million and $4.3 million for the years ended October 31, 2018 and 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, 2017	20	$ 40.07	
Outstanding at October 31, 2018	20	$ 40.07	$ 1,143
Exercisable at October 31, 2018	12	$ 29.01	$ 818

The weighted average remaining life of such outstanding options is 4.5 years. The weighted average remaining life of such exercisable options is 2.8 years. The fair value of vested shares as of October 31, 2018 and 2017, was $0.8 million and $0.4 million.

13. DIVIDENDS

On October 2, 2018, the Company declared a $1.00 per share cash dividend to shareholders of record on November 16, 2018. On December 7, 2018, the Company paid this cash dividend which totaled $17.6 million. On December 8, 2017, the Company paid a $0.95 per share dividend in the aggregate amount of $16.7 million to shareholders of record on November 17, 2017.

14. 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, 2018 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)	$ 42,609	—	—	$ 42,609
Total assets at fair value	$ 42,609	—	—	$ 42,609

(1) The investment in Limoneira Company consists of marketable securities in the Limoneira Company stock. We currently own approximately 10% of Limoneira's outstanding common stock. These securities are measured at fair value by quoted market prices. Limoneira's stock price at October 31, 2018 and October 31, 2017 equaled $24.65 per share and $23.35 per share. Unrealized gains and losses are recognized through other comprehensive income. Unrealized investment holding gains arising during the years ended October 31, 2018, 2017 and 2016 were $2.2 million, $6.3 million and $6.6 million.

15. 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, 2018 and 2017, CDM IVA receivables totaled $21.9 million and $18.2 million. Historically, CDM received IVA refund payments from the Mexican tax authorities on a timely basis. Beginning in fiscal 2014 and continuing into fiscal 2018, 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.

During the first quarter of fiscal 2017, tax authorities informed us that their internal opinion, based on the information provided by the 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 started an administrative appeal for the IVA related to the request of the months of July, August and September of 2015 (the "2015 Appeal") in order to assert its argument that CDM is properly documented and to therefore change the SAT's internal assessment. In August 2018, we received a favorable ruling from the SAT's central legal department in Mexico City on the 2015 Appeal indicating that they believe CDM's legal interpretation of its declared tax structure is indeed accurate. While favorable on this central matter of CDMs declared tax structure, the ruling, however, still does not recognize the taxpayers right to a full refund for the IVA related to the months of July, August and September 2015. Therefore, CDM may need to file a substance-over-form annulment suit in the Federal Tax Court to recover its full refund for IVA over the subject period.

We believe that our operations in Mexico are properly documented. Furthermore, our internationally recognized tax advisors believe that there are legal grounds to prevail in the Federal Tax Court and that therefore, the Mexican tax authorities will ultimately authorize the refund of the corresponding IVA amounts.

16. FRESHREALM

Variable Interest Entity

Based on the NMUPA and related Agreements, as described in Note 8, we reconsidered whether FreshRealm is a variable interest entity (VIE) as of October 31, 2018. A VIE refers to a legal business structure in which an investor has a controlling interest in, despite not having a majority of voting rights; or a structure involving equity investors that do not have sufficient resources to support the ongoing operating needs of the business. Due primarily to FreshRealm utilizing substantially more debt to finance its activities, in addition to its existing equity, we believe that FreshRealm should be considered a VIE. In evaluating whether we are the primary beneficiary of FreshRealm, we considered several factors, including whether we (a) have the power to direct the activities that most significantly impact FreshRealm's economic performance and (b) the obligation to absorb losses and the right to receive benefits that could potentially be significant to the VIE. We were not the primary beneficiary of FreshRealm at October 31, 2018 because the nature of our involvement with the activities of FreshRealm does not give us the power to direct the activities that most significantly impact its economic performance. We do not have a future obligation to fund losses or debts on behalf of FreshRealm. We may, however, voluntarily contribute funds. In the accompanying statements of income, we have presented the income (loss) from unconsolidated entities, after the provision for income taxes for all periods presented.

We record the amount of our investment in FreshRealm, totaling $19.9 million at October 31, 2018, in "Investment in unconsolidated entities" on our Consolidated Balance Sheets and recognize losses in FreshRealm in "Income/(loss) in unconsolidated entities" on our Consolidated Statement of Income.

For the year ended October 31, 2018, FreshRealm incurred losses totaling $29.4 million, of which we recorded $12.0 million of non-cash losses during fiscal 2018. In periods prior to our fiscal third quarter, Calavo had not recorded losses from FreshRealm since Impermanence (a non-affiliated investor group) invested in FreshRealm and Calavo deconsolidated FreshRealm in fiscal 2014. FASB Accounting Standards Codification ("ASC") 810, ASC 323, and ASC 970 mandate that the recognition of losses for an unconsolidated subsidiary be handled in a manner consistent with cash distributions upon liquidation of the entity when such distributions are different than the investors percentage ownership. Further, the current FreshRealm LLC operating agreement mandates that losses be recognized first by other investors ("non-option investors") with positive capital accounts and then by Calavo (the only "option investor" to date) until all such capital accounts are reduced to zero. During our third fiscal quarter of 2018, we estimated that all non-option investor capital accounts were reduced to zero and we were the only investor with a remaining positive capital account balance. As of October 31, 2018, our capital account balance was approximately $1.5 million. Unless we opt to contribute additional funds (i.e. equity or debt), we estimate that our maximum exposure to loss from FreshRealm, as of October 31, 2018, is limited to our total investment balance of approximately $19.9 million, plus $12 million related to the debt Agreements, as described in Note 8.

Notes To Consolidated Financial Statements

Unconsolidated Significant Subsidiary

As described in footnote 8, we own approximately 37% of FreshRealm as of October 31, 2018. In accordance with Rules 3-09 and 4-08(g) of Regulation S-X, we must determine if our unconsolidated subsidiaries are considered, "significant subsidiaries". In evaluating our investments, there are three tests utilized to determine if our subsidiaries are considered significant subsidiaries: the asset test, the income test and the investment test. Rule 3-09 of Regulation S-X requires separate audited financial statements of an unconsolidated subsidiary in an annual report if any of the three tests exceed 20%. Rule 4-08(g) of Regulation S-X requires summarized financial information in an annual report if any of the three tests exceed 10%.

FreshRealm incurred losses totaling $29.4 million, of which we recorded $12.0 million of non-cash losses during our fiscal year 2018. Pursuant to Rule 3-09 of Regulation S-X, this requires separate audited financial statements of FreshRealm in our Form 10-K. However, because Calavo and FreshRealm have different fiscal year-ends, the guidance in Rule 3-09(b)(2), as well our filing status, must be considered in determining the due date for Calavo to file the financial statements of FreshRealm in our Form 10-K. Since we are a large accelerated filer, our 2018 Form 10-K is due by December 30, 2018. Since FreshRealm's fiscal year-end is December 31, we plan to file the financial statements of FreshRealm as an amendment to our Form 10-K within 90 days after FreshRealm's year-end (i.e., by April 1, 2019).

Note that since Rule 3-09 of Regulation S-X financial statements are not filed at the same time as our 2018 Form 10-K, we must include Rule 4-08(g) summarized financial information in our 2018 Form 10-K.

The following tables show summarized financial information for FreshRealm (in thousands):

Balance Sheet:

OCTOBER 31,	2018	2017
ASSETS:		
Cash and cash equivalents	$ 814	$ 4,063
Accounts receivable, net of allowances	1,903	1,648
Inventories, net	3,186	1,728
Prepaid expenses and other current assets	1,152	787
Property, plant, and equipment, net	9,152	6,910
Other assets	1,500	—
	$ 17,707	$ 15,136
LIABILITIES AND EQUITY:		
Current liabilities	6,557	3,919
Debt to Calavo	9,000	—
Long-term liabilities	505	995
Equity	1,645	10,222
	$ 17,707	$ 15,136

Income Statement:

12 MONTHS ENDED OCTOBER 31,	2018	2017	2016
Net sales	$ 33,769	$ 16,933	$ 2,688
Gross loss	(10,868)	(7,275)	(2,153)
Selling, general and administrative	(19,512)	(12,733)	(5,457)
Other	1,023	(13)	(56)
Net loss	$ (29,357)	$ (20,021)	$ (7,666)

Report of Independent Registered Public Accounting Firm

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Calavo Growers, Inc. and subsidiaries (the "Company") as of October 31, 2018 and 2017, 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, 2018, and the related notes and the schedules listed in the Index at Item 15 (a) collectively referred to as the "financial statements". In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of October 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended October 31, 2018, in conformity with the applicable financial reporting framework and accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of October 31, 2018, 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 20, 2018, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Deloitte & Touche LLP

Costa Mesa, California
December 20, 2018

We have served as the Company's auditor since 2015.

Report of Independent Registered Public Accounting Firm

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

Opinion on Internal Control Over Financial Reporting

We have audited the internal control over financial reporting of Calavo Growers, Inc. and subsidiaries (the "Company") as of October 31, 2018, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of October 31, 2018, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended October 31, 2018, of the Company and our report dated December 20, 2018, expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting, including the possibility of collusion or improper management override of controls, may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Deloitte & Touche LLP

Costa Mesa, California
December 20, 2018

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, 2018. Our internal control over financial reporting as of October 31, 2018 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, and Chief Executive Officer

B. John Lindeman,
Chief Financial Officer

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 2018	HIGH	LOW
First Quarter	$ 89.40	$ 69.35
Second Quarter	$ 98.50	$ 82.75
Third Quarter	$ 97.85	$ 83.85
Fourth Quarter	$ 107.15	$ 92.70

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

As of November 30, 2018, there were approximately 775 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.

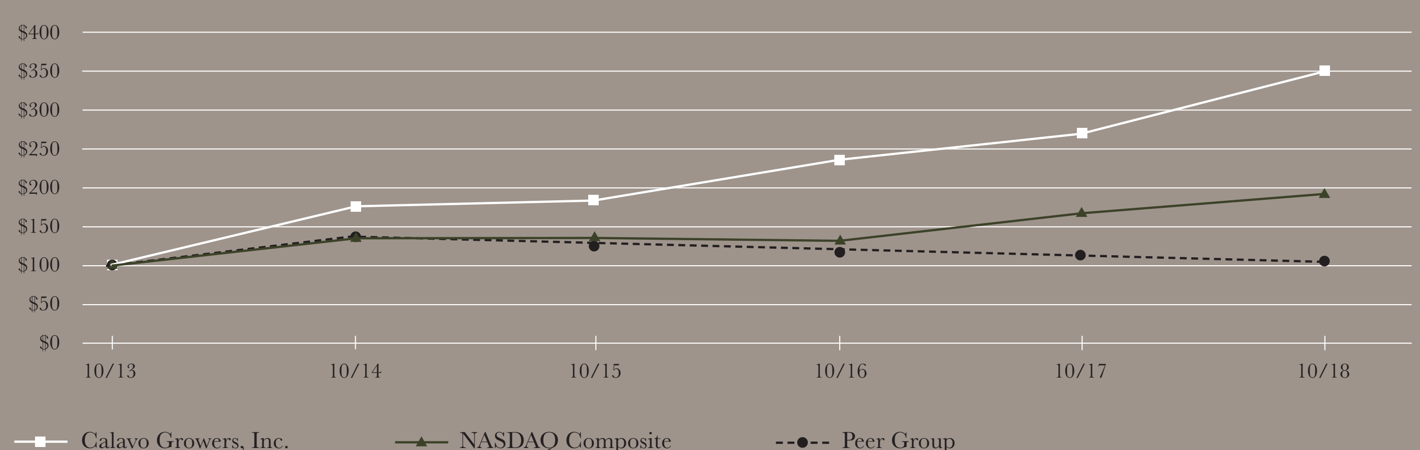
On October 2, 2018, we declared a dividend of $1.00 per share. December 7, 2018, we paid the aggregate amount of $17.6 million to shareholders of record on November 16, 2018. On December 8, 2017, we paid a $0.95 per share dividend in the aggregate amount of $16.7 million to shareholders of record on November 17, 2017.

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, 2013 and ending October 31, 2018. In making this comparison, we have assumed an investment of $100 in Calavo Growers, Inc. common stock, the Nasdaq Market Index, the Peer Group Index as of October 31, 2013. We have also assumed the reinvestment of all dividends.

COMPARISON OF 5-YEAR CUMULATIVE TOTAL RETURN

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



*$100 invested on 10/31/13 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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Santa Paula, California 93060
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Fax 805.921.3219
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

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. 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, Peru and Colombia 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 Growers, Inc.

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 approximately 3,000 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

(from left to right)

James E. Gibson President, Renaissance Food Group **B. John Lindeman** Chief Financial Officer and Corporate Secretary

Rob Wedin Vice President, Fresh Sales and Marketing **Ron Araiza** Vice President, Foods Division Sales and Operations

Mike Browne Vice President, Fresh Operations

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